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## AGENDA FOR THE AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

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Members of the Audit Committee and Audit Committee (Advisory) are summoned to a meeting, which will be held in Committee Room 4, Town Hall, Upper Street, N1 2UD on **24 January 2017 at 7.00 pm.**

**Stephen Gerrard**  
**Director – Law and Governance**

Enquiries to : Jackie Tunstall  
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Despatched : 16 January 2017

### Membership

Councillor Satnam Gill OBE (Chair)  
Councillor Olly Parker (Vice-Chair)  
Councillor Richard Greening  
Councillor Flora Williamson  
Alan Begg (Independent Member)  
Nick Whitaker (Independent Member)

### Substitute Members

Councillor Clare Jeapes  
Councillor Alice Perry  
Councillor Angela Picknell  
Councillor Dave Poyser

**Quorum: is 3 Councillors**



**A. Formal Matters** **Page**

1. Apologies for Absence
2. Declaration of substitute members
3. Declarations of interest

If you have a **Disclosable Pecuniary Interest\*** in an item of business:

- if it is not yet on the council's register, you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may **choose** to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you **must** leave the room without participating in discussion of the item.

If you have a **personal** interest in an item of business **and** you intend to speak or vote on the item you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent but you **may** participate in the discussion and vote on the item.

**\*(a) Employment, etc** - Any employment, office, trade, profession or vocation carried on for profit or gain.

**(b) Sponsorship** - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.

**(c) Contracts** - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.

**(d) Land** - Any beneficial interest in land which is within the council's area.

**(e) Licences**- Any licence to occupy land in the council's area for a month or longer.

**(f) Corporate tenancies** - Any tenancy between the council and a body in which you or your partner have a beneficial interest.

**(g) Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to **all** members present at the meeting.

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**B. Items for Decision - Audit Committee** **Page**

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2. Annual Treasury and Investment Strategy 13 - 36

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8.	Fraud Report: April 2016- December 2016	107 - 108
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**D. Urgent non-exempt items**

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

**E. Exclusion of press and public**

To consider whether, in view of the nature of the remaining item on the agenda, it is likely to involve the disclosure of exempt or confidential information within the terms of the Access to Information procedure rules in the Constitution and, if so, whether to exclude the press and public during discussion thereof.

<b>F.</b>	<b>Confidential/exempt items</b>	<b>Page</b>
1.	Fraud Report: Appendix	111 - 112
2.	Whistleblowing Report: Appendix	113 - 116

**G. Urgent exempt items (if any)**

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Audit Committee and Audit Committee (Advisory) will be on 20 March 2017

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London Borough of Islington

## **Audit Committee and Audit Committee (Advisory) - 20 September 2016**

Minutes of the meeting of the Audit Committee and Audit Committee (Advisory) held at Committee Room 4, Town Hall, Upper Street, N1 2UD on 20 September 2016 at 7.00 pm.

**Present:**           **Councillors:**           Councillor Satnam Gill OBE (Chair), Councillor Olly Parker, Councillor Richard Greening and Councillor Flora Williamson

### **Councillor Satnam Gill OBE in the Chair**

#### **111        APOLOGIES FOR ABSENCE (Item A1)**

David Bennett, Independent Member

#### **112        DECLARATION OF SUBSTITUTE MEMBERS (Item A2)**

None

#### **113        DECLARATIONS OF INTEREST (Item A3)**

None

#### **114        MINUTES OF PREVIOUS MEETING (Item A4)**

##### **RESOLVED:**

That the minutes of the meeting of the Committee held on 6 June 2016 be confirmed and the Chair be authorised to sign them

#### **115        STATEMENT OF ACCOUNTS 2015-16 (INCLUDING PENSION FUND ACCOUNTS) AND ANNUAL GOVERNANCE REPORT (Item B1)**

Mohamed Sajid, Chief Accountant, made a presentation to the Committee.

