Governance, Audit and Risk Management Committee AGENDA

DATE: Wednesday 2 April 2014

TIME: 7.30 pm

VENUE: Committee Room 5, Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Richard Romain

Councillors:

Amir Moshenson	Kairul Kareema Marikar	Mano Dharmarajah
Chris Mote	Varsha Parmar	
	Sachin Shah (VC)	

Reserve Members:

1. Tony Ferrari	1. Graham Henson	1. Thaya Idaikkadar
2. Kam Chana	2. Sue Anderson	
3. Anthony Seymour	3. Ajay Maru	

Contact: Una Sullivan, Democratic & Electoral Services Officer
Tel: 020 8424 1785 E-mail: una.sullivan@harrow.gov.uk

Harrow COUNCIL LONDON

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

3. MINUTES (Pages 1 - 6)

That the minutes of the meeting held on 19 December 2013 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, 28 March 2014. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

(a) Reference from Cabinet Meeting - 13 February 2014 - Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15 (Pages 7 - 44)

(b) Reference from Cabinet - 13 February 2014 - Final Revenue Budget 2014/15 and Medium Term Financial Strategy (MTFS) 2014/15 to 2016/17 (Pages 45 - 74)

8. INFORMATION REPORT - AUDIT PLAN 2013-14 (Pages 75 - 140)

Report of the Director of Finance and Assurance

9. INFORMATION REPORT - CORPORATE ANTI-FRAUD TEAM DRAFT FRAUD SERVICE PLAN 2014-15 (Pages 141 - 220)

Report of the Director of Finance and Assurance

10. INFORMATION REPORT - RISK BASED VERIFICATION (Pages 221 - 254)

Report of the Head of Collection and Benefits

11. DRAFT INTERNAL AUDIT PLAN 2014-15 (Pages 255 - 268)

Report of the Director of Finance and Assurance

12. INFORMATION REPORT - GOVERNANCE UPDATE (Pages 269 - 280)

Report of the Director of Finance and Assurance

13. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

14. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

Agenda Item No	Title	Description of Exempt Information
15.	Corporate Risk Register	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
10.	Information Report – Risk Based verification – Appendix 1	Information under Paragraph 7 (contains information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime).

AGENDA - PART II

15. CORPORATE RISK REGISTER (Pages 281 - 308)

Report of the Director of Finance and Assurance

16. ITEM 10 - APPENDIX A (Pages 309 - 316)

Report of the Head of Collection and Benefits

Appendix 1 to the report – 'Risk Based Verification'

*** DATA PROTECTION ACT NOTICE**
The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

MINUTES

19 DECEMBER 2013

Chairman: † Councillor Richard Romain

Councillors:

† Mano Dharmarajah
* Tony Ferrari (1)
* Kairul Kareema Marikar
* Amir Moshenson
* Varsha Parmar
* Anthony Seymour (3)
* Sachin Shah (Vice-Chair in the Chair)

* Denotes Member present
(1) and (3) Denote category of Reserve Members
† Denotes apologies received

260. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Members:-

Ordinary Member	Reserve Member
Councillor Chris Mote	Councillor Tony Ferrari
Councillor Richard Romain	Councillor Anthony Seymour

261. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 7, 9, 12 – References from Council and other Committees; Internal Audit Mid-Year Report 2013/14; Treasury Management Self Assessment Training Action Plan

Councillor Tony Ferrari declared a non-pecuniary interest in that he was the Portfolio Holder for Finance and school governor at Cedars Manor School. He would remain in the room whilst the matters were considered.

Agenda Item 9 – Internal Audit Mid-Year Report 2013/14

Councillor Kairul Kareema Marikar declared a non-pecuniary interest in that she was a governor at Vaughan Primary School. She would remain in the room whilst the matter was considered.

Councillor Anthony Seymour declared a non-pecuniary interest in that he was a governor at Pinner Park Nursery, Infants and Junior School. He would remain in the room whilst the matter was considered.

262. Minutes

RESOLVED: That the minutes of the meeting held on 24 September 2013 be taken as read and signed as a correct record.

263. Public Questions, Petitions & Deputations

RESOLVED: To note that no public questions were put or petitions or deputations received at this meeting.

264. References from Council and other Committees/Panels

The Committee received the following Reference from Cabinet: Treasury Management Strategy Statement and Annual Investment Strategy – Mid-year Review 2013/14, report of the Director of Finance and Assurance. The Director of Finance and Assurance advised that:

- there had been an underspend of £730k on the capital financing and investment income budget resulting from a forecast underspend on minimum revenue provision due to slippage on the 2012-13 capital programme;

- the minimum credit criteria for the measure of credit worthiness of institutions used as counterparties;

- the majority of the Council's investments with the Royal Bank of Scotland (RBS) and Lloyds with relatively good rates of return. RBS was deemed to be relatively secure as it was largely owned by the state;

- it would be preferable to reduce the Council's cash pile, which stood at over £130m. The capital programme could currently be financed from internal resources and would not require additional borrowing;

- as the Treasury Management Strategy Statement allowed the Council to invest up to 50% of its cash balances with RBS this would severely restrict its ability to manage these balances. The view of the Council's Treasury Management Adviser, Capita, was that as long as RBS remained largely in the ownership of the Government and taxpayer (currently 82%) there was little risk to its future viability and that it would be appropriate for it to be retained on the Council's counterparty list.

RESOLVED: That the Reference from Cabinet be noted.

RESOLVED ITEMS

265. Corporate Anti-Fraud Mid-Year Report 2013-14

The Committee received a report of the Director of Finance and Assurance which set out progress against the 2013/14 Fraud Service Plan and issues arising from work undertaken.

Following questions and comments from Members, the Director advised that:

- good progress had been achieved on seven areas of the plan, three areas required additional work and one was deemed not to be achievable due to the recent implementation of staffing efficiencies. It was however difficult to quantify progress to date as figures were being finalised;

- recent vacant tenancies would help reduce pressures on the housing waiting list;

- close working with the Metropolitan Police and the Proceeds of Crime Act would make action to recover £10k more feasible, however, this could often be a lengthy process;

- joining the London Housing Fraud Hub from 2014 would ensure greater information sharing between authorities. Officers were consulting internal stakeholders. The Hub had sought extensive guidance regarding data protection issues from the Information Commissioner's Office;

- recovery of overpayments was on target;

- there were plans to implement a document checker software which was capable of authenticating official documents. The software could be used with minimum disruption to frontline staff and would lead to savings across the Council. The software could also be used to carry out employment checks on council employees. The cost of the software was £2k per licence, and the benefits to the Council of implementing this software would outweigh the costs;

- those making fraudulent housing applications could be prosecuted for fraud and the property recovered;

- a week of anti-fraud events had been planned in conjunction with the Metropolitan Police and the UK Border Agency, for the week beginning

3 February 2014, which Committee Members would be invited to attend.

RESOLVED: That the report be noted.

266. Treasury Management Self Assessment Training Action Plan

The Committee received a report of the Director of Finance and Assurance which set out the Treasury Management Self Assessment Training Action Plan and actions taken in relation to the Plan.

An officer advised that the report set out the 8 Actions which had been agreed by Members and officers, the actions taken to date and flagged up any risks associated with these.

RESOLVED: That the report be noted.

267. Information Report - Governance Update

The Committee received a report of the Director of Finance and Assurance which set out progress against the Council's Annual Governance Statement (AGS) Action Plan for 2012/13 developed to address the governance gaps identified by the annual governance review process.

An officer advised that the AGS Action Plan detailed the 16 non-significant and the 1 significant governance gap identified by the annual governance review process and the action agreed to address these gaps. She added that, two of these had been completed and five were in progress. The final PSN strategy had been submitted to the Cabinet Office and officers were awaiting a response. The Local Government Association and other local authorities were in discussion with the Cabinet Office regarding this matter.

Following questions and comments from Members, an officer advised that the next report would be submitted to the Committee in April 2014. A Member requested an update on PSN compliance at the next meeting.

RESOLVED: That the report be noted.

268. Information Report - Internal Audit Mid-Year Report 2013/14

The Committee received a report of the Director of Finance and Assurance which set out progress against the 2013/14 Internal Audit Plan and key issues arising from work undertaken in this area.

Following questions and comments from Members, an officer advised that:

- some schools had made good progress in implementing business continuity plans while others were in the process of completing the plans. Some schools had also entered into a Service Level Agreement with the Council for Business Continuity;

- overall 81% of the expected governance and financial controls were found to be in place and operating effectively at Vaughan School and officers would carry out a follow-up in six months' time to see if their recommendations had been implemented;

- officers were actively following up those schools who were yet to respond to the audit of their business continuity plans;

- the issue of mis-use of Council mobile phones to make international calls is being followed-up to ensure satisfactory progress and outcomes;

- the figures relating to the overpayment of salaries was not limited to any particular Council department and included all council staff, including those at schools. Where debtors accounts are raised to recover money from leavers the budget of the relevant section is credited immediately and repayment is made to the debtors account. However, the recovery rate was high. Although, there were robust processes in place, timeliness of reporting changes to employees' pay was the main issue. Under-payment was a rare occurrence.

It was noted that the figure on page 30, relating to Kenmore Park Infant & Nursery School, should read 67% and not 7%.

RESOLVED: That the report be noted.

269. Information Report - Half Yearly Health and Safety Report

The Committee received a report of the Corporate Director of Resources which set out the Council's health and safety performance for the half year, from 1 April 2013 to 30 September 2013.

An officer made the following points:

- the Council was subject to a large number of statutory regulations and scrutiny by a number of enforcement agencies. However, since the last report there had been no further enforcement activity;

- a benchmarking exercise has been conducted during this period across the Pan London Forum, which confirmed that accident performance at Harrow was similar to that of other London local authorities;

- the provision of the health and safety training programme across Directorates had led to improved legislative compliance.

Following questions and comments from Members, the officer advised that:

- accident data in the report included accidents relating to staff and any non-employee accidents where the incident was reportable to the HSE;

- most of the physical assaults against teachers tended to involve pupils with additional needs. However, most of the incidents were minor and none required to be reported to the Health and Safety Executive (HSE). He added that assaults did not have a significant impact on teacher absence rates. Teachers had been offered specialist training in dealing with such incidents and officers were looking at other areas of improvement;

- uptake of the flu vaccine had remained at the same level in recent years;

- the Health & Safety Section comprised three advisers and a co-ordinator and was considering recruiting an additional agency worker.

RESOLVED: That the report be noted.

270. Any Other Business

RESOLVED: That the Lead Member from each of the Political Groups encourage Members of their Group to volunteer to fill the vacant Lead Member posts.

271. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

Item	Title	Reason
15.	Treasury Management Self Assessment Training Action Plan - Appendix 5	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

272. Treasury Management Self Assessment Training Action Plan – Appendix 5

The Committee considered appendix 5 to agenda item 12 – Treasury Management Self-Assessment Training Action Plan.

RESOLVED: That the appendix be noted.

(Note: The meeting, having commenced at 7.45 pm, closed at 8.30 pm).

(Signed) COUNCILLOR SACHIN SHAH
Vice-Chair in the Chair

LONDON BOROUGH OF HARROW

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE – 2 APRIL 2014

REFERENCE FROM CABINET - 13 FEBRUARY 2014

784. Key Decision: Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15

Cabinet received a report of the Council's Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2014/15.

A non-voting non-Executive Member asked how the Governance, Audit and Risk Management Committee's views would be taken into account in setting the budget and it was noted that this body would, as it did every year, be carrying out a review on the approved position.

Resolved to RECOMMEND: (to Council)

That

(1) the Treasury Management Strategy Statement and Prudential Indicators for 2014/15 be approved;

(2) the Minimum Revenue Provision Policy Statement for 2014/15 be approved;

(3) the Annual Investment Strategy for 2014/15 be approved;

(4) the lower limit for borrowing of between 5 and 10 years be reduced from 10% to 5%;

(5) the limit of investments for over one year be increased to £30m for 1-2 years and £10m for over 2 years.

RESOLVED: That the report be referred to the Governance, Audit and Risk Management Committee for review.

Reason for Recommendation/Decision: To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

Alternative Options Considered and Rejected: As set out in the report.

Conflict of Interest relating to the matter declared by Cabinet Member / Dispensation Granted: None.

FOR CONSIDERATION

Background Documents:

Minutes of the Cabinet Meeting - 13 February 2014

Contact Officer:

Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881
Email: daksha.ghelani@harrow.gov.uk

REPORT FOR: CABINET

Date:	13 February 2014
Subject:	Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15
Key Decision:	Yes
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Tony Ferrari, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	Yes, except for the Recommendation to Council
Enclosures:	Appendix 1 - Legislation and Regulations Impacting on Treasury Management Appendix 2 - Treasury Management Delegations and Responsibilities Appendix 3 - Interest Rate Forecasts 2014/2017 Appendix 4 - Economic Background

Section 1 – Summary and Recommendations

This report sets out the Council's Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2014/15.

Recommendations:
The Cabinet is requested to recommend the Council to approve:
- Treasury Management Strategy Statement and Prudential Indicators for 2014/15;
- Minimum Revenue Provision Policy Statement for 2014/15;

- Annual Investment Strategy for 2014/15;
- That the lower limit for borrowing of between 5 and 10 years be reduced from 10% to 5%;
- That the limit of investments for over one year be increased to £30m for 1-2 years and £10m for over 2 years; and

The Cabinet is requested to agree that this report be referred to Governance, Audit and Risk Management Committee for review.

Reason: (For recommendation)
To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

Section 2 – Report

1. INTRODUCTION

1.1 Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

   The Council has adopted this definition.

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and Treasury Management Code of

Practice to set Treasury and Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5. The Act, the Codes and subsequent Investment Guidance (2010) requires the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. In 2011 CIPFA updated both their Code of Practice and Prudential Code and, in 2013 issued revised guidance notes. All the changes are fully reflected in this strategy statement. At the request of Governance, Audit and Risk Management Committee (GARMC) a summary of the relevant legislation, regulations and guidance is included as Appendix 1.

6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Code of Practice, increases in capital expenditure should be limited to a level whereby increases in charges to revenue from:-

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are affordable within the projected income of the Council for the foreseeable future.

7. 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 organisation.

8. The Council recognises 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.2 CIPFA Requirements

9. The Council has formally adopted CIPFA's Code of Practice on Treasury Management (revised November 2011). The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

1.3 Reporting Requirements

10. As introduced above, the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

    Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

    - the capital plans (including prudential indicators);
    - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
    - an investment strategy (the parameters on how investments are to be managed).

    A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

    An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

    Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Cabinet and GARMC.

11. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and treasury management practices to the Section 151 officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which consists of the Head of Technical Finance and Accountancy and the Treasury and Pension Fund Manager, to monitor the treasury management activity and market conditions. Copies of reports received by the TMG are provided to all the Members of GARMC.

12. Further details of responsibilities are given in Appendix 2.

1.4 Training

13. The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

14. During the year the Members of the GARMC participated in a training session using a self assessment form which helped them to consider the effectiveness of their scrutiny of treasury management activity. They have subsequently received additional information to assist them and, at the end of the year, will report to the Council on their scrutiny activities.

15. The training needs of treasury management officers are periodically reviewed as part of the Learning and Development programme. The officers attend various seminars and conferences throughout the year.

1.5 Treasury management consultants

16. The Council has engaged Capita Asset Services, Treasury Solutions as its external treasury management adviser.

17. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

18. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

1.6 Treasury Management Strategy for 2014/15

19. The Strategy covers:-

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

20. It is not considered necessary to produce a separate treasury strategy for the Housing Revenue Account (HRA) in light of the co-mingling of debt and investments between HRA and the General Fund. Where appropriate, details of allocations of balances and interest to HRA are contained in this report.

2. CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17

21. The Council's capital expenditure plans are the key drivers of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans. The values shown in the tables below for 2012-13 and 2013-14 are actual and forecast outturn respectively and not the strategy for those years.

2.1 Capital expenditure

22. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 Capital Expenditure and Funding

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Non - HRA	24,288	56,965	69,571	47,812	39,768
HRA	7,554	7,464	9,527	12,227	8,412
TOTAL	**31,842**	**64,429**	**79,098**	**60,039**	**48,180**
Funding:-					
Grants	7,389	21,610	46,675	27,928	21,265
Capital receipts	5,081	3,578	13,483	13,627	2,030
Revenue financing	8,068	7,511	7,428	7,797	8,382
Section 106	76	190	366	1,965	0
TOTAL	**20,614**	**32,889**	**67,952**	**51,317**	**31,677**
Net financing need for the year	**11,228**	**31,540**	**11,146**	**8,722**	**16,503**

23. As will be discussed later in this report the Council expects to maintain balances at a level that is likely to make external borrowing unnecessary.

2.2 The Council's borrowing need (Capital Financing Requirement)

24. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

25. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

26. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a funding facility and so the Council is not required to separately borrow for these schemes. The Council currently has £22m of such schemes within the CFR.

Table 2 Capital Financing Requirement

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March					
Non – HRA	251,388	268,907	264,985	259,553	261,851
HRA	149,574	149,549	149,524	149,499	149,474
TOTAL	**400,962**	**418,456**	**414,509**	**409,052**	**411,325**
Annual change in CFR					
Non – HRA	-1,681	17,519	-3,922	-5,432	2,298
HRA	-27	-25	-25	-25	-25
TOTAL	**-1,708**	**17,494**	**-3,947**	**-5,457**	**2,273**

Table 3 Capital Financing Requirement – reasons for annual change

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Net financing need	11,228	31,540	11,146	8,722	16,503
Lease liability	554	500	500	500	500
Less MRP for PFI and Leases	-2,040	-2,035	-2,034	-2,035	-2,035
Less MRP	-11,450	-12,511	-13,559	-12,644	-12,695
TOTAL	**-1,708**	**17,494**	**-3,947**	**-5,457**	**2,273**

a) General Fund CFR will broadly remain around £260 million as the capital programme (net of grants and receipts) broadly matches MRP in the three years from 1st April 2014. For HRA, all new expenditure is funded from revenue as HRA is at its borrowing limit.

b) Total CFR over the five years' period is broadly similar to that estimated last year. The balances are in excess of actual external debt (including finance leases) due to internal balances used to part fund capital expenditure.

2.3 Minimum Revenue Provision

27. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The accounting approach is to spread the cost over the period during which such assets are used to provide services to the local community. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital

expenditure which is financed by borrowing or credit arrangements is funded by Council Tax and housing rents. The purpose of MRP is to enable the Council to make prudent provision to redeem its debt liability over a period that is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

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

- *For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the existing practice (option 1) outlined in former CLG regulations. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year;*

- *From 1 April 2008 for all unsupported borrowing (including PFI and finance leases), the MRP policy will be Asset life method (option 3) and MRP will be based on the estimated life of the assets in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).*

- *A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts and will be applied to the remaining life of the assets.*

- *Estimated life periods will be determined under delegated powers and will generally follow those set out in the guidance. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate:*

    a. *In the case of new capital expenditures which serve to add to the value of an existing capital asset, these will be estimated to have the remaining useful life as the asset whose value is enhanced.*
    b. *Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.*

2.4 Affordability Prudential Indicators

29. The previous sections cover the overall capital expenditure and financing requirements but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.5 Ratio of Financing Costs to Revenue Stream

30. This indicator identifies the trend in the cost of capital (borrowing, depreciation and other long term obligation costs net of investment income) against the net revenue stream.

Table 5 Ratio of Financing Costs to Revenue Stream

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	%	%	%	%	%
Non - HRA	11	13	14	14	15
HRA	48	45	43	44	45

2.6 Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

31. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme compared to the Council's existing approved commitments and current plans

Table 6 Incremental Impact of Capital Investment Decisions

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£	£	£	£	£
Incremental impact of capital investment decisions					
Increase in Council Tax (band D) per annum	17.20	62.87	11.43	10.65	43.40
Increase in average housing rent per week	16.11	-0.35	-0.14	1.46	2.33

2.8 Local HRA indicators

32. The latest CIPFA guidance suggests that the Council be aware of the following ratios when making its treasury management decisions.

Table 7 HRA Ratios

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
Debt (CFR) (£m)	149.6	149.5	149.5	149.5	149.5
Gross Revenue Stream (£m)	29.2	30.8	31.7	32.3	33.0
Ratio of Gross Revenue Stream to Debt (%)	**19**	**21**	**21**	**22**	**22**
Average Number of Dwellings	4,958	4,936	4,904	4,869	4,834
Debt outstanding per dwelling (£)	**30,173**	**30,287**	**30,485**	**30,704**	**30,927**

The ratio of gross revenue stream to debt shows a gradual increase which indicates that the ability of HRA to finance its debt is improving.

As the number of dwellings reduces over the period, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared to the average value of each dwelling is low enough for the measure to raise no concern.

2.9 Housing Revenue Account (HRA) Major Repairs Allowance (MRA)

33. The National Subsidy system was replaced by Self Financing on 01 April 2012 as part of the Government's reform of the HRA. As a result, the Council will make a charge for depreciation in respect of its dwellings calculated on a componentised basis, which will be counted as a genuine charge against the HRA. Under the National Subsidy system, the Council made a charge equal to the Major Repairs Allowance receivable from Central Government thereby ensuring a nil overall effect for depreciation.

34. The Government has allowed Councils to continue to charge depreciation at an amount equal to the Major Repairs Allowance for the next four years under transitional arrangements to permit Council's to adapt to the new framework. The Council has decided, however, to move to componentised depreciation, as recommended by proper practices, as this gives a fairer reflection of future investment requirements.

35. As the value of housing stock is expected to increase broadly in line with inflation, HRA debt as a proportion of the value of housing stock will decline. If it is considered asset lives are not being sufficiently maintained, provision to repay borrowing will be made and reflected in the HRA Business Plan.

3. BORROWING

36. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appoporiate borrowing facilities. The strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

37. The latest position on actual borrowings and investments is as shown below:

Table 8 Treasury Position as at 31 December 2013

		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	218.5		
	Market	131.8	350.3	**4.30**
Variable rate funding			0	
Other long term liabilities (PFI & leases)			22.4	
Total Debt			**372.7**	
Total Investments			**142.5**	**1.16**

38. The Council's treasury portfolio position with forward projections is summarised below. The table shows the actual external debt, against the underlying capital borrowing need, highlighting any over or under borrowing.

Table 9 Changes to Gross Borrowing

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	**Forecast Outturn**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Debt 1st April	350,261	350,261	340,261	334,261	334,261
Expected change in debt	0	-10,000	--6,000	0	0
Other long term liabilities (OLTL) 1st April	25,156	23,676	22,121	20,586	19,051
Expected change in OLTL	-1,480	-1,535	-1,535	-1,535	-1,535
Borrowings on behalf of External Bodies	-2,927	0	0	0	0
Actual gross debt at 31st March	**371,010**	**362,402**	**354,847**	**353,312**	**351,777**
Capital Financing Requirement 31st March	**400,962**	**418,456**	**414,509**	**409,052**	**411,325**
Under / (over) borrowing	**29,952**	**56,054**	**59,662**	**55,740**	**59,548**

39. Debt outstanding should not normally exceed CFR. The expectation is that the under borrowing will increase as cash balances are used to fund debt repayment.

40. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

41. The Director of Finance and Assurance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

42. The table below shows the net borrowing after investment balances are taken into account. Net debt is forecast to remain consistent over the period as capital expenditure plans are financed from the cash generated by the MRP for existing assets.

Table 10 Net Borrowing

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
brought forward 1 April	294,681	273,284	243,937	256,382	254,847
carried forward 31 March	273,284	243,937	256,382	254,847	253,312
Change in net borrowing	**-21,397**	**-29,347**	12,445	-1,535	-1,535

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary

43. This is the limit which external debt is not normally expected to exceed.

44. The boundary is based on current debt plus anticipated net financing need for future year.

The Authorised Limit for External Debt.

45. This is a further key prudential indicator which represents a control on the maximum level of borrowing. It represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. It relates to the financing of capital plans by both external borrowing and other forms of liability, such as credit arrangements.

46. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 11 Operational boundary and authorised limit

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Forecast Outturn	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for external debt					
Borrowing and finance leases	372	362	414	409	411
Operational Boundary for external debt					
Borrowing	350	340	345	354	371
Other long term liabilities	22	22	22	22	22

Total	372	362	367	376	393
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing	350	340	345	354	371
Upper limit for variable rate exposure					
Net principal re variable rate borrowing	0	0	0	0	0
Upper limit for principal sums invested over 364 days	25	25	40	40	40

HRA Debt Limit

47. Separately, the Council is also limited to a maximum HRA CFR (Debt limit) through the HRA self-financing regime. This limit is shown in the table below.

Table 12 HRA Debt Limit

	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	**Forecast Outturn**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
HRA Debt Limit	149.648	149.648	149.648	149.648	149.648
HRA CFR	149,574	149,549	149,524	149,499	149,474
Headroom	74	99	124	149	174

3.3 Prospects for Interest Rates

48. The treasury adviser has provided the commentary in the remainder of this section 3.3 and a more detailed economic commentary is included as Appendices 3 and 4.

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- *As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;*
- *Investment returns are likely to remain relatively low during 2014/15 and beyond;*
- *Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;*
- *There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.*

3.4 Borrowing Strategy

49. As shown in Table 10 above, currently the Council has a debt portfolio of £350 million, mainly long term, with an average maturity of 36 years. Investment balances have remained high and at 31 December 2013 were £142.5m. With the investment portfolio yielding around 1% and the average cost of debt 4.3%, there is a substantial short term

cost to carrying excessive debt. The same picture is true if investment rates are compared with new borrowing rates.

50. The Council has borrowed £83.8 million under Lender Option, Borrower Option (LOBO) structures with maturities between 2050 and 2078. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and half yearly thereafter) to reset the interest rate. If the rate of interest changes, the Council is permitted to repay the loan at no additional cost.

51. As shown in Table 9 above the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR), has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent with investment returns low and counterparty risk relatively high.

52. In the past there has been an assumption that future capital expenditure plans will require additional borrowing in the medium term. Net capital expenditure within the General fund is being constrained with a large proportion grant funded and the need for additional borrowing is now less likely. The only foreseen circumstances in which new long term borrowing in the next three years might be required therefore, are either if part of the LOBO portfolio had to be refinanced early, or if made available to fund new affordable housing development, on the basis that there was no revenue impact on the General Fund. Even then, the preference would be to reduce investment balances unless the gap between investment and borrowing rates has narrowed. Lower cash balances have the additional benefit of reducing exposure both to interest rate movements and also to counterparty default.

53 It may be necessary to resort to temporary borrowing from the money markets or other local authorities to cover mismatches in timing between capital receipts and payments. However with several Government grants now paid early in the financial year this is not very likely.

54. Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Director of Finance and Assurance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

55. The Council has adopted a single pooled approach for debt. Allocations to HRA are based on its CFR, with interest charged to HRA at the average rate on all external borrowing. With HRA’s CFR expected to remain at its cap for at least the next three years, there will no change in HRA borrowing in that period. Longer term, HRA’s ability to repay borrowing will depend on future revenues and capital expenditure plans.

3.6 Treasury Management Limits on Activity

56. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if

these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

Upper limit on variable interest rate exposure

57. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. As shown in Table 12 above the Council does not expect to undertake any borrowing on this basis.

Upper limit on fixed interest rate exposure

58. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. The Council's limits are shown in Table 12 above

Maturity Structure of Borrowing

59. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

60. The Council has no variable rate borrowing and the comments below relate only to its fixed rate portfolio.

61. In the table below, the maturity structure for the LOBO debt, in accordance with CIPFA Guidance, is shown as the first date that the interest rate can be increased.

Table 13 Maturity Structure of Fixed Rate Borrowing

	As at 31.12.2013 %	Upper limit %	Lower limit %
Under 12 months	14.2	20	0
12 months to 23 months	0.0	20	0
24 months to under 5 years	17.1	30	0
5 years to under 10 years	7.7	40	10
10 years and over	61.0	90	30

62. Exposure to debt maturing in 5 to 10 years is below the lower boundary. The most recent borrowing has been long term to take advantage of the historically low interest rates on offer and also to protect against the impact of early LOBO repayment. Whilst this position will eventually self correct this is unlikely to be for several years and it is therefore recommended that the lower limit be reduced to 5%.

3.7 Policy on Borrowing in Advance of Need

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

64. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.8 Debt rescheduling

65. The reasons for any rescheduling to be considered will include:
    - the generation of cash savings and / or discounted cash flow savings;
    - helping to fulfil the treasury strategy;
    - enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

66. Opportunities to reduce the cost of debt by premature repayment or to improve the maturity profile are kept under review in discussion with the Council's treasury adviser. Early repayment of market loans is by negotiation and would only be considered if the Council is approached by the lender. For PWLB loans, there are daily published prices for early repayment that allows analysis of the opportunities for restructuring. There is currently a spread which has generally made restructuring uneconomic. However, with longer term borrowing rates higher than short term rates and investment returns, there are potential savings from either repaying long term debt from cash balances or switching to shorter term debt. To date such opportunities have been declined as the overall debt level was expected to be maintained and any repaid debt would have to be replaced at a longer term adverse cost. With capital expenditure plans being constrained, the level of required debt will be monitored and if deemed excessive, early redemption will be considered.

67 Should any of the LOBO loans with interest rate reset dates in 2013-14 (£33.8 million) require refinancing, the most likely source will be a combination of internal cash and external borrowing to protect the budget. The ratio will depend on the relative cost of the existing and replacement debt.

68. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely.

69. All rescheduling will be reported to Cabinet at the earliest meeting following the exercise.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

70. The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

71. In accordance with the above guidance and in order to minimise the risk to investments, the Council below clearly stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. The treasury adviser monitors counterparty ratings on a real time basis with knowledge of any changes advised electronically as the agencies notify modifications.

72. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its adviser to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

73. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

74. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable divesification and minimise risk.

75. Investment instruments identified for current use are listed in paragraphs 81 and 82 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

76. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

77. The Director of Finance and Assurance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

78. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

79. Credit rating information is supplied by the treasury management consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

80. The Council's criteria for an institution to become a counterparty are:

Specified Investments

81. These are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the lender has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.

Instrument	**Minimum Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support AA- Viability UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments

82. Non-specified investments are any other type of investment (i.e. not defined as Specified above). They normally offer the prospect of higher returns but carry a higher risk. The identification and rationale supporting the selection of these other investments are set out below.

	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – banks and building societies	A Long Term F1 Short-term 1 Support A Viability UK or AAA Sovereign	In-house	50%	3 months
Callable Deposits	A Long Term F1 Short term	In-house	20%	3 months

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
	1 Support			
UK nationalised Banks [Lloyds / HBOS]	F1 Short-term 1 Support	In-house	50%	36 months
UK nationalised Banks [RBS]	F2 Short-term 1 Support	In-house	50%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption

Unless specified above, individual bank & building society counterparty limits that are consistent with the above limits are approved by the Section 151 Officer in accordance with the Council's Treasury Management Practices.

4.3 Country limits

83. The Council has determined that it will only use approved counterparties from the UK or from countries with a minimum sovereign credit rating of AAA. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.3 Investment strategy

84. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

85. **Investment returns expectations.** Bank Rate has remained unchanged at 0.5% since March 2009 and is forecast to remain unchanged before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends are:
    - 2013/14 0.50%
    - 2014/15 0.50%
    - 2015/16 0.50%
    - 2016/17 1.25%

86. There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

87. **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

88. The Council's current limit for investments of over 364 days is £25m. In view of the level of balances estimated to be available for investment over the next few years and the probability that longer term interest rates will remain higher than short term it is recommended that from 1 April 2014 this limit be increased from £25m to £40 with the following constraints:

12 – 24 months	£30m
Over 24 months	£10m

89. For its cash flow generated balances, the Council will seek to utilise its instant access RBS Special Interest Bearing Account and notice accounts, money market funds and short-dated deposits (overnight to100 days) in order to benefit from the compounding of interest.

90. As regards returns and potential returns Capita comment as follows:

*We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, it remains at elevated levels and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.5% Bank Rate, several tranches of quantitative easing and the Funding for Lending initiative. As a consequence, authorities are not getting much of a return from deposits! Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and search for that extra return to ease the revenue budget. In this respect we are seeing an increase in investment "opportunities" being offered to clients or being discussed in the wider pres*s

91. No amendments are proposed to the counterparty policy though close attention will be paid to Government intentions to sell off its stake in Lloyds and RBS. This will gradually remove the additional security offered by Government ownership which is a key element in sustaining the Council's current investment strategy.

92. Management of the investment portfolio over the last year has involved two specific challenges – further downgrades to the credit ratings of some banks and the decline in yields. Most recently two of the ratings agencies have downgraded RBS, one of the Council's most important counterparties but, bearing in mind the Government support for this bank, the Council has agreed to adjust the minimum credit criteria to allow its continued use as a counterparty. To prevent the portfolio being even more concentrated, the Council has also agreed to investment in enhanced cash funds two of which have been used during the year.

93. As evidence of the continued drop in yields, the best one year rate currently available is 0.98%, somewhat lower than the 1.1% available a year ago and considerably lower than the 3% received two years ago. The yield enhancement for investing over 2 and 3 years remains low. At the short end, rates on the RBS Special Interest Bearing Account started the year at 0.65%, fell in July to 0.5% and will fall further to 0.25% in February 2014. Additionally, during the year, investments made in the past at relatively high rates came to maturity and had to be replaced with much lower yielding investments. The overall result is that during 2013-14 the yield is likely to be approximately 1.5%, a significant reduction from the 1.8% earned in 2012-13.

94. The current strategy permits a maximum maturity of 3 years for Lloyds and RBS and y 3 months for all other banks. The maximum maturities are in line with guidance from

Capita, with the extended maturities for the two part nationalised banks reflecting the increased security of their ownership by the UK Government. This level of security has enabled the Council to agree a limit of 50% of the total investments for each of them.

95. As a result of the Council's strategy and the interest rates available the investment portfolio has inevitably remained concentrated with RBS and Lloyds with 74% of the total portfolio invested with them on 31st December 2013. However, in terms of diversification this is an improvement on the 93% invested with these two banks as at 31 December 2012.

96. The Council's funds are mainly cash flow derived and include the General Fund, West London Waste Authority (until 31 March 2014) and HRA. Balances are also held to support capital expenditure. From 1st April 2011, pension fund cash balances have been held separately from those of the Council. A separate investment strategy has not been developed for the pension fund and all its cash is held on overnight call account with RBS.

97. The counterparty policy recognises the uncertainty within the financial sector by limiting deposits to three months for those banks that are not UK government owned or the higher rated specified investments. Selective deposits with maturities of over three months will be made with Lloyds / HBOS and RBS to obtain the benefit of the higher rates on offer provided that prudent liquidity is maintained. In no event will more than £40m be invested for maturities of more than 12 months.

98. Due to the low interest rates environment and uncertainties around Government funding for banks, setting expected income levels for 2014-15 and beyond is imprecise. Investment income (net of allocations) has been budgeted at £1,052,000 for 2014/15 (2013/14 £1,572,000).

Financial Implications

99. Financial matters are integral to the report.

Legal Implications

100. The report has been reviewed by Legal Department and comments received are incorporated into the report.

Environmental Impact

101. There are no direct environmental impacts.

Performance Issues

102. The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

103. A major part of the report covers the Council's establishment of its prudential indicators and its performance against them and other measures over the current year and the next three years. This includes:

- Capital expenditure and capital financing requirement
- Ratios of financing costs to revenue streams and assets
- Borrowing limits and interest payable
- Investment limits and interest receivable

Risk Management Implications

104. There is a risk that the Council could lose a deposit due to the failure of a Counterparty and any movement in interest rates will have an impact on the investment income and borrowing costs.

Risk included on Directorate risk register? Yes

Separate risk register in place? No

Equalities Implications

105. Officers have considered any possible equalities impact and consider that there is no adverse equalities impact.

Corporate Priorities

106. This report deals with the Treasury Management Strategy which is a key to delivering the Council's corporate priorities

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 20 January 2014	x	Chief Financial Officer
Name: Linda Walker Date: 21 January 2014	x	on behalf of the Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Date: 20 January 2014	x	Divisional Director Strategic Commissioning

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker Date: 20 January 2014	x	on behalf of the Corporate Director (Environment & Enterprise)

Section 6 - Contact Details and Background Papers

Contact: **Ian Talbot** (Treasury and Pension Fund Manager) Tel: 020-8424-1450 /
Email: ian.talbot@harrow.gov.uk

Background Papers: N/A

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call-in applies, except to the Recommendations to Council]*

LEGISLATION AND REGULATION IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link below

Local Government Act 2003

Below is a summary of the provisions in the Act dealing with treasury management.

In addition the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Department of Communities and Local Government Guidance and CIPFA codes of practice.

Power to borrow

The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing

The main borrowing control is the duty not to breach the prudential and national limits as described below.
The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.
All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.
It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit

The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.
It is for the Council (at a meeting of the full Council) to set its own 'prudential' limit in accordance with these rules, subject only to the scrutiny of its external auditor. The Council is then free to borrow up to that limit without Government consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevents the long-term financing of revenue expenditure by borrowing.
However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and forseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits

The Government has retained reserve power to impose 'longstop' limits for national economic reasons on all local authorities' borrowing and these would override authorities' self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements

Credit arrangements (eg property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit.

Power to invest

The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

2. Department for Communities and Local Government Investment Guidance (March 2010)

The Local Government Act 2003 requires a local authority "…..to have regard (a) to such guidance as the Secretary of State may issue………….." and the current guidance became operative on 1 April 2010.

The Guidance recommends that for each financial year the Council should prepare at least one investment Strategy to be approved before the start of the year. The Strategy must cover:

- **Investment security –**
  Investments should be managed prudently with security and liquidity being considered ahead of yield
  Potential counterparties should be recognised as “specified” and “non-specified” with investment limits being defined to reflect the status of each counterparty

- **Investment risk**
  Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.
  The use of credit ratings and other risk assessment processes should be explained
  The use of external advisers should be monitored
  The training requirements for treasury management staff should be reviewed and addressed
  Specific policies should be stated as regards borrowing money in advance of need

- **Investment Liquidity**
  The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

3. Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA 2011)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.

- Creation and maintenance of Treasury Management Practices (“TMPs”) that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011)

Compliance with the objectives of the Code by the Council should ensure that:

- Capital expenditure plans are affordable in terms of their implications on Council Tax and housing rents
- External borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with good professional practice

As part of the two codes of practice above the Council is required to:

- agree a series of prudential indicators against which performance is measured
- produce Treasury Management Practice Notes for officers which set out how treasury management policies and objectives are to be achieved and activities controlled.

Appendix 2

Treasury Management Delegations and Responsibilities

The respective roles of the Cabinet, GARMC, the Section 151 officer, the Treasury Management Group and the Treasury Team are summarised below. Further details are set out in the Treasury Practice Notes.

The main responsibilities and delegations in respect of treasury activities are:

Council

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual out-turn report on treasury activities.

Cabinet also approves revenue budgets, including those for treasury activities.

Governance, Audit and Risk Monitoring Committee

GARMC is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

Section 151 Officer

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. In particular, the Sector 151 Officer:

- Approves all new borrowing, investment counterparties and limits and changes to the bank mandate,
- Chairs the Treasury Management Group ("TMG"), and
- Approves the selection of treasury advisor and agrees terms of appointment.