During the presentation the following main points were made –

- The Auditor has found that the statement of accounts to be on time, complete and at this stage only minor adjustments had to be made.
- No material adjustments were proposed to the Council's accounts apart from minor presentational issues.
- It was noted that the Auditor intended to issue an unqualified conclusion that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

##### **RESOLVED:**

- (a) That the 2015/16 audited Statement of Accounts, Pension Fund Accounts and the accompanying Annual Governance statement be approved.
- (b) That the Auditor's Annual Governance reports and value for money conclusion be noted.
- (c) That the action plan, as set out in Appendix 1 of the Annual Governance report, be agreed.

- (d) That the letter of representation, as set out at Appendix B of the report, be approved.

**116 ABATEMENT OF PENSION DURING RE-EMPLOYMENT (Item B2)**

Liz Haynes, Head of Human Resources, was present and outlined the report.

During consideration of the report the following main points were made –

- There was only one person at present in Islington that was subject to abatement and the report had been agreed by the Pensions Board

**RESOLVED:**

That the report be noted and that the current Policy to cease the abatement of pensions be amended, as outlined in the report.

**117 MARKET SUPPLEMENTS - (APPENDICES TO BE CIRCULATED SEPARATELY) (Item B3)**

Liz Haynes, Head of Human Resources, was present and outlined the report.

During consideration of the report the following main points were made –

- The boom in the construction industry had resulted in some posts not able to be filled and the Council needed to pay more competitive salaries in order to recruit suitable staff.

**RESOLVED:**

- (a) That approval be given to the market supplements, as outlined in paragraph 3.5 and the Appendix to the report.
- (b) That a report be submitted to the Committee in twelve months from the Head of Human Resources detailing whether the market supplements paid in Housing and Digital Services had resulted in attracting staff and whether market supplements have proved more cost effective than employing agency staff.

**118 INTERNAL AUDIT ANNUAL REPORT 2015/16 (Item C1)**

Michael Bradley, Head of Internal Audit, was present for discussion of this item.

During discussion of the report concern was expressed at the four high priority findings raised in relation to Police and legislation, reporting and working with internal and external partners in respect of anti-social behaviour and that these should be investigated and reported back to the Committee.

**RESOLVED:**

That the contents of the report and the information provided in Appendices A to D of the report be noted and a report back on the ASB issue above be submitted to a future meeting of the Committee.

**119 ANNUAL STANDARDS AND MEMBERS CONDUCT REPORT (Item C2)**

David Daniels, Assistant Director of Law, was present for discussion of this item.

During consideration of the report reference was made to paragraph 3.3 and that updates on development opportunities should be sent to all Members of the Council in future.

## **Audit Committee and Audit Committee (Advisory) - 20 September 2016**

Members expressed the view that there should be more training opportunities provided for Members and that they would raise this with the Chief Whip.

### **RESOLVED:**

That the contents of the Annual report be noted and that in future updates on development opportunities should be sent to all Members of the Council.

The meeting ended at 8.05

**CHAIR**

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### Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda Item	Ward(s)
Audit Committee	24 <sup>th</sup> January 2017		

## COUNCIL TAX BASE AND NNDR 2017-18

### **1. SYNOPSIS**

- 1.1 This report sets out the Council Tax base calculation and National Non Domestic Rates (NNDR) estimate for the financial year 2017-18.

### **2. RECOMMENDATIONS**

- 2.1. To agree that the Council Tax base for the whole area for 2017-18 (or until rescinded) shall be 77,209.5 Band D equivalent properties after adjusting for non-collection. (**Paragraph 4.2 and Appendix A**)
- 2.2. To agree that the Council Tax base for meeting the special expenses issued by the Lloyd Square Garden Committee for 2017-18 (or until rescinded) shall be 44.8 Band D equivalent properties after adjusting for non-collection. (**Paragraph 4.3 and Appendix B**)
- 2.3. To note the Council Tax forecast for 2016-17. (**Paragraph 5.1 and Appendix C**)
- 2.4. To