Treasury Management Group

Monitors the treasury activity against approved strategy, policy, practices and market conditions.

Approves changes to treasury management practices and procedures.

Reviews the performance of the treasury management function using benchmarking data on borrowing and investment provided by Sector.

Monitors the performance of the appointed treasury advisor and recommends any necessary actions.

Ensures the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

Monitors the adequacy of internal audit reviews and the implementation of audit recommendations.

Treasury and Pension Investment Manager

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures and recommends changes to these to the TMG.

Interest Rate Forecasts 2014 – 2017 APPENDIX 3

Capita Asset Services Interest Rate View													
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
3 Month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 Month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%	-	-	-	-	-
Capital Economics	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%	-	-	-	-	-
Capital Economics	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%	-	-	-	-	-
Capital Economics	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Appendix 4

Economic Background

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

> *In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

Forward guidance. The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment.

However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

USA. The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.

- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014

- Weak growth or recession in the UK’s main trading partners - the EU and US, depressing economic recovery in the UK.

- Prolonged political disagreement over the raising of the US debt ceiling.

- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.

- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.

- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

LONDON BOROUGH OF HARROW

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE – 2 APRIL 2014

REFERENCE FROM CABINET - 13 FEBRUARY 2014

782. Key Decision: Final Revenue Budget 2014/15 and Medium Term Financial Strategy (MTFS) 2014/15 to 2016/17

The Portfolio Holder for Finance introduced the report, which set out the final Revenue Budget for 2014/15 and the Medium Term Financial Strategy (MTFS) for 2014/15 to 2016/17. He identified the report as the delivery mechanism for the Council's Corporate Plan 2014/15.

The report showed that the Budget for 2014/15 was balanced and the MTFS identified budget gaps for future years. A substantive change to the draft budget presented to Cabinet in December 2013 was the financing of the 20 minutes free parking.

The Leader of the Council referred to the invitation extended to the largest opposition Group to present its 'alternative' budget initially to Cabinet for scrutiny but noted that this offer had been declined. The residents of Harrow would not be given an opportunity to scrutinise the 'alternative' budget.

The Leader of the largest opposition Group replied that it was important for his Group to present a robust 'alternative' budget in due course. As the main opposition, it was essential that his Group had had an opportunity to scrutinise the administration's proposed budget. He was critical of the proposal to spend £400,000 on bins over four years and he considered that the money would be better spent on those affected by domestic violence. He also asked about the duration of the proposed 20 minutes free parking which he said had been announced with haste. He was of the view that the administration's proposed budget would increase the deficit for future years with rate payers having to pay in later years.

The Leader of the Council, the Deputy Leader and the Portfolio Holder for Finance responded as follows:

- it was important to differentiate between capital and revenue budgets as these budgets could not be switched around. The provision of bins by the administration would be met the capital budget and the proposal put forward by the largest Opposition Group, on domestic violence had revenue implications. It was suggested that the largest opposition Group did not understand this important difference;

- a U-turn on the Cleaner, Safer and Fairer agenda was implausible and the administration's achievements in a short period of time since it came to power ought be applauded;

- the 20 minute free parking proposal had been included in the 2014/15 budget. The next administration would need to make a decision in this regard on the basis of the overall savings that it would need to achieve;

- the largest opposition Group had not taken opportunities to provide effective scrutiny of the administration's budget and had failed to present its own 'alternative' budget for scrutiny.

During a further discussion on the proposed budget, the same non-voting non-Executive Cabinet Members stated that the budget, which included potential overspends, was electioneering as every policy area had had its finances increased. They considered this to be reckless, as it would put pressures on future administrations. They were critical of the proposed reduction in the welfare contingency budget and the message this sent to residents. They referred to the £60m savings achieved during their administration, and were of the view that the Council needed to take a lead role in the West London Alliance and look at shared services in order to protect staff and their futures.

In response, the Leader of the Council stated that it was important to recognise that the largest opposition Group had already made extra commitments, for example an additional Under One Sky event, which were not about helping the vulnerable. The Portfolio Holder for Communications, Performance and Resources stated that the administration was looking at alternatives such as the shared services and would only reflect such items in the budget provided they were deliverable. It was irresponsible for the largest Opposition Group to have earmarked savings, such as those in the Democratic Services budget and thereafter not meeting its obligations by scaling back on the number of meetings.

The Portfolio Holder for Finance stated that the administration had inherited a budget that was not their own and had frozen Council Tax, improved the amount of money allocated for the needy, employed additional social workers, increased the budget for the elderly, and transport which a responsible administration would do.

Resolved to RECOMMEND: (to Council)

That

(1) the budget be approved to enable the Council Tax for 2014/15 to be set;

(2) the Medium Term Financial Strategy at Appendices 1 and 2 of the report be endorsed;

(3) the policy on the use of the contingency at Appendix 5 of the report be approved;

(4) in relation to schools, the schools' budget at Appendix 6 of the report be approved;

(5) the Members' Allowance Scheme at Appendix 13 of the report be adopted for 2014/15.

RESOLVED: That

(1) the Medium Term Financial Strategy (MTFS), at appendices 1 and 2 to the report, be approved;

(2) the planned investment in services and efficiencies, as set out in Appendix 2 and summarised in table 5 of the report, be noted;

(3) the sum, £3.560m, of NHS Transfer funding to be received by the Council, as set paragraph 17.1 of the report be noted;

(4) **the risk assessment at Appendix 7 to the report be agreed and referred to the Governance, Audit and Risk Management Committee for consideration and monitoring.**

Reason for Recommendation/Decision: To ensure that the Council sets a balanced budget for 2014/15.

Alternative Options Considered and Rejected: As set out in the report.

Conflict of Interest relating to the matter declared by Cabinet Member / Dispensation Granted: None.

FOR CONSIDERATION

Background Documents:

Minutes of the Cabinet Meeting - 13 February 2014

Contact Officer:

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REPORT FOR: **CABINET**

Date:	13 February 2014
Subject:	Final Revenue Budget 2014/15 and Medium Term Financial Strategy 2014-15 to 2016-17
Key Decision:	Yes
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Tony Ferrari, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	Yes, except for the Recommendation to Council
Enclosures:	Appendices listed below

Appendices are attached as follows:

No	Appendix
1	MTFS 2014/15 to 2016/17 (Summary)
2	MTFS 2014/15 to 2016/17 Proposed investments / savings for member approval
3	2014/15 Budget Book detail
4	Levies, contributions and subscriptions
5	Policy on use of contingency
6	Schools budget
7	Risk Assessment
8	Reserves Policy
9	Report of the Chief Finance Officer
10	Model Council Tax Resolution
11	Reserves and provisions forecast
12	Stakeholder meetings and events and Consultation feedback
13	Members' Allowance Scheme
14	Annual Pay Policy Statement for 2014/15

Note: the page numbers in the table above refer to the small page numbers (bottom right of page) on the report itself and not the large numbers (bottom middle of page) that run throughout the agenda pack.

Section 1 – Summary and Recommendations

This report sets out the final revenue budget for 2014/15 and medium term financial strategy (MTFS) for 2014/15 to 2016/17.

RECOMMENDATIONS:

1) That Cabinet recommends the budget to Council for approval to enable the Council Tax for 2014/15 to be set

2) That Cabinet approves the Medium Term Financial Strategy at Appendices 1 and 2 for referral to Council

3) That Cabinet notes the planned investment in services and efficiencies as set out in Appendix 2 and summarised in table 5

4) That Cabinet recommends to Council the policy on the use of the contingency (Appendix 5)

5) That Cabinet notes the sum of NHS Transfer funding to be received by the council in 2014/15 (£3.560m) (paragraph 17.1)

6) That, in relation to schools, Cabinet recommends to Council the schools budget (Appendix 6)

7) That Cabinet agrees the risk assessment (Appendix 7) and refers it to the Governance, Audit and Risk Management Committee for consideration and monitoring

8) That Cabinet recommends the Members' Allowance Scheme (Appendix 14) for 2014/15 to Council

REASON:
To ensure that the Council sets a balanced budget for 2014/15.

Section 2 – Report

INTRODUCTORY PARAGRAPH

1.1 This is the final report in the current series of Budget reports for the Medium Term Financial Strategy (MTFS) covering the period 2014/15 to 2016/17. The draft Revenue Budget report to the 12 December 2013 Cabinet set out the context and background for setting the budget.

1.2 This report shows that the 2014/15 Budget is balanced and the MTFS has estimated budget gaps of £24.750m and £20.765m for 2015/16 and 2016/17 respectively.

CURRENT FINANCIAL CONTEXT

2.1 In 2010 the Government's funding settlement meant Local Government received the most challenging funding settlement in decades, resulting in a 28% cut to the Council's controllable costs over the 4 years to 2014/15, some £62m in Harrow's case from 2010/11 levels of expenditure. This is on top of the £45m the Council has already saved before this, meaning that by 2015 the Council will have been making savings of over £10m a year for the last nine years. By and large Harrow has demonstrated a successful track record in delivering these savings by:

- Identifying efficiencies
- Adopting a more commercial approach to contracting and procurement
- Taking advantage of new technologies
- Introducing new and innovative ways of service delivery

2.2 The MTFS agreed by Cabinet and Council in February 2013 showed a balanced budget position for 2013/14 and 2014/15 with a budget gap of £15.693m and £14.236m for 2015/16 and 2016/17 respectively. The MTFS included an indicative assumption that Council Tax would increase at 2% per annum.

2.3 The draft budget and re-freshed MTFS 2014/15 to 2016/17 approved by the December 2013 Cabinet showed a balanced budget position for 2014/15 (with a minor surplus of £24k) with an estimated budget gap of £19.481m and £18.612m for 2015/16 and 2016/17 respectively. In terms of Council Tax, the refreshed MTFS assumed a 0% increase for the three year duration of the MTFS.

2.4 All councils, not just Harrow, continue to find themselves in a very uncertain and volatile situation with a significant number of external events, beyond the Council's control, adversely impacting on funding and the nature of demand for Harrow services. The economy is showing the early signs of recovery but this is not expected to lead to any change in the Government's policy regarding funding levels to Local Government. This continues to create a very challenging environment for the very real role that local government plays in the local community and the positive impact that the Council can have on people's quality of life. This does mean that the Council will have to consider how to fund specific new projects requested by Members.

2.5 The provisional Local Government Finance settlement for 2014/15, with indicative numbers for 2015/16, was announced on 18 December 2013. The impact of the announcements and their impact on the MTFS are detailed in this report. The Final settlement is anticipated to be on 12 February, however any changes are anticipated to be minimal. Any changes will be reported verbally at the meeting.

EXTERNAL ENVIRONMENT

3.1 The challenging environment the Council faces is caused by a number of external factors which the Council must make budgetary provision for in the MTFS. The key external factors are summarised below along with the relevant MTFS adjustments. The adjustments will include, where relevant, those required to the draft MTFS approved by Cabinet in December 2013 as a result of the central government grant settlement received towards the end of December. These adjustments are explained in more detail in section 6.1 of this report:

- Harrow is one of the lowest funded councils in London. The grant settlement received for 2014/15, including indicative numbers for 2015/16, shows that the indicative reductions in formula grant are both far higher and continue for longer than previously assumed.

- From April 2013, as a result of the change in the NNDR scheme, Council's are allowed to keep 30% of increases in Business Rates.

Historically Harrow has not increased its tax base due to the trend of converting commercial property to domestic use.

- The Government has announced Council Tax Freeze Grants over the last couple of years. The MTFS agreed in February 2013 assumed no such grant on account of the indicative assumption of a 2% Council Tax increase. The MTFS now assumes a 0% increase in Council Tax for 2014/15 to 2016/17 and hence the receipt of Council Tax freeze grant.

- From 1 April 2013 the responsibility for the Council Tax Support Scheme was transferred to the Council but with a 10% reduction in budget meaning Harrow had to save £3.8m to be able to fund the scheme in year one. A report was taken to Cabinet in November 2013 recommending no amendments be made to Harrow's support scheme for 2014/15.

- The Government are implementing the largest ever reform to the benefits system. Recently announcements have been made of further reductions of £25bn to public sector spending, half of which are assumed to come from the welfare bill. The changes are complex and the original MTFS included growth of £2m in 2013/14 to create a Welfare Reform contingency. However the anticipated pressures of welfare reform have not yet materialised as expected and the draft MTFS removes the £2m growth. This does however increase the level of potential risk as the authority cannot yet assess the full impact of welfare reform until it is fully implemented.
- The care and support spending round settlement announced the creation of a £3.8bn pooled health and social care budget from 2015-16. This is predicated on much better integration between health and social care, so that care is centred around the person rather than the service. In the Spending Review 2013 an extra £200m was announced for 2014/15 to support integration. The specific details of this funding and how it will be transferred to Local Authorities remains subject to confirmation.
- The 2011 Census data shows there has been a 15% increase in population in the last 10 years with the biggest growth being in the birth rate with a 33% increase in 0-4 year olds increasing the demand for both school and nursery places. For people aged over 80 years old the census showed an estimated increase of 1000 people. The original MTFS allowed for adult demographic growth of £2.8m in 2013/14 and £2.6m in 2014/15 and an additional £600k has been included in 2014/15 for demographic growth within Adult Services.

FINANCIAL PERFORMANCE FOR 2012/13 AND 2013/14

4.1 In 2012/13 the Council under spent by £0.996m after a planned transfer to reserves of £9.808m as detailed below:

MTFS Implementation cost	£4.849m
Carry forward requests 12/13	£3.268m
Business Risk	£1.691m
	£9.808m

4.2 In 2013/14 the Council budget includes £10m of investment and a challenging savings target of £22.4m. The 2013/14 Quarter 3 Revenue Monitoring Report forecasts a net budget pressure of £2.63m on directorate budgets reducing to a pressure of £1.9m after accounting for corporate items. The directorates continue to work on management actions to further reduce the forecast pressure by year end.

CHANGES FROM DECEMBER 2013 DRAFT MTFS

5.1 The central government grant settlement for 2014/15, with indicative numbers for 2015/16, was announced on 18 December 2013. The summarised impact of the settlement on the MTFS, along with five further budget adjustments, are detailed below in table 1 followed by a narrative explanation:

Table 1: 2014/15 Central Government Grant Settlement - Impact on MTFS

	MTFS		
	2014/15	**2015/16**	**2016/17**
	£'000	**£'000**	**£'000**
February 2013 – Budget gap	**0**	**15,693**	**14,236**
December 2013 – draft Budget gap	**(24)**	**19,481**	**18,612**
February 2014 – final budget position (gap) for approval	**0**	**24,750**	**20,765**

Settlement Adjustments:

- **New Homes Bonus (NHB).** The MTFS assumes a NHB of £3.457m in 2014/15 and £3.982m in 2015/16. Actual NHB in 2014/15 will be less at £3.067m requiring an adjustment of £390k. In 2015/16 indicative figures show the NHB will again be less than assumed at £3.467m requiring a further adjustment of £125k.

- **Education Support Grant (ESG)**. The grant settlement figure was broadly in line with the assumptions in the MTFS. The grant settlement figure will be subject to in year reductions if schools concert to Academy status. Based on the current estimates of Academy conversions due to take place in 2014/15 the ESG is estimated to reduce by £249k in year and the MTFS has been adjusted accordingly.

- **Formula Grant**. The MTFS already assumes a year on year reduction in formula grant and the draft MTFS approved by Cabinet in December 2013 assumed a further reduction of £1m for 2014/15. However in 2015/16 the indicative formula grant settlement is significantly lower than planned for and, if such a level of reduction continues, the MTFS assumptions for reductions in formula grant in 2016/17 are under stated. Therefore the MTFS has been adjusted to reflect the indicative reductions in formula grant for 2015/16 and 2016/17 and these reductions are the main factor contributing to the increase in the budget gap as shown in table 1 above. Tables 2 and 3 below show the planned reduction in formula grant compared to the actual / indicative reduction:

Table 2: Reduction in Formula Grant – Planned

Draft MTFS approved December 2013	2015/16	2016/17
	£'000	£'000
Formula Grant	35,282	30,066
Year on Year Reduction (£'000)	6,793	5,216
Year on Year Reduction (%)	16.1%	14.8%

Table 3: Reduction in Formula Grant – Actual / Indicative

MTFS to February 2013 Cabinet for approval	2015/16	2016/17
	£'000	£'000
Formula Grant	30,650	20,650
Year on Year Reduction (£'000)	11,978	10,000
Year on Year Reduction (%)	28.1%	32.6%

- **Business Rates Top Up**. The 2014/15 top up figure was £227k lower than planned and for 2015/16 and 2016/17 the indicative figures are £567k and £581k higher than planned following the Autumn Statement 2013 announcements that top ups would rise by 2%. The MTFS has been adjusted accordingly.

- **Business Rates Retention/S31 Grant.** The Autumn Statement 2013 announced that the small business rates multiplier would be capped at 2% rather than increased by September 2013 RPI (3.2%) as in previous years. This is classed as a new burden and a S31 Grant will be received to fund the cap. There is no significant impact of this announcement on the MTFS.

- **Council Tax Freeze Grant.** The grant settlement figure was broadly in line with the assumptions in the MTFS. However the Settlement did announce that Council Tax Freeze grant would be mainstreamed in 2016/17 to prevent a 'cliff edge' effect. As the MTFS assumed a freeze grant reduction of £2.11m in 2016/17, this assumption has now been reversed.

Further Budget Adjustments

- **Revenues & Benefits – bad debt provision (BDP)** – In 2012/13 the Housing Benefits (HB) BDP had to be increased as a result of overpayments continuing to be raised with the increase being funded by the general fund. In 2013/14 HB overpayment collection has been higher than anticipated generating sufficient additional funds to fund the BDP rather than making a call on the general fund. Going forward the landscape will look different due to Welfare Reform. With the pressures of localised Council Tax support on tax payers, who may also the same debtors from which the authority is trying to recover HB overpayments, this will increase the risk on collection and the BDP. Taking a prudent approach for 2014/15 £300k has been included in the MTFS to fund an increase in the BDP.

- **Freedom Pass Levy.** The Freedom Pass Levy notification received from London Councils is £144k less than anticipated and the MTFS has been adjusted accordingly.

- **Terms and Conditions.** Additional savings are estimated to be released from the review of terms and conditions of £99k, £93k and £15k for 2014/15, 2015/16 and 2016/17 respectively.

- **Council Tax Base**. The council tax base is estimated to increase by 1,676 band D equivalents in 2014/15. The MTFS assumes an increase of 1,255 band D equivalents. The estimated additional increase in the council tax base will generate income of £509k and the MTFS has been adjusted accordingly.

- **20 Minutes Free Parking.** A proposal for 20 minutes free parking is now in the MTFS (E&E011 14/15). The proposal is built on four premises; 1) 20 minutes free parking per vehicle per day regulated by the use of key pads for recording vehicle registration numbers 2) Applies to on street parking only 3) Parking must be for 20 minutes only and 4) Where parking is for longer than 20 minutes the full parking charge is payable. The capital cost is estimated at £450k which has been included within the capital programme and will be funded from under spends within the capital programme for 2013/14. The revenue cost is a projected loss of income of £300,000 (full year effect) but the phased implementation in 2014/15 will mean a likely loss of £200,000 for that year.

5.2 Work will be progressed on identifying proposals for 2015/16 and 2016/17 to close the gaps in those years and to align the Council's finances with the reduced level of funding that will be available in the medium term.

2014/15 BUDGET

6.1 The MTFS in summary form is attached at Appendix 1 with Appendix 2 showing the detailed MTFS for 2014/15 to 2016/17 and which includes the adjustments required as a result of the central government grant settlement as detailed in the previous section of this report. Some of the key decisions supporting the 2014/15 budget and details of the proposals per Directorate are set out below.

6.2 The budget requirement for 2014/15 can be summarised as follows:

Table 4: Budget Requirement 2014/15

	£'m
Budget requirement 2013/14	**181.1**
Capital financing costs and investment income	0.4
Technical changes including Specific Grant changes	(4.4)
Inflation	2.6
Investment	4.7
Savings	(10)
Budget requirement 2014/15	**174.4**

6.3 The technical changes and inflation provisions are as indicated in appendix 2. Significant items included in the 2014/15 budget are:

- **Capital financing costs and investment income –** Following a review additional capital financing costs of £462k and £310k are required in 2014/15 and 2015/16 respectively and this is consistent with the capital programme.

Actual Minimum Revenue Provision (MRP) costs are dependent on capital spend in 2013/14. This is closely monitored.

- **New Homes Bonus** – In March 2013 the government announced the creation of the Local Growth Fund for LEP's who will access funding from 2015. Nationally the fund will amount to £2 billion in 2015/16 and £70m of this funding will come from the New Homes Bonus (NHB) top sliced from London borough's only. London Councils have modelled what the NHB top slice will look like and their estimate for Harrow is £1.6m in 2015/16.

- **Education Support Grant** – The MTFS was based on £2.5m of ESG being received in 2013/14 with the grant reducing by £1m per annum over 2014/15 and 2015/16, leaving £500k in the 2016/17 base budget. These assumptions have been reviewed taking into account updated pupil numbers, estimated academy conversions and government announcements on funding reductions. In January 2013 DFE announced a £10m reduction in ESG between 13/14 and 14/15 and from 2015/16 the ESG will be reduced nationally by £200m with this funding being transferred to the creation of the Local Growth Fund for LEP's. The MTFS accounts for these changes and the planned Academy conversions in 2014/15 which will further reduce the ESG.

- **Council Tax and CT Freeze Grant** - The MTFS assumes a 0% increase in Council Tax over the 3 year period 2014/15 to 2016/17. A Council Tax freeze grant of £1.068m is assumed for 2014/15 and 2015/16.

- **Formula Grant Reduction –** The reductions to formula grant, as detailed in tables 2 and 3 are reflected in 2014/15 and future years.

- **Council Tax Base / Collection Fund –** In the December 2013 Cabinet report the Council Tax base was estimated to increase by 1,255 band D equivalents generating income of £1.519m. The new assumption is the Council Tax base will increase by an additional 421 band D equivalents raising additional income of £509k which is reflected in the MTFS. A prudent increase of 0.1% in the Council Tax base has been assumed for 2015/16 and 2016/17.

- **Budget Planning Contingency** – The MTFS assumes a contingency of £1.171m which is consistent with previous years. Prior to the refresh process the MTFS planned to increase the contingency by £1.829m in 2014/15 but this increase has been removed to achieve a balanced budget position.

- **Welfare Reform Contingency** –The MTFS assumes no contingency for Welfare Reform. Prior to the refresh process the £2m contingency put into the base in 2013/14 was planned to be reduced by £1m in 2015/16 leaving £1m in the base budget.

- **Inflation on goods and services** – The MTFS assumes inflation of 1.3% on goods and services. As at January 2014 RPI is 2.7%. Prior to the refresh process the MTFS assumed inflation of 2% of goods and services and the 0.7% reduction was proposed to reduce the cost of inflation by £600k.

6.4 The investment and efficiency programme totals for each Directorate for 2014/15 are summarised in the following table:

Table 5: Investment and Efficiency Programme for 2014/15

Directorate	Investment in Services	Efficiency Programme
	£m	£m
Community Health and Wellbeing	2.2	5.3
Children & Families	1.2	1.8
Environment & Enterprise	0.9	1.1
Resources	0.4	1.6
Transformation	0	0.2
TOTAL	**4.7**	**10**

6.5 There will be an estimated pressure of between £780k to £1m on the Dry Recyclables Contract. This pressure will be managed within the Environment and Enterprise directorate by using the growth allocated for the West London Waste Authority (WLWA) Levy. The draft budget for the WLWA suggests the allocated growth of £689k for 2014/15 will no longer be required (saving ref. E&E 008).

FEES AND CHARGES 2014/15

7.1 The proposed fees and charges for 2014/15 are subject to a separate report on the agenda. The estimated effect of the changes proposed has been accounted for in the MTFS.

7.2 For 2014/15 any increases in fees and charges have been capped at 4%. This rate takes into account the current rate of inflation of 2.7% (Retail Price Index as at January 2014) plus a factor of up to 1.3% to allow for, or make a move towards, full cost recovery.

CONSULTATION AND CONSULTATION FEEDBACK

8.1 In developing proposals consultation has been undertaken with various stakeholders as shown in table 6:

Table 6: Stakeholder Consultation

Stakeholder	Meeting	Date
Overview and Scrutiny	Special meeting of Overview & Scrutiny to review the budget	23 January 2014
Tenants and Leaseholders	Tenants and Leaseholders Consultative Forum	11 December 2013
Partner organisations	Harrow Partnership	20 January 2014
Local businesses	Harrow Business Consultative Forum	20 January 2014
Unions	Employee Consultative Forum	28 January 2014

A large number of the investments and savings within the 2014/15 were consulted on last year as the council set a 2 year budget in February 2013. Further consultation will take place on saving proposals prior to individual plans being implanted and rolled out where necessary.

8.2 The minutes of a number of consultation events are detailed in Appendix 12.

PUBLIC HEALTH FUNDING 2014/15

9.1 A two year ring fenced grant allocation for Public Health was announced in January 2013 with Harrow allocated £9.146m for 2014-15. The DOH recently announced the extension of the ring fenced grant for a further year to 31st March 2016. In setting the allocations, the DOH set a minimum of 2.8% and maximum of 10% growth in budgets for each year – 19 local authorities are at the minimum in 2014-15 and 8 at the maximum. The increase for Harrow in 2014-15 is 3.1%, marginally above the minimum increase, resulting in Harrow being the 2nd lowest spend per head of population over the 33 London boroughs.

9.2 2013/14 has been the first year that Public Health team have operated within the Council and in agreement with Barnet Council, a joint team has been developed and is supported by a single Director of Public Health. Given a number of uncertainties around liabilities and potential additional responsibilities, a prudent approach was taken in setting the commissioning intentions and a contingency was held to mitigate some of these risks whilst taking time to consider appropriately how best to utilise this funding to meet both public health and wider Council objectives.

9.3 During this first year of operation a number of contracts have been reviewed and consolidated with existing Council contracts, and a programme of procurement will continue into 2014-15 to ensure that commissioned services provide value for money, meet public health outcomes and reflect the commitment to providing support to those most in need.

9.4 In December 2013 Cabinet approved the draft Public Health budget for 2014/15. Following this approval the commissioning intentions were presented to the Health and Wellbeing Board at its meeting on 09 January 2014. The draft budget was noted with no amendments.

LOCAL WELFARE PROVISION FUND

10.1 The Local Welfare Fund Provision is subject to a separate report on this agenda. In the last few days the Department for Work and Pensions (DWP) has announced that the Local Welfare Provision funding pot is to be abolished from 2015/16. This funding was allocated to Councils in April 2013 to deliver a Welfare Provision. Harrow is using these monies to fund both the Hardship Fund and the Emergency Relief Scheme under the umbrella of Harrow Help Scheme.

10.2 The grant was allocated on a non ring fenced basis to 2015. Whilst Harrow will be able to continue to offer this support for 2014/15 from 2015/16 any funding will have to be found from within the general fund. In the circumstances it is likely that the commissioning of the Hardship Fund to distribute the £100k to Community Groups/organisations will be a one off exercise within 2014/15.

CONTINGENCY

11.1 The planned contingency within the budget for 2014/15 was £5m made up of £2m for Welfare Reform and £3m for budget planning and general use. Following the refresh process the proposed contingency for 2014/15 will be £1m. This is a significant reduction and will mean directorates will have to monitor their budgets very tightly and pressures, as far as possible, will have to be contained within current resources the contingency is needed if, for example, decision makers decide not to implement proposals due to adverse equalities implications. The policy on use of contingency is detailed in Appendix 5.

EQUALITY IMPACT ASSESSMENTS

12.1 All new service budget proposals and those previously approved which cover 2013/14 and 2014/15 are subject to an initial equalities impact assessment. Full equalities impact assessments are carried out on proposals where appropriate.

12.2 An equalities impact assessment has been carried out on the whole budget, the details of which are summarised in paragraphs 24.1 to 24.5. No potential disproportionate impact has been identified at this stage.

PROPOSALS FOR GENERAL RESERVES

13.1 The detailed risk assessment of the budget has been updated and included in this report at Appendix 7. Cabinet agreed the following reserves policy in February 2013:

The risk assessment of the budget dictates the minimum level of general balances required.

One of the calls on any under spend at the end of the year will be a contribution to general balances. The value of the contribution will be determined with regard to the size of the under spend, the underlying strength of the balance sheet, the need to support the transformation programme, and other priorities.

At the current time no amendments are required to the reserves policy which is detailed in Appendix 8.

13.2 The value of non ear-marked reserves brought forward from 2012/13 is £8.646m.

SCHOOLS BUDGET 2014/15

13.1 The funding arrangements for the Dedicated Schools Grant and the Schools budget for 2014/15 are detailed in Appendix 6. Cabinet are asked to recommend to Council the Schools Budget for 2014/15.

COUNCIL TAX MODEL RESOLUTION

14.1 The draft Council Tax Model Resolution is attached at Appendix 10. This is still subject to confirmation of the GLA precept which is expected to be confirmed on 14 February. Any changes will be made for approval at Council on 27 February.

MEMBERS ALLOWANCE

15.1 The proposed Members' Allowances scheme for 2014/15 is attached at Appendix 13. The amounts for basic allowance and the different bands of Special Responsibility Allowance (SRA) are unchanged from 2013/14. On 4 July 2013, Council agreed amendments to the scheme in light of the changes to the political composition of the Council. These changes were made to reflect that the two largest political Groups had 25 Members and therefore both Leaders and Deputy Leaders of those Groups should receive an allowance at the same band. It was further agreed that the Leader of the third largest Group receive an allowance. In addition, Members agreed that the proportionality on the Planning Committee required that both the Vice Chair and nominated Member of the party not holding the Chair to receive an SRA. It was also agreed that a new position, Non Executive Member of Cabinet, receive an SRA at Band 6 i.e. £13,060 per annum.

ANNUAL PAY POLICY STATEMENT DELETE

16.1 Under the Localism Act, which came into force from April 2012, all public authorities must publish annual pay policy statements. The statement must set out the Authorities policies for the financial year relating to:

- Remuneration of its Chief Officers
- Remuneration of its lowest paid employees
- The relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers

The proposed statement is attached at Appendix 14 and Cabinet is requested to recommend it to Council for agreement.

NHS TRANSFER FUNDING

17.1 The Department of Health announced in December 2013 that the NHS Funding Transfer of £900m nationally would be increased by £200m to £1.1bn for 2014/15. The amount allocated to Harrow in this respect totals £4.445m (an increase of £1m on the 2013/14 allocation of £3.471m). The Health and Wellbeing Board (HWBB), at its meeting on 9 January 2014, agreed that this funding would be allocated £3.560m to the Council with the balance of £0.885m allocated to the Clinical Commissioning Group (CCG).

17.2 The NHS Funding Transfer becomes the Better Care Fund (BCF) from April 2015 with funding of £3.8bn nationally. The allocation for Harrow is £14.373m, which is a re-allocation of existing resources, and includes £1.190m for capital expenditure (including Disabled Facilities Grants) together with the funding associated with a range of duties from the Care Bill that comes into effect in April 2015. An element of this funding will be based on performance. The Council and the CCG must agree how these resources will be allocated to deliver a set of national conditions and make a submission to NHS England, approved by the HWBB, by 4 April 2014. The impact of the Better Care funding will be reflected in the MTFS for 2015/16 onwards.

LEGAL IMPLICATIONS

18.1 Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

(b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

(c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

(a) Tackle prejudice, and

(b) Promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act. The relevant protected characteristics are:

- *Age*
- *Disability*
- *Gender reassignment*
- *Pregnancy and maternity*
- *Race,*
- *Religion or belief*
- *Sex*
- *Sexual orientation*
- *Marriage and Civil partnership*

18.2 It is important that robust equalities impact assessments are completed and that consultation is done where necessary whilst the budget is in a formative stage prior to final approval in February 2014.

18.3 The Council has a fiduciary duty to residents to set a balanced budget.

CONSULTATION

19.1 As a matter of public law the duty to consult with regards to proposals to vary, reduce or withdraw services will arise in 3 circumstances:

- Where there is a statutory requirement in the relevant legislative framework;
- Where the practice has been to consult or where a policy document states the council will consult then the council must comply with its own practice or policy; and
- Exceptionally, where the matter is so important that there is a legitimate expectation of consultation.

19.2 Regardless of whether the Council has a duty to consult, if it chooses to consult, such consultation must be carried out fairly. In general, a consultation can only be considered as proper consultation if:

- Comments are genuinely invited at the formative stage;
- The consultation documents include sufficient information about the proposal to allow those being consulted to be properly informed and to give an informed response;
- There is adequate time given to the consultees to consider the proposals; and
- There is a mechanism for feeding back the comments and those comments are conscientiously taken into account by the decision maker / decision making body when making a final decision.

19.3 Finally there will be staff consultation on proposals that impact staff.

FINANCIAL IMPLICATIONS

20.1 Financial matters are integral to this report.

20.2 Under the Local Government Act 2003 the Director of Finance and Assurance (in his capacity as the Chief Finance Officer under S151 of the Local Government Act 1972) is required to comment on the robustness of the budget and the adequacy of reserves. The overall view is that the budget is robust. The Directors Report is set out in Appendix 9 and details the factors taken into consideration when forming the overall view.

PERFORMANCE ISSUES

21.1 The in year measurement of the Council is reported in the Strategic Performance Report. The Corporate Plan, which will be developed alongside the Budget Report, will have measures within it which will set out how Council delivery in 2014/15 will be measured and this again will be reported through the Strategic Performance Report.

ENVIRONMENTAL IMPACT

22.1 The environmental impact of the draft budget will be complex and the net position is not known at present.

RISK MANAGEMENT IMPLICATIONS

23.1 As part of the budget process the detailed budget risk register will be reviewed and updated. This helps to test the robustness of the budget and support the reserves policy.

EQUALITIES IMPLICATIONS

24.1 Section 149 of the Equalities Act 2010 created the public sector equality duty. Section 149 states that:-

- A public authority must, in the exercise of its functions, have due regard to the need to:

  - Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;

  - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

  - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

  The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.

24.2 When making decisions in relation to service provision, the Council must take account of the equality duty and in particular any potential impact on protected groups.

24.3 The Council agreed in February 2013 a two year balanced budget and a MTFS with budget gaps of £15.693m and £14.236m for 2015/16 and 2016/17 respectively. That MTFS assumed an indicative Council Tax increase of 2%. In December 2013, Cabinet agreed a draft budget and a refreshed MTFS showing a balanced budget position for 2104/15 and estimated budget gaps of £19.481m and £18.612m for 2015/16 and 2016/17 respectively. This budget assumed a 0% increase in Council Tax for the duration of the MTFS.

24.4 The net change in the Council's anticipated spend between 2013/14 and 2014/15 is a reduction of £6,636,000. Most of the changes to reach this total were agreed in the budget in February 2013 but there are also a number of other issues including technical changes to the structure of the various grant regimes that support the Council's spending, investments in some services and spending reductions in others. Any new change that results in a reduction in the number or grade of staff, or exposes a service to external competition requires an individual full Equality Impact Assessment before it can be implemented. The extent of the Council's balances allows for any individual saving or reorganisation proposal for which a full EqIA demonstrates adverse impact which cannot be justified not to be proceeded with.

24.5 No potential disproportionate impact has been identified at this stage.

CORPORATE PRIORITIES

25.1 The administrations priorities are detailed below:

- **Cleaner**: A borough where our streets are cleaned regularly and our parks and green spaces are places to enjoy.
- **Safer**: Work with police to make Harrow even safer
- **Fairer**: Harrow is a place where our hard working residents can bring up their families knowing they will have fair access to opportunity.

25.2 The budget for 2014/15 supports delivery of the Council's vision, the administrations priorities and is consistent with the Corporate Plan.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 30 January 2014	x	on behalf of Chief Finance Officer
Name: Linda Walker Date: 30 January 2014	x	on behalf of Monitoring Officer

Section 4 – Performance Officer Clearance

Name:Alex Dewsnap Date: 30 January 2014	x	on behalf of Corporate Director Resources

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker Date: 30 January 2014	x	on behalf of Corporate Director of Environment & Enterprise

Section 6 - Contact Details and Background Papers

Contact: Dawn Calvert
Head of Strategic Finance and Business
Email: dawn.calvert@harrow.gov.uk

Background Papers:

- Draft Revenue Budget and Medium Term Financial Strategy 2014/15 to 2016/17 to Cabinet 12 December 2012 http://moderngov:8080/documents/g61434/Public%20reports%20pack%20Thursday%2012-Dec-2013%2018.30%20Cabinet.pdf?T=10
- Equalities Impact Assessment

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *(Yes, except for the Recommendation to Council)*

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Budget Risk Register 2014-15

1. By-election
2. Inflation – pay
3. Inflation - prices
4. Inflation – utilities
5. Treasury Management
6. Asset management
7. Income collection
8. Welfare Reform
9. Income from parking services
10. Changes to grant regime
11. Economic risk – capital receipts
12. Economic risk – demand for services
13. Litigation against the Council
14. Major Fraud
15. Increased Pension fund contributions
16. Levies, Precepts and Subscriptions
17. Financial control environment
18. Insurance claims
19. Demographic changes: additional demand for social care
20. System failure
21. Lack of disaster recovery capability
22. New policy/legislation
23. Adult Social Care reform
24. Safeguarding
25. Natural disaster /accident/terrorist incident
26. Adverse weather conditions
27. Non achievement of savings
28. Workforce –loss of permanent staff
29. Transformation programme
30. Breakdown of relationships - Strategic partnerships
31. Shared Services not meeting partner aspirations
32. Commercial partnerships

Likelihood	**A Very High**	Green	Orange	Red	Red
	B High	Green	Orange 11,12 ,24	Red 22	Red
	C Significant	Green	Orange 9,10,13, 20,28	Red 8,19,21, 23,27,30	Red
	D Low	Green 1	Green 2,3,4,15, 17,26	Orange 31,32	Orange
	E Very Low	Green 16	Green 7,14,18, 25	Green	Orange
	F **Almost Impossible**	Green	Green 6	Green 5	Green
		4 Negligible	**3 Marginal**	**2 Critical**	**1 Catastrophic**
		Impact			

			2014-15				2015-16				2016-17			
Ref	Risks	Risk rating	Worst case £000	Like - lihood %	Net risk £000	Risk rating	Worst case £000	Like - lihood %	Net risk £000	Risk rating	Worst case £000	Like - lihood %	Net risk £000	Mitigation/Comments
	POLITICAL RISKS													
1	By-Election	D 4	70	17%	12	D 4	70	17%	12	D 4	70	17%	12	There is provision in the budget for the scheduled elections but not by-elections. Worst case is based on two by-elections in one year.
	ECONOMIC / FINANCIAL RISKS													
2	Inflation - Pay	D 3	950	17%	162	D 3	1500	17%	255	D 3	1500	17%	255	The 2014-15 is based on 1% for pay in line with the Government's public sector pay policy. From 2015-16 2% p.a. is assumed. There is some risk as general inflation is running at a higher level and there is pressure from the Trade Unions for a higher increase. Given the current pressures on spending in the public sector there is likely to continue to be downwards pressure on public sector pay in particular. The longer pay restraint continues the more likely there will be a rebound when the economy improves again.
3	Inflation - Prices	D 3	600	17%	102	D 3	600	17%	102	D 3	1000	17%	170	The budget assumes 1.3% for prices each year with an expectation that directorates will manage suppliers to keep within that. Inflation has been falling and at December 2013 CPI was 2.0%. There is some risk as a result of this. It is however anticipated that given the general constraint on public spending that significant elements of the Council's spend can through negotiation be held below the general level of inflation. There are potential risks around fuel costs and major contracts with indexation terms
4	Inflation - utilities	D 3	200	17%	34	D 3	200	17%	34	D 3	200	17%	34	The 2014-15 budget reflects an allowance for an increase of 10% in energy prices. The market is however volatile.
			2014-15				2015-16				2016-17			
Ref	Risks	Risk rating	Worst case	Like - lihood	Net risk	Risk rating	Worst case	Like - lihood	Net risk	Risk rating	Worst case	Like - lihood	Net risk	Mitigation/Comments

			2014-15				2015-16				2016-17			
Ref	**Risks**	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Mitigation/Comments**
			£000	%	£000		£000	%	£000		£000	%	£000	
5	Treasury Management - investments and borrowing	F 2	10000	2%	200	F 2	10000	2%	200	F 2	10000	2%	200	The risk of losing a deposit is low given the use of a prudent lending list. The budget reflects the current base rate and anticipated borrowing costs. Note that Treasury Management decisions also affect the HRA and have the potential to impact the 30 year business plan. This in turn could impact homelessness.
6	Asset management.	F 3	1000	10%	100	F 3	1000	10%	100	F 3	1000	10%	100	Backlog maintenance is significant and the capital programme funds the highest priority work only. The creation of Academies has reduced the risk as these are no longer a Council responsibility. The School expansion programme will also reduce the backlog
7	Income collection: council tax, business rates, housing benefit overpayments, parking enforcement, sundry debtors, rents and service charges	E 3	500	10%	50	E 3	750	10%	75	E 3	750	10%	75	Collection performance has improved considerably in the last few years, and the bad debt provision is reviewed quarterly. Losses on Collection Fund items would impact the General Fund in the year after they were incurred
8	Welfare Reform		4,000	20%	800		4,000	20%	800		4,000	20%	800	There are a number of areas of potential risk. Council Tax Collection may be impacted in respect of Taxpayers who will now be expected to contribute more or start to pay Council Tax. Homelessness may increase as a result of Housing Benefits no longer covering all or as much of rent. Financially stressed clients may have increased Social Care interactions etc. Collection methods are being adapted to mitigate impacts and the Harrow HELP fund established but increased costs and loss of income is anticipated.
9	Income from parking services and parking enforcement	C 3	600	38%	228	C 3	600	38%	228	C 3	600	38%	228	There have historically been pressures in this area however collection has improved in recent years. There is some ongoing risk given the historic volatility of the service.

		2014-15				2015-16				2016-17				
Ref	Risks	Risk rating	Worst case £000	Like - lihood %	Net risk £000	Risk rating	Worst case £000	Like - lihood %	Net risk £000	Risk rating	Worst case £000	Like - lihood %	Net risk £000	Mitigation/Comments
10	Changes to grant regime	C 3	1,000	15%	150	C 3	3,000	15%	450	C 3	3,000	15%	450	The budget for 2014-15 reflects the local government settlement although a few grants have yet to be confirmed. Some grants are subject to change in year. There is more uncertainty from 2016-17 with no figures announced but the deficit reduction programme anticipated to continue.
11	Economic risk - capital receipts	B 3	0	40%	0	B 3	1,400	40%	560	B 3	1,400	40%	560	The MTFS assumes capital receipts of £12m in 2014-15 and 2015-16 and £2m p.a. subsequently. There is always some risk until completion however the market has improved in recent years. The risk is to the capital financing costs of the capital programme.
12	Economic risk - demand for services	B 3	750	65%	488	B 3	750	65%	488	B 3	750	65%	488	There may be additional demands on services such as housing due to the recession. There are also risks to income earning services such as planning and building control from lower volumes. This is in addition to the risks specifically linked to Welfare Reform and identified separately.
13	Litigation against the Council	C 3	2,600	38%	988	C 3	2,000	38%	760	C 3	2,000	38%	760	The MTFS includes an annual contribution to a provision for litigation including employment and planning related matters. Some of this risk will be covered by insurance, but individual cases can have significant cost. There is a heightened risk of a procurement challenge due to the EU remedies directive. There is also the potential for risk around the costs of Health and a possible risk of judicial review across a wide range of services, particularly Adult and Children's Social Care
14	Major fraud	E 3	200	6%	12	E 3	200	6%	12	E 3	200	6%	12	No major cases in recent years.

			2014-15				2015-16				2016-17			
Ref	**Risks**	**Risk rating**	**Worst case**	**Like - lihood**	**Net risk**	**Risk rating**	**Worst case**	**Like - lihood**	**Net risk**	**Risk rating**	**Worst case**	**Like - lihood**	**Net risk**	**Mitigation/Comments**
			£000	%	£000		£000	%	£000		£000	%	£000	
15	Increased Pension Fund contributions	D 3	500	20%	100	D 3	500	20%	100	D 3	500	20%	100	The MTFS provides for an increase in employers contributions of 0.5% p.a. There is some risk that higher contributions will be required because of fund performance although it is anticipated that any further increases will still be in stages. There will also be a requirement to fund pension fund strain on non ill health early retirements.
16	Levies, Precepts and Subscriptions	E4	600	6%	36	E4	600	6%	36	E4	600	6%	36	The Council pays a range of levies, precepts and subscriptions. These are set by other bodies and usually known before the budget is approved. It is however possible for some of them to have in year financial problems requiring a supplementary levy.
17	Financial control environment	D 3	1,000	17%	170	D 3	1,000	17%	170	D 3	1,000	17%	170	Risk mitigated by budget monitoring arrangements, refresher training, improvement boards. It is anticipated that the improvements being implemented as part of the Finance Transformation will further mitigate risks.
18	Insurance claims	E 3	500	6%	30	E 3	500	6%	30	E 3	500	6%	30	An actuarial review has been carried out at regular intervals, the annual contribution is being steadily increased and the balance in the provision reflects the claims liability. MMI has gone into administration, however this has largely been provided for already.
	SOCIAL RISKS -													
19	Demographic changes: additional demand for social care.	C 2	2000	40%	800	C 2	2000	40%	800	C 2	2000	40%	800	The MTFS reflects anticipated demand for social care for both Children and Adults. However, small fluctuations can generate considerable cost. There is the potential for some Health funded continuing care case currently in dispute to become Harrow's responsibility
	-													

			2014-15				2015-16				2016-17			
Ref	**Risks**	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Mitigation/Comments**
	TECHNOLOGICAL RISKS													
20	System failure	C 3	200	38%	76	C 3	200	38%	76	C 3	200	38%	76	Environment is being moved onto more stable infrastructure. Performance issues have occurred during transition; however, the migration is reducing the risk of catastrophic failure
21	Disaster recovery	C 2	750	38%	285	C 2	750	38%	285	C 2	750	38%	285	The IT contract with Capita includes a comprehensive DR solution and critical systems have now been tested. Some recovery costs would be covered by insurance. The risk should reduce once the current transformation is complete.
	- **POLICY/LEGISLATIVE / REGULATORY**													
22	New policy/legislation	B 2	1000	10%	100	B 2	6000	30%	1800	B 2	6000	30%	1800	Generally changes have a long lead in time, but there are risks due to the extensive policy agenda of the new government and the speed of implementation of changes in some areas. A particular area of concern is welfare reform.
23	Adult Social Care Reform	C2	1000	25%	250	C2	3000	25%	750	C2	2000	25%	500	The Care bill currently going through Parliament proposes a number of significant changes to services which are provided to vulnerable residents of Harrow. This is likely to formalise support to Carers and self funders where the council will become responsible for contributing towards Care costs once the cap has been reached
	SERVICE RISKS													
24	Safeguarding - recent high profile cases have resulted in a significant increase in referrals	B 3	1000	65%	650	B 3	1000	65%	650	B 3	1000	65%	650	Detailed plans put in place in Children's services including case reviews. There is a potential for significant costs in both Adults and Children

			2014-15				2015-16				2016-17			
Ref	**Risks**	**Risk rating**	**Worst case**	**Like - lihood**	**Net risk**	**Risk rating**	**Worst case**	**Like - lihood**	**Net risk**	**Risk rating**	**Worst case**	**Like - lihood**	**Net risk**	**Mitigation/Comments**
			£000	%	£000		£000	%	£000		£000	%	£000	
	- **EMERGENCIES**													
25	Natural disaster, accident or terrorist incident costing £2m in total	E3	827	6%	50	E3	827	6%	50	E3	827	6%	50	The government has a scheme (the Bellwin scheme) that covers authorities for 85% of costs of a major disaster over a threshold (£620k in 2013-14). The risk to the Council is 100% of costs below the threshold and the 15% above it, so if the total cost of the incident was £2m the council would be liable for £827k.
26	Adverse weather conditions	D 3	400	20%	80	D 3	400	20%	80	D 3	400	20%	80	There is some provision in the budget for seasonal work. This risk relates to exceptionally bad weather, which tends to be more frequent than previously.
	- **EFFICIENCY RISKS**													
27	Non-achievement of allocated savings included in the budget	C 2	3,000	38%	1140	C 2	500	38%	190	C 2	200	38%	76	The MTFS includes efficiency savings totalling £10m in 2014-15 and £1m in 2015-16. Progress will be carefully monitored.
28	Workforce risk of loss of permanent staff requiring more expensive interims due to adverse reaction to terms and conditions changes, public sector pay restraint and increasing stress as workforce reduces but demands increase	C 3	1,000	30%	300	C3	1,000	30%	300	C3	1,000	30%	300	The impact of any problems is likely to be uneven given the different labour markets that apply within the Council. Problems being mitigated by the council's workforce strategy.
29	Transformation programme fails to deliver substantial contribution to the funding gap in years 2 and 3 of the MTFS					C 2	5,000	38%	1900	C 2	5,000	38%	1900	There will clearly need to be a fundamental transformation of public sector services, including those provided by the Council over the next few years.
	PARTNERSHIP / CONTRACTUAL RISKS -													

			2014-15				2015-16				2016-17			
Ref	**Risks**	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Risk rating**	**Worst case** £000	**Like - lihood** %	**Net risk** £000	**Mitigation/Comments**
30	Breakdown of relationships with strategic partners (Health, Police, businesses, voluntary sector)	C 2	4,000	38%	1520	C 2	4,000	38%	1520	C 2	4,000	38%	1520	The HSP governance arrangements have been revised. Good working relationships exist between partners. There are ongoing concerns about the CCG's financial position, which could be made worse by the legislative changes around the Better Care fund.
31	Shared Services not meeting each of partner's aspirations	D 2	300	20%	60	D2	300	20%	60	D2	300	20%	60	Harrow is developing partnerships with other boroughs for shared services such as Public Health and Legal Services. They are however not yet well established and it is possible they may not work as effectively as planned causing cost to the partners
32	Commercial Partnership failure (incl Capita, Appollo, May Gurney)	D 2	1,000	17%	170	D 2	1,000	17%	170	D 2	1,000	17%	170	
	TOTAL		**41,547**		**9142**		**54,647**		**13042**		**53,747**		**12746**	

Contingencies				- 1000				-4171				-4171
Remaining risk				8142				8871				8575

REPORT FOR:	**Governance, Audit and Risk Management Committee (GARM)**
Date:	2 April 2014
Subject:	**INFORMATION REPORT** Audit Plan 2013-14
Responsible Officer:	Simon George, Director of Finance & Assurance
Exempt:	No
Enclosures:	Appendix 1 – Audit Plan 2013-14 Appendix 2 – Pension Fund Annual Report Audit Plan 2013-14 Appendix 3 – Audit Report on Grant Certification 2012-13

Section 1 – Summary and Recommendations

This Report provides the Committee with the opportunity to see the Accounts Audit Opinion Plan 2013-14 and the Pension Fund Annual Report Audit Plan 2013-14.

Recommendations:

The Committee is asked to note:

1. The 2013-14 Accounts Audit Opinion Plan and Pension Fund Annual Report Audit Plan; and
2. The Grants Certification Report for 2012-13.

To keep the Committee informed of planned work.

Section 2 – Report

Audit Plan for 2013-14

1. The Accounts Opinion Audit Plan provides the Council with clarity about how the external audit of the accounts for 2013-14 will be conducted and highlights the key audit risks. It is an extremely useful document, as it will help the Council to plan and prioritise its work on the accounts. It also gives the Committee early sight of the issues that will be pertinent.

2. The Committee is asked to consider the plan and in particular the key audit risks. The External Auditor has already carried out some preparatory work for the audit of the 2013-14 accounts, and the Council is working to address the key audit risks.

Grant Certification 2012-13

3. The Report on Grant Certifications in relation to 2012-13 is attached as appendix 3 to this report. Four grant claims and returns were certified for 2012-13 of which one resulted in a qualified opinion.

Section 3 - Financial Implications

4. There are no direct financial implications arising from this report.

Section 4 - Equalities Implications

5. There are no equalities implications.

Section 5 - Corporate Priorities

6. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

Section 6 – Statutory clearance

Name: Simon George	√	Chief Financial Officer
Date: 17th March 2014		

Section 7 - Contact Details and Background Papers

Contact: Hasina Shah tel: 0208 424 1573 (ext. 2573)
Background Papers: None

London Borough of Harrow

Planning Report to the Governance, Audit and Risk Management Committee for the year ending 31 March 2014

14 March 2014

Contents

I am delighted to present this planning report for the 2013/14 audit of the London Borough of Harrow. The report sets out our audit approach and the more significant areas where we will focus our attention this year.

(Paul Schofield, Audit Partner)

The big picture

The Big Picture

Key developments in your business

- During the year there was a change in leadership at the council after which Susan Hall was appointed leader of the Council.
- The post of the Chief Executive was deleted in the current year. The statutory duties of this post is now being fulfilled by the interim Head of Paid Services.
- The 2013-14 Quarter 3 revenue financial monitoring indicates a forecast overspend of £1.9m. This represents an adverse variance of 1.1% against the approved revenue budget of £181m.

Key measures from the FY14 Budget (original)

Budget requirement - £181m

Amount to be met by government grants and taxpayers - £145m

General Fund and Earmarked revenue reserves at 1 April 2013 - £26m

Estimated materiality

Overall - £7.0m

Housing Revenue Account - £2.5m

Key developments in financial reporting requirements

- Changes to Code requirements in respect of the classification, recognition, measurement and disclosure of post-employment benefits
- New guidance on the accounting entries required from the localisation of business rates
- Clarification regarding the frequency of revaluations for properties which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.
- Other smaller changes to presentation and disclosure matters in the financial statements.

Key developments in our audit response

- No changes to the overall scope of the audit
- Recognition of grant income identified as an audit risk taking account of the risk of fraud in revenue recognition presumed in auditing standards and in view of the judgements involved in recognition of grant income
- Risk of management override of controls, as presumed by auditing standards.
- Valuation of properties continues to be an area of audit forcus in view of the judgement involved in estimating the value of the portfolio
- Valuation of pension liabilities continues to be an area of audit focus due to the complex nature of the calculation and the size of the pension liability.

Our audit quality promise

Our audit quality promise

Our new quality standard

To ensure that best practice behaviours are embedded within our audit we will establish our Audit Quality Promise, a written document created through discussion with you, which focuses on our audit quality commitments to all stakeholders. It will include:

The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our audit quality promise. Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

Our vision for the audit:

- A vision of how the audit will evolve in line with your business
- Covers scope, extended assurance, data analytics roadmap, insight plan and team

Feedback on prior year audit and actions agreed to achieve continuous improvement

- This will be based upon an annual debrief with the finance team.

Communication strategy for all key stakeholders

- Includes details of meeting frequency, meeting attendees and content

Commitments from both sides as to how we will work together at all levels:

- Members
- Senior management
- Finance team

Summary of agreed detailed insight plan

- Areas include sector and industry issues, systems and processes, technical and regulatory updates, analytics and KPIs, audit risk areas and governance & controls

Appendix

- Forward looking calendar of relevant Deloitte events and publications

Changes in you Statement of Accounts

Changes in your Statement of Accounts
New reporting requirements

We set out for the Governance Audit and Risk Management ('GARM') Committee a summary of the latest developments in financial reporting which will impact this year end.

Changes in Code of Practice on Local Authority Accounting requirements	Impact on the Council
Post-employment benefits – changes have been made to Code requirements in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to the relevant accounting standard.	This is relevant to the Council and will require a number of changes to the calculation and presentation of entries. There is no impact on the Council balance as a result of the changes.
Accounting for business rates retention – the Code provides guidance on the accounting requirements arising from the localisation of business rates in England from 1 April 2013.	This is relevant to the Council and is discussed further in the next section.
Dedicated Schools Grant (DSG) – the most current disclosures for DSG are provided in accordance with statutory reporting requirements.	Minor changes will be needed to the format of the note to bring into line with the latest guidance but this is not expected to have a significant impact on the Statement of Accounts or the preparation thereof.
Presentation of Financial Statements – The Code makes amendments to the format of the Comprehensive Income and Expenditure Statement resulting from amendments to the related accounting standard. This is in respect of items that are potentially reclassifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have transactions that include amounts that are reclassifiable in the Surplus or Deficit on the Provision of Services, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that: a) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and b) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.	Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be reclassifiable and amounts that are not.
Revaluation of properties - Clarification regarding the frequency of revaluations for Property, Plant and Equipment which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.	This is relevant to the Council. We consider this in more detail in the next section.
The Carbon Reduction Commitment (CRC) Energy Efficiency scheme – The Code has been updated for changes in the scheme applicable to 2013/14. In particular, as 2013/14 is the end of the introductory phase, there is no option to carry forward allowances for use in respect of emissions in 2014/15 with any remaining unused allowances at the end of the introductory phase become invalid. Guidance on any allowances purchased prospectively for 2014/15 is pending.	This is applicable to the Council, but not expected to have a material impact.
Service Concession Arrangements (PFI and PPP Arrangements) – updates to ensure that its provisions adequately reflect the grantor arrangements, particularly in relation to assets under construction and intangible assets.	This is applicable to the Council, but impact is expected to be limited to disclosure in the financial statements.

CIPFA provide a disclosure checklist that we recommend management complete in detail to ensure adherence to these areas.

Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK and Ireland)) as adopted by the UK Auditing Practices Board (APB) and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility. We are also required to report on the regularity of income and expenditure.

The Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by the Council.

Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. Our report is issued to the National Audit Office (NAO) for the purposes of their audit of the Whole of Government Accounts.

Responsibilities related to Harrow Council's use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in the Council's use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

We then provide a conclusion on these arrangements (our "Value for Money Conclusion") as part of our audit report.

Scope of work and approach

Approach to controls testing

As set out in "Briefing on audit matters" circulated to you in March 2013, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit's self assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work. Our approach takes into account the new restrictions issued by the Financial Reporting Council in June 2013. These create a clear division of responsibility between internal and external audit to safeguard against conflicts of interest.

Materiality and error reporting threshold

For the 2013/14 financial statements, we have estimated materiality based on net cost of services for the year and estimated reserves position.

We have set a lower materiality for the Housing Revenue Account based on that Account's reserves position

We will report to the Audit and Risk Management Committee on all unadjusted misstatements greater than the reporting threshold shown below and other adjustments that are qualitatively material.

Estimated materiality and error reporting thresholds

Overall

Materiality - £7.0m
Error reporting threshold - £350k

Housing Revenue Account

Materiality - £2.5m
Error reporting threshold - £125k

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

1. Grant income recognition

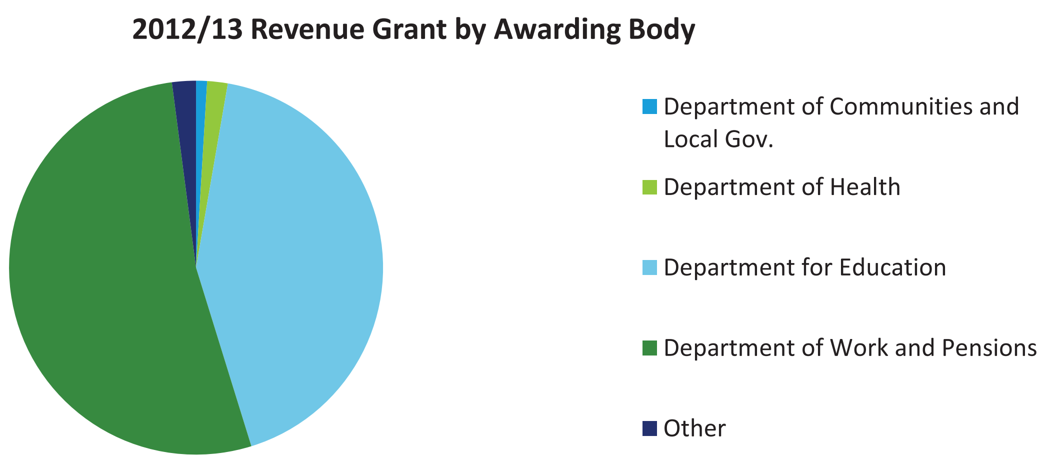
Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.

Nature of risk

We have identified a key audit risk related to revenue recognition from grants from fraud or error. This is due to the fact that where grants have conditions attached revenue should only be recognised when such conditions have been met. There is also a presumed risk of fraud in revenue recognition identified in the International Standards on Auditing.

Determining if there are conditions attached to a grant and if these conditions have been met can involve significant management judgement. In the prior year revenue grants included within cost of services amounted to £303m.

We have included a graphical representation of the revenue grants per awarding body in the 2012/13 financial year:



The key judgement areas and our planned audit challenge

We will examine guidance given to staff on the accounting for grants and associated operating instructions and other arrangements. We will determine whether our work can be further focused on the basis of this.

We will also carry out extended testing to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

2. Management override of key controls

We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of fraud in management override of key controls. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and our planned audit challenge

Our work will focus on:

- the testing of journals, using our proprietary software “Spotlight” to analyse the journal data as a basis for focusing our testing on higher risk journals;
- As a result of our ongoing dialogue with management, we will also focus our attention on provisioning in relation to restructuring to ensure that the conditions to provide are met; and consider any one off transactions impacting reserves in light of the low reserves position;
- any significant accounting estimates in addition to the estimates discussed above in respect of provisioning for provider claims; and
- any unusual transactions, including those with related parties.

Spotlight will help us to deliver audits in faster, better way.

Spotlight is Deloitte’s centralised analytics platform that provides access to pre-built analytics on a growing range of risks and account balances. It allows us to build and configure analytics in a risk-focused and user-friendly way.

Spotlight can be used for financial and analytical review (identifying trends), fraudulent financial reporting through identification of high risk journals, Fixed assets (assessment of additions and recalculating depreciation) accounts payable (assessment of year end payables balance).

We will use Spotlight to give us insight into your annual financials. We will also use Spotlight to identify high risk journals for our testing the specific identified risk of Management override of controls.

Other accounting judgements and issues

We note other accounting judgments and issues which have not currently been identified as significant audit risks

Valuation of properties

- The Code has been updated to provide clarification on the frequency of revaluation of property, plant and equipment.
- The Code requires that items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, the Code allows valuations to be carried out on a rolling basis, but only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date (eg by the use of indices).
- No further guidance is provided as to how a 'short period' should be interpreted for these purposes although, given the drafting of the Standard, it is presumably less than a financial year. The general approach of IFRS, however, is to require simultaneous valuations so as to avoid the reporting of amounts that are a mixture of costs and values as at different dates. Accordingly, it is commonly interpreted amongst corporate reporters as requiring: for all such valuations to take place in the same accounting period; and for the acceptable length of the period to take into account how stable fair values are, so that greater volatility requires a shorter period over which to perform valuations.
- The area of concern for the Council relates to the “Other land and buildings” class where revaluations have in the past been carried out on a rolling basis. Assets in other classes have either in the past been revalued on an annual basis or are carried at historical cost. The value of “Other land and buildings” at 31 March 2013 was £333m.

Valuation of pension liability

- The valuation of the pension liability continues to be an audit risk in view of the complexity of the judgements and sensitivity of the valuation to small changes in individual assumptions. This is not considered to be a significant risk as this does not impact the general fund, which is a key focus of users of the financial statements. However, given that this is an area of judgement and estimation, we propose to provide enhanced commentary on our review of the assumptions in our final reporting to assist the committee in their scrutiny of this aspect of the financial statements.
- The net liability relating to the pension scheme is substantial, amounting to £323.131k at 31 March 2013, so its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.
- We will consider the qualifications, expertise and independence of the actuary engaged by The Council and the instructions and sources of information provided to the actuary.
- We will include a specialist from our team of actuaries in our engagement team to assist in the review and challenge of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

Other accounting judgements and issues (continued)

We note other accounting judgments and issues which have not currently been identified as significant audit risks

Localisation of business rates

- The Government introduced a business rates retention scheme from 1 April 2013. The intention behind the scheme is to provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services.
- The scheme involves a system of tariffs and top-up payments to and from government to even out situations where business rates are not in proportion to current spending. The government has indicated that the levels of tariff and top-up payments will increase proportionately in line with the Retail Price Index. Relativities will not be reviewed until the system is reset. The government has said that this will not occur before 2020 at the earliest. This will provide councils with the certainty they need to plan and budget. In addition, safety net payments will be available if a council's business rates income falls by a certain amount. This will provide support if, for example, a major local employer closes. This safety net will be funded by a levy paid by those councils whose business rates revenue increases by a disproportionate amount compared to their needs. The levy is designed to ensure that the more councils grow their business rates, the more they benefit
- The introduction of the scheme will require the Council to make new or changed accounting entries. We have not identified this as a significant audit risk, however, as CIPFA have issued detailed guidance on the accounting implications for the localisation of business rates, including example entries, to assist with implementation.
- The accounting and estimation processes for appeals against rateable values require the exercise of judgement. The impact of this needs to be assessed by the Council. We will discuss with management the process followed in calculating this estimate and we will audit the related disclosures as part of our audit of the financial statements.

Value for money conclusion

Value for money conclusion

Our work will focus on the establishment of key governance arrangements during the first year of operation

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the Council - this conclusion is known as "the VFM conclusion".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Our preliminary assessment is that there were no risks in relation to our VFM responsibilities which require local work to be carried out and we have therefore not identified any risks or additional local studies in our audit plan.

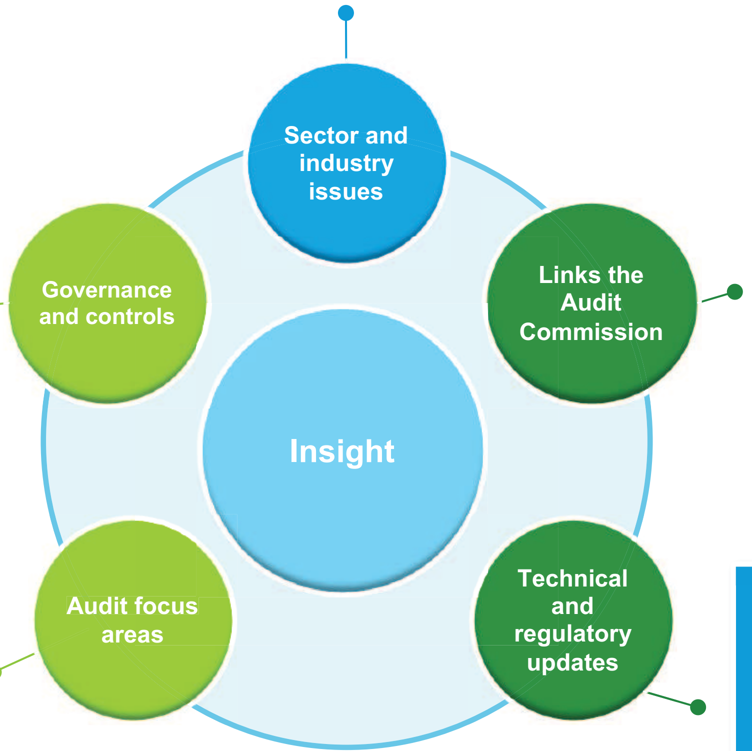
We will carry out our detailed risk assessment from April to take account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2013/14. We will also consider past results of our VFM assessment and key changes that took place in the current financial year, such as those discussed in the executive summary of this report. The risk assessment involves consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the Council. We will undertake this work through review of relevant documentation, including committee papers and discussion with officers. We will also consider whether there are other risks which might be specific to the Council. We will do this principally through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Our insight plan

Our insight plan

We have summarised below some of the ways we will provide the Council with insight during 2014

- Sharing knowledge of sector developments.
- We have attached at Appendix 6 a summary of our research into the state of local public services



- Feedback comments from our VFM conclusion work
- Annual training session with the audit committee
- Communicate control findings in reporting to GARMC

- Share with officers emerging issues

- Risk based journal analysis covering period end postings utlising our proprietary "Spotlight" software

- Early discussion of Code changes, their expected impact on the Council and proposed response
- Early review of draft financial statements or draft financial statements

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you on request.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to Governance, Audit and Risk Management Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you in March 2013, a copy of which can be made available.
- Our Audit Quality Promise and Insight Plan will provide the details of additional procedures we will agree with you we will perform alongside the audit of the financial statements.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP
Chartered Accountants

Cambridge
14 March 2014

This report has been prepared for the Governance, Audit and Risk Management Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Prior year misstatements

We remind you of prior year misstatements

Uncorrected audit adjustments

The following misstatements were identified in the prior year that were not corrected in the financial statements:

Description	Assets DR / (CR) £	Liabilities DR / CR) £	Equity DR / (CR) £	Income Statement DR / (CR) £
HRA Revaluation difference due to change in HPI between preparation of account and audit date	728,528		(728,528)	

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

We have not identified any disclosure deficiencies during our audit of the 2012/13 financial statements of the Council.

Appendix 2: Independence and fees

We confirm we are independent of the London Borough of Harrow

As part of our obligations under International Standards on Auditing (UK & Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the London Borough of Harrow and will reconfirm our independence and objectivity to the Governance, Audit and Risk Management Committee for the year ending 31 March 2014 in our final report to the Audit and Risk Management Committee.
Fees	Details of the non-audit services fees proposed for the period have been presented separately below.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 2: Independence and fees (continued)

We summarise earned or proposed audit and non audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Fees payable in respect of our work under the Code of Audit Practice	193	193
Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work	8	8
Fees payable in respect of our work under the Code of Audit Practice - in respect of the WGA return	5	5
Fees payable in respect of the certification of grants	43	43
Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund	21	21
Other **(*)**	TBC	16

(*) These fees relate to fees in relation to time spent on objections.

Appendix 3: Fraud: responsibilities and representations

We summarise our respective responsibilities regarding fraud

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your responsibilities	Our responsibilities
• The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations	• We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. • As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appendix 3: Fraud: responsibilities and representations (continued)

We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Management's process for identifying and responding to the risks of fraud in the entity Management's communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud	How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:

(i) management;

(ii) employees who have significant roles in internal control; or

(iii) others where the fraud could have a material effect on the financial statements.

- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4: Your audit team

We set out key members of your audit team

Paul Schofield
Engagement Partner

Tel: 01223 259 454
Email: pschofield@deloitte.co.uk

Anna Parker
Engagement Senior Manager
Tel: 02380 54337
Email: annparker@deloitte.co.uk

Neil Yeomans
Computer Audit Partner

Sybil Muller
Manager

Hannah Serpis
Property Valuation Specialist

Audit Field Team

Richard Bradshaw
Pension actuarial specialist

Appendix 5: Timetable

We summarise the timing of the key phases of the audit

Set out below is the approximate expected timing of our reporting and communication with you.

Planning	Interim audit	Year end work	Reporting	Post reporting
Planning meetings to • confirm our risk assessment and management response; and • agree on key judgemental accounting issues Agree audit plan	Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks Review of relevant internal audit work Update understanding of systems, controls and developments in the business Performance of work in support of value for money conclusion	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit issues meeting Work to support assurance statement on WGA return.	Final Audit and Risk Management Committee meeting Issuance of • audit report and opinion • value for money conclusion • limited assurance opinion on the WGA return	Audit feedback meeting Presentation of letter of recommendation on control improvements (if applicable) Issue of annual audit letter and presentation to the Audit and Risk Management Committee
Feb 2014	Mar 2014	June–July 2014	Aug-Oct 2014	Sep-Oct 2014

Ongoing communication and feedback

Our interim work will be carried out over two weeks, commencing 17 March 2014.

Our final audit visit will commence on 7 July 2014 and run through to completion of the fieldwork expected at the end of August 2014.

The work to support our limited assurance report on the WGA return will take place in September 2014 and we expect to issue our assurance report at the start of October 2014.

We expect to issue our annual audit letter in October 2014.

Appendix 6: State of local public services

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in childrens services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges

The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with the private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including exposure to new ideas and new delivery models, efficiency and quality from private sector and local knowledge and niche services from the third sector. But many also recognised that commissioning and partnerships outside the public sector brought new, critical risks that needed to be managed.

London Borough of Harrow Pension Fund

Planning Report to the Governance, Audit and Risk Management Committee

31 March 2014

the Distinctive audit

March 2014

Contents

The Big Picture

The Big Picture

Key developments in your business

- T During the first quarter of the year, the Fund have reduced their allocation to global equities managed by Fidelity International and have appointed two new diversified growth fund managers, Barings and Standard Life.
- There are no significant changes to the scheme rules or other arrangements.
- There are no significant changes to the financial reporting framework.
- Progress on new governance arrangements for the 2014 Scheme

Impact on our Audit

- No changes to the overall scope of the audit other than our materiality and error reporting thresholds. Refer to page 4.
- Contributions remain a risk in view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay
- Benefits in retirement and ill health remain risks in view of complexities around their calculation.
- The pension fund in the past has made some use of investments in unquoted investment vehicles and derivatives which can give rise to complexities in accounting, disclosure and measurement and therefore this area remains a risk.
- Risk of management override of controls, is presumed to be a risk under auditing standards.

I am delighted to present this planning report for the 2013/14 audit of the London Borough of Harrow Pension Scheme. The report sets out our audit approach and the more significant areas where we will focus our attention this year.
(Paul Schofield, Engagement Partner, March 2014)

Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the accounts

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the statement of accounts:

- comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the pension fund accounts; and
- where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.

The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.

Scope of work and approach (continued)

Approach to controls testing

As set out in "Briefing on audit matters" previously circulated to you, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit's self assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

For those areas where a significant risk has been identified, no reliance will be placed on the work of internal audit and we will perform all work ourselves.

Materiality and error reporting threshold

We calculate materiality on the basis of the net assets of the fund. We estimate materiality for the year to be £5.8 million. We will report to the Governance, Audit and Risk Management Committee on all unadjusted misstatements greater than £290,000 and other adjustments that are qualitatively material.

The materiality for the pension fund has historically been calculated using 3% of the Funds net assets and then capped at the level of materiality for the Authority as the figures form part of the authority financial statements. Following research with pensions governance bodies, the market and regulators we will determine materiality for the 2014 financial statements based on 1% of the Fund's net assets, which is lower than the materiality on the Authority.

We will update our assessment during the planning and interim visit based on latest outturn expectations

Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

Significant audit risks
1. Contributions

There are complexities around the calculation of contributions

Nature of risk

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS.

Contributions for the year ended 31 March 2013 were £25.3 million, showing that this is a material income stream for the pension fund. This is expected to continue in the current period with the continued active membership paying contributions. Due to the complexity introduced by the participation of more than one employer in the fund, together with the past introduction of a tiered contribution rates; we have identified contributions as a specific risk.

The key judgement areas and our planned audit challenge

We will evaluate the design and implementation of the Authority's arrangements and perform substantive audit testing in this area. This will include completing procedures to ascertain whether employer and employee contributions have been calculated and deducted correctly. Further procedures will be completed surrounding the completeness of the scheduled payments and the accuracy of the receipts against that schedule.

2. Benefits

There are complexities surrounding the calculation of both benefits in retirement and ill health and death benefits

Nature of risk

The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk.

In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement; and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum.

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above.

The completion of the legislation leading to the change in the revaluation basis to Consumer Price Index adds a further complexity to the above calculations going forward.

In the year ended 31 March 2013, total benefits paid were £26.7 million. The material values of these benefits further indicate that this is an area or key audit risk.

The key judgement areas and our planned audit challenge

We will review the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing that controls were in force during the year under review. We will also:

- Obtain a schedule of benefits paid and select a sample of benefits for detailed testing through agreement to supporting documentation, and review of the calculation, by reference to the qualifying service, scheme rules and benefit choices made by the member; and
- Develop an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the pension benefits paid in the year.

3. Investments

There are areas of judgement involved in the valuation of investments private equity, managed funds and derivatives

Nature of risk

The pension fund makes some use of investments in unquoted investment vehicles, such as private equity funds.

Private equity funds are complex to value and include an element of judgement on the part of the investment manager. In addition, further amounts are invested in managed funds which are complex to value due to the difficulty in visibility of the underlying investments.

Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.

The fund also holds a small number of derivative contracts which can be complex to value.

During 2013/14, the fund has reduced their allocation to global equities as managed by Fidelity International and appointed two new diversified growth fund managers, Barings and Standard Life.

The key judgement areas and our planned audit challenge

We will seek to understand the approach adopted in the valuation of such investments and inspect documentation relating to data sources used by the Fund. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the Fund’s investment holding at the year end.

Derivatives can be complex in terms of accounting, measurement and disclosure requirements. We will first understand the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Practice. The use of specialist advice may be required for testing these balances.

We will audit the transition reports for the two transitions in the period and assess the accuracy of the transition holdings.

4. Management override of controls

We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and our planned audit challenge

Our audit work will include:

- Reviewing a sample of journal entries for characteristics that may be indicative of potential fraud and management override of controls;
- Reviewing analysis and supporting documentation of key estimates and judgements;
- Performing substantive testing on journal entries to confirm that they have a genuine, supportable rationale;
- Reviewing ledgers for unusual items and on a test basis investigated the rationale of any such postings;
- Reviewing significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and
- Making enquiries of those charged with governance as part of our planning and detailed audit processes.

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit.
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to Governance, Audit and Risk Management Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" previously circulated to you and available on request.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP
Chartered Accountants

St Albans
07 March 2014

This report has been prepared for the Governance, Audit and Risk Management Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of the London Borough of Harrow Council

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Audit Commission's Code of Audit Practice, we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the London Borough of Harrow Council and will reconfirm our independence and objectivity to the Governance, Audit and Risk Management Committee for the year ending 31 March 2014 in our final report to the Governance, Audit and Risk Management Committee.
Fees	Details of the audit fees for the period have been presented separately in the appendix.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

We summarise our relationships with the Authority and explain our assessment of threats to auditor independence and safeguards in the Council audit plan document.

Appendix 1: Independence and fees (continued)

We summarise earned or proposed audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Audit of the London Borough of Harrow Pension Fund	21	21

There are no non audit services provided or proposed to the London Borough of Harrow Pension Fund for the period from 1 April 2013 to 31 March 2014.

Professional fees earned or proposed by Deloitte for services in the period from 1 April 2013 to 31 March 2014 in respect of other funds of the Authority and other entities controlled by the Authority are set out in our audit plan for the Council Fund.

Appendix 2: Fraud: responsibilities and representations

We summarise our respective responsibilities regarding fraud

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in management override of controls as a key audit risk for your organisation.

Appendix 2: Fraud: responsibilities and representations (continued)

We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Managements process for identifying and responding to the risks of fraud in the entity. Managements communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. Managements communication, if any, to employees regarding its views on business practices and ethical behaviour. Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

We will require the following to be stated in the representation letter signed on behalf of the Authority:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Operational arrangements

We set out key members of your audit team and other operational information

The work will be led by Paul Schofield, supported by Ender Tahsin as audit manager.

Our work will be closely co-ordinated with the work carried out on other parts of main audit of the Authority. Details of our timetable for that work are included in the Authority audit plan.

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Deloitte.

London Borough of Harrow

Report to the Audit Committee on the year ended 31 March 2013 Certification work

Final Report

Issued 8 January 2014

Contents

1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Harrow ("the Authority") for the year ended 31 March 2013. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

Certification deadlines

We have certified all 4 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2013. All claims and returns we reported on were certified by the original required deadline.

Results of our claims and returns certification work

As a result of errors identified through the performance of our procedures, adjustments were made to 2 of the 4 claims/returns prior to certification. We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. We have included additional comments below the table where we issued a qualification letter in 2012/13:

Claims/returns	Value of claim £	Number of cells adjusted	Financial impact Increase/ (Decrease) £	Qualified in 2011/12	Qualified in 2012/13
Pooling of Housing Capital Receipts ("CFB06")	£562,062	4	£99	N/A	NO
National Non Domestic Rates ("NNDR")	£49,287,921	-	-	YES	NO
Housing and Council Tax Benefit Subsidy ("BEN01")	£157,646,227	-	-	YES	YES
Teachers Pensions Return ("PEN05")	£44,212,513	2	-	NO	NO

Summary of qualification letters

Housing and Council Tax Benefit Subsidy ("BEN01")

Our initial sample testing of 80 cases on this claim identified no errors. However, as a result of prior year errors, additional testing of 120 cases highlighted 15 errors. We have included details of all errors in our qualification letter. The subsidy claim was not amended for these errors.

See Section 3 for more details.

Fees

Total fees charged in respect of the work performed on the 4 claims and returns (2012: 4) certified by Deloitte LLP were £42,700 (2012: £96,392).

Section 4 of this report sets out the fees charged on each of the 4 claims and returns we certified.

2. Introduction

Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2012/13 certification work. This Letter will be published on the Authority's website.

Our responsibilities

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the audited grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

Any claims that we are asked to certify outside of the Audit Commission framework contract will be subject to a separate engagement letter between Deloitte, the Authority and any other party who will be relying on the results of our grant audit work. This engagement letter sets out the responsibilities of all parties involved in the engagement, the scope of our work and our terms of business.

The scope of our work

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return; or
- maximise the authority's entitlement to income under it.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the certification procedures. Our aim is to deliver a high standard of service which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your cooperation and support.

3. Results of our claims and returns certification work

Claims and returns certified without adjustment or a qualification letter

We were able to certify the following claim/return without adjustment or a qualification letter:

- National Non Domestic Rates ("NNDR").

Claims and returns certified with adjustment and without a qualification letter

We were able to certify the following return with adjustments and without a qualification letter:

CFB06 - Pooling of Housing Capital Receipts	
Adjustment details	The original CFB06 return was required to be submitted on 12 July 2013, the Authority met this deadline. In the initial return it was noted that a disposal was recognised in the wrong quarterly return which impacted the resulting interest calculation.
Deloitte response	We discussed the adjustment with the Authority who agreed with our assessment. The return was amended by the Authority to ensure the interest was correctly calculated. The impact on the return was to increase interest cost by £98.

PEN05 – Teachers Pension Return	
Adjustment details	The original PEN05 return provided to us before the 30 June 2013 deadline. The following was noted in relation to the return: • Form EOYCa was presented instead of EOYCd as required by the certification instruction; and • One teacher was initially included in the incorrect contribution tier.
Deloitte response	We discussed both amendments with the Authority who agreed with our assessment. The correct return was issued by the Authority including moving the teacher into the correct contribution tier. There was no financial impact on the return.

3. Results of our claims and returns certification work (continued)

Claims and returns certified without adjustment but with a qualification letter

The Housing and council tax benefit subsidy ("BEN01") was certified with a qualification letter but was not subject to amendment.

In 2012/13 we identified 17 errors on 15 cases (2011/12: 8 cases). We were able to group similar errors types together across the 15 cases to give a total of 2 different error types: incorrectly classified expenditure and overpaid benefit. Both of these errors resulted in an overstatement of an individual's benefit entitlement or subsidy or both.

No errors were identified in our initial testing and hence in 2012/13 we were not are required to undertake prescriptive additional testing.

As a result of errors noted in the prior year, additional testing of 120 cases was undertaken by the Authority and reviewed by us. We were not able to conclude that the errors identified in this work were isolated and hence we could not conclude that the claim was fairly stated. Accordingly, we were required to include in our qualification letter extrapolation calculations for the remaining unadjusted errors (all of the overpaid or overstated errors where we did not test 100% of the population).

Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 subsidy claim that would have allowed us to conclude that it was fairly stated. We have set out a summary of our findings in the table below:

BEN01 – Housing and council tax benefit subsidy	
Qualification details	**Council tax benefit (cell 142)** **Total expenditure £23,837,058** As a result of the testing undertaken in relation to prior year errors, 7 errors were identified, on 5 cases. 1 of these cases had no financial impact on the claim and 3 further cases related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose. The remaining 3 errors, which were not adjusted for, related to overpaid benefit as a result of miscalculating the claimants weekly income. *Conclusion* We determined that the un-amended errors were not isolated, so included these within our qualification letter and extrapolation.
	Rent rebates (Tenants of HRA properties – cell 055) **Total expenditure £17,744,468** As a result of the testing undertaken in relation to prior year errors, 3 errors were identified. 2 of these cases related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose. The remaining error, which was not adjusted for, related to overpaid benefit as a result of miscalculating the claimants weekly income. *Conclusion* We determined that the un-amended errors were not isolated, so included these within our qualification letter and extrapolation.

3. Results of our claims and returns certification work (continued)

BEN01 – Housing and council tax benefit subsidy	
Qualification details (continued)	**Rent allowances (cell 094)** **Total expenditure £118,787,216** As a result of the testing undertaken in relation to prior year errors, 7 errors were identified. The errors were not adjusted and were the result of miscalculation of the claimants weekly income. 2 of these cases related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose. The remaining 5 errors, which were not adjusted for, related to overpaid benefit as a result of miscalculating the claimants weekly income. *Conclusion* We determined that the un-amended errors were not isolated, so included these within our qualification letter and extrapolation.

Following the replacement of the national Council Tax Benefit scheme with a local Council Tax Reduction policy, the certification of the Housing Benefit Subsidy grant in 2013/14 will no longer cover expenditure on payments relating to Council Tax. Members should consider how they are gaining assurance that the Council Tax Reduction scheme is being administered in line with the agreed policy.

Since certifying the claim form we have provided management with a summary of the errors found to allow early planning for next year's testing.

We do not have any specific control recommendations as a result of the work performed for the 2012/13 claim.

4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2013 is now complete and the table below summarises the results of this work and our fees by claims and returns.

From 2012/13 onwards, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work. This is based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40% reduction. This accounts for the variation in fees noted below on a year on year basis. These savings are generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

Certification instruction	Within Audit Commission framework	Claim/ return	2013 value of claim (£)	2013 results of certification work	2012 audit fee (£)	2013 audit fee (£)
BEN01	Yes	Housing and council tax benefits subsidy	157,646,227	Qualified	76,206	30,944
CFB06 *	Yes	Housing Capital Receipts	562,062	Amended	-	3,728
LA01	Yes	National non-domestic rate return	49,287,921	Satisfactory	7,539	5,827
PEN05	Yes	Teachers' pension return	44,212,513	Amended	3,581	2,651
General/admin					3,131	-
No longer requiring certification in 2012/13*					5,937	-
TOTAL					**96,392**	**42,700**

* There was no requirement to certify HOU01 for year ended 31 March 2013. In 2011/12 CFB06 did not required certification as it fell below the threshold.

5. Responsibility statement

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our certification procedures and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report sets out those matters of interest which came to our attention during the certification procedures. Our work was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

8 January 2014

REPORT FOR: **GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE**

Date of Meeting:	02 April 2014
Subject:	**INFORMATION REPORT – Corporate Anti-Fraud Team Draft Fraud Service Plan 2014-15**
Responsible Officer:	Simon George – Director of Finance & Assurance
Exempt:	No
Enclosures:	Appendix A 1) Draft Fraud Service Plan 2) The Audit Commission's 'Protecting The Public Purse 2013' 3) 'Harrow Fraud Briefing 2013'

Section 1 – Summary

This report sets out the Corporate Anti-Fraud Team's draft fraud service plan for 2014-15 and the reasoning behind the decision to focus on each area. It also refers to two separate reports from the Audit Commission regarding fraud and the effect on the public purse which is for information only

FOR INFORMATION

Section 2 – Report

2.0 Draft Fraud Service Plan (Appendix A1)

Each year the Corporate Anti-Fraud Team sets a number of objectives in a Fraud Service Plan focussing on benefit and corporate fraud affecting the authority, with the intention of preventing, detecting, investigating and the recovery of losses to fraud. Ultimately, the work is targeted is about generating savings/income for the authority, stemming and recovering losses and bringing fraudsters to justify and assisting service areas make their processes more robust to prevent fraud occurring in the first instance.

Each of the objectives in the plan is selected based on a statutory responsibility or evidence collated from a number of different sources. These sources are:-

- Evidence uncovered in previous plans/investigations
- National reports produced by government departments illustrating local authority fraud risks
- Innovative ideas and projects to counter fraud, either locally based, pan London, or national schemes

2.1 Achieve 32 Housing/Council Tax Benefit sanctions including 10 prosecutions

Housing/Council Tax Benefit fraud continues to be one of the largest areas of spends and therefore one of the largest areas of fraud for local authorities, costing approximately £350 million annually, therefore it is entirely appropriate that resources are dedicated to this area.

2.2 Identification of 20 housing tenancies subject to misuse and targeted for possession action

Housing tenancy fraud costs the UK in the region of £845 million each year and this is a conservative estimate. These figures are based on just 4% of housing stock in London and 2% outside London. The team is recruiting for an additional Investigation Officer at present to support 1 FTE in an attempt to bring greater social housing numbers exposed to fraud and misuse back in Council control. This area will also focus on Right to Buy fraud.

2.3 Commit to the pan London Housing Fraud Hub

This closed group will allow members to interrogate Council Tax Replacement Support, Housing Rent and Waiting List data across London instantly through a secure portal. Members are required to refresh data on a monthly basis. This project will hopefully support the above objective and become a vehicle to drive and be more proactive in identifying suspected housing fraud. The authority had planned to join the hub in 2013/14 and start contributing and sharing data, but there are still some data security and governance issues to be resolved with the supplier before a firm commitment is made.

2.4 Conduct at least 4 blue badge fraud operations in borough parking 'hot spots'

Blue badge fraud continues to be an area of high profile and whilst it does not have the same financial impact as housing fraud or benefit fraud, its negative impact on the lives of the more vulnerable in the community make it vitally important to the authority. Blue badge fraud costs approximately £46 million a year in loss revenue based on an estimated misuse figure of 20% of all badges. The team already runs a number of these operations each year and they are well received by members of the public.

2.5 Fraud risk review a sample of direct payment cases with a target of £50,000 of fraud identified

This is one of the largest emerging fraud risks for Councils with nationwide spending having increased from £523 million in 2007/08 to £1.3 billion in 20012/13. The team undertook some positive work in 2013/14 and uncovered in excess of £100,000 worth of fraud/misuse in just 4 cases so sampling work will continue this year in this area.

2.6 Fraud risk review of a sample of insurance cases with a target of £10,000 of fraud identified

In 2012/13 the value of fraudulent insurance claims against councils increased by £1 million to £3 million and with an average value amounting to £40,000, from a risk perspective, it warrants further investigation. In 2013-14 the team looked at a few cases and had some success, so this year there will be a more concerted effort to uncover greater numbers of cases and generate direct savings for the authority.

2.7 Identify and pursue 4 suitable cases under the Proceeds of Crime Act 2002 and recover £15,000

In some cases, recovery of fraud losses can be sought by restraining and confiscating identified assets obtained through criminal behaviour. The team has taken a handful of cases through the courts using Brent Trading Standards Financial Investigators as the authority does not have an outlet to do this internally. The team will continue in 2014/15 to take this action where appropriate.

2.8 National Fraud Initiative (NFI) exercise 2014/15 data extraction and submission

Every two years the authority is obliged by law to take part in this national data matching exercise. The preparation work with informing all data subjects about the exercise and ensuring that the data is extracted out of core systems with the correct specifications will begin early in the financial year.

2.9 Identification of £20,000 in income/savings through penalties issued to offenders

The team will look to maximise income/savings through various channels and take punitive action against offenders where criminal prosecution is not in the public interest.

2.10 Deliver one anti-fraud week campaign

2013/14 saw the Council deliver its 1st Anti-Fraud Week which focused a number of mini operations across a week, targeting benefit, housing, direct payment, blue badge fraud and insurance fraud. The week was extremely successful with a number of arrests being actioned and council houses being brought back into council control.

2.11 Protecting the Public Purse 2013 (Appendix A2)

The Audit Commission published its most recent work examining the extent of fraud in Local Government, detailing the areas of high fraud risk. This report is for information only.

2.12 Protecting the Public Purse Fraud Briefing – London Borough of Harrow (Appendix A3)

The Audit Commission produced this briefing specifically for Elected Members highlighting their role in the fight against fraud. The benchmarking is based on 2012-13 data submitted by Harrow as part of the Annual Fraud Survey. This report is for information only

Section 3 – Further Information

None

Section 4 – Financial Implications

The financial implications have been shown where relevant, in the report.

Section 5 - Equalities implications

None

Section 6 – Corporate Priorities

The performance and outcomes of the Corporate Anti-Fraud Team contributes to all of the corporate priorities by preventing, detecting, investigating and pursuing matters of fraud and losses associated with fraud affecting council business

Name: Simon George…….	√	Chief Financial Officer
Date: 19/03/14…		

Section 7 - Contact Details and Background Papers

Contact: Justin Phillips, Corporate Anti-Fraud Manager

Background Papers: None

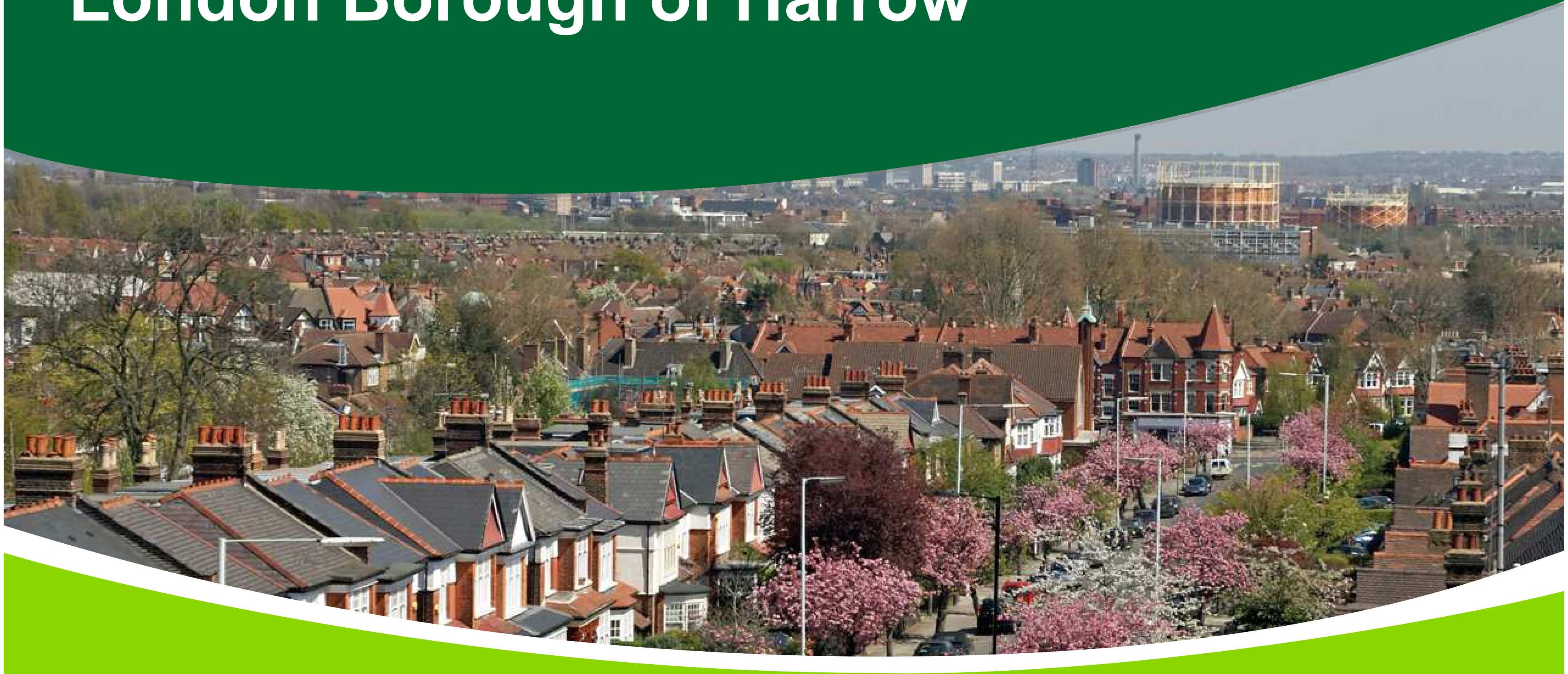
Appendix A1

CAFT Service Plan 2014-15

	Project Number, Name & Description	Expected Outcome	Performance Measures/Milestones	Priority Action?	By Whom (Lead)	By When	Transformation Link	Risk/ Dependency	Workforce Implications	Service L&D Implications
1	Achieve Housing/Council Tax Benefit sanctions	32 sanctions including 10 successful prosecution	Quarterly output of 8 sanctions		Justin Phillips	April 2015	No	Suitable cases		
2	Housing Tenancy Fraud	Identification of 20 housing tenancies subject to misuse and targeted for possession action (subject to appointment of 2nd officer)	Tenancies subject to misuse identified and surrendered or possession action sought. Notional costs of freed tenancies (£18,000 x waiting list time in years)		Justin Phillips	April 2015	No	Subject to successful recruitment to 2nd post and timely housing management and Legal Services possession action		
3	Pan London Housing Fraud Hub	Harrow data (CTRS, Housing & Waiting list) input into pan London fraud hub for initial datamatch and more general interrogation to aid prevention of housing assessment fraud – subject to IT security	Data uploaded in appropriate specification and identification of housing assessment fraud cases		Justin Phillips	April 2015	No	Subject to data security requirements being satisfied		
4	Blue badge proactive fraud drives in conjunction with Councils 'Weeks of Action' programme	Identification of blue badge misuse and associated follow up sanctions	Delivery of a fraud drive working with Met Police SNT's in each quarter		Justin Phillips	April 2015	No	Safer Neighbourhood Team resources		

5	Fraud risk review of Direct Payment cases	Identification of direct payment fraud/financial irregularity through a sample review of high risks cases	DP fraud amounting to £50K identified and assistance provided with loss recovery		Justin Phillips	April 2015	No	Co-operation of Personalisation Team in accessing appropriate data		
6	Fraud risk review of Insurance cases	Identification of Insurance fraud/financial irregularity through a sample review of high risk cases	Insurance fraud amounting to £10K identified and assistance provided with loss recovery		Justin Phillips	April 2015	No	Appropriate cases being available		
7	Proceeds of Crime Act 2002 (POCA)	Identify and pursue 4 suitable cases to recover criminal proceeds	15K recovered		Justin Phillips	April 2015	No	Availability of appropriate cases and Brent Trading Standards Financial Investigation Unit		
8	NFI 14/15 exercise data submissions	Data subject privacy notices reviewed, data extracted and uploaded securely to Audit Commission as per specification and to deadline	Data subject privacy notices compliant with Information Commissioner Guidance and data uploaded securely		Justin Phillips	Oct 2014	No	Co-operation of both internal and external organisations responding to requests		
9	Income opportunities/ generation	Identification of income through administrative penalties, caution fines and HB overpayment recovery through fraud work	20K recovered		Justin Phillips	April 2015	No	Availability of appropriate cases and subject to changes in the way this income is reflected for accounting purposes		
10.	Deliver an anti-fraud week campaign	Deliver an anti-fraud week campaign and co-ordinate communications prior, during and after the week	Raised fraud awareness throughout borough and fraud identified each day through joint operations		Justin Phillips	April 2015	No	Co-operation of both internal and external organisations in planning		

Protecting the Public Purse
Fraud Briefing 2013
London Borough of Harrow



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Agenda

- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

And do not forget

–*Checklist for those charged with governance (Appendix 2 of PPP 2013)*

–*Questions councillors may want to ask/consider (Appendix 3 of PPP 2013)*

Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)

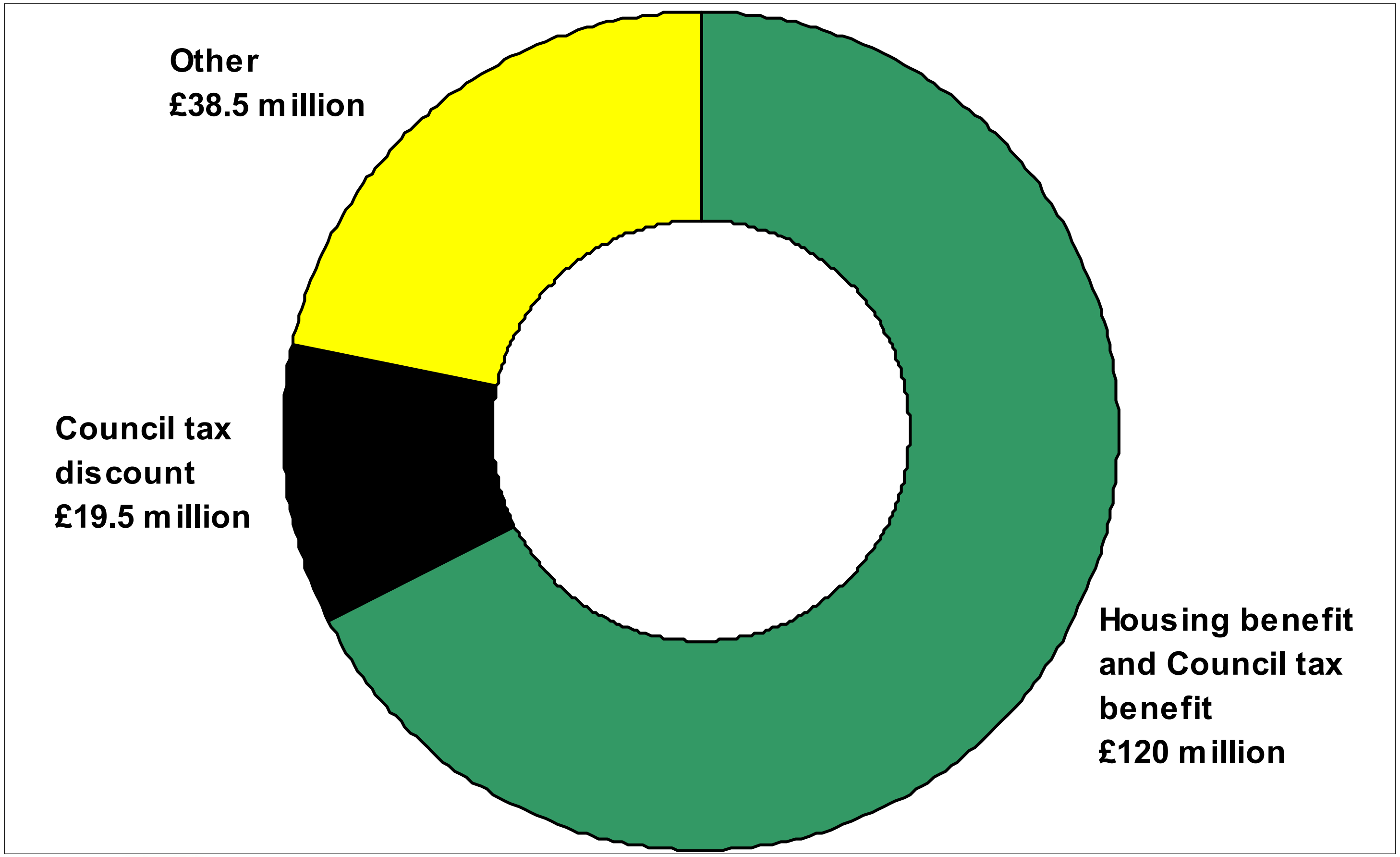
- Fraud is never a victimless crime

- Councillors have an important role in the fight against fraud

Purpose of Fraud Briefing at your council

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities
- Reviews current counter fraud strategy and priorities
- Discuss local and national fraud risks
- Reflect local priorities in a proportionate response to those risks

National Picture 2012/13
Total cases detected107,000, with a value of £178 million (excluding social housing fraud)



Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

audit commission

Interpreting fraud detection results

- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

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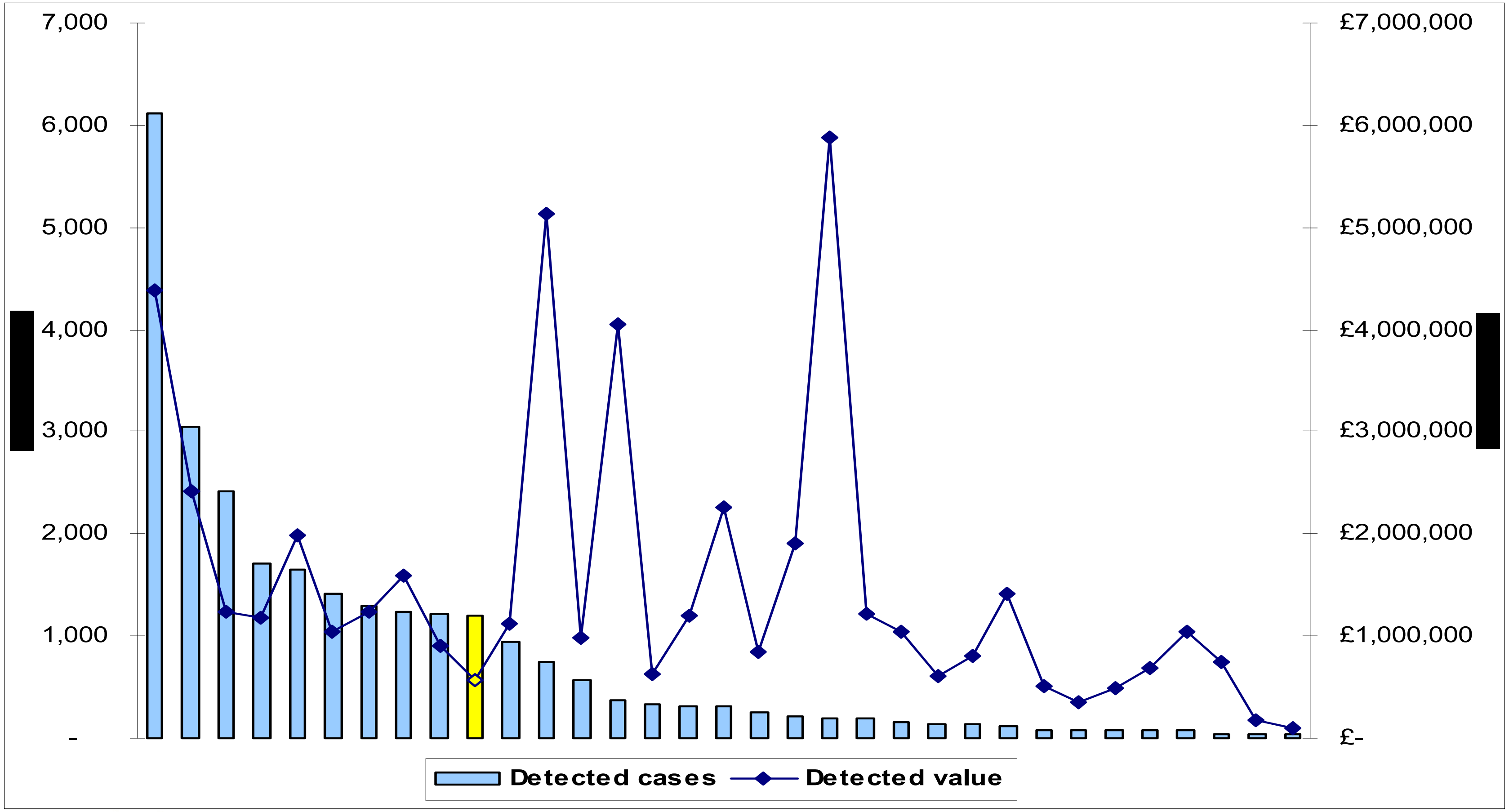
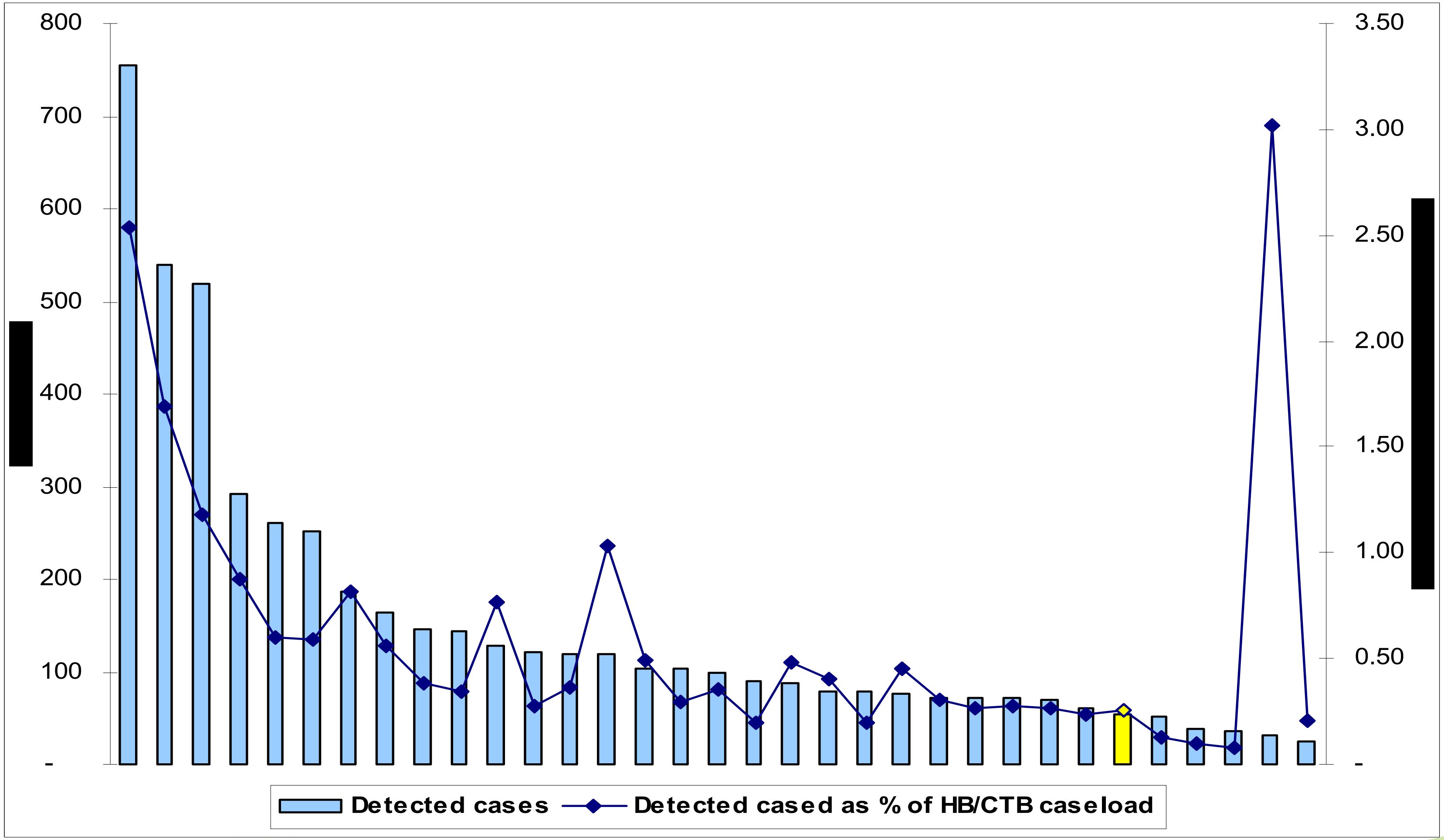
The local picture
How your council compares to other London Boroughs
Total detected cases and value 2012/13 (excluding social housing fraud)



Harrow detected: 1,195 cases, valued at £565,611

London Boroughs 2012/13
Housing benefit (HB) and Council tax benefit (CTB) fraud
Detected cases and detected cases as a percentage of HB/CTB caseload



Harrow detected: 53 cases, valued at £436,443

London average: 153 cases, valued at £874,394

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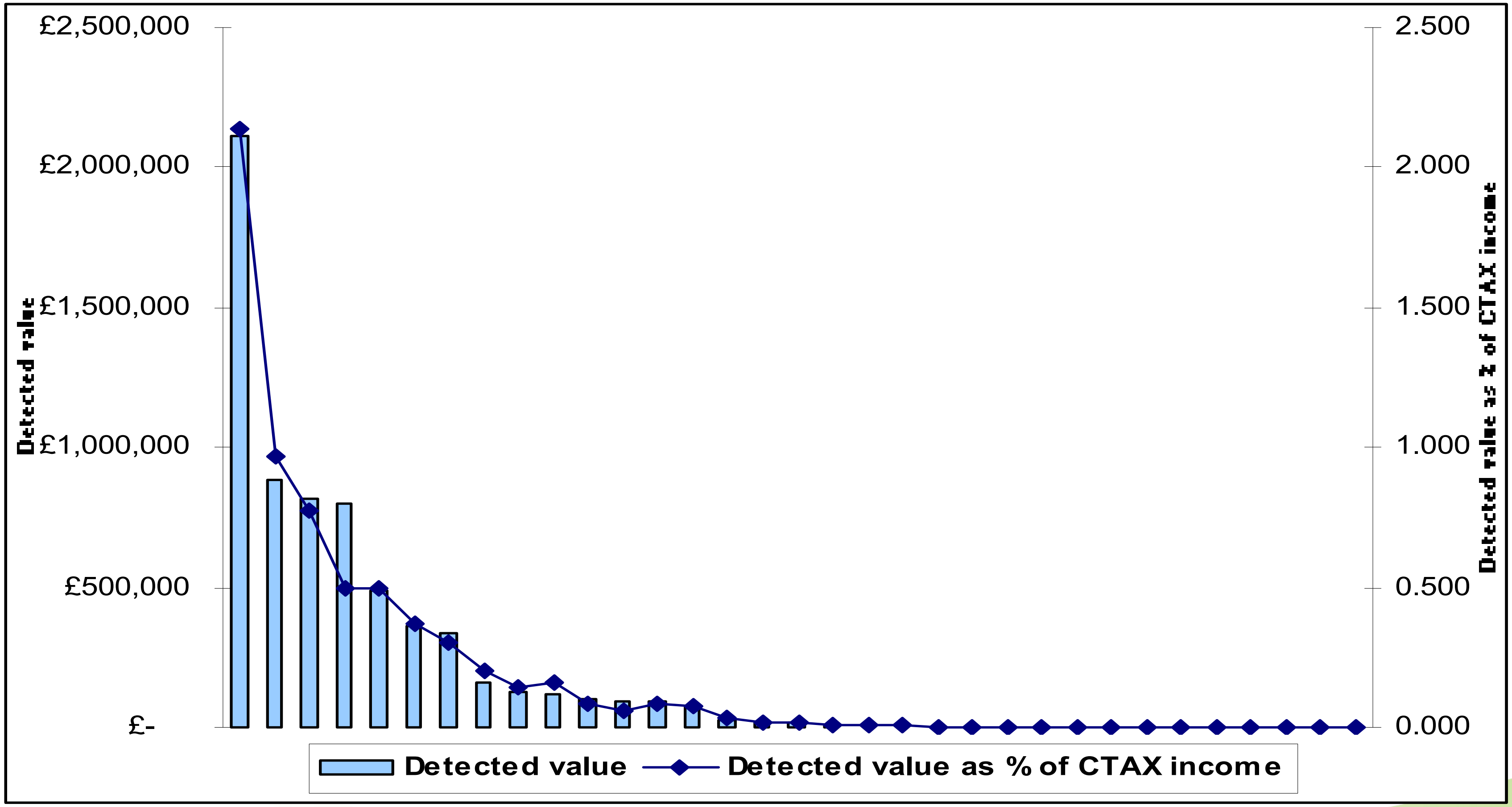
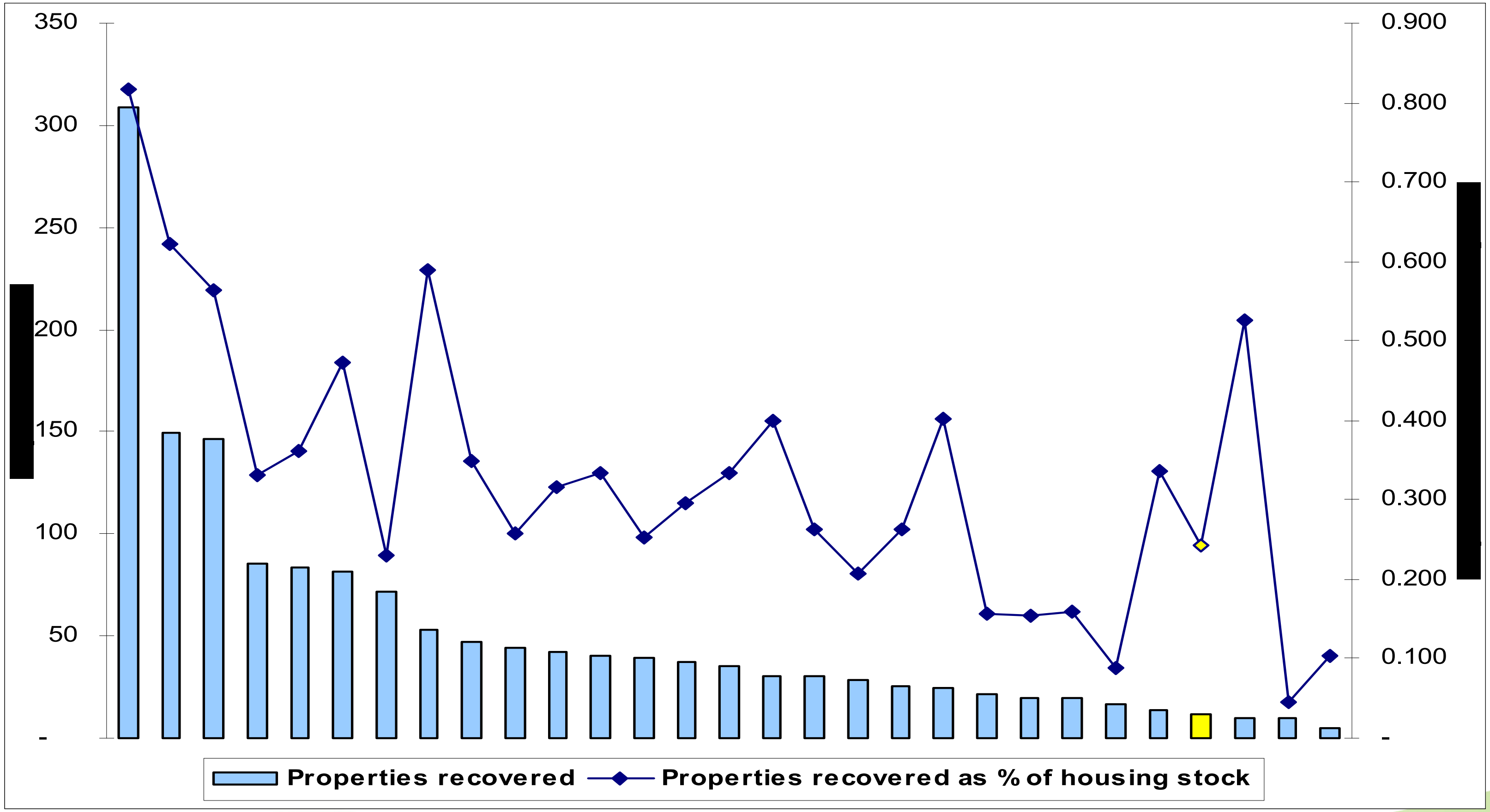
London Boroughs 2012/13
Council tax (CTAX) discount fraud
Detected value and detected value as a percentage of council tax income



Harrow detected: 1,112 cases, value not recorded

London average: 586 cases, valued at £201,451

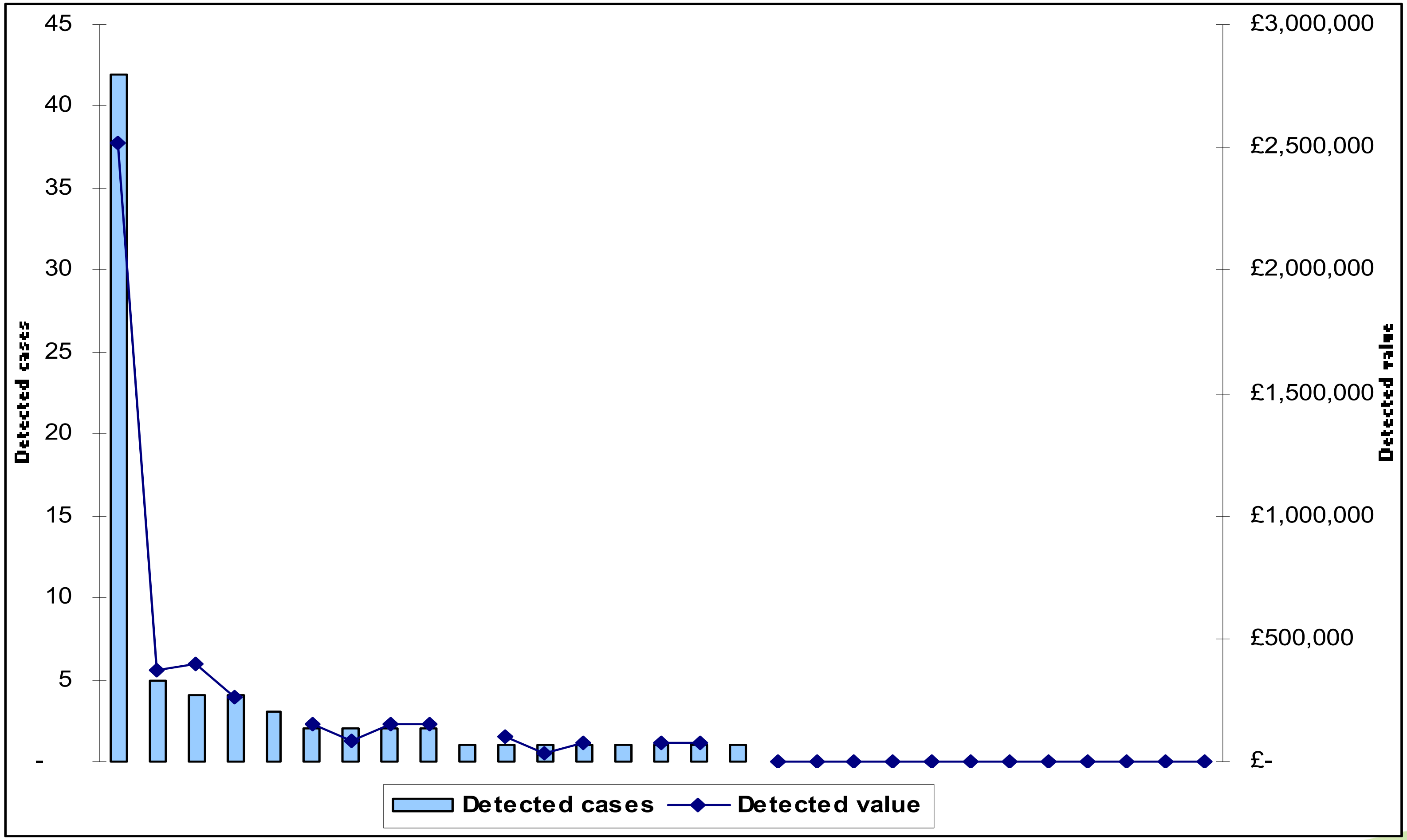
London Boroughs with housing stock 2012/13
Social housing fraud
Properties recovered and properties recovered as a percentage of housing stock



Harrow recovered: 12 properties

London average: 53 properties

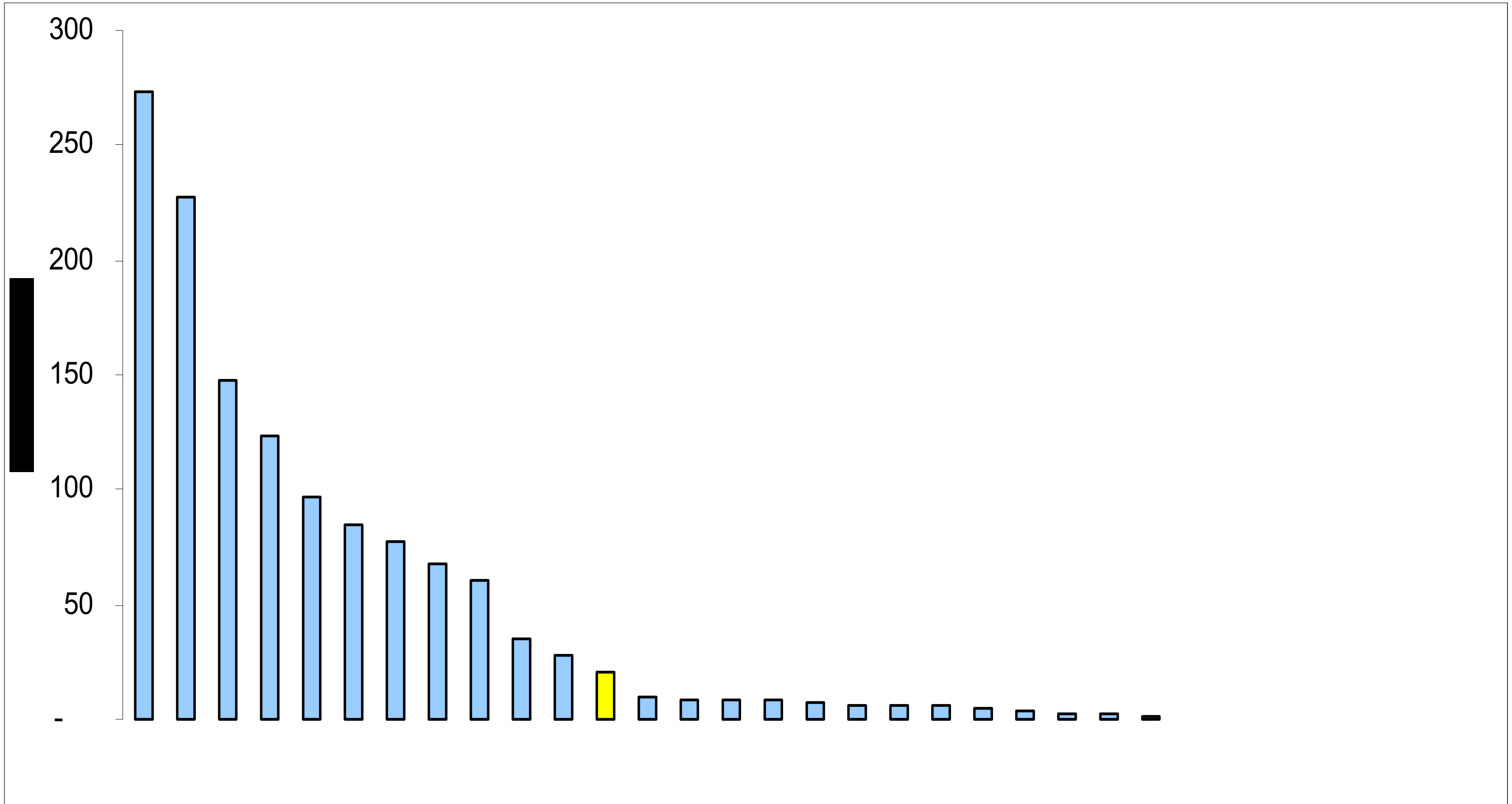
London Boroughs with housing stock 2012/13
Right to buy fraud
Detected cases and detected value



Harrow detected: no cases

London average: 2 cases, valued at £134,976

London Boroughs 2012/13
Disabled parking (Blue Badge) fraud
Detected cases



Harrow detected: 20 cases

London average: 40 cases

London Borough of Harrow
Other frauds

- Procurement: no cases
  (*Ave per London Borough: 1 case valued at £11,695*)

- Insurance: 3 cases, valued at £4,494
  (*Ave per London Borough: 1 case valued at £35,274*)

- Social care: no cases
  (*Ave per London Borough: 2 cases valued at £10,067*)

- Economic & Third sector: 2 cases, valued at £50,000
  (*Ave per London Borough: 1 case valued at £16,846*)

- Internal fraud: 5 cases, valued at £98,148
  (*Ave per London Borough: 10 cases valued at £302,255*)

Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case

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Any questions?

Protecting the public purse 2013

Fighting fraud against local government
November 2013

The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

Contents

Summary and recommendations

Summary

This report shows those responsible for governance in local government bodies how they can fight fraud more effectively.

- Fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion.
- In a time of austerity, preventing fraud is even more important to protect the public purse.
- Every pound lost through fraud cannot be spent on providing public services.

Local government bodies detected fewer frauds in 2012/13, excluding housing tenancy frauds, compared with the previous year. For these frauds:

- local government bodies detected 107,000 cases, with a value of £178 million, down by 14 per cent and 1 per cent respectively compared with 2011/12;
- housing benefit (HB) and council tax benefit (CTB) fraud accounted for over two-thirds of the total fraud loss value in 2012/13, at £120 million, but only 44 per cent of the total cases detected;
- the average value of all detected non-tenancy frauds increased by 15 per cent in 2012/13; and
- had local government bodies detected the same number of cases as in 2011/12, the reported loss would have been far greater.

107,000 cases, with a value of **£178m**

London boroughs detected more fraud than in 2011/12.

- London boroughs increased both the number and value of frauds detected by 36 per cent in 2012/13.
- But most non-London regions showed a decline in the number of detected fraud cases in 2012/13, ranging from 6 per cent to 46 per cent.

The pace of local authority activity to tackle housing tenancy fraud is accelerating.

- Local authorities recovered over 2,600 homes from tenancy fraudsters, a 51 per cent increase since 2011/12.
- London councils detected over half (58 per cent) of all tenancy fraud, although the capital accounts for only a quarter of all council housing in England.
- Councils outside London more than doubled the number of tenancy fraud cases they detected, reflecting their increasing commitment to, and success in, tackling this fraud.

There is significant variability in detected non-benefit fraud levels between similar councils.

- Over three-quarters (76 per cent) of all detected non-benefit fraud cases are found by one quarter (25 per cent) of councils.
- Some councils, notably 79 district councils, reported no detected non-benefit fraud.

76% of all non-benefit frauds found, were detected by **25%** of councils

Some councils' capacity to investigate fraud is reducing. All councils need to consider how they prioritise resources.

- In all regions, more councils reduced investigative capacity in 2012/13 than increased it, although most stayed the same.
- London boroughs have done more than other councils to re-focus their counter-fraud resources towards non-benefit frauds.

Some councils are starting to focus more attention on those fraud risks that are growing. In 2012/13, they detected:

- 102 cases of Right to Buy fraud, up 168 per cent since 2011/12; and
- 200 cases of social care fraud worth £4 million, a 64 per cent increase in cases and 82 per cent increase in value since 2011/12.

200 cases of social care fraud, worth **£4m**, were found in 2012/13

Councils face reduced funding and new national counter-fraud arrangements. They need to assess fraud risks effectively to target resources where they will produce most benefit. They should:

- maintain their capacity to investigate non-benefit fraud following the introduction of the Single Fraud Investigation Service (SFIS);
- follow the lead of London boroughs and focus more effort on detecting non-benefit fraud, which directly affects their revenue; and
- ensure they have the right skills to investigate all types of fraud, which vary in complexity.

Councillors have a crucial role in supporting the right approach to deter and detect fraud. They can draw on a wide range of assistance to help them do so. They can:

- ensure their council understands local fraud risks;
- compare their council's performance in countering fraud with similar councils;
- ensure their council deploys counter-fraud resources proportionate to risk and focuses on areas of greatest local harm;
- encourage their council to focus more on deterrence, by widely publicising action against fraudsters; and
- increase staff confidence in whistle-blowing arrangements by providing corporate leadership of, and support for, whistle-blowers.

Recommendations

All local government bodies should:

- use our checklist for councillors and others responsible for governance (Appendix 2) to review their counter-fraud arrangements; and
- actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

Councils in particular should:

- Actively promote a **vigorous counter-fraud culture** (para 110) by:
  - enforcing robust sanctions for fraud and publicise the action taken, to enhance local deterrence (para 115);
  - encouraging councillors to play an enhanced role in managing the risk of fraud effectively (para 71 & 113); and
  - reviewing their own whistle-blowing arrangements in line with current best practice and applying the lessons learned from the findings of the 2013 Public Concern at Work research on whistle-blowing (para 133).
- Develop a **clear strategy** to tackle fraud by:
  - reviewing their own counter-fraud strategies in the context of the national Fighting Fraud Locally (FFL) strategy to tackle local authority fraud (para 120); and
  - reviewing their own arrangements against FFL good practice guidance to be issued in 2013 and 2014 about frauds in schools, business rates and personal budgets (para 123).
- **Work in partnership** to reduce fraud by:
  - considering how best to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations (para 63);
  - exploring joint working with other councils, particularly smaller councils with limited investigative capacity (para 43); and
  - realising the benefits of county councils and district councils working together to tackle blue badge fraud (disability parking) in two-tier areas (para 94).
- Prepare effectively for the introduction of the **Single Fraud Investigation Service** by:
  - considering the impact that SFIS will have on their capacity to tackle non-benefit frauds (para 45);
  - maintaining a capability to investigate non-benefit related fraud, proportionate to the risk (para 35);
  - working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks (para 46).

- Allocate **sufficient resources** to tackling fraud by:
  - focusing more on detecting and recording non-benefit fraud, particularly district councils (para 25); and
  - targeting their counter-fraud resources where they will produce the most benefit, assessing the risk of harm against the measures needed to reduce it (para 18).

- Improve their use of **data to measure their performance** in tackling fraud by:
  - challenging their performance in tackling non-benefit frauds, in particular against the results achieved by the top performing councils (para 25);
  - considering whether to apply the National Fraud Authority's (NFA's) Annual Fraud Indicator methodology to assess the local impact of the most financially significant frauds (para 18);
  - maximising the benefits of reporting frauds through the Action Fraud website (para 146); and
  - requesting an individual fraud briefing from their external auditor (para 144).

The Department for Communities and Local Government should consider:

- extending powers for councils to investigate all frauds, to protect the public purse (para 49); and
- what arrangements need to be put in place to collect and publish data on detected fraud against local public bodies, after the closure of the Audit Commission (para 152).

Action Fraud should provide regular and timely feedback to all local government bodies that use the Action Fraud reporting arrangements (para 147).

Chapter 1: Introduction

This report is the latest in the Protecting the public purse (PPP) series, the Commission publishes, on the extent of fraud against local government. It is for those responsible for governance in local government. Others involved in fighting fraud in the public sector will also find it of interest.

1 Fraud[i] is a crime that the NFA estimated costs the UK public sector £20.6 billion each year, of which over £2 billion is against local government (Ref. 1).

Over £2 billion of fraud every year against local government

2 The harm caused by fraud is not just financial. It damages local people and communities. For example, fraudulently sub-letting a council home for profit denies a local family the chance to have a home of their own. It also damages organisations' reputations, and undermines trust in public services and the political process.

3 In a time of austerity, preventing fraud becomes even more important. The 2010 Spending Review (Ref. 2) contained a 28 per cent fall in grant income to local government up to 2014/15. The government has announced a further 10 per cent decrease for 2015/16 (Ref. 3). In response, local government bodies[ii] have increased eligibility thresholds for some services, restructured others and shed staff.

4 Every pound lost through fraud cannot be spent on providing services. It is vital that local government bodies have strong counter-fraud cultures and effective counter-fraud arrangements. Through better information and deterrence, many local government bodies manage fraud risks more effectively and prevent harm to local communities.

i We define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken, including, but not limited to, disciplinary action, civil action or criminal prosecution.

ii The organisations described as 'local government bodies' in this report are organisations covered by Schedule 2 of the Audit Commission Act 1998 and include, among others, local councils, national parks, police and crime commissioners and police forces, and fire and rescue authorities.

Report structure

5 This report is produced for those responsible for governance in local government, particularly councillors. It is intended to help them protect valuable and increasingly scarce public resources. It covers these important themes:

- the scale and value of fraud detected by local government bodies in 2012/13 (Chapter 2);
- whether fraud is in decline (Chapter 3);
- trends in housing tenancy and council tax discount fraud (Chapter 4);
- trends and threats in other significant fraud types (Chapter 5); and
- national developments impacting on local government counter-fraud (Chapter 6).

6 In addition, this report:

- gives details of detected frauds and losses by region (Appendix 1);
- updates our checklist for those responsible for governance (Appendix 2); and
- highlights a series of questions to help councillors challenge and inform their own organisation's approach to fighting fraud (Appendix 3), designed to be used in conjunction with our programme of individual fraud briefings.

Chapter 2: Detected fraud against councils and related bodies

Local government bodies detected fewer frauds overall in 2012/13 compared with the previous year. Similar councils detect varying amounts of fraud.

7 In our 2012/13 detected fraud and corruption survey, we received responses from 493 local government bodies: a 100 per cent response rate. These results:

- map the volume and value of different types of fraud they detect;
- provide information about emerging and changing fraud risks; and
- help identify good practice in tackling fraud.

14% drop in the number of cases of fraud detected since last year

8 Table 1 shows that the total number of cases of detected fraud (excluding housing tenancy fraud) has fallen by 14 per cent in 2012/13 to 107,000, albeit by only nearly 1 per cent in value to £178 million. About two-thirds (67 per cent) of this amount comes from fraud related to HB and CTB; although such frauds represent only 44 per cent of all fraud cases detected.

9 The average value of all non-housing tenancy frauds has increased by 15 per cent compared with the previous year. Table 1 shows that HB and CTB fraud increased by 18 per cent and 6 per cent respectively. Other frauds combined increased by 41 per cent, but this varied by each type of fraud. Had local government bodies detected the same number of cases as in 2011/12, the value of total reported losses would have been far greater this year.

Table 1: **Main findings of our surveys of detected fraud in local government, excluding housing tenancy fraud, in 2012/13 and 2011/12 highlighted that the number of cases detected fell whilst the average value per case rose.**

	2012/13	2011/12	Percentage difference
Total fraud			
Total value	£178,000,000	£179,000,000	-1
Number of detected cases	107,000	124,000	-14
Average value per case	£1,664	£1,444	+15
Housing benefit/ council tax benefit			
Total value	£120,000,000	£117,000,000	+3
Number of detected cases	47,000	54,000	-13
Average value per case	£2,553	£2,167	+18
Council tax discounts			
Total value	£19,600,000	£21,000,000	-7
Number of detected cases	54,000	61,000	-12
Average value per case	£363	£344	+6
Other frauds			
Total value	£38,400,000	£41,000,000	-6
Number of detected cases	6,000	9,000	-33
Average value per case	£6,400	£4,556	+41

Source: Audit Commission (2013)

10 The 33 per cent reduction in cases of 'other' frauds is striking. Our survey also highlights a notable (12 per cent) decrease in the number of council tax discount frauds detected. This should not necessarily be interpreted as reflecting a fall in the amount of such frauds being committed. We explore this issue in more detail later in Chapter 3.

2,642 homes were recovered from tenancy fraudsters in 2012/13

11 Table 1 excludes housing tenancy fraud, because the survey records the number of properties recovered by councils, but not their value. In 2012/13, councils recovered 2,642 homes from tenancy fraudsters, a 51 per cent increase on the previous year. To build a similar number of homes from new would have cost the public purse nearly £400 million[i]. We provide a detailed assessment of the loss to social housing providers from tenancy fraud in Chapter 4.

i See paragraph 54 on calculating the replacement cost of social housing

12 The percentage of detected fraud in each region broadly reflects the region's spend. The exceptions are London, the South East and the North West. London accounts for 21.2 per cent of local government spend in England but disproportionately detected 27.7 per cent of all fraud cases.

13 In contrast, the South East accounts for 14.2 per cent of expenditure nationally, and detected only 10.7 per cent of all cases by English local authorities. The North West accounts for 13.6 per cent of expenditure, and detected only 8.7 per cent of cases.

14 There is no evidence that there should be different levels of frauds as a proportion of regional total spending. On this basis, this suggests that some councils in the South East and North West can do more to make a contribution to national efforts to tackle local authority fraud. See Table 5 and Table 15, in Appendix 1, for more detail on regional detected fraud levels and spending.

15 Table 2 highlights the eight largest frauds in the 'other' group in Table 1, which between them account for £31 million of the £38.4 million in this group. These are considered in detail in Chapter 5.

London detected a disproportionate 27.7% of fraud, as they only account for 21.2% of local government spend

Table 2: **Other frauds against councils in 2012/13 and 2011/12**

Fraud type	Cases 2012/13	Value 2012/13 (£ million)	Cases 2011/12	Value 2011/12 (£ million)	% Change in value 2011/12 to 2012/13
Business rates[i]	149	7.2	319	2.6	+177
Right to Buy	102	5.9	38	1.2	+392
Abuse of position*	283	4.5	297	5.6	-20
Social care	200	4.0	122	2.2	+82
Payroll, pensions, expenses*	493	3.0	640	3.5	-14
False insurance claims	74	3.0	132	2.1	+43
Disabled parking concessions (blue badges)	2,901	1.5	4,809	2.4	-38
Procurement	203	1.9	187	8.1	-77
Total	**4,405**	**31.0**	**6,187**	**23.9**	**+30**

Source: Audit Commission (2013)

* trends in these frauds are considered in more detail in 'Internal fraud' in Chapter 5.

i The figure for 2012/13 is inflated by a single fraud in one council: see paragraph 78 for more information.

Non-benefit frauds

16 Non-benefit frauds – such as those in council tax discounts, housing tenancies and social care – directly cause a financial loss to councils. Benefit fraud, on the other hand, principally represents a loss to the national exchequer. Action to tackle benefit fraud is mainly funded by central government. Non-benefit frauds warrant particular attention by councils, since they bear the main loss.

15% of annual loss is from housing benefit fraud, for 2012/13 it contributed to 67% of the total value detected

17 We encourage local authorities to adopt a response to fraud that is proportionate to the level of financial loss. This may not currently be the case across all local government bodies. For example, according to the NFA (see Table 3) HB fraud accounts for just 15 per cent of the total annual loss to all fraud in local government. But our 2012/13 survey shows that detected benefit fraud accounts for 67 per cent of the value and 44 per cent by cases of all detected fraud reported by local government bodies.

Table 3: **Estimated annual loss to fraud in local government**

Category	Annual loss (million)	Fraud level (%)
Procurement	£876	1% of spend
Housing tenancy	£845	4% of housing stock in London, 2% outside London, multiplied by £18,000 per property
Housing benefit[i]	£350	0.7%
Payroll	£154	Not disclosed by NFA
Council tax discount	£133	4% on discounts and reliefs claimed
Blue badges	£46	20% of badges misused
Grants	£35	1% of spend
Pensions	£7.1	N/A – based on NFI detection levels

Source: NFA Annual Fraud Indicator 2013

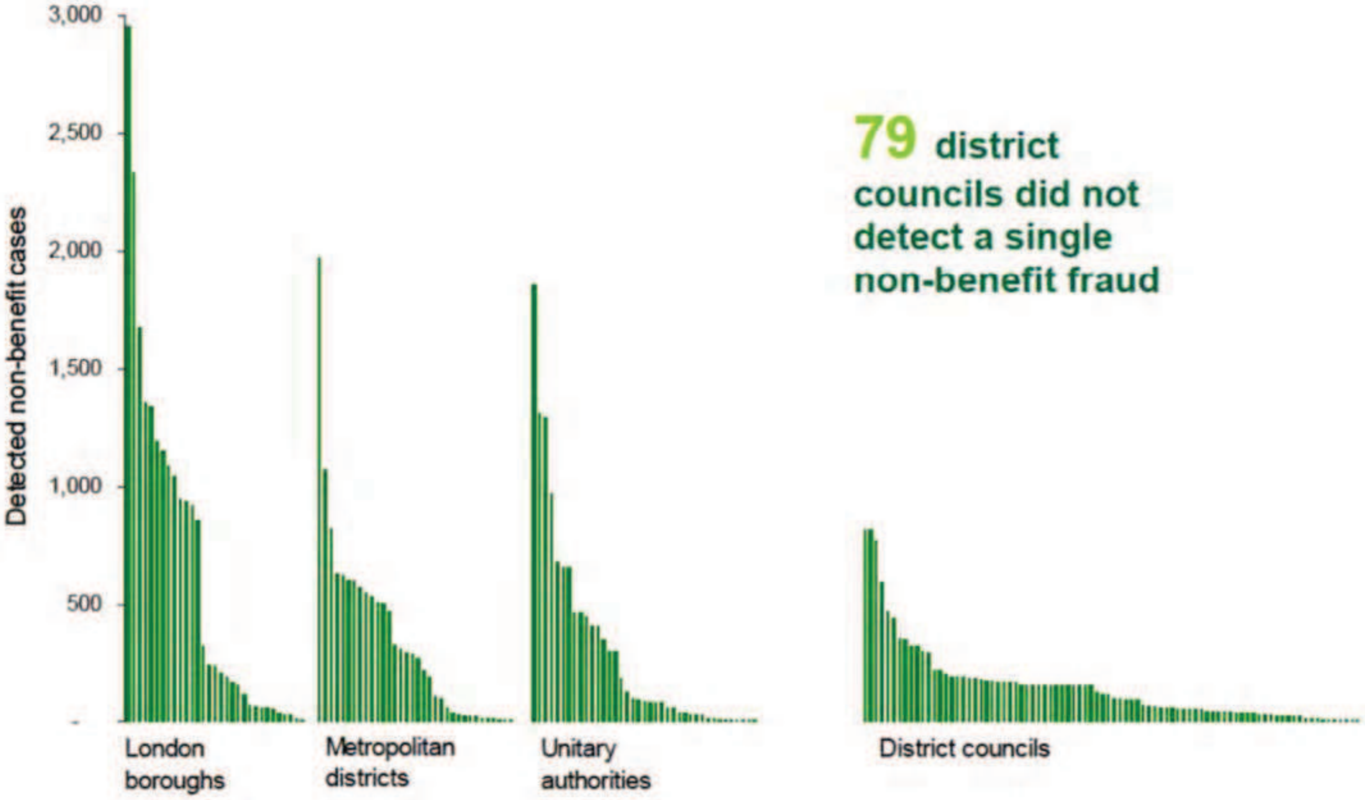
18 Councils could consider applying the percentage fraud levels adopted nationally by the NFA and shown in Table 3, to local activities. This will establish a baseline of potential loss that can be addressed locally.

19 In previous PPP reports we have highlighted overall national improvements in the efficiency and effectiveness of local authorities to tackle fraud. However, significant variations in the individual performance of similar types of councils remain, even between neighbouring councils of similar size, services and socio-economic composition.

i Housing benefit is recorded under loss to central government in the NFA's *Annual Fraud Indicator*, 2013

20 Figure 1 shows that the number of reported detected non-benefit frauds varies widely across and within council types[i]. It excludes county councils, as they do not generally provide high-volume services such as council tax.

Figure 1: **Number of detected non-benefit fraud cases arranged by council type (excluding county councils) 2012/13**



Source: Audit Commission (2013)

21 Some variation in reported fraud between councils in the same group is inevitable. It results partly from differences in the scale of the services they provide, based on the needs of the populations they serve.

22 But we do not believe that all the variation within council types in Figure 1 reflects this difference. It must to some extent be due to the way they record fraud, but particularly the different priorities that councils in each group place on detecting fraud.

23 For example, it is striking that 79 district councils did not detect a single non-benefit fraud. In contrast, only nine councils among all London boroughs, metropolitan districts and unitary authorities combined did not detect any non-benefit fraud.

i One London Borough has been omitted from Figure 1. It reported over 6,200 non-benefit fraud cases. This is more than twice as many as the London Borough with the next highest return and distorts the overall presentation of the results graphically.

24 Table 4 shows the average number of non-benefit fraud cases detected in 2012/13 by those with the highest detection rates for each authority type.

Table 4: **Levels of detected non-benefit fraud in the top quartile of councils**

Council type	Proportion of cases detected by top quartile councils in each group	Average number of cases detected by top quartile councils in each group.
London boroughs	70%	2,288
Metropolitan districts	63%	829
Unitary authorities	88%	734
District councils	90%	234
County councils*	76%	37
All councils	76%	549

Source: Audit Commission (2013)

25 All local authorities should compare their own non-benefit fraud figures against the average number of cases detected by councils in the top quartile. In particular, councils who report little or no non-benefit fraud detection should consider whether they have enough investigative capacity, and are using it as effectively as possible.

i We recognise that some councils in each local authority type do not provide exactly the same services. Thus, the average number of cases detected per top quartile will vary slightly, particularly in relation to detected tenancy fraud, as not all authorities have the same amount of social housing.

26 In Table 5 we highlight regional performance in fraud detection. With the exception of London and the North-East, all other regions report some decline in the number of cases detected in 2012/13 compared to last year. One region, the North West, reported a decline of 46 per cent year on year.

Table 5: **Reported value and number of detected frauds by region in 2012/13 and 2011/12**

Table header	2012/13 value (£ million)	2011/12 value (£ million)	Change 2011/12 to 2012/13 (%)	2012/13 cases ('000)	2011/12 cases ('000)	Change 2011/12 to 2012/13 (%)
East Midlands	9.3	16.9	-45	8.3	12.7	-35
East of England	16.6	17.8	-7	11.3	15.5	-27
London	61.8	45.4	+36	29.6	21.8	+36
North East	6.7	8.5	-21	7.5	7.5	0
North West	19.6	19.3	+2	9.3	17.2	-46
South East	23.5	26.9	-13	11.6	14.4	-19
South West	12.5	15.5	-19	8.8	10.7	-18
West Midlands	15.6	17.2	-9	10.9	13.9	-22
Yorkshire and the Humber	12.4	11.5	+8	9.7	10.3	-6
Total	**178**	**179**	**-1**	**107**	**124**	**-14**

Source: Audit Commission

27 London region has increased both the number and value of frauds detected by 36 per cent. Without this performance by London boroughs, the national fraud detection picture would be one of significant decline.

28 This is the first year since the PPP series restarted in 2009 that councils have reported fewer detected frauds compared to the previous year. The next chapter explores some possible reasons.

36% increase in number and value of frauds detected in London

Chapter 3: Is fraud declining?

It is not possible to say whether the decline in detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils, it may signal the effect of reduced investigatory resources.

29 There has been a 14 per cent decline in the number of detected fraud cases in 2012/13, compared with the previous year[i].

30 The amount of fraud an organisation detects will reflect the range of services it provides, the size of the population it serves, and how well it prevents and deters fraudsters. But we believe that fraud is endemic and that the level of detected fraud is significantly affected by:

- the level of resources councils devote to identifying and investigating fraud;
- how effectively they use those resources; and
- how effectively they record fraud.

31 Organisations that do not look for fraud, or do not look in the correct way, will not detect it. Organisations and individuals are often embarrassed to admit they have been defrauded. This attitude continues to hinder effective action against fraud.

32 The different priority councils place on detecting fraud leads to substantial variation within and between council types. But variation may also be caused by changes in capacity, as councils restructure to make savings, or to prepare for national changes in counter-fraud arrangements.

33 One view held by many counter-fraud professionals is that "there is no such thing as a small fraud, just a fraud that has been caught early". In other words, older frauds will generally be of higher value than newer frauds because they have been running for longer.

34 Thus, where there has been effective action to tackle specific fraud types, their average value should reduce over time, other things being equal. For example, if the number of frauds detected remains broadly unchanged over time, but councils detect them earlier, councils will lose less money.

35 We have no evidence that councils have substantially improved their fraud prevention arrangements. Although most councils say they have maintained their levels of investigative capacity in 2012/13, others have reduced it. Councils should always seek to maintain a capacity to detect fraud, proportionate to risk.

i Detected fraud cases are a more reliable indicator of the changes in the extent of fraud than changes in values, as single, high-value cases can distort trends.

Changes in investigative capacity

36 In our survey this year, nearly four times as many councils reported that their investigative capacity decreased than increased in 2012/13.

37 Our survey findings tally with research by the Local Authority Investigating Officers Group (LAIOG), which found that the total number of specialist fraud investigators across all English local authorities has reduced by a fifth since 2010 (Ref. 4).

38 Table 6 shows, by region, the proportions of councils that report a reduction in their investigative capacity in 2012/13 compared with the previous year.

Nearly 4x as many councils, reported a fall, rather than rise, in investigative capacity in 2012/13

Table 6 - **Percentage of local authorities in each region reporting a change in investigative capacity 2012/13**

Region	Percentage of councils in region reporting an increase in investigative capacity	Percentage of councils in region reporting no change in investigative capacity	Percentage of councils in region reporting a decrease in investigative capacity
East Midlands	2	76	22
East of England	2	85	13
London	18	42	40
North East	8	50	42
North West	5	58	37
South East	7	75	18
South West	2	93	5
West Midlands	3	73	24
Yorkshire and the Humber	9	64	27
Total all councils in England	**6**	**72**	**22**

Source: Audit Commission (2013)

39 Across every region in the country more councils reported reducing (22 per cent) rather than increasing (6 per cent) investigative capacity, but most (72 per cent) stayed the same. This was the first year our survey collected information on changes in investigative capacity. It is possible that some councils had reduced it in previous years.

40 It is not possible to identify a statistical relationship between self-reported changes in investigative capacity and levels of detected fraud. But as this is the

first year in which our survey measured changes in capacity, it may be that it is too early to point to any relationship. It is possible that there is a 'time lag' between cutting counter-fraud staff and the amount of fraud they detect. Counter-fraud professionals have expressed concern to us that their councils' cuts in investigative resources will mean they will detect less fraud.

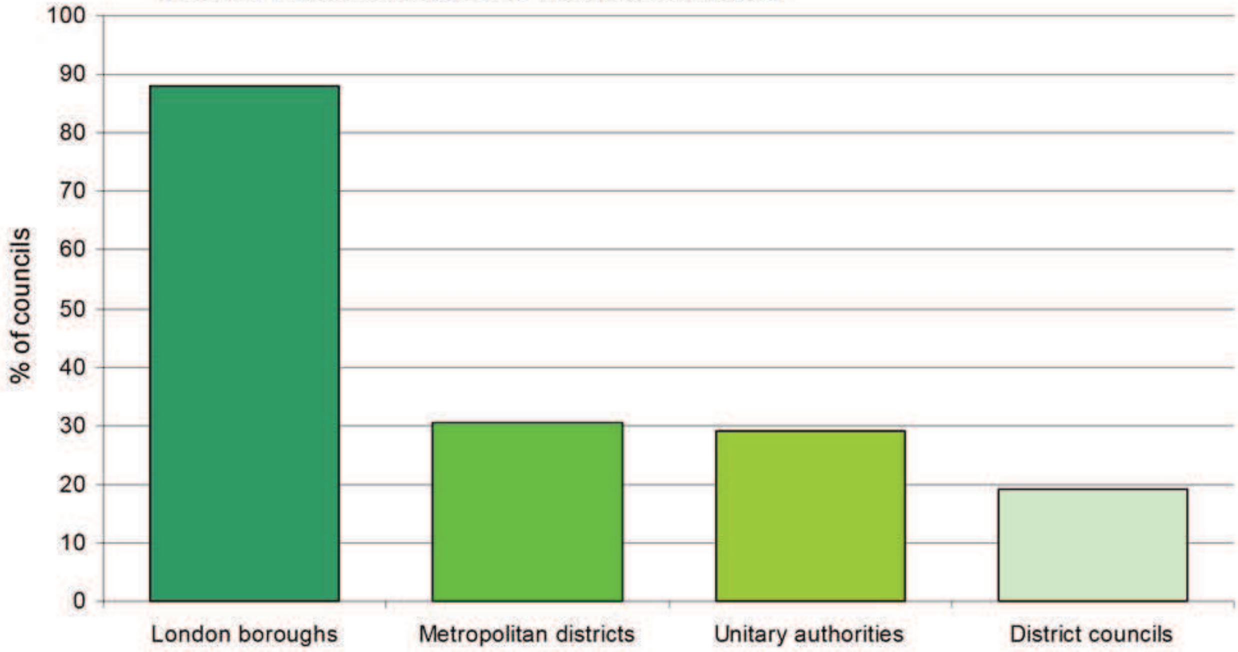
41 These reductions, coupled with the major structural changes in counter-fraud responsibilities (para 45), mean that councils face a significant risk that they will be unable to detect fraud as effectively as in past years. The survey results for PPP 2014 may provide further insight.

42 The risk may be particularly acute in councils, notably district councils, that have small fraud investigation teams to start with. This may help to explain why 79 district councils did not report any detected non-benefit fraud in 2012/13. Any cuts in a small team could have a disproportionate and adverse effect on their ability to detect fraud.

43 Smaller councils, with limited investigative capacity, may want to explore how to work more effectively with other local authorities in their region to provide a more effective response to local fraud risks.

44 As well as changes in investigative capacity, councils also vary in their fraud focus. Figure 2 shows that most London boroughs (88 per cent) focus over a quarter of their specialist investigators on non-benefit fraud. Other types of councils - metropolitan districts (31 per cent), unitary authorities (29 per cent) and district councils (18 per cent) - are all less likely to use their investigators in this way.

Figure 2: **Proportion of councils devoting more than 25 per cent of counter-fraud resources to non-benefit fraud**



Source: Audit Commission (2013)

45 Benefit fraud is a substantial loss to the national public purse, but has less impact on council budgets. The introduction of the SFIS will affect councils' priorities in tackling fraud[i]. Because SFIS will investigate benefit fraud, councils have an opportunity to focus more resources on other frauds, such as housing tenancy fraud, that have a local impact.

46 Councils that have prepared for the introduction of SFIS will be better placed to deal with non-benefit fraud risks. To a large extent, London boroughs have done this. Unless councils follow their example, they will lose much of their capability to investigate non-benefit fraud once the SFIS starts. This would be a mistake, as non-benefit frauds cause much greater financial loss and harm. Effective local engagement with SFIS will also be required to ensure action taken to tackle benefit fraud continues to reflect local priorities and risks.

47 Councils should consider whether they have the skills they need to investigate different frauds. For example, tackling procurement fraud can sometimes be more complex than investigating other types of fraud. It often requires knowledge of company accounts and contracts, as well as risks of possible corruption.

48 As well as the right skills, counter-fraud specialists in local government need sufficient powers to detect fraud. In April 2013, CTB was replaced by the council tax reduction (CTR) scheme. However, unlike CTB, CTR does not fall under benefit legislation.

49 In May 2013, the government provided councils with CTR-specific investigative powers, including requiring employers, banks and utilities to provide financial details to aid investigations. Councils will shortly have similar powers to tackle tenancy fraud. This leaves a gap in terms of other frauds. Councils need equivalent powers for all fraud types to protect the public purse effectively.

50 The need to make savings combined with national changes to counter-fraud arrangements make it even more important that councils have effective fraud risk management.

51 Housing tenancy and council tax discount represent two of the most significant areas of financial loss and harm from fraud to local government. In Chapter 4 we describe national and local issues and trends for both.

Housing tenancy and council tax discount fraud are two significant contributors to financial loss from fraud in local government

i The roll-out of SFIS will start in April 2014. SFIS will combine benefit fraud investigators from councils, the Department of Work and Pensions and Her Majesty's Revenue and Customs into a single welfare benefits fraud investigation service.

Chapter 4: Housing tenancy and council tax discount fraud

Councils have substantially increased the number of properties they recovered from tenancy fraudsters in 2012/13 compared with the previous year. London boroughs continue to lead the way, but other councils are making good progress. Councils detected fewer council tax discount frauds.

Housing tenancy fraud

52 Housing tenancy fraud is committed when people occupy social housing unlawfully, and can include:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in a housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; or
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.

53 Quantifying housing tenancy fraud is not straightforward. In PPP 2012 (Ref. 5), we reported that:

- at least 4 per cent of social housing stock in London is typically subject to some form of tenancy fraud;
- at least 2 per cent of social housing stock outside London is typically subject to some form of tenancy fraud;
- nationally at least 98,000 social homes in England are subject to some form of tenancy fraud;
- the NFA adopts a national average loss to the public purse of £18,000 per property subject to tenancy fraud; and
- the cost of building a social housing unit from new is £150,000.

98,000 social homes in England are subject to some form of tenancy fraud

(PPP 2012)

54 The NFA estimates that housing tenancy fraud represents the second largest financial loss to fraud in local government, costing £845 million in 2013. When combined with the loss to tenancy fraud suffered by housing associations, the total value of such fraud in England is £1.8 billion. This is approximately five times the annual loss due to HB fraud.

Case study 1

Case Study: housing tenancy fraud

- In 2002, an individual made a homeless application, providing supporting documentation to confirm identity, address history and income. This included utility bills, medical records, bank statements, provisional driving licence and Home Office correspondence confirming legal status. Based on this information, the applicant was offered a secure tenancy for a council flat.
- As part of a Council-wide campaign to tackle social housing fraud, which began in 2012, the Council reviewed historic and current documentation provided in support of housing applications. This review revealed that the documentation provided was fraudulent in this case.
- The fraudster was convicted of providing false information to fraudulently obtain a council flat and was jailed for 6 months.
- This is one of a series of cases the council is investigating under an initiative to expose people who use deception and false documentation to obtain council homes. To date, 14 people have been successfully prosecuted under this initiative and 26 properties recovered.

Source: Audit Commission (2013)

55 In 2012/13, social housing providers recovered 2,642 homes (Table 7), an increase of 51 per cent compared with the previous year. The number of councils detecting at least one tenancy fraud has risen from 90 in 2011/12 to 107 in 2012/13. In addition every region of the country increased the number of properties recovered from tenancy fraudsters in 2012/13. This improvement demonstrates what can be achieved through commitment by councils, sharing of good practice, and refocusing investigative resources.

51% more homes recovered by social housing providers compared with last year

Table 7: **Properties recovered from tenancy fraudsters in the last four years, by region**

Region	Number of properties in housing stock (percentage of total)	2012/13 Number of properties recovered (percentage of total)	2011/12 Number of properties recovered	2010/11 Number of properties recovered	2009/10 Number of properties recovered
London	434,310 (25)	1,535 (58)	1,209	1,337	1,349
West Midlands	207,794 (12)	416 (16)	211	101	6
East of England	159,880 (9)	133 (5)	82	82	12
South East	171,037 (10)	132 (5)	74	56	30
North West	95,293 (6)	126 (5)	39	57	86
Yorkshire and the Humber	235,075 (14)	108 (4)	49	53	26
East Midlands	183,036 (11)	102 (4)	21	54	10
South West	101,431 (6)	56 (2)	31	35	5
North East	116,983 (7)	34 (1)	32	3	53
Total	**1,704,839 (100)**	**2,642 (100)**	**1,748**	**1,778**	**1,577**

Source: Audit Commission (2013)

56 This progress is encouraging. The number of properties recovered from fraudsters and the number of councils taking action is accelerating. However, when compared to the total social housing stock in each region, more can still be done to match the success of the better performing regions (see Appendix 1, Figure 4).

57 London councils continue to detect more tenancy frauds than councils in other parts of the country. London accounts for a quarter of all council homes in England, but detects 58 per cent of all tenancy frauds. In 2012/13, detected tenancy frauds in London were the equivalent of 0.35 per cent of total London council house stock. By comparison, councils in Yorkshire and the Humber detected the equivalent of 0.046 per cent of their housing stock.

25% of England's council homes are in London, but its councils accounted for 58% of all the tenancy frauds detected

58 In PPP 2012, our research indicated unlawful sub-letting for profit was the most common type of tenancy fraud in London, but other types of tenancy fraud were more prevalent outside the capital. This suggests different strategies may be required in different parts of the country.

59 The analysis of detected tenancy fraud types in 2012/13 (Table 8) reinforces the findings of that initial research. Unlawful sub-letting for profit still remains a concern outside London. However councils in non-London regions could benefit by adjusting their detection approach to address the types of tenancy fraud more likely to be prevalent in their own geographic areas.

Table 8: **Differences in tenancy fraud type between London and all other regions 2012/13 and 2011/12**

Year	London Number of fraudulently sub-let properties recovered	London Number of other tenancy fraud properties recovered	All other regions Number of fraudulently sub-let properties recovered	All other regions Number of all other tenancy fraud properties recovered
2012/13	1147	338	310	847
2011/12	932	277	273	266

Source: Audit Commission (2013)

60 One reason why detection rates have risen across all regions in 2012/13 may be the increased support available to social housing providers to tackle tenancy fraud, in particular the:

- expansion of the Tenancy Fraud Forum (TFF), a free-to-join membership organisation that coordinates 15 regional partnerships to tackle tenancy fraud;
- freely available guidance and assistance from specialist advisors at the Chartered Institute of Housing (formerly known as the Making Best Use of Stock team); and
- non-ring fenced government funding for some councils to tackle tenancy fraud.

61 In 2013, the government provided additional non-ring fenced funding of £9.5 million over two years, resulting in 49 councils receiving approximately £100,000 per year to tackle tenancy fraud. It is important that councils use this funding for its intended purpose.

62 More important than funding is the commitment of councils and partner housing associations to take effective action. One of the most notable examples is Huntingdonshire District Council (HDC). The Council has no social housing stock itself, but still took action.

Case study 2

Case Study: Huntingdonshire District Council (HDC)

- HDC had long standing concerns about tenancy fraud, linked to other frauds the council tackled. In particular benefit fraud and council tax discount fraud. Some social landlords in the area appeared unable to adequately tackle the tenancy fraud problem.
- HDC worked with the largest housing provider (Luminus Group) in the area to develop a data sharing agreement and joint working approach to identify tenancy and other frauds. The support of councillors and officers from both organisations was critical to the successful launch of the programme.
- Several initiatives were undertaken to identify tenancy frauds, including a database allowing data matching across both organisations, joint publicity, a shared website and a public 'hotline' to report suspicions of fraud. This last initiative was particularly successful.
- In 2013, the partnership was expanded to include other councils and housing providers in Cambridgeshire, and a shared webpage to report suspicions of fraud. Since summer 2010, there have been four successful criminal prosecutions for tenancy fraud and 25 properties recovered. Building an equivalent number of properties from new would cost the public purse around £3.75 million.
- HDC attributes the success of this approach in part to linking tenancy and non-tenancy frauds (such as council tax discount fraud). Money recovered from these frauds more than covered the cost of the partnership initiatives.

Source: Audit Commission (2013)

63 In 2013, the government passed legislation that criminalises sub-letting fraud (Ref. 6). On conviction, tenancy fraudsters face up to two years in prison or a fine of £50,000. The legislation also allows local authorities to prosecute tenancy fraudsters on behalf of housing associations. Councils should consider how best to maximise the benefit of this legislation, including closer partnership working with local housing associations.

Tenancy Audit

64 Social housing providers often use tenancy audits to identify tenancy frauds. They involve direct checks on properties. Some providers check over 20 per cent of their stock each year. If these do not detect frauds, providers may conclude they need take no further action.

65 But other research (Ref. 7) raises concerns about the effectiveness of many housing tenancy audits. In particular, this found that tenancy audits were responsible for detecting just 0.9 per cent of a purposive sample of proven tenancy frauds.

66 Who carries out tenancy audits is important. This research also found that counter-fraud specialists or housing officers with enhanced fraud awareness training are ten times more likely to identify a tenancy fraud than non-specialists. Further information on good practice in tenancy audits can be obtained from specialist advisors at the Chartered Institute of Housing.

Council tax discount

67 Councils in England raised over £22 billion from council tax in 2012/13 (Ref. 8). Fraudulently claimed discounts and exemptions directly increase local taxation for people in the fraudsters' own communities and neighbourhoods.

68 There are many different types of discounts and exemptions that can be claimed. The most common is single person discount (SPD), where a 25 per cent discount can be claimed for sole occupiers, which can rise to 100 per cent when the occupier is a full time student[i]. Our research found that, typically, between four and six per cent of SPD claims are fraudulent.

4-6% of single person discount claims are fraudulent

(PPP 2010)

69 Such fraud directly affects local taxation, but detected cases fell by nearly 12 per cent in 2012/13 (Table 1). This may be because some councils prefer to align their detection activities to the two-yearly NFI data matching timetable.

70 Most councils do not treat SPD fraud as a criminal offence. Some just cancel the discount in the year they detect a fraud. But councils can recover funds lost to SPD fraud, which individually can be worth thousand of pounds over several years. They can also apply a penalty for fraudulently claimed discounts, although not all routinely do so.

Most councils do not treat single person discount fraud as a criminal offence

71 Councillors have a role to play in ensuring that local authorities manage this fraud risk effectively. They may want to consider the sanctions policy of their organisation and the impact it is has on deterrence (see Chapter 6 for more on deterrence).

72 Recent experience has shown that student discount fraud is a growing problem for some councils. Building on its success in identifying £1.9 million of student discount fraud (Ref. 9). Bristol City Council has effectively challenged the validity of 584 cases (32 per cent of high risk cases investigated) in 2012/13 to generate potential additional revenue of £900,000.

i To qualify for a single person discount, residents must be 18 or over and be the only member of a household. However, they can also apply for this discount if anyone else living at this address falls into certain categories that allow them not to be counted as 'other occupiers'.

73 The London Borough of Southwark (LBS) has approximately 2,400 properties occupied by students. In 2012/13, a data matching exercise found that 750 student discount claimants had a high fraud risk. Subsequent investigations established that 423 of these (56 per cent of the sample, 18 per cent of all claimants) had claimed the discount fraudulently. LBS were able to increase billing by over £500,000.

74 Local authorities should consider the size of their local student population and the potential financial loss to such fraud, when developing a proportionate response to this risk.

75 Tenancy fraud and council tax discount fraud are two of the biggest areas of financial loss to local government. But other frauds also present risks. Chapter 5 describes these in more detail.

Tenancy fraud and council tax discount fraud are two of the biggest areas of financial loss to local government

Chapter 5: Trends and developments in other fraud risks

Other fraud risks cause harm. Even though their overall value is lower than housing tenancy fraud and council tax discount fraud, they warrant attention from local government bodies.

Business rates

76 In 2012/13, councils in England contributed nearly £22 billion in non-domestic (business) rates to central government (Ref. 10). The government distributed this money across councils. Business rate fraud includes:

- falsely claiming mandatory or discretionary rate relief or empty property exemptions;
- failure to declare occupancy of a property;
- falsely claiming insolvency status to evade payments; and
- not disclosing relevant information, for example, about the size of the company, to gain rate relief.

77 The total value of business rate fraud detected in 2012/13 is £7.2 million from 149 cases. This includes one case of over £5 million, which shows the financial risk such frauds can pose to the public purse.

78 Councils continue to report significant increases in applications for relief and incentive schemes for business rates; in particular charitable relief. Such arrangements may be legal, but fraudsters could potentially exploit them. The Charity Commission issued updated guidance in 2013 to help prevent abuse of charitable status (Ref. 11).

79 Until April 2013, councils passed on all the business rates they collected to the government, which then redistributed them across English councils. Accordingly, councils had little direct incentive to detect this fraud as they did not benefit financially. From April 2013, councils keep a proportion of the business rates income they collect. This creates a financial incentive for councils to be more pro-active in addressing this fraud risk, particularly in relation to charitable and empty property relief, which are the largest in value.

Keeping some income they generate, councils now have greater incentive to tackle business rate frauds

80 Charities can claim relief on business rates[i]. Although the vast majority of charities occupying business and shop premises provide a genuine service, the potential for fraudsters to exploit this arrangement remains. Any losses now directly reduce the money available for council services.

i Most (80 per cent) charitable business rate relief is mandatory, with some (20 per cent) within the discretion of a public body.

Right to Buy

81 Right to Buy (RTB) fraud occurs when someone occupying a property unlawfully applies for a discount, or when a legitimate tenant provides false information on application.

82 In April 2012, the government significantly increased the RTB discount in England up to a maximum of £100,000 in London and £75,000 elsewhere. In PPP 2012, we suggested that this may unintentionally increase the financial incentive to commit RTB fraud. In 2012/13, we report a 168 per cent rise in detected RTB cases, compared with 2011/12 (Table 9).

83 This year on year increase is likely to be as a result of two principal factors: generally increased activity against tenancy fraud combined with more attempted RTB frauds arising as a result of the increased discounts.

The detection of Right to Buy fraud cases rose by 168% in 2012/13 compared to the previous year

Table 9: **Detected RTB fraud cases 2009/10 to 2012/13**

Cases 2012/13	Cases 2011/12	Cases 2010/11	Cases 2009/10
102	38	49	34

Source: Audit Commission (2013)

Social care (including direct payments)

84 Social care fraud can occur at any point in the process. Open-ended responses in the annual detected fraud survey 2012/13 suggest that direct payments is one of the biggest emerging fraud risks for some councils. Frauds include diverting a client's direct payments for a fraudster's (sometimes the carer's) use, or continuing to claim direct payments after a client dies.

85 The fraudulent redirection of monies intended for social care can have an immediate and harmful impact on the care of those most in need. Early identification and action is required to ensure that where such fraud does occur, it does not result in harm to those receiving the care.

Case study 3

Direct payments fraud

- The mother of a child with severe learning difficulties received direct payments to pay for a range of care services for her daughter. Payments totalling nearly £150,000 over six years were paid into a bank account set up specifically to pay for the daughter's care.
- The mother was required to provide details of how the direct payments were being spent, but failed to do so until payments were suspended. In an attempt to get payments restarted, she submitted bank statements. These highlighted that funds were being spent on items unrelated to her daughter's care, such as on-line bingo, computer games and in various retail outlets.
- An investigation discovered that, over the previous four years, only £20,000 had been spent on the daughter's care. The mother had given false information about the level of care being provided.
- The Council has implemented changes to the way in which it administers direct payments as a result of this case.
- The mother was convicted for stealing nearly £125,000 and sentenced to a two-year community order and a two-year supervision order.

Source: Audit Commission (2013)

86 Direct payments have increased from 8 per cent of all community service expenditure in 2007/08 to 21 per cent in 2012/13 (Ref. 12). Over that period, the total value of spending on direct payments (adjusted to 2012/13 prices) rose from £523 million to £1.3 billion. Such a significant increase in activity increases the risk that monitoring arrangements designed to tackle such fraud could be stretched.

82% increase in the total value of detected social care fraud compared with the previous year

87 Table 10 shows the average value of a detected social care fraud has exhibited some volatility in the last four years, although the general trend is upwards. The number of cases has also increased by 64 per cent, the total value of detected losses by 82 per cent, compared with the previous year.

Table 10: **Cases and values of social care fraud between 2009/10 and 2012/13**

	2012/13	2011/12	2010/11	2009/10
Cases (number)	200	122	102	131
Total value (£ million)	4.0	2.2	2.2	1.4
Average case value (£)	19,859	18,033	21,569	10,687

Source: Audit Commission (2013)

88 In previous PPP reports, we have acknowledged the need for councils to adopt a balanced approach to protecting public funds, and introduce proportionate measures that do not reduce the choice and control that direct payments (as part of personal budgets) aim to bring.

False insurance claims

89 Councils face insurance claims for many things, including personal injury arising from accidents on public footpaths. In 2012/13, the value of fraudulent insurance claims against local authorities increased by £1 million to £3 million compared to the previous year. However, the number of cases has continued to drop over the last three years (Table 11).

In 2012/13, fraudulent insurance claim costs to councils had risen, since the previous year, by £1million

Table 11: **Cases and values of insurance fraud between 2009/10 and 2012/13**

	2012/13	2011/12	2010/11	2009/10
Cases (number)	74	132	149	72
Total value (£ million)	3.0	2.0	3.7	2.9
Average case value (£)	40,541	15,152	24,832	40,278

Source: Audit Commission

90 With an average value of £40,541 per detected case, insurance fraud is a risk that continues to warrant attention.

Disabled parking concessions (blue badges)

91 The NFA estimates that 20 per cent of all blue badges in circulation are abused (Ref. 1). But blue badge fraud does not represent a major financial loss to councils, which may explain why detection rates have fallen by 40 per cent in 2012/13 (Table 12).

Table 12: **Detected disability parking concession (blue badge) fraud cases 2009/10 to 2012/13**

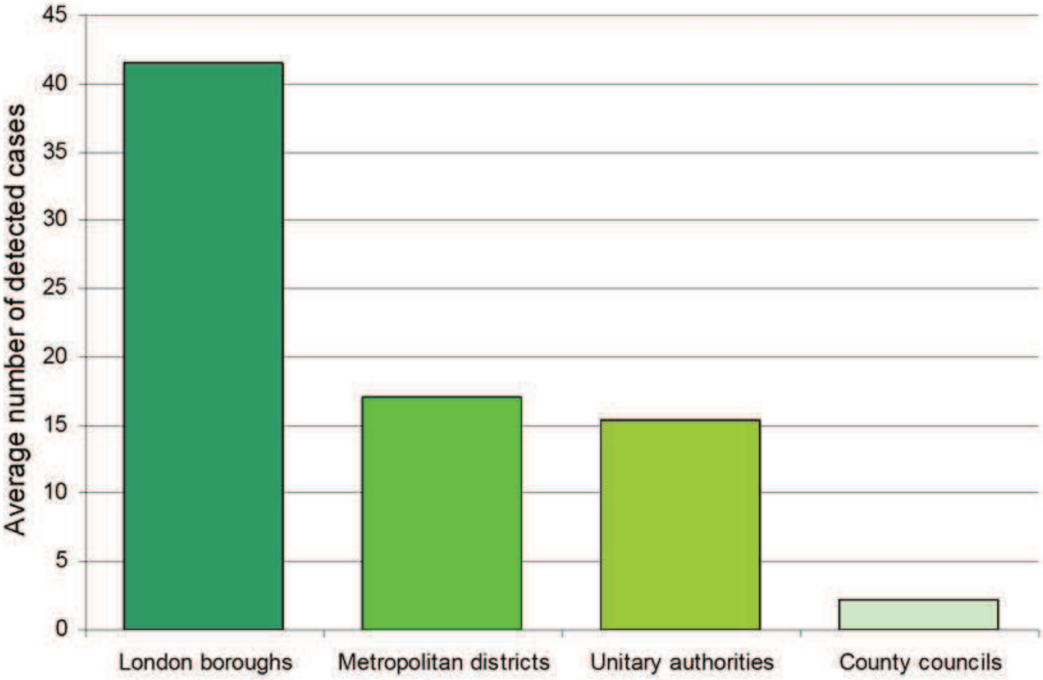
Year	2012/13	2011/12	2010/11	2009/10
Number of cases	2,901	4,809	3,007	4,097

Source: Audit Commission (2013)

92 The average number of cases of blue badge fraud varies by council type, although they are relatively few in number overall (Figure 3). However, despite the relatively low financial value of such fraud, the individual harm caused should not be forgotten. Fraudulent use of blue badges causes inconvenience

and sometimes direct harm by depriving an individual in genuine need and genuine entitlement to disabled parking facilities. In addition such frauds reduce public confidence in the blue badge system. As councils prioritise their counter-fraud activities, they should consider the social as well as financial harm of blue badge fraud.

Figure 3: **Average number of cases of blue badge fraud detected by council type 2012/13**



Source: Audit Commission (2013)

93 In two-tier areas, county councils have administrative responsibility for issuing blue badges and, therefore, reporting such detected frauds. However, it is district councils in those county areas that face reduced car parking income as a result of the fraudulent abuse of blue badges.

94 The relatively low level of detected blue badge frauds reported by county councils suggests they have little incentive to detect it, to the detriment of district councils in their area. District councils may want to explore how best to work in partnership with their county council to tackle such fraud.

Procurement

95 In 2012/13, the NFA estimates procurement fraud cost local authorities £876 million, making it the single largest area of financial loss to fraud in local government (Ref: 1). In 2012/13, the total value of detected procurement fraud by local authorities was £1.9 million. This suggests that far greater attention should be given to tackling procurement fraud.

£2.3m of fraud committed against schools, £1.9m involved internal fraud

96 Fraud is possible at any stage in the procurement and contracting process. In procurement, it can occur because of:

- collusion between staff and bidders to award contracts and specify favourable terms and conditions;
- collusion between bidders to agree that they will not bid competitively for a particular contract; and
- bidders failing to tender in accordance with contract specifications, and then submitting false claims for extra costs under the contract.

97 Once a contract is in place, fraud can occur where contractors:

- provide goods and services of inferior quality than specified in the contract to lower their costs;
- intentionally ignore minimum statutory pay and health and safety regulations for financial gain;
- provide inflated performance information to attract greater payments than are due; and
- present false invoices.

98 The London Public Sector Counter-Fraud Partnership has published a good practice guide on combating invoicing fraud (Ref. 13). Local government bodies can use this tool to help prevent and detect invoicing fraud.

Schools

99 Schools can suffer a wide range of frauds. Staff can embezzle money from the school accounts, defraud their expenses, commit payroll fraud and alter cheques. Externally, schools may be victims of mandate fraud and procurement fraud.

100 This is the first year in which we have required local authorities to report detected frauds against schools in our annual detected fraud and corruption survey. It collects data only on maintained schools, as free schools, foundations and academies are outside the Commission's remit.

101 In 2012/13, councils reported 191 cases of fraud in schools, worth £2.3 million. Of these, 86 cases with a value of £1.9 million involved internal fraud. The results suggest that schools may not have the same level of supervisory checks and controls as large organisations such as councils and may, therefore, face a greater risk of internal fraud.

102 Once councils have had time to embed data collection arrangements for fraud committed against schools, the number of reported detected schools fraud may rise.

Internal fraud

103 All organisations face the risk that staff may commit fraud. Table 13 shows that, since 2009/10, it has remained a low proportion of all detected fraud (just over 1 per cent in 2012/13). But it regularly accounts for a much higher proportion of the value of all detected fraud (over 9 per cent in 2012/13).

Table 13: **Cases and value of internal fraud committed by staff in local government bodies from 2009/10 to 2012/13**

Financial year	Number of cases (and as a % of total cases of fraud)	Value of cases (and as a % of total value of fraud)
2012/13	1,315 (1.2)	£16.5m (9.3)
2011/12	1,459 (1.2)	£15.5m (8.7|)
2010/11	1,581 (1.3)	£19.5m (10.0)
2009/10	1,333 (1.1)	£6.6m (4.9)

Source: Audit Commission (2013)

104 Internal fraud includes abuse of position and fraud related to payroll, pensions and expenses, described in Table 2. It also includes staff frauds in other areas such as HB.

105 Councils have in part responded to reduced funding in recent years by cutting staffing levels, flattening management structures and implementing changes in internal control arrangements. All these have the potential to increase the risk of internal fraud.

106 Local authorities should ensure that adequate and appropriate internal checks and controls have been maintained, proportionate to the level of fraud risk.

Economic and third sector

107 Economic and third sector fraud involves the false payment of grants, loans or financial support by local government bodies to private individuals, companies, charities, and non-governmental organisations. Examples include grants to landlords for property regeneration, donations to local sports clubs, and loans or grants to charities. Such payments will increase as councils provide fewer services themselves.

Case study 4

Grants fraud

- A council awarded an £80,000 grant to a charity, to purchase and refurbish a double-decker bus as a mobile multimedia youth centre for young people in the local community.
- The charity worker, who made the application for this funding, provided invoices to substantiate the money had been spent for the purpose intended.
- However, a subsequent investigation by the council established the invoices were forgeries and that £40,000 had been transferred from the charity bank account to the fraudster's personal account. The fraudster was able to do this by exploiting her position as the sole signatory for the bank account of the charity.
- The fraudster pleaded guilty to the acquisition, use or possession of criminal property. She received an 18 month suspended sentence, 180 hours of unpaid community work and a 3 month curfew.
- The Council has introduced additional control measures to try to combat fraud in this area, including an approved supplier list for voluntary bodies requesting grants.

Source: Audit Commission (2013)

The Council introduced an approved supplier list for voluntary bodies requesting grants

108 In 2012/13, there were 36 economic and third sector frauds with a value of £1.3 million, down from 45 cases worth £1.8 million in 2011/12. Table 14 shows the trend in average value of such frauds. Although relatively few cases have been reported, the high average value suggests that such fraud is a risk that warrants continuing vigilance.

Table 14: **Cases and values economic and third sector fraud between 2009/10 and 2012/13**

Year	2012/13	2011/12	2010/11	2009/10
Cases (number)	36	45	51	47
Total value (£ million)	1.3	1.8	1.3	0.9
Average case value (£)	35,491	40,000	25,490	19,149

Source: Audit Commission (2013)

109 Whatever the local priorities for fighting fraud and the resources available, the right culture to detect and deter fraud remains fundamental to effective local action. Chapter 6 describes how councils and other local government bodies can achieve this, through local leadership and the support of the Audit Commission.

Chapter 6: National and local developments in fraud detection and deterrence.

Councillors have a crucial role in supporting the right culture to deter and detect fraud and encourage staff to raise concerns. They can draw on a wide range of support to help them, including from the Audit Commission.

Counter-fraud policy - awareness and implementation

110 A strong counter-fraud culture, with clear principles, ethical standards, and zero tolerance of transgression, is the foundation of an effective response to fraud. Each organisation should sum up its approach in a counter-fraud policy. But a policy on its own does not ensure the right culture.

111 The 'tone from the top' is fundamental to establishing a robust and accepted counter-fraud culture. This helps to ensure that all staff are aware of the counter-fraud policy, know, accept and abide by the standards the policy contains.

'tone from the top' is fundamental to establish a robust, accepted, counter-fraud culture

112 Our research over many years suggest that only 56 per cent of all public sector staff are aware that their organisation has a counter-fraud policy, and a similar proportion (51 per cent) say they know their counter-fraud responsibilities under the policy[i].

Councillors' role in the fight against fraud

113 Councillors have an important role in shaping a corporate and strategic response to fraud that balances local and national priorities to minimise the harm fraud causes within their local community. They can:

- ensure their council understands the local fraud risks it faces;
- compare their council's performance in countering fraud with similar councils; and
- require their council to deploy counter-fraud resources proportionate to risk and focused on areas of greatest local harm.

114 In our 2012/13 detected fraud survey, half of all councils reported they had a councillor with portfolio responsibility for fighting fraud. One example is Westminster City Council, where a councillor now fulfils the role of "Anti-fraud Tsar".

i These figures come from unpublished research by the Audit Commission, based on our Changing Organisational Culture toolkit. This covered approximately 100,000 individual respondents over more than10 years.

Case study 5

Westminster City Council (WCC): effective councillor involvement in fighting fraud

- The councillor with the role of "Anti-fraud Tsar" provides political leadership for an authority-wide, integrated and coordinated fraud response across cabinet portfolios. This provides a conduit for front-line services to decision makers as part of a joined-up approach to countering fraud (this is of particular importance when enhanced investigative capacities of other agencies may be required, or where the financial incentive to tackle different fraud types does not fall principally on local authorities).
- One of their first initiatives addressed local concerns about suspected tenancy and benefit fraud in a number of private housing blocks. Through the councillor's involvement, WCC launched a coordinated and multi-agency investigation across a number of targeted private housing blocks.
- This found that between 61 and 95 per cent of the HB-funded tenancies in each block were unlawfully sub-let. In one block alone, the Council detected over £200,000 of fraudulently claimed HB.

Source: Audit Commission (2013)

Deterrence

115 Historically, councils have adopted a mainly reactive approach to fighting fraud, involving detection, investigation, sanction and redress. But with reducing resources, more focus on pro-active prevention and deterrence is needed.

116 Counter-fraud professionals have always viewed deterrence as one of most important and cost-effective means of tackling fraud. Effective deterrence depends on a number of factors, including:

- a reasonable likelihood that the fraudster will be caught;
- a likelihood that the fraudster will be appropriately punished; and
- widely publicising results, to deter other potential fraudsters.

117 A good example of effective deterrence involves council tax SPD fraud. Nationally, one in three households claims SPD, but this varies from council to council. Part of this variation is due to fraudulent SPD claims. Five years ago, 23 councils in England reported that 40 per cent or over of the households in their authority claimed the discount. In one of those authorities, nearly half (48 per cent) of households claimed SPD.

118 Since then, greater national and local publicity about successful investigations has led to a fall in the number of councils with a substantially higher than average number of households claiming SPD. By 2012, nine councils in the country reported that of over 40 per cent of all households in their area claimed SPD. The highest is now 42.5 per cent. This represents a significant reduction in SPD claimants at a number of councils. Case studies 6 and 7 highlight what can be achieved at a local level.

23 to 9, the fall, in five years, of councils reporting 40% or more households in their authority claim single persons discount

Case study 6

Liverpool City Council: SPD fraud deterrence and detection

- In 2010, Liverpool City Council had an SPD claimant level of over 46 per cent of households. The Council had hitherto taken limited action to identify SPD fraudsters.
- The council's subsequent action to tackle SPD fraud included publicising in the local press, a range of measures that it was taking. By 2012, only just over 40 per cent of households in Liverpool claimed the discount.

Source: Audit Commission (2013)

Successful investigations has led to a fall in the number of councils with a substantially higher than average number of households claiming SPD

Case study 7

Nottingham City Council - SPD fraud deterrence and detection

- In 2009, Nottingham City Council had the second highest claimant level for SPD in England, at over 47 per cent of households. The Council had undertaken activities to detect SPD fraud en masse in a limited way and had relied on individual notification of changes to manage SPD awards.
- In 2010/11, the Council adopted a more pro-active stance and invested in a private/public service approach to identifying SPD fraud, stopping 3,705 SPDs and investigating a further 3,473 where CTB was being paid. This resulted in additional collectable council tax of approximately £1.2 million.
- The cancelled SPDs represented 6.5 per cent of the total number of such claims. The council also publicised the action taken. Two years later, only 39 per cent of households claimed the discount.

Source: Audit Commission (2013)

119 Taken in combination with effective detection, this suggests that deterrence can have a significant impact on the willingness of individuals to commit fraud. Publicity about cases of fraud may also help to raise awareness of people's responsibilities to notify their council of changes in circumstances.

Fighting Fraud Locally

120 In April 2012, the FFL strategy (Ref. 14) was published. It was the first strategy developed in partnership with local government to tackle fraud committed against local government. The report focused on non-benefit fraud areas. In particular, FFL called on local government to adopt a strategic response to fraud that:

- acknowledges the threat of fraud and the potential for savings that exists;
- prevents fraud by improving fraud controls and developing a counter-fraud culture; and
- pursues fraudsters with robust enforcement, to deter others.

121 Our 2012/13 survey found that over 90 per cent of London boroughs, metropolitan districts, unitary authorities and county councils have reviewed their counter-fraud arrangements in the context of FFL, compared with 63 per cent of district councils.

122 This suggests strong support across local authorities for the strategy. All councils can benefit from reviewing their arrangements in the context of this strategy.

123 In 2013, the FFL partnership launched a number of initiatives to increase understanding of different fraud types and ways of managing risks of fraud in business rates, schools and personal budgets. Other initiatives focus on addressing key fraud enablers and effective whistle-blowing. The results of these initiatives will be available in late 2013 and early 2014.

Whistle-blowing

124 Whistle-blowing remains a key component in effectively managing the risk of fraud. In 2008, the British Standards Institute published a Code of Practice, which remains the accepted standard for whistle-blowing arrangements (Ref. 15). In 2012/13, the proportion of councils reporting that they reviewed their arrangements annually in line with the Code was 60 per cent, up from 51 per cent in 2010/11.

125 We also collect data on whistle-blowing disclosures recorded by local government bodies. In 2010/11 and 2011/12, these disclosures totalled around 2,000 each year. In 2012/13, they dropped by 29 per cent to 1,408.

126 Such a reduction in formal disclosures can be difficult to interpret. This fall may in part reflect the positive impact that increasing implementation of the BSI Code of Practice is having, with staff at some councils more confident in reporting concerns through line management rather than formal whistle-blowing arrangements.

127 However, councils should not be complacent. There is a possibility that, for some individual councils, any reduction in disclosures may instead reflect less trust and confidence in local arrangements.

128 Research published in May 2013 by Public Concern at Work (PCaW), the whistle-blowing charity, highlighted concerns about the treatment of whistleblowers and the potential impact this has on discouraging others to raise concerns (Ref. 16).

129 This research has important implications for councils. In particular, PCaW concluded that "those working in local government have the lowest expectations that the wrongdoing will be stopped and that the investigation will be satisfactory throughout the process of raising a concern" (Ref. 16, page 6). This suggests some local authorities can do more to strengthen their whistle-blowing arrangements.

130 It is also possible that a lack of staff confidence in whistle-blowing arrangements at some local authorities may have contributed to the 29 per cent fall in the number of formal disclosures made to councils in 2012/13.

131 Councils are reducing staff numbers, and de-layering staff structures. Combined with changes in service delivery and greater local autonomy for some services, whistle-blowing is increasingly recognised as one of the key means of identifying fraud.

Increasingly, whistle-blowing is recognised as an important means of identifying fraud

132 Thus local authorities should obtain assurance that staff:

- are aware of the whistle-blowing arrangements in their organisation
- have confidence in the confidentiality of those arrangements; and
- have assurance that any concerns will be addressed appropriately.

133 Councillors should seek assurance that their councils comply with good practice in whistle-blowing, and that they provide sufficient resources to investigate possible fraud and corruption[i].

Support to Audited Bodies

134 In 2013, the influential Fraud Advisory Panel (FAP)[ii] issued guidance encouraging senior management of all organisations to support investment in counter-fraud measures (Ref. 17) .

135 The Audit Commission agrees with the FAP's guidance and this report contains two sources of information that can help local government bodies direct their investment where it is most needed:

- the counter-fraud checklist in Appendix 2 will help those responsible for governance focus on the main issues in their organisation; and
- the questions for councillors in Appendix 3 will help them challenge how well their council addresses fraud risks in the main services their organisation provides. It is intended to be used in conjunction with individual fraud briefings.

136 \The Commission runs the NFI and provides fraud briefings to auditors.

National Fraud Initiative

137 The Audit Commission has run the NFI for 17 years. The NFI compares data held by 1,300 public sector and 77 private sector organisations. These include other regulators in Scotland, Wales and Northern Ireland, as well as government departments and other national agencies. The NFI flags up inconsistencies in data that may indicate fraud, signalling the need for investigation.

138 The NFI helps participating organisations detect one-off individual frauds or error. It helps find patterns in fraud activity that might be missed at a local level, for example, where the fraudsters use the same false identities over a large geographical area. It helps provide a national picture of fraud and highlights some emerging fraud risks.

i Currently, the Audit Commission is a prescribed body under whistle-blowing legislation.

ii A national charity that works across the private, public and voluntary sectors to raise awareness of fraud

139 Since it started in 1996, the NFI has helped to:

- identify over £1 billion of potential loss to fraud, overpayment or error across the UK;
- detect around 15,000 cases of pension overpayments worth £450 million;
- identify 100,000 cases of incorrect council tax single person discounts totalling £160 million and over £250 million of housing benefit overpayments; and
- find nearly 69,000 blue badges and almost 98,000 concessionary travel passes that have been cancelled as a result of NFI data matching.

£1billion of potential loss due to fraud, overpayment or error detected by the NFI since it started in 1996

140 In 2013, the NFI introduced real-time and flexible matching modules alongside the traditional two-yearly national matching exercise. These new modules align with the government's policy of focusing on protecting the UK economy from fraud. The NFI now allows a participant to hunt for frauds more often and to tailor their search to best suit their needs, for example, by undertaking regular data matching to target tenancy fraud in a geographical area.

Fraud briefings

141 The Commission makes available individually tailored fraud briefings to support external auditors' communications with those responsible for governance in each council. The briefings contain comparative information on each council's fraud detection results. External auditors may provide these briefings on request, and on a confidential basis to ensure that the information they contain is not available to fraudsters.

142 Fraud briefings will:

- be available to the independent external auditor to present to councillors and officers with governance responsibilities;
- provide contextual and comparative benchmark data;
- be available to London boroughs, metropolitan districts and unitary authorities from December 2013; and
- be available to county councils and district councils in early 2014.

143 Each individual fraud briefing has been developed by the Audit Commission. They are designed to be used together with the questions for councillors in Appendix 3.

144 Fraud briefings can only be obtained from the external auditor for each individual local authority. We encourage all councils to discuss their briefings with their external auditor.

Other sources of help

145 Action Fraud[i] is the national reporting centre for fraud and internet crime. As a central point of contact for information, Action Fraud is able to link seemingly unrelated crime from around the country and identify organised criminal networks. All information provided to Action Fraud may prove to be of value and contributes to the national fight against fraud.

146 Through the analysis of these fraud reports, information packages are produced for police forces and other agencies to investigate. From early 2013, local authorities have been able to report fraud directly to Action Fraud rather than local police forces. Councils should use Action Fraud reporting facilities.

147 In turn, Action Fraud should provide timely feedback to all local authorities who report frauds to them, to develop greater confidence in the reporting mechanism and encourage wider participation.

148 Another example is Operation Sterling[ii] (Ref. 18) the Metropolitan Police initiative to tackle economic crime. Public organisations can access the website for good practice guidance and fraud alerts that notify possible risks of types or patterns of fraud. Although focused on London fraud threats, the alerts and guidance also apply to non-London councils.

149 Councils can also access fraud intelligence through membership of the National Anti-Fraud Network (NAFN), which provides fraud warning bulletins and other counter-fraud focused services to member bodies.

i See website: http://www.actionfraud.police.uk/
ii See website: http://content.met.police.uk/Site/alerts

Looking ahead

150 The Local Audit and Accountability Bill contains provision for the closedown of the Audit Commission in March 2015.

151 The government has announced that the NFI data matching exercises will be transferred to the Cabinet Office on 1 April 2015. This will allow the NFI to continue to provide two-yearly data matching activities and the real-time and flexible matching modules. In advance of this transfer the national report for the NFI 2012/13 will be published in June 2014.

152 The Audit Commission has made a commitment to publish its final report in the *Protecting the public purse* series in 2014, based on the 2013/14 detected fraud and corruption survey. At the time of writing, no decision has been made as to whether, or if, any organisation will assume responsibility for carrying out this survey, producing the national PPP reports, or any of the other Commission counter-fraud activities after March 2015.

153 Local government bodies detected less fraud in 2012/13. PPP 2014 will consider whether this represents a trend, or a single exception to rising detected fraud levels in recent years. But faced with continuing financial pressure, and new roles and responsibilities associated with national counter-fraud arrangements, local government bodies must keep their focus on reducing losses from fraud.

154 Local government bodies will have more effective counter-fraud arrangements if they bear in mind that:

- detected fraud provides indicative rather than definitive information on levels of fraud;
- the more they look for fraud, and look in the right way, the more they are likely to find;
- how much fraud they detect depends on how well they use their investigative resources; and
- fraud prevention and deterrence are more cost-effective than fraud detection.

less fraud detected in 2012/13,

a new trend or an exception to the rise in detected fraud in recent years?

Appendix 1: Detected frauds and losses by region

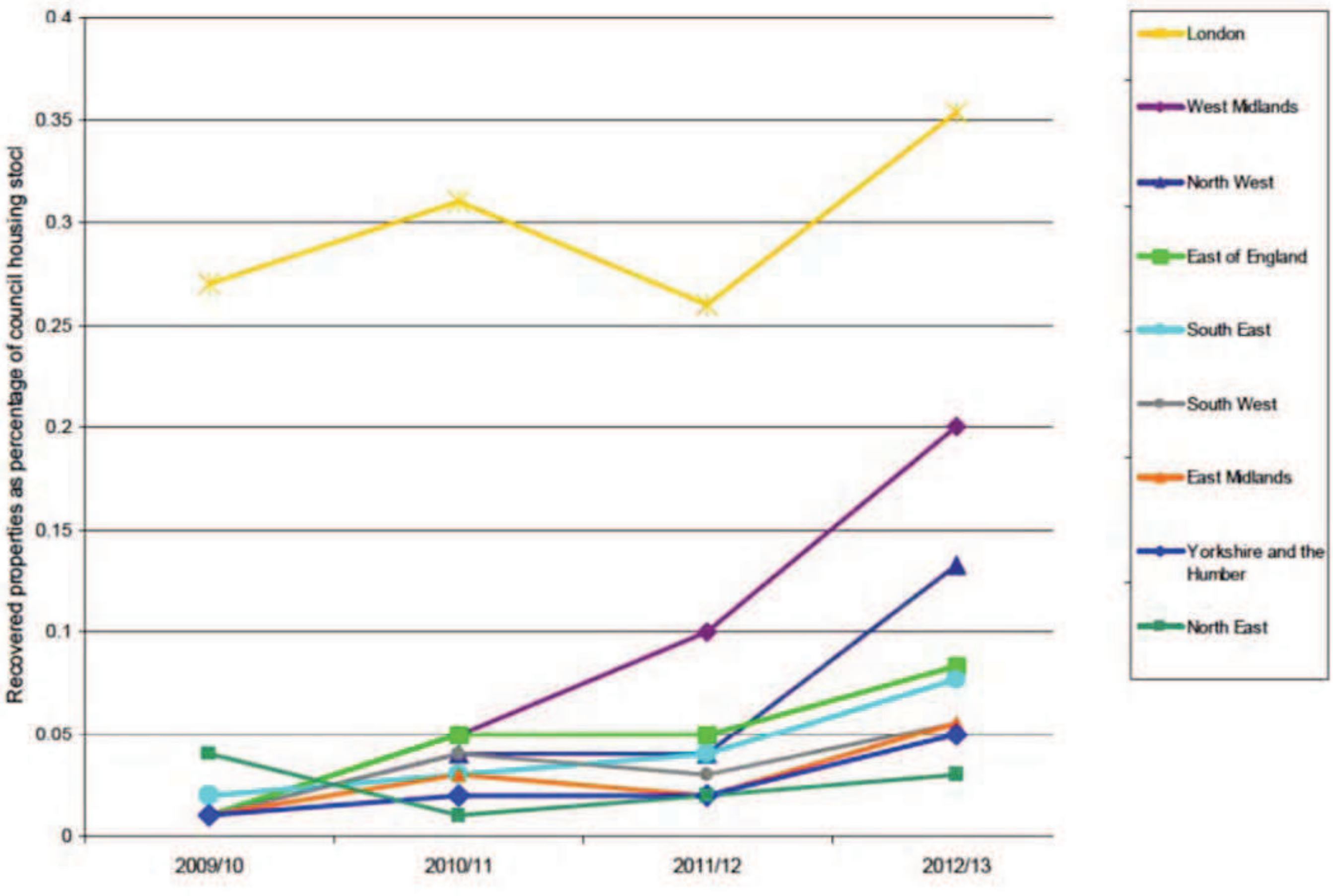
This Appendix contains more data on detected fraud in regions

Table 15: **Reported value and number of detected frauds in 2012/13 by region compared to regional spend by councils**

Region	Regional spend as % of total spend	Value of regional detected frauds as % of total	Number of regional cases of detected fraud as % of total
East Midlands	7.6	5.2	7.8
East of England	9.7	9.3	10.6
London	21.2	34.8	27.7
North East	5.3	3.9	7.1
North West	13.6	11.0	8.7
South East	14.2	13.2	10.7
South West	8.7	7.0	8.2
West Midlands	10.1	8.7	10.2
Yorkshire and the Humber	9.7	6.9	9.0
Total	**100.0**	**100.0**	**100.0**

Source: Audit Commission (2013)

Figure 4: **Properties recovered from tenancy fraudsters, as a percentage of regional housing stock**



Source: Audit Commission (2013)

Appendix 2: Checklist for councillors and others responsible for governance

General	Yes	No
1. Do we have a zero tolerance policy towards fraud?		
Previous action		
2013 Update		
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?		
Previous action		
2013 Update		
3. Do we have dedicated counter-fraud staff?		
Previous action		
2013 Update		
4. Do counter-fraud staff review all the work of our organisation?		
Previous action		
2013 Update		
5. Does a councillor have portfolio responsibility for fighting fraud across the council?		
Previous action		
2013 Update		
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?		
Previous action		
2013 Update		
7. Have we assessed our management of counter-fraud work against good practice?		
Previous action		
2013 Update		

General	Yes	No
8. Do we raise awareness of fraud risks with:		
■ new staff (including agency staff);		
■ existing staff;		
■ elected members; and		
■ our contractors?		
Previous action		
2013 Update		
9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?		
Previous action		
2013 Update		
10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?		
Previous action		
2013 Update		
11. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?		
Previous action		
2013 Update		
12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?		
Previous action		
2013 Update		
13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?		
Previous action		
2013 Update		

General	Yes	No
14. Do we have effective arrangements for:		
■ reporting fraud?; and		
■ recording fraud?		
Previous action		
2013 Update		
15. Do we have effective whistle-blowing arrangements? In particular are staff:		
■ aware of our whistle-blowing arrangements?		
■ have confidence in the confidentiality of those arrangements?		
■ confident that any concerns raised will be addressed?		
Previous action		
2013 Update		
16. Do we have effective fidelity insurance arrangements?		
Previous action		
2013 Update		
Fighting fraud with reduced resources	**No**	**No**
17. Have we reassessed our fraud risks since the change in the financial climate?		
Previous action		
2013 Update		
18. Have we amended our counter-fraud action plan as a result?		
Previous action		
2013 Update		
19. Have we reallocated staff as a result?		
Previous action		
2013 Update		

Current risks and issues	Yes	No
Housing tenancy		
20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	●	●
Previous action		
2013 Update		
21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	●	●
Previous action		
2013 Update		
Procurement		
22. Are we satisfied our procurement controls are working as intended?	●	●
Previous action		
2013 Update		
23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?	●	●
Previous action		
2013 Update		
Recruitment		
24. Are we satisfied our recruitment procedures:		
▪ prevent us employing people working under false identities;	●	●
▪ confirm employment references effectively;	●	●
▪ ensure applicants are eligible to work in the UK; and	●	●
▪ require agencies supplying us with staff to undertake the checks that we require?	●	●
Previous action		
2013 Update		

Current risks and issues	Yes	No
Personal budgets		
25. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?		
Previous action		
2013 Update		
26. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?		
Previous action		
2013 Update		
Council tax discount		
27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?		
Previous action		
2013 Update		
Housing benefit		
28. When we tackle housing benefit fraud do we make full use of:		
■ National Fraud Initiative;		
■ Department for Work and Pensions Housing Benefit matching service;		
■ internal data matching; and		
■ private sector data matching?		
Previous action		
2013 Update		

Emerging fraud risks	Yes	No
29. Do we have appropriate and proportionate defences against emerging fraud risks:		
■ business rates;	○	○
■ Right to Buy;	○	○
■ Social Fund and Local Welfare Assistance;	○	○
■ council tax reduction;	○	○
■ schools; and	○	○
■ grants?	○	○
Previous action		
2013 Update		

Source: Audit Commission (2013)

Appendix 3 - Questions for councillors to support 2013 individual fraud briefings

These questions are designed to be used in conjunction with individual fraud briefings for local authorities. Together, they will help councillors do more to improve public confidence in their council's efforts to tackle fraud in a range of areas.

Tenancy fraud

- Has my organisation attempted to quantify the scale of tenancy fraud that our housing stock is subject to (at least 4 per cent in London, 2 per cent outside London)?
- Does my organisation have a strategic plan to tackle tenancy fraud?
- Does my organisation have any dedicated investigative resources specifically allocated to tackling tenancy fraud?
- Are the resources dedicated to tackling tenancy fraud proportionate to the scale of the problem?
- Did my organisation receive any non-ring fenced government funding, for 2013 and 2014, to tackle tenancy fraud?
- If yes, has all that funding been allocated to tackle tenancy fraud?
- If yes, have my organisation engaged with local housing associations to maximise the benefit of such funding for the community?
- Is my organisation a member of Tenancy Fraud Forum, including any regional forum group?
- Does my organisation maximise the benefits of participating in data matching, such as the National Fraud Initiative, to identify tenancy frauds?
- What assurances are there that any tenancy audits undertaken are robust, specifically intended to identify tenancy frauds and follow recognised best practice?
- Has my organisation considered the Prevention of Social Housing Act, including the scope for greater partnership with housing associations?

Council tax discount

- How effectively does my organisation use data matching activities to tackle council tax discount fraud, including the National Fraud Initiative?

- How well does my organisation use all forms of sanction and punishment, including penalties, criminal action and targeting previous years' fraudulently obtained discounts?
- Is my organisations policy on applying sanctions to deter council tax discount fraud effective?

Right to Buy

- Does my organisation review all applications for Right to Buy discounts?

Housing benefit fraud

- Has my organisation considered the impact of Single Fraud Investigation Service (SFIS) implementation from April 2014, on capacity to investigate non-benefit fraud?
- Has my organisation considered how best to work with SFIS to ensure local priorities and risks continue to be reflected in local activities to tackle benefit fraud?

Council tax reduction

- Does my council have a strategy to tackle Council tax reduction fraud?
- How well does this strategy combine proactive and reactive approaches to tackling fraud?

Social care

- How effective is my council's fraud awareness training for all staff working in social care (including those working for contracted providers), to identify suspected social care fraud?
- How good are my council's whistle-blowing arrangements for all staff working in social care?

Business rates fraud

- How effective is my council in maximising its income by tackling business rates fraud?

Blue badge fraud (disability parking concessions)

- How effectively does my council take action to tackle abuse of blue badge and other parking concessions?

Preventing other frauds

- How confident am I that staff in my council are aware of the risks of other high value, low frequency frauds and routinely apply all necessary controls to ensure that they do not occur?

Deterrence

- How effectively does my council detect fraud?
- How appropriate are the punishments we apply for fraud?
- How well does my council publicise its success in detecting fraud?

References

1 National Fraud Authority, Annual Fraud Indicator, June 2013, NFA

2 HM Treasury, Spending Review 2010, HM Treasury, 2010

3 HM Treasury, Spending Round 2013, HM Treasury, 2013

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6 HM Government, Prevention of Social Housing Fraud Act, HM Government, 2013

7 Bryce. A, The nature and extent of social housing fraud, University of Portsmouth, 2012

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10 DCLG Statistical Release, National Non-Domestic Rates Collected by Local Authorities in England 2012-12, DCLG, 14 August 2013

11 Charity Commission, Protecting charities from harm: compliance toolkit, Charity Commission, 2013

12 NHS Information Centre, Self Directed Support: Recording on the Referrals, Assessments and Packages of Care (RAP) collection – guidance and frequently asked questions, NHS Information Centre, 2009

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14 National Fraud Authority, Fighting Fraud Locally: 2012 Review, National Fraud Authority, 2012

15 British Standards Institute, PAS1998/2008 Whistleblowing Arrangements Code of Practice, British Standards Institute, 2008

16 Public Concern at Work and the University of Greenwich, Whistleblowing: The Inside Story, Public Concern at Work, 2013

17 Fraud Advisory Panel, Securing senior management support for investment in anti-fraud measures, FAP, 2013.

18 Metropolitan Police Fraud Alert website: http://content.met.police.uk/Site/fraudalert

We welcome your feedback.

If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gsi.gov.uk

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audit commission

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REPORT FOR:	**Governance, Audit & Risk Management Committee**
Date of Meeting:	2 April 2014
Subject:	**INFORMATION REPORT – Risk Based Verification**
Responsible Officer:	Fern Silverio, Head of Collections & Benefits
Exempt:	No, except Appendix A, Risk Based Verification Policy – Para 7 Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime
Enclosures:	Risk Based Verification Policy Appendix A Electronic New Claims Implementation Plan Appendix B Equality Impact Assessment Appendix C

Section 1 – Summary

February Cabinet approved the implementation of Risk Based Verification within the administration of Housing Benefit and Council Tax Support from April 2014. The local authority administers Housing Benefit on behalf of the Department of Work and Pensions (DWP) within a framework of legislation and DWP guidance. DWP circular HB/CTB S11/2011 states 'We consider it to be good practice for the Policy to be examined by the authority's Audit and Risk Committee'.

Council Tax Support is prescribed by legislation and local policy. While DWP has no remit over the administration of Council Tax Support, the local authority seeks to align Council Tax Support assessment processes with Housing Benefit to reduce administration costs, and to share best practice across the systems.

This paper is to inform the Governance, Audit and Risk Management Committee of the policy and monitoring processes.

FOR INFORMATION

Section 2 – Report

2.1 Risk Based Verification has been implemented in conjunction with electronic claims in Housing Benefit/Council Tax Support. Approximately 4,000 new claims are processed in Harrow each year. Legislation requires the local authority to be satisfied that it has sufficient information to be able to accurately assess entitlement to Housing Benefit. This is currently done by, in most instances, the provision of original documentation to support all aspects of a detailed means test e.g. pay slips.

2.2 Risk Based Verification is technology that changes the evidence requirements as it risk assesses new claims and changes in circumstance at the point of claiming/notifying a change. Claims will be categorised as low, medium or high. Levels of verification against each risk category are detailed in the restricted Risk Based Verification Policy at Appendix A. Classification of claims allows resources from low risk cases to be channelled towards high risk cases and reduce fraud and error from entering the system at the gateway.

2.3 Following successful pilots for Risk Based Verification by the Department for Work and Pensions (DWP) and local authority partners in 2011, the process was opened up to all organisations with responsibility for administering Housing Benefit.

2.4 Harrow's Risk Based Verification process is reliant on an electronic claims system. Electronic claims will be implemented over the course of a year from March 2014 as detailed in the Electronic New Claims Implementation PlanAppendix B. Risk Based Verification will be simultaneously rolled out for new claims. Changes in circumstance implementation will follow once lessons have been learned from the new claims process.

Section 3 – Further Information

3.1 Implementation of Risk Based Verification and Electronic Communications within the administration of Housing Benefit and Council Tax Support will deliver a total saving of £47,000, equivalent to one and a half Full Time Employee (FTE) in the Resources Directorate. This saving will be used to cover the set up and running costs of £15,000 per annum, with the remaining £32,000 fed into the savings requirement under the Minerva Programme. Savings will be realised due to a reduction in customer contact and the issue of information requestsas less evidence is required to support approximately 50% of claims.

3.2 Risk Based Verification will enable more efficient targeting of resources to tackle fraud, as fraud referrals will be of a higher quality and more accurate. Internal Audit and the Corporate Anti-Fraud team were closely involved in the shaping of the Risk Based Verification Policy.

3.3 It is anticipated that customer service will be improved due to improved assessment times as low risk claims do not require high levels of validation. The national DWP Right Time Performance Indicator 181 will be impacted positively by the implementation of Risk Based Verification and electronic claiming. This is a combined figure of number of days to assess new claims and change of circumstance. PI 181 is currently at 10.46 days and is expected to reduce to 9.5 days once the new processes are live, assuming no other attributing factors change.

3.4 The Risk Based Verification software package is delivered with reports that enable the scheme to be monitored. Blind-sampling is automated within the system to validate the process. Furthermore assessment officers are able to increase the risk category at any time should they have concerns about an individual case, however they must never reduce a risk rating. The Risk Based Verification procedure will detail when and how this will be carried out and monitored.

3.5 For the first four months following implementation of Risk Based Verification, the existing validation processes will continue to be run alongside the new system. This will enable monitoring of Risk Based Verification by way of comparison, provide management information regarding risk profiles and give assurance that the new system is working.

3.6 In circular HB/CTB S11/2011, the DWP has laid out the procedure required to implement Risk Based Verification to ensure local authorities meet auditing requirements. Harrow is following these requirements and therefore reducing any risk to the Housing Benefit subsidy claim. The scheme has been piloted in other local authorities, and rolled out nationally from November 2011, allowing Harrow to benefit from experiences of others.

Section 4 – Financial Implications

4.1 Revenue costs are £15,000 pa. This will be financed from the deletion of a 0.5 Full Time Equivalent (FTE) G6 Financial Assessment post which equates to £15,000 pa. Implementation and on-going costs are therefore contained within existing budgets.

4.2 However, additional financial savings will be realised in Access Harrow to the value of 1 FTE AH Advisor @£32,000. The implementation of Risk Based Verification and electronic claiming will therefore reduce service costs and support our efficiency drive.

Section 5 – Equalities Implications

5.1 Pursuant to the Equality Act 2010 (“the Act”), the council, in the exercise of its functions, has to have ‘due regard’ to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.

5.2 An Equalities Impact Assessment screening was conducted in relation to the implementation of the Risk Based Verification Policy and the Electronic Claiming Policy and can be found at Appendix C to this report. The Equality Impact Assessment screening has concluded that the implementation of the policy will not have an adverse impact on residents from any of the protected groups, however actions have been put in place to ensure all groups within the protected characteristics have access to the appropriate support to enable them to transact electronically or to make paper claims. These actions are identified in the Electronic Claims Implementation Plan Appendix B. Implementation of the Risk Based Verification policy will be monitored to enable mitigations to be put in place should the need arise.

Section 6 – Priorities

6.1 The administration's priorities are to deliver a cleaner, safer and fairer Harrow. The Risk Based Verification policy enables fairer delivery of services due to best use of resources and improved performance times. Furthermore it reduces the risk of fraud entering the Housing Benefit system, thus helping to deliver a safer environment.

Section 7 – Monitoring

7.1 Following the initial four month pilot, GARM will be updated on the outcomes which will be fed into a process review at that time. Furthermore, the percentage of fraud and error identified will be reported to the Improvement Board, or equivalent, for reference against the baseline. This will ensure that the level of fraud and error within the Housing Benefit and Council Tax Support systems does not increase as a result of Risk Based Verification.

Name: Simon George	√	Chief Financial Officer
Date: 25 March 2014		

Section 8 - Contact Details

Contact: Fern Silverio, Head of Collections and Benefits

Electronic new claims implementation plan

Type of claim	Description	Implementation date
Assisted claims in the OSS	Using the self-serve PC's in the OSS, customer service advisors will help new claimants complete their claim electronically.	Mar 14 – April 14
Housing associations and internal	Work with the large Housing associations and Council service departments (Housing, Childrens and Adults) to inform them of e-claims. Housing associations and internal departments will then support their clients in making supported e-claims.	April 14 – Aug 14
Voluntary sector	Demonstrate the e-claims functionality to the voluntary sector. We will then work with the voluntary sector to enable them to support their clients in making supported e-claims, and remove the stock of paper application forms	Sept 14 – Dec 14
All remaining paper forms	With a comprehensive support network through Housing associations and the voluntary sector, and IT infrastructure now in place in the OSS, we will stop making paper benefit application forms available other than in exceptional circumstances.	April 15
IT literacy training	Training courses to assist residents in developing their IT skills to enable them to transact electronically will be identified and publicised.	Mar 14 – Apr 15

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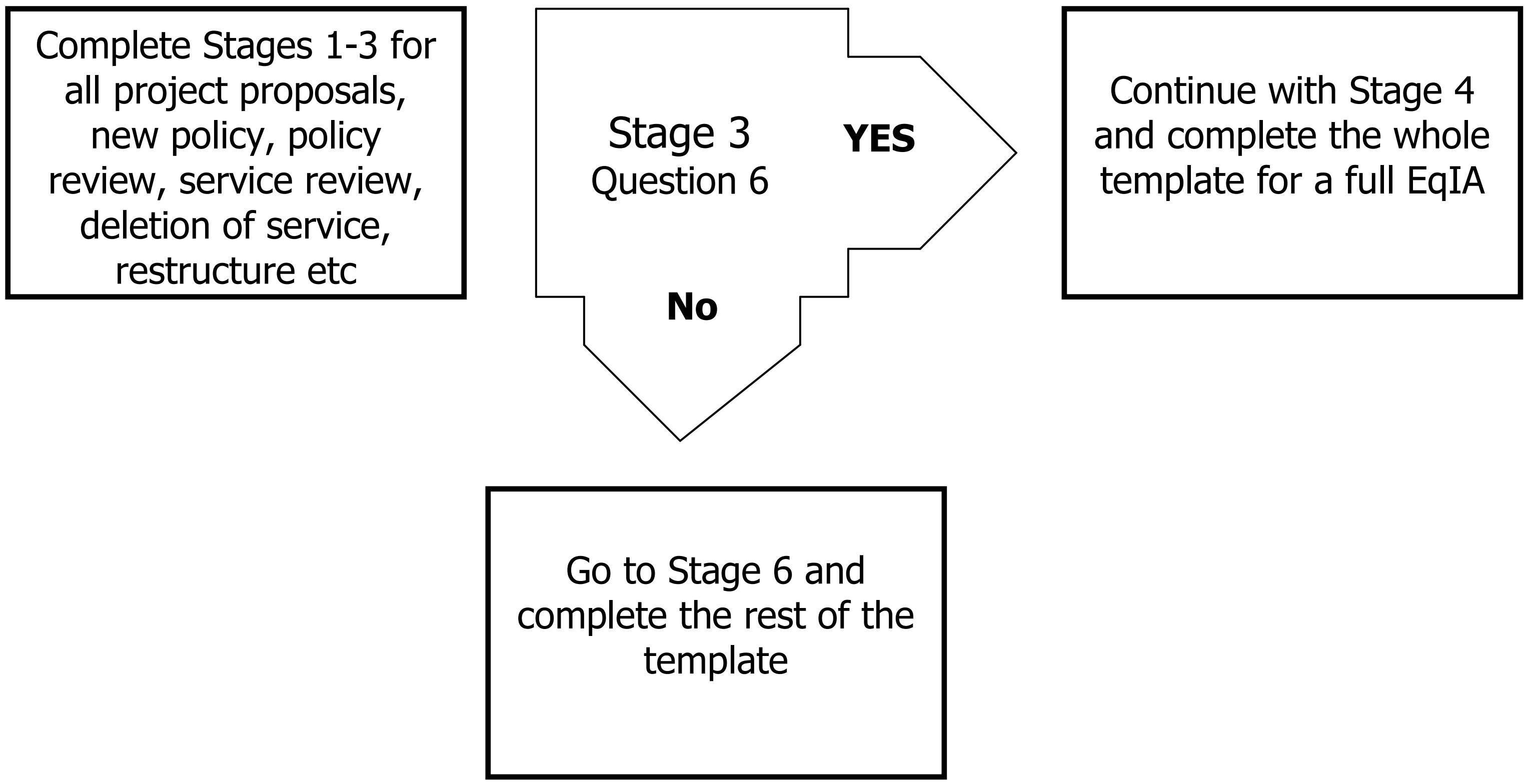
Equality Impact Assessment Template

The Council has revised and simplified its Equality Impact Assessment process. There is now just one Template. Project Managers will need to complete **Stages 1-3** to determine whether a full EqIA is required and the need to complete the whole template.



Equality Impact Assessment (EqIA) Template

In order to carry out this assessment, it is important that you have completed the EqIA E-learning Module and read the Corporate Guidelines on EqIAs. Please refer to these to assist you in completing this assessment.
It will also help you to look at the EqIA Template with Guidance Notes to assist you in completing the EqIA.

Type of Project / Proposal:	**Tick**	**Type of Decision:**	**Tick**
Transformation		Cabinet	
Capital		Portfolio Holder	
Service Plan		Corporate Strategic Board	
Other		Other	

Title of Project:	Implementation of Risk Based Verification (RBV) and Electronic Claims Policies for Housing Benefit and Council Tax Support Assessments
Directorate / Service responsible:	Collections and Housing Benefits, Resources Directorate
Name and job title of lead officer:	Fern Silverio, Head of Service, Collections and Housing Benefits
Name & contact details of the other persons involved in the assessment:	Jennifer Townsley, Service Manager, Housing Benefits Ben Jones, Senior Project Manager, Customer Services
Date of assessment:	2nd January 2014

Stage 1: Overview

1. What are you trying to do? (Explain proposals e.g. introduction of a new service or policy, policy review, changing criteria, reduction / removal of service, restructure, deletion of posts etc)	The implementation of a Risk Based Verification (RBV) and Electronic Claims policies for Housing Benefit and Council Tax Support Assessments. The RBV policy puts in place an IT system that reduces the need for low risk Housing Benefit and Council Tax Support applicants/claimants to provide original documents to support their claim. The policy will allow targeting of resources from low risk cases to those cases that are at higher risk of potential fraud and error. It is not possible, in advance of the policy being implemented, to identify the groups of people that fall within low, medium or high risk categories. Implementation of the policy will be monitored.

<table>
<tr><td rowspan="1"></td><td colspan="6">The Electronic Claims policy enables Housing Benefit and Council Tax Support claimants to apply and notify a change of circumstance electronically. This change in process supports identification of savings within the Resources Directorate within the Channel Migration strategy.

Both policies will apply to all new claims initially and will extend to change of circumstances.

The Department of Work and Pensions (DWP) permits RBV as a method of verification in Circular HB/CTB S11/2011. Electronic claims are allowed under legislation as detailed in DWP Circular A18/2006 and the Direction of the Acting Head of Paid Services.

The implementation of these policies will result in a reduction in processes and expensive channels for customers to contact the Benefit service, and therefore allow savings to be realised within the Resources Directorate. Whilst implementation will cost £15,000 to the Local Authority the savings will be equivalent to 1.5 FTE within the Resources Directorate resulting from a reduction in customer contact and requests for information.</td></tr>
<tr><td rowspan="5">2. Who are the main people / Protected Characteristics that may be affected by your proposals? (all that apply)</td><td>Residents / Service Users</td><td></td><td>Partners</td><td></td><td>Stakeholders</td><td></td></tr>
<tr><td>Staff</td><td></td><td>Age</td><td></td><td>Disability</td><td></td></tr>
<tr><td>Gender Reassignment</td><td></td><td>Marriage and Civil Partnership</td><td></td><td>Pregnancy and Maternity</td><td></td></tr>
<tr><td>Race</td><td></td><td>Religion or Belief</td><td></td><td>Sex</td><td></td></tr>
<tr><td>Sexual Orientation</td><td></td><td>Other</td><td></td><td colspan="2"></td></tr>
<tr><td>3. Is the responsibility shared with another directorate, authority or organisation? If so:
• Who are the partners?
• Who has the overall responsibility?
• How have they been involved in the assessment?</td><td colspan="6">Housing Benefit is administered by the Local Authority on behalf of DWP and therefore is adhering to DWP guidance in respect to delivery which will reduce any risk to the subsidy claim.

The implementation of the RBV and Electronic Claims policies are the responsibility of the Resources Directorate.</td></tr>
</table>

Stage 2: Evidence / Data Collation

4. What evidence / data have you reviewed to assess the potential impact of your proposals? Include the actual data, statistics reviewed in the section below. This can include census data, borough profile, profile of service users, workforce profiles, results from consultations and the involvement tracker, customer satisfaction surveys, focus groups, research interviews, staff surveys; complaints etc. Where possible include data on the nine Protected Characteristics.

(Where you have gaps (data is not available/being collated), you may need to include this as an action to address in your Improvement Action Plan at Stage 7)

Age (including carers of young/older people)	**Harrow profile**: 20 per cent of Harrow's residents are aged under 16 (48,200). 65.9 per cent (158,400) of Harrow's population fall within the working age bracket (16 to 64) and 14.1 per cent (33,900) of Harrow's residents are 65 years of age and older. The average (median) age in Harrow is approximately 36 years, which ranks Harrow 284th out of 348 local or unitary authorities for age, depicting a younger average than the majority of local authorities. The Housing Benefit /Council Tax Support caseload is made up of 15,032 (73%) working age households and 5,652 (27%) pensioner. An average of 5,500 new claims are made every year of which 85% are made by working age households, and 15% by pensioners. It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. <u>Risk Based Verification (RBV)</u> As pensioners are less likely to have a change in their circumstance that results in the need to make a new claim, they are less likely to be affected by the introduction of RBV The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in

<table>
<tr><td></td><td>support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

<u>Electronic claims</u>

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online.

Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.</td></tr>
<tr><td>Disability (including carers of disabled people)</td><td>Harrow profile: 17.3% of Harrow's working age population (16-64) classified themselves as disabled within the 2011-12 period (July to June), a total of 26,600 individuals. This signifies a decrease of 4.6% for the same period in 2010-11. 13,800 (17.3%) are men and 12,900 (17.7%) are women

Housing Benefit/Council Tax Support claimants in receipt of Disability Living Allowance, Severe Disablement Allowance or Employment Support Allowance (Support Component) are classified disabled under the regulations. 4,826 households fall under this category.

It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.</td></tr>
</table>

<table>
<tr>
<td></td>
<td>
<u>Risk Based Verification</u>

The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim.

Medium risk applicants will remain the same.

High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form.

<u>Electronic claims</u>

Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A.

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Assistance will be available in Access Harrow to support residents using the self-service terminals.

A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.
</td>
</tr>
<tr>
<td>Gender Reassignment</td>
<td>This data is not currently available for the Harrow profile or claimants of Council Tax Support and Housing Benefit.</td>
</tr>
</table>

	It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. <u>Risk Based Verification</u> The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. <u>Electronic claims</u> Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. Assistance will be available in Access Harrow to support residents using the self-service terminals.

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Pregnancy and Maternity	This data is not currently available for the Harrow profile or claimants of Council Tax Support and Housing Benefit It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. <u>Risk Based Verification</u> The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. <u>Electronic claims</u> Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation

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Race	**Harrow profile:** Harrow is one of the most diverse places in the country. At the time of 2001 Census 49.9% of Harrow residents were classified as White British. 2011 figures reveal that the White British category now includes only 30.9% of Harrow's population, 69.1% of residents are therefore classified as belonging to a minority ethnic group. The most significant minority ethnic group, at 26.4% is Asian/Asian British: Indian, ranking Harrow as second in England and Wales for its Indian population. Another significant group is classified as Asian/Asian British: Other Asian, making up 11.3% of residents and ranking Harrow 1st within this classification; this group is largely comprised of Sri Lankan community. All Asian/Asian British groups have increased since 2001. White Other is another group which has grown, from 4.49% in 2001 to 8.2% in 2011. Within this group there are 3,868 residents who were born in Poland and 4,784 residents born in Romania, making it the largest Romanian community within England and Wales. Harrow still has a high Irish born population, ranked 7th in 2011. Whilst Black/African/Caribbean/Black British is not particularly dominant we have the highest number of Kenyan born residents (this can be attributed to a number of migrants from Kenya who are of Asian descent). Of the 11,989 (58%) of the Housing Benefit/Council Tax Support caseload that have provided ethnicity data, 43% have classified themselves as White or White British and 40% as Asian or Asian British. The highest groups within these classifications are White British (20%) and Asian or British from any other background (13%).

	It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. <u>Risk Based Verification</u> The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. <u>Electronic claims</u> Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. Assistance will be available in Access Harrow to support residents using the self-service terminals.

	A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.
eligion and Belief	**Harrow profile**: The 2001 Census showed that Harrow had the highest level of religious diversity of any local authority in England and Wales. This means that there is a 63 per cent chance that two people at random would be from different religious groups. We do not yet have comparative data for 2011, but the 2011 Census ranked Harrow 1st for persons of Hindu religion, Jain and Unification Church, 2nd for Zoroastrian and 6th for Jewish. Out of 348 areas in England and Wales Harrow has the 2nd lowest ranking of residents with no religion and 5th lowest for Christians (37.3%). Harrow is ranked 24th for Muslim faith residents, who account for 12.5% of the population This data is not currently available for claimants of Council Tax Support and Housing Benefit It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. <u>Risk Based Verification</u> The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. <u>Electronic claims</u> Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance.

	Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. Assistance will be available in Access Harrow to support residents using the self-service terminals. A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.
Sex / Gender	**Harrow profile:** Of Harrow's total population (240,500), 118,900 (49.4%) are male and 121,600 (50.6%) are female Within the Housing Benefit and Council Tax Support caseload, 44% are male and 56% are female. It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming. <u>Risk Based Verification</u> The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to

	determine any discrepancies to the application form. <u>Electronic claims</u> Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. Assistance will be available in Access Harrow to support residents using the self-service terminals. A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.
Sexual Orientation	**Harrow profile**: The 2011 census did not have a question on sexual orientation; however 306 persons declared living in a same sex couple, an increase of 84 couples. It is estimated that 6% of the UK population are lesbian, gay and bisexual (LGB), which would equate to approximately 14,430 of our residents belonging to the LGB community This data is not currently available for claimants of Council Tax Support and Housing Benefit It is not known which RBV category this group will fall within, nor is there is any evidence to indicate that people within this protected characteristic will be detrimentally impacted by the introduction of RBV or electronic claiming.

	Risk Based Verification The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. Electronic claims Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. Assistance will be available in Access Harrow to support residents using the self-service terminals. A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.

Socio Economic	**Harrow profile**: In comparison to other areas Harrow was relatively less deprived in 2010 than it was in 2007. It is now ranked 203rd out of 354 boroughs in England (where 1 is the most deprived). In London, Harrow retains its position as 7th least deprived borough (out of 33). The indicator showing the most deprivation in Harrow is Barriers to Housing where it is ranked 54th most deprived nationally. Claimants of Housing Benefit and Council Tax Support will by nature of the service be in low socio economic groups as they are in receipt of means tested benefits. <u>Risk Based Verification</u> The groups of people that will fall within the different categories under risk based verification are unknown. The implementation of this policy will have a positive impact for low risk Housing Benefit and Council Tax Support applicants/claimants as they will be required to produce less evidence in support of their claim. Medium risk applicants will remain the same. High risk applicants/claimants will be required to produce the same information as they currently produce in support of their claim however the authority will carry out additional checks such as credit reference to determine any discrepancies to the application form. <u>Electronic claims</u> Claimants may find the introduction of online claiming beneficial as it offers additional channels for contact and reduces the need to attend Council offices to submit a claim/notify the council of a change in circumstance. Analysis of Experian segmentation for the borough and the Housing Benefit caseload has been carried out to identify any key groups who are more likely to be detrimentally impacted. The Experian segmentation is not broken down into protected characteristics. It was found that Segments E and H were less likely to use the internet and therefore may find it harder to access online benefit claims. Segments C and G do use the internet, but are not frequently for online services and as such will require additional focus to ensure they have equal access to online claims. Analysis is held at appendix A. Liaison with stakeholders will be carried out to ensure that agencies are in a position to support clients in

	making an application on line. This will include identification of and signposting to IT literacy training for residents to help them develop the required skills to transact online. Assistance will be available in Access Harrow to support residents using the self-service terminals. A stock of hard copy claim forms will be retained for any circumstances that cannot be addressed by the above methods.
5. What other (local, regional, national research, reports, media) data sources that you have used to inform this assessment? List the Title of reports / documents and websites here.	The following information has helped to inform this EqIA: Publishing Equalities Information Meeting the Public Sector Duty January 2013 Harrow Council Our Harrow Our Story – 2013 - http://www.harrow.gov.uk/info/200041/equality_and_diversity/863/public_sector_equality_duty Housing Benefit and Council Tax Support data system

Stage 3: Assessing Potential Disproportionate Impact

Based on the evidence you have considered so far, is there a risk that your proposals could potentially have a disproportionate adverse impact on any of the Protected Characteristics?

	Age (including carers)	Disability (including carers)	Gender Reassignment	Marriage and Civil Partnership	Pregnancy and Maternity	Race	Religion and Belief	Sex	Sexual Orientation
Yes									
No									

YES - If there is a risk of disproportionate adverse Impact on any **ONE** of the Protected Characteristics, continue with the rest of the template.

- **Best Practice:** You may want to consider setting up a Working Group (including colleagues, partners, stakeholders, voluntary community sector organisations, service users and Unions) to develop the rest of the EqIA
- It will be useful to also collate further evidence (additional data, consultation with the relevant communities, stakeholder groups and service users directly affected by your proposals) to further assess the potential disproportionate impact identified and how this can be mitigated.

NO - If you have ticked 'No' to all of the above, then go to **Stage 6**

- Although the assessment may not have identified potential disproportionate impact, you may have identified actions which can be taken to advance equality of opportunity to make your proposals more inclusive. These actions should form your Improvement Action Plan at Stage 7

Stage 4: Collating Additional data / Evidence

7. What additional data / evidence have you considered to further assess the potential disproportionate impact of your proposals? (include this evidence, including any data, statistics, titles of documents and website links here)	

8. What consultation have you undertaken on your proposals?

Who was consulted?	What consultation methods were used?	What do the results show about the impact on different groups / Protected Characteristics?	What actions have you taken to address the findings of the consultation? (This may include further consultation with the affected groups, revising your proposals).

Stage 5: Assessing Impact and Analysis

9. What does your evidence tell you about the impact on different groups? Consider whether the evidence shows potential for differential impact, if so state whether this is an adverse or positive impact? How likely is this to happen? How you will mitigate/remove any adverse impact?

Protected Characteristic	Adverse	Positive	Explain what this impact is, how likely it is to happen and the extent of impact if it was to occur. Note – Positive impact can also be used to demonstrate how your proposals meet the aims of the PSED Stage 9	What measures can you take to mitigate the impact or advance equality of opportunity? E.g. further consultation, research, implement equality monitoring etc (Also Include these in the Improvement Action Plan at Stage 7)
Age (including carers of young/older people)				
Disability (including carers of disabled people)				
Gender Reassignment				
Marriage and Civil Partnership				

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Pregnancy and Maternity				
Race				
Religion or Belief				
Sex				
Sexual Orientation				

10. Cumulative Impact – Considering what else is happening within the Council and Harrow as a whole, could your proposals have a cumulative impact on a particular Protected Characteristic? If yes, which Protected Characteristics could be affected and what is the potential impact?	Yes		No	
10a. Any Other Impact – Considering what else is happening within the Council and Harrow as a whole (for example national/local policy, austerity, welfare reform, unemployment levels, community tensions, levels of crime) could your proposals have an impact on individuals/service users socio economic, health or an impact on community cohesion? If yes, what is the potential impact and how likely is to happen?	Yes		No	

11. Is there any evidence or concern that the potential adverse impact identified may result in a Protected Characteristic being disadvantaged? (Please refer to the Corporate Guidelines for guidance on the definitions of discrimination, harassment and victimisation and other prohibited conduct under the Equality Act) available on Harrow HUB/Equalities and Diversity/Policies and Legislation

	Age (including carers)	Disability (including carers)	Gender Reassignment	Marriage and Civil Partnership	Pregnancy and Maternity	Race	Religion and Belief	Sex	Sexual Orientation
Yes									
No									

If you have answered "yes" to any of the above, set out what justification there may be for this in Q12a below - link this to the aims of the proposal and whether the disadvantage is proportionate to the need to meet these aims. (You are encouraged to seek legal advice, if you are concerned that the proposal may breach the equality legislation or you are unsure whether there is objective justification for the proposal)

If the analysis shows the potential for serious adverse impact or disadvantage (or potential discrimination) but you have identified a potential justification for this, this information must be presented to the decision maker for a final decision to be made on whether the disadvantage is proportionate to achieve the aims of the proposal.

- If there are adverse effects that are not justified and cannot be mitigated, you should not proceed with the proposal. **(select outcome 4)**
- If the analysis shows unlawful conduct under the equalities legislation, you should not proceed with the proposal. **(select outcome 4)**

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Stage 6: Decision

12. Please indicate which of the following statements best describes the outcome of your EqIA (tick one box only)

Outcome 1 – No change required: the EqIA has not identified any potential for unlawful conduct or disproportionate impact and all opportunities to advance equality are being addressed.	
Outcome 2 – Minor adjustments to remove / mitigate adverse impact or advance equality have been identified by the EqIA. *List the actions you propose to take to address this in the Improvement Action Plan at Stage 7*	
Outcome 3 – Continue with proposals despite having identified potential for adverse impact or missed opportunities to advance equality. In this case, the justification needs to be included in the EqIA and should be in line with the PSED to have 'due regard'. In some cases, compelling reasons will be needed. You should also consider whether there are sufficient plans to reduce the adverse impact and/or plans to monitor the impact. **(Explain this in 12a below)**	
Outcome 4 – Stop and rethink: when there is potential for serious adverse impact or disadvantage to one or more protected groups. (You are encouraged to seek Legal Advice about the potential for unlawful conduct under equalities legislation)	

12a. If your EqIA is assessed as **outcome 3 or you have ticked 'yes' in Q11**, explain your justification with full reasoning to continue with your proposals.	

Stage 7: Improvement Action Plan

13. List below any actions you plan to take as a result of this Impact Assessment. This should include any actions identified throughout the EqIA.

Area of potential adverse impact e.g. Race, Disability	Action required to mitigate	How will you know this is achieved? E.g. Performance Measure / Target	Target Date	Lead Officer	Date Action included in Service / Team Plan

Ensure all groups within the protected characteristics have access to the appropriate support to enable them to transact electronically Feedback has been provided that for residents experiencing mental health problems or those for whom English is not their first language, this may have detrimental impacts.	Planned publicity campaign, liaison with voluntary & community sector, working in partnership with internal services such as Housing and Childrens as well as external Housing Associations. Furthermore access to self-serve terminals with floating support will be made available and IT literacy training will be identified and publicised. A stock of hard copy forms will be retained should a resident be in the unforeseen position where any of above are not sufficient to enable them to transact online Currently Access Harrow will continue to provide the same level of support to residents, including those experiencing mental health problems or where English is not their first language, plus the implementation of additional PC terminals in the one stop shop with floating support. It is expected that for some residents within these groups, the implementation of electronic claims will be positive as they will be able to access services remotely, potentially from home, and with the support of friends/family where this is currently relied upon.	Liaison with stakeholders to ensure no groups are prevented from accessing Housing Benefit/Council Tax Support	April 2015	Fern Silverio/Jenny Townsley	
It is unknown whether any specific groups within the protected characteristics will fall	Monitoring will be carried out to identify whether any groups within the protected characteristics fall within specific categories and if the need arises	Performance measure		Fern Silverio/Jenny Townsley	

within the low, medium and high risk categories within the Risk Based Verification Policy	mitigations will be put in place.				

Stage 8 - Monitoring The full impact of the proposals may only be known after they have been implemented. It is therefore important to ensure effective monitoring measures are in place to assess the impact.	
14. How will you monitor the impact of the proposals once they have been implemented? What monitoring measures need to be introduced to ensure effective monitoring of your proposals? How often will you do this? *(Also Include in Improvement Action Plan at Stage 7)*	Blind sampling will be employed to ensure that cases from the low and high risk categories are treated as medium risk thus requiring to test and refine the software assumptions. A baseline will be set against which the effectiveness of the RBV propensity modelling software will be monitored monthly. Monitoring will include the split of cases by per cent across each risk category and the levels of fraud and error detected in each. The Housing Benefit and Council Tax Support caseload will be monitored to identify any changes in claim volumes following the implementation of electronic claims.
15. How will the results of any monitoring be analysed, reported and publicised? *(Also Include in Improvement Action Plan at Stage 7)*	Outcomes of the monitoring activity will be reported to the Housing Benefit Service Manager.
16. Have you received any complaints or compliments about the proposals being assessed? If so, provide details.	No
Stage 9: Public Sector Equality Duty	

17. How do your proposals contribute towards the Public Sector Equality Duty (PSED) which requires the Council to have due regard to eliminate discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between different groups.

(Include all the positive actions of your proposals, for example literature will be available in large print, Braille and community languages, flexible working hours for parents/carers, IT equipment will be DDA compliant etc)

Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010	Advance equality of opportunity between people from different groups	Foster good relations between people from different groups
The implementation of the automated system would remove human intervention at the first point of claim and allows an automated risk assessment to target high risk claims. Electronic claiming provides a new channel of access to the Housing Benefit and Council Tax Support service	Communications will be carried out with the relevant stakeholders.	Process will be in place to ensure public resources are targeted appropriately reducing the risk of fraud.

Stage 10 - Organisational sign Off (to be completed by Chair of Departmental Equalities Task Group)

The completed EqIA needs to be sent to the chair of your Departmental Equalities Task Group (DETG) to be signed off.

18. Which group or committee considered, reviewed and agreed the EqIA and the Improvement Action Plan?			
Signed: (Lead officer completing EqIA)	Fern Silverio	Signed: (Chair of DETG)	
Date:		Date:	
Date EqIA presented at the EqIA Quality Assurance Group		Signature of ETG Chair	

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Propensity for groups of Housing Benefit and/or Council Tax Support claimants to transact online

Experian Segment	**Propensity to use Internet as a method of communication**	**Number of households in Segment in borough & % of total population** *(2009 data)*	**Number of households in segment in receipt of Housing Benefit and/or Council Tax Support & % of total caseload** *(Based on 2012 data, total caseload 19,651)*
Harrow Segment A – Extremely wealthy professionals, corporate careers	This Segment are extremely likely to be connected to the internet. They tend to be regular users, and are likely to make use of internet banking. Making purchases over the internet is second-nature to Segment A, so they should be very comfortable accessing Harrow Council's services via this channel.	7,208 (8.2%)	400 (2.0%)
Harrow Segment B – Financially secure older couples	This Segment tends to use the internet to make purchases online, and are signed upto online banking.	12,616 (14.4%)	816 (4.2%)
Harrow Segment C – Middle aged families in suburban neighbourhoods	While Segment Cs are big users of the internet to find out any information they mightneed, they do not access online services.	14,536 (16.6%)	2,500 (12.7%)
Harrow Segment D – Ambitious young professionals on high salaries	This Segment are extremely likely to be connected to the internet. Online banking and shopping is common amongst this Segment.	8,412 (9.6%)	1,792 (9.1%)
Harrow Segment E – Comfortably off retired people	Unreceptive to use of internet	5,839 (6.7%)	1,396 (7.1%)
Harrow Segment F – Suburban Asian families on moderate incomes	This Segment have fairly neutral views around using various communication channels, so there are few channels that they are truly unreceptive to.	20,762 (23.7%)	4,963 (25.3%)
Harrow Segment G – Ethnic minorities in urban areas	Segment Gs tend to use the internet when finding out information, on services. However, they are less likely to access that service online.	13,394 (15.3%)	5,401 (27.5%)
Harrow Segment H – Low income families in higher crime areas	Unreceptive to use of internet	4,957 (5.7%)	2,383 (12.1%)

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REPORT FOR: **GOVERNANCE, A RISK MANAGEMENT COMMITTEE**

Date of Meeting:	2nd April 2014
Subject:	Draft Internal Audit Plan 2014/15
Responsible Officer:	Simon George – Director Finance & Assurance (S151 Officer)
Exempt:	No
Enclosures:	Appendix1: Draft Internal Audit Plan 2014/15

Section 1 – Summary and Recommendations

This report sets out the draft Internal Audit plan for 2014/15

Recommendations:
The Committee is requested to:

(a) Note the process employed to develop the plan.

(b) Consider and comment on the draft plan, in particular to provide the Committee's view on risk to assist with prioritising and developing the final plan.

Section 2 – Report

Background

1.1 The Public Sector Internal Audit Standards (PSIS) requires the 'chief audit executive' (HIA) to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the 'board' (GARM Committee) must be considered in this process. The board are required to approve the final Internal Audit Plan.

Plan Development

1.2 This report sets out the draft Internal Audit annual plan of work for 2014/15 (Appendix 1).

1.3 The initial draft plan was developed after consideration of the risk maturity of the organisation; a review of the Council's Corporate Plan 2014/15; review of the Final Revenue Budget 2014/15 and MTFS 2014/15 – 2016/17; a review of the current Corporate and Directorate Risk Registers; a review of previous Internal Audit work covering the Council's internal controls; identification of significant local and national issues and risks, including new legislation; review of Protecting the Public Purse 2013 (Audit Commission, November 2013); review of the External Audit plan; consultation with Finance Business Partners on key areas of financial risk; consultation with the Service Manager, Corporate Ant-Fraud Team on key areas of fraud prevention; and consultation with the Head of Paid Service, Corporate Directors, including the S151 Officer and key managers as appropriate.

1.4 Further consultation will be undertaken with the Directorate Management Teams (senior managers); the External Auditors; the Corporate Strategy Board (CSB) on 19h March, this Committee on 2nd April and with the S151 Officer before the plan is finalised.

1.5 Once the consultation process is complete an audit risk assessment will be undertaken to rank the projects on the plan, based on materiality and risk, as high, medium or low along with an estimate of the internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review. This information will be used to produce the final Internal Audit plan which will focus on high risk areas.

Plan Structure

1.6 The projects set out in the plan are grouped under the following headings:

- Reliance/Assurance Reviews
- New/Developing Risk Areas
- Fraud Risk – reviews of controls in place to prevent fraud
- IT Reviews
- Corporate Risk Based Reviews
- Directorate Risk Based Reviews
- Schools Reviews
- Support, Advice and Follow-up

1.7 Included under the Reliance/Assurance Reviews is the work undertaken on the Council's core financial systems which the council's external auditors, Deloitte LLP, rely on to inform their risk assessment that guides the external audit approach. This grouping also covers audit work that contributes to assurance required for the organisation's annual review of governance.

1.8 Reviews under the heading Fraud Risk/Fraud Prevention are areas that have been identified by the Audit Commission as high risk across all Local Authorities (and before inclusion in the final plan they will be specifically risk assessed for Harrow). These reviews will specifically concentrate on controls in place to mitigate the risk of fraud.

1.9 Corporate Risk Based Reviews are reviews that will have impact across the Council and involve sample testing across the council with the aim of increasing transparency, consistency and compliance.

1.10 The group headed Directorate Risk Based Reviews covers suggested reviews specific to directorates. Although there are fewer specific reviews suggested for the Resources Directorate this is balanced by the fact that all the core financial systems work and the majority of the suggested fraud prevention work is based in the Resources Directorate.

1.11 And finally under the grouping Support, Advice and Follow-up a small allowance has been made for providing ad-hoc professional audit advice throughout the year, for investigating suspected irregularities and for following up the implementation of agreed audit recommendations.

1.12 Next to each risk based review on the draft plan is an indication of the main driver of the review identified in the planning process i.e. Internal Audit (based on cumulative audit knowledge); External Audit; Corporate Governance Group; Corporate Priority; the Corporate Risk Register; Management; Finance; Protecting the Public Purse 2013; CAFT – Corporate Anti-fraud Team or a combination of these.

Financial Implications

1.13 The functions of the Internal Audit service are delivered within the budget available.

Risk Management Implications

1.14 The work of Internal Audit supports the management of risks across the council and the Internal Audit Annual Plan is developed from the review of the Corporate Risk Register and the Corporate Plan and risks identified by management.

Equalities implications

1.15 None.

Corporate Priorities

1.16 The work of Internal Audit supports the corporate priorities as described above.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 21/03/14	√	Chief Financial Officer
Name: Jessica Farmer Date: 21/03/14	√	On behalf of Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson – Service Manager Internal Audit ext. 2420

Background Papers: None

Harrow COUNCIL
LONDON

DRAFT INTERNAL AUDIT PLAN 2014/15

Background

Internal Audit is a statutory service. The Accounts and Audit Regulations 2011, which came into force on 31st March 2011 (previously the Accounts and Audit Regulations 2003 (as amended)[1], state that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

'Proper practice' for internal audit is now contained within Public Sector Internal Audit Standards (PSIAS) which have been adopted and are being implemented by the Council's Internal Audit section.

The Internal Audit Service at Harrow Council is provided by a dedicated in-house team situated in the Resources Directorate.

Annual Plan Process

Annually a plan of work is developed to reflect the Internal Audit Strategy and is supported by the Delivery Plan which outlines the key service activities/development projects and service performance indicators. The plan is designed to provide the GARM Committee, the Head of Paid Service, the S151 Officer, Corporate Directors and other senior managers with assurance on the Council's control environment. Internal Audit adds value to the organisation and contributes to its objectives and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.

[1] As amended by the Accounts and Audit (Amendment)[England] Regulations 2006

How Internal Audit Links to the Corporate Vision and Priorities

The Council Vision for 2014/15 is:

Harrow: a place a place to live and work and be proud of.

With the following specific Corporate Priorities;

- **Cleaner:** A borough where our streets are cleaned regularly and our parks and green spaces are places to enjoy.
- **Safer:** A borough where residents feel safe to live and enjoy their lives. We will work with the police and other partners to make Harrow even safer.
- **Fairer:** A borough where our hard working residents can bring up their families knowing they will have fair access to opportunity.

The Council's vision and the corporate priorities are taken into account when developing the Internal Audit annual operational plan of work. Where appropriate specific audit reviews will be scheduled to support individual priorities or related priority actions. In addition each year reviews are undertaken of systems that support the delivery of the corporate priorities.

Draft Plan

The first draft of the plan is developed after:

- consideration of the risk maturity of the organisation;
- review of the Council's Corporate Plan/Priorities 2014/15;
- review of the Final Revenue Budget 2014/15 and MTFS 2014/15 – 2016/17
- review of the current Corporate and Directorate Risk Registers;
- review of the previous Internal Audit work covering the Council's internal controls (including an indicative audit risk rating);
- identification of significant local and national issues and risks, including new legislation;
- review of Protecting the Public Purse 2013 (Audit Commission, November 2013)
- review of the External Audit plan;
- consultation with Finance Business Partners on key areas of financial risk;
- consultation with the Service Manager, Corporate Ant-Fraud Team on key areas of fraud prevention;

- consultation with the Head of Paid Service, Corporate Directors, including the S151 Officer and key managers as appropriate.

The draft plan was presented formally to CSB (on 19th March) and the GARM Committee (on 2nd April) for review/comment.

Final Plan

Once the consultation process is complete the final plan is developed by undertaking a detailed audit risk assessment of all reviews contained in the draft plan to rank the projects on the plan, based on materiality and risk, as high, medium or low.

The number of audit days available for the 2014/15 plan will be determined via a detailed resource calculation for each auditor taking into account available days, actual days 2013/14 and allowances for annual leave, training etc. A realistic but challenging target will then be set for each member of the team and the combination of these targets will determine the days available for the Internal Audit Plan.

The internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review, will be estimated and a final plan developed ensuring that, at a minimum, all high risk reviews are included.

Table 1 below shows the draft internal audit plan 2014/15 and includes:

- the type of review to be undertaken - Reliance/Assurance Reviews
  - Professional Advice - New /Developing Areas
  - Fraud Risk/Fraud Prevention – reviews of controls in place to prevent fraud
  - IT Reviews
  - Corporate Risk Based Reviews
  - Directorate Risk Based Reviews
  - Schools Reviews
  - Support, Advice & Follow-up

- the main driver for each review - KEY: IA - Internal Audit; EA - External Audit; CGG - Corporate Governance Group; CP - Corporate Priority; CR - Corporate Risk; M - Management and F - Finance; PPP – Protecting the Public Purse 2013; CAFT – Corporate Anti-fraud Team

- a summary of the proposed audit coverage – this will be refined before the start of each review

Table 1 – Draft Internal Audit Plan 2014/15

Draft Plan 2014/15	Main driver	Reasoning for inclusion/risks	Proposed Audit Coverage
Reliance/Assurance Reviews			
Housing Benefit	IA/EA	Three year cyclical plan agreed with External Auditors	Key Control Review, Walkthrough Test, Update of System Notes
Business Rates	IA/EA	Three year cyclical plan agreed with External Auditors	Key Control Review, Walkthrough Test, Update of System Notes
Capital Expenditure	IA/EA	Three year cyclical plan agreed with External Auditors	Key Control Review, Walkthrough Test, Update of System Notes
Payroll	IA/EA	Three year cyclical plan agreed with External Auditors	Self Assessment, Walkthrough Test, Update of System Notes
Treasury	IA/EA	Three year cyclical plan agreed with External Auditors	Self Assessment, Walkthrough Test, Update of System Notes
Council Tax	IA/EA	Three year cyclical plan agreed with External Auditors	Self Assessment, Walkthrough Test, Update of System Notes
Housing Rents	IA/EA	Three year cyclical plan agreed with External Auditors	Self Assessment, Walkthrough Test, Update of System Notes
Corporate Accounts Payable	IA/EA	Three year cyclical plan agreed with External Auditors	Self Assessment, Walkthrough Test, Update of System Notes
Corporate Accounts Relievable	IA/EA	Three year cyclical plan agreed with External Auditors	Self Assessment, Walkthrough Test, Update of System Notes
Corporate Governance	IA/CCG	Requirement under the Accounts & Audit Regulations 2011	Co-ordination of the annual governance review, drafting of AGS
Management Assurance	IA/CCG	Requirement of the governance framework	Co-ordination of the annual management assurance exercise
Risk Management	IA	Internal Audit now responsible for co-ordination of the Corporate Risk Register	Co-ordination and update of Corporate Risk Register
Compliance Testing	M	To provide assurance on compliance with key policies/procedures	To be determined in consultation with management e.g. orders, invoices, Fees & Charges; Budget sign-off; P Cards; Probation; Top 100 suppliers contracts
Professional Advice - New /Developing Areas			
Procure to Pay	M	Developing area	To provide ongoing risk and control advice
My Community E Purse Project Team & Project Board	M/CP	To support the development and implementation of the on-line social care shopping portal	To provide ongoing risk and control advice on the development of a financial payment process for the Shop4Support on-line social care shopping portal
E-invoicing ongoing	IA/M	To support proposals for introduction	To provide professional advice on control and risk

		of e-invoicing	mitigation
Information Governance Board (IGB) ongoing		HIA on Board	To ensure that the Council has effective polices & management
Legal Services company	M	New company being set up to provide legal service	To provide professional advice on control and risk mitigation
IT Reviews			
Access Control – Network/SAP/EMS/SIMS/CITRIS Remote Access Draft plan 13/14	IA	Data security/unauthorised access, issues identified 2013/14	Set up and removal, parameters, password configuration, reset frequency.
Northgate Housing Repairs – Application Review Draft Plan 13/14	F	Key system in Housing	Covering access controls, data entry, processing, output, interfaces, back-up and recovery
IWorld/Northgate Housing Benefit – Operating System Review (c/f 2013/14)	IA/M	Key system in Resources/new module	To assess the control process built within Northgate Housing Benefits System including the localised CT Benefit module and the cloud based Harrow Emergency Scheme
IT Data Centre - Landlord Risks (c/f 2013/14)	M	New responsibility	Covering environmental controls and security
Council Tax Discounts & Exemptions Draft Plan 2013/14	M	Risk of Incorrectly set parameters leading to income loss	Checking that system parameters are consistent with executive decisions
Public Health IT Compliance Draft Plan 2013/14	M	New (ish) responsibilities. This was on the 13/14 draft plan but did not make it to the final plan.	Ensuring compliance with IT requirements
Cloud Based systems – VERTO/ Occupational Health Draft Plan 13/14	M	Internet hosted systems	Access security, data recovery
IT Change Management (c/f 2013/14)	IA/F	IA suggestion/S151 request following Payroll error	Review of system in place to manage IT change
Fraud Risk/Fraud Prevention			
Fighting Fraud Checklist for Governance	PPP/CAFT/CP	Recommended governance arrangements	Completion and analysis of checklist to feed into Annual Governance review
Insurance claims	PPP/CAFT/CP	Average value of £40,541 per detected case	Controls in place to prevent fraud/use of claims handlers
Procurement Draft Plan 13/14	PPP/CP	High risk across local Authorities/collusion/inferior goods or services/inflated performance info	Assessing risk of procurement fraud and preventative controls in place.
Right to Buy Draft Plan 13/14	PPP/CP	High risk across local authorities (increase in allowance)/false documents/unlawful occupation	A review of controls in place to prevent fraud *CAFT sent notification of applications & undertake an Experian check as part of process*
Council Tax Discounts Draft Plan 13/14	PPP/CP	High risk across local authorities/ fraudulently claimed discounts and property exemptions PPP 2012 & 2013	A review of controls in place to prevent fraud
Purchase Invoice Fraud Draft Plan 13/14	PPP/CP	High risk across local authorities/	A review of a sample of purchase invoices across

			the council to ensure that payment is only being made on bonafide invoices
Mandate Fraud Risk Draft Plan 13/14	PPP/CP	High risk across local authorities/redirection of payments intended for legitimate creditors	A review of controls in place to prevent fraud
Corporate Risk Based Reviews			
Delegations c/f 2013/14	MA/F	Gaps in delegations highlighted via management assurance exercise and by Corporate Finance	A review of delegations in place across the council to establish whether appropriate and to provide support and guidance where gaps identified
Freedom of Information Draft Plan13/14	IA/M	New approach being considered	Review of the policy and process employed by the Council for dealing with FOI requests to ensure appropriate and proportionate.
Debt Management Draft Plan13/14	F/M	Inconsistency of approach leading to loss	To ensure that a joined up corporate approach is taken to debt management
Business Continuity/IT Disaster Recovery c/f 2013/14	IA/M/AGS CR 2a, 2b	Corporate Risk	Covering adequacy and effectiveness of controls over the arrangements that are in place for the prevention of system downtime through adequate resilience arrangements and that systems are appropriately backed up
Car Park Passes	F	Inequitable practice	Review of allocation/ issuing and control of passes
FB60s	P	£8-9 million going through FB60 process	Review of process and use of FB60s with a view to further reducing
Directorate Risk Based Reviews **Resources**			
Budget Monitoring	M	New process being developed	A review of the new processes
Legal Shared Service	F	New arrangements now embedded	Contract Management
Community, Health & Wellbeing			
Grants to Move scheme	F/IA	New system	Risk-based system review
Housing Rents - Target Rents	F	Potential for increased income. This was on the 13/14 draft plan but did not make it to the final plan	A review of the process to ensure that target rents achieved wherever possible
Leaseholder Charges	F	Complex process. This was on the 13/14 draft plan but did not make it to the final plan. No charges for Grounds maintenance last year.	Risk based system review
Libraries & Leisure Contract Management	M/CP	Potential new contract. This was on the 13/14 draft plan but did not make it to the final plan – too early in contract.	Contract Management Review
My Community E Purse	M/F/CP	Expanding	Health check – requested by Bernie details not

			finalised
Rent Refunds	F	Check of reasoning & accuracy	Risk based systems review
Mental Health	F	Not previously reviewed	Contract Management Review
Shared Lives	IA	Not previously reviewed	Risk based systems review
Children & Families			
Schools	IA/M/F/SFVS	A three year programme of school reviews covering the adequacy, application and effectiveness of financial controls and governance procedures in place	Financial Control & Governance Reviews – SFVS assessments to feed into final plan
School Governor Governance Training	M/IA	Recent issues identified in schools indicate a lack of appreciation of governance requirements.	Training session to be presented at the C&F Heads & Directors meeting
Families First (Troubled Families Grant)	F	New funding arrangements and responsibilities.	Grant certification
Education Penalty Notices	F/M	New process using the parking system to issue penalty notices. This was on the 13/14 draft plan but did not make it to the final plan	Risk based systems review
Grants for Leaving Care	F	Difficulties identified with methods of payment	Risk based systems review
SNT	F	Frequent changes in suppliers	Contract Management Review
Schools Expansion Programme	IA/CR10	Expected to be 'one of the most significant and sensitive risks the directorate has to manage	Programme Management/Procurement
Environment & Enterprise			
Trading Standards	F	Long standing arrangement with Brent	Contract Management review
Parking	F	High Income level	Risk-based system review
Highways	F	New contractor	Contract Management review
Trade Waste	CAFT/F/IA	Follow-up of CAFT work undertaken 2012/13	Risk based system review to include fraud risk
Restructure – maintenance of key controls	IA/F	Major restructure in progress c/f 2013/14 plan due to delay in completion of restructure	To review the key controls within Directorate and to ensure appropriate controls in place for Licensing
Community Infrastructure Levy (CIL)	F/M	New power that will enable the Council to raise funds for infrastructure from new development	To review governance arrangements and whether income is maximize and used appropriately to benefit Harrow
Carbon Reduction Commitment	IA/M	Legal Requirement	Sign-off of CRC Annual Report
Support, Advice & Follow-up			

Suspected Financial Irregularities + Control Reviews	IA/M	Internal Audit required to maintain overview of SFIs and provide support to managers	Support & guidance to managers on investigations
Professional Advice	IA/M	Enables audit team to provide advice to managers on control and risk management on areas not specifically covered by plan	Advice on risk mitigation & control
Follow-up	IA	Provides assurance on the implementation of audit recommendations	Follow-up of Red, Red/Amber & Amber reports
Liaison with External Audit	IA	Supply of information to EA to support their work for the Authority	On-going liaison throughout the year
Audit Management	IA	Necessary	Planning, GARM reporting etc.

Susan Dixson
21h March 2014

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REPORT FOR:	**GOVERNANCE, AUDIT & RISK MANAGEMENT COMMITTEE**
Date of Meeting:	2nd April 2014
Subject:	**INFORMATION REPORT – Governance Update**
Responsible Officer:	Simon George, Director of Finance & Assurance
Exempt:	No
Enclosures:	AGS Action Plan Update – Appendix 1

Section 1 – Summary

This report sets out progress against the Council's Annual Governance Statement (AGS) Action Plan for 2012/13 developed to address the governance gaps identified by the annual governance review process.

FOR INFORMATION

Section 2 – Report

Introduction

2.1 Harrow Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

2.3 The Council has approved and adopted a corporate governance framework and a Code of Corporate Governance , which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* The Annual Governance Statement explains how the Council has complied with the framework/code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement of internal control (Annual Governance Statement).

Annual Governance Statement

2.4 Each year the Council undertakes a robust review of its governance arrangements to ensure the delivery of good governance within a local government framework and current good practice. The purpose of the review is to provide assurance that governance arrangements are adequate and operating effectively and to identify action required to ensure effective governance in the future.

2.5 Internal Audit co-ordinates the annual review compiling evidence/sources of assurance provided by members of the Corporate Governance Working Group into an evidence table that is used as a basis for the preparation of a draft AGS which is reviewed and agreed by the Corporate Governance Group.

2.6 The Annual Governance Statement is prepared on behalf of the Leader of the Council and Chief Executive and has been signed-off by them both. It was submitted in draft to the Governance, Audit and Risk Management (GARM) Committee on 22/07/13 for consideration and review and included with the draft annual accounts to meet the statutory requirement of the Accounts and Audit Regulations 2011 which requires authorities to “conduct a review at least once in a year of the effectiveness of its system of internal control”

2.7 The AGS was finalised and approved by the GARM Committee on 16th September along with the AGS Action Plan.

2.8 The AGS Action Plan details the 18 non-significant and the 1 significant governance gap identified by the annual governance review process and the action agreed to address these gaps. This report provides an update on the implementation of agreed actions.

2.9 The update attached as Appendix 1 shows that of the 19 actions agreed for 14 (74%) are complete or substantially complete (green assurance), 2 (10%) are in progress (amber assurance) and 3 (16%) are outstanding (red assurance).

2.10 The outstanding actions include review of the Risk Management Strategy, outstanding due to the loss of the Risk Manager's post; the Council's inability to demonstrate that Information Management policies are applied consistently, software being considered to help with this has not proved to be a cost effective solution and directorate/service specific schemes of delegation covering HR/service specific responsibilities not consistently in place across the Council, the planned Internal Audit review has been delayed due to investigation work.

2.11 Progress against these actions will be reviewed again as part of the annual governance review 2013/14 due to begin in April and reported to GARM Committee at the next meeting.

Financial Implications

2.11 Financial implications have been addressed, where relevant, in the main body of the report.

Risk Management Implications

2.12 The work of internal audit supports the management of risks across the council.

Corporate Priorities

2.13 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George	√	Chief Financial Officer
Date:.21/03/14		

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit,
Tel:0208 424 1420

Background Papers: None.

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Appendix 1

2012/13 AGS Action Plan – Update March 2014

AG Ref	Significance	Gap Identified	Agreed Action	Responsible Officer	Timescale	Updated Position March 2014	Current Status
1.5	Not Significant	Inconsistency in the existence of agreed quality standards in key service areas.	Assessment of the materiality of the inconsistency and whether a Corporate policy will add benefit.	Susan Dixson – Head of Internal Audit	Feb 2014	Combined with c/f 3.34	Substantially complete
1.7	Not Significant	Corporate Procurement Strategy in place covers 2009 – 2012 and a lack of a Corporate Contract Management Policy.	Corporate Procurement Strategy to be updated. Council wide contract management approach to be developed.	Terry Brewer – Divisional Director Commercial, Contracts & Procurement	Sept 2014	The development of a Commercial Strategy is well under way and integral to that will be the creation of a council wide contract management approach. We expect delivery of these respective pieces of work by June 2014.	Substantially complete
2.2	Not Significant	Contract Procedure Rules not regularly reviewed – last reviewed/updated 2009	CPRs to be reviewed in 2013.	Terry Brewer – Divisional Director Commercial, Contracts & Procurement	Dec 2013	Draft out for consultation. To go to Council in July via constitutional working group.	Substantially complete

Appendix 1

2012/13 AGS Action Plan – Update March 2014

3.2	Not Significant	Corporate Anti-fraud Policy not up to date (c/f 11/12 3.4).	Already reviewed and updated – to be approved by GARM and included in the constitution.	Justin Phillips _ Service Manager CAFT	Jan 2014	Awaiting forward to policy from Leader & Head of Paid Service – being organised by Communications Team	Substantially Complete
3.6	Not Significant	During 2012/13 it was identified that a standard's complaint had not been referred in a timely manner.	Reporting lines will be reviewed for such cases to ensure that changes in structures do not in future impinge on the timeliness of complaints being passed to the Standards Committee.	Simon George – Director of Finance & Assurance	Sept 2013	Email sent to senior managers in Finance and Assurance, alerting them to the fact that they can refer issues directly to the Monitoring officer if they believe an issue is not being dealt with in a timely fashion	Complete
4.8	Not Significant	Risk Management Strategy annual review overdue – last reviewed/updated October 2011	To reviewed and updated	Susan Dixson – Head of Internal Audit	Dec 2013	This action remains outstanding due to the loss of the Risk Manager's post.	Outstanding
4.8	Not Significant	Loss of risk management expertise.	Plan to be developed to maintain core elements of risk management.	Susan Dixson – Head of Internal Audit	Sept 2013	The plan is that the Internal Audit team will maintain and update the Corporate Risk Register with an allocation of time to achieve this in the Annual Plan.	Complete
4.9	Not Significant	Whistleblowing Policy in place for staff but is not made available to members of the public, partners or contractors.	Policy to be reviewed and updated.	Hugh Peart – Director of Legal & Governance Services	Dec 2013	The policy has been updated and will be published on the Harrow website in April 2014.	In progress

2012/13 AGS Action Plan – Update March 2014

5.3	Not Significant	The Council's Training & Development Plan does not specifically cover governance training.	An e-learning tool is currently being developed.	Lesley Clarke – Organisational Development Manager	Nov 2013	The complexity of governance requirements is resulting in the need to establish a broader range of e-learning than originally planned. This is, however, underway and will be completed by April 2014.	Substantially complete
7.2	Not Significant	BC team unable to confirm that all Divisions have up to date BC plans.	Exercise currently underway to develop/update BC plans across the Council.	Kan Grover - Service Manager - Emergency Planning & Business Continuity	Nov 2013	Across the council, 84% of BC Plans have been reviewed (Green), 14% of BC Plans are currently being reviewed (Amber), and 2% of BC Plans are still due for review (Red).	Substantially completed
7.2	Not Significant	Harrow IT Business Continuity/Disaster Recovery Plan not finalised – user acceptance testing delayed until Q1 13/14 not complete. (in part c/f 11/12 GF7)	User acceptance testing has been completed except for the SRM (Procurement) element of SAP as a new remote access disaster recovery solution is currently being developed. Once implemented this will be tested	Rahim St John - Head of Business Transformation Partnership	Dec 2013	User acceptance testing now complete	Complete

2012/13 AGS Action Plan – Update March 2014

7.6	Not Significant	The council can not demonstrate it applies policies and procedures consistently and there are no mechanisms in place to check this based on risk. Implementation of new policy compliance software due Q1 13/14 has been delayed. (c/f 11/12 3.35)	Procurement process at contract negotiation stage – ironing out technical details – if satisfactory will proceed with purchase and be in place by end of year.	Tony Monachello - Service Manager, Information Management	March 2014	Cost of installing & operating software has doubled. Consideration being given to whether it is now a cost effective solution. The solution to mitigate this is gap will be reconsidered in the 2013/14 annual governance review.	Outstanding
7.9	Significant	Application to the PSN Code of Connection (Government Connection) has been rejected on the basis that the scope, which only covered the secure part of the network, was too narrow.	Re-submission covering the whole network	Rahim St John - Head of Business Transformati on Partnership	Oct 2013	Harrow has been passed as PSN compliant from July 2013 –July 2014	Complete

2012/13 AGS Action Plan – Update March 2014

7.10	Not Significant	The council can not currently demonstrate it is reducing the number, severity, or both, of security incidents – raised awareness & introduction of improved reporting has increased the level of incidents reported in the short term.	To be monitored over the year on a quarterly basis as part of the Breaches Register and Incident Management Procedure. Reported to the Resources Improvement Board. Historic data will enable comparison	Tony Monachello - Service Manager, Information Management	March 2014	A year-end report to be produced and taken into account in the 2013/14 annual governance review and reported to GARM in June 2014.	In progress
c/f 3.7	Not Significant	Directorate/Service Specific schemes of delegation covering HR/service specific responsibilities not consistently in place across the Council.	Review of delegations in the 2013/14 IA Plan.	Susan Dixson – Head of Internal Audit	Dec 2013	Review planned but delayed due to unplanned investigation.	Outstanding

2012/13 AGS Action Plan – Update March 2014

c/f 3.34	Not Significant	Data Quality Procedures not up to date.	Internal Audit to undertake a review of the procedures	Susan Dixson – Head of Internal Audit/Alex Dewsnap - Divisional Director Strategic Commissioning	Jan 2014	Data Quality procedures have been drafted by Strategic Commissioning and audit review nearing completion.	Substantially Complete
c/f 13.11	Not Significant	Resources Workforce Strategy not finalised.	To be finalised.	Tom Whiting	Nov 2013	Resources Workforce Strategy now finalised.	Complete

2012/13 AGS Action Plan – Update March 2014

c/f 16. 5		No separate bank account for WLWA (raised by External Auditors in August 2012. Plans are in place for a separate bank account from April 2014. The External Auditors are not overly concerned, and the Director of Finance and Assurance has agreed to produce a separate working paper for the External Auditors to provide additional assurance.	Separate Bank Account from April 2014	WLWA Treasurer	April 2014	Arrangements made to transfer to a separate bank account from April.	Complete

2012/13 AGS Action Plan – Update March 2014

c/f 16.6		Formal Financial Procedure to be drafted as part of new Financial Procedure Rules to cover the removal of ledger codes from the chart of accounts (caused on issue in the draft financial statement for 2011/12).	To be drafted.	Hasina Shah	Dec 2013	A table has been drawn up showing the authorisation required for changes to cost centres and cost elements including removal of ledger codes from the chart of accounts (which requires the approval of the Chief Accountant) and this has been circulated to all relevant staff.	Complete

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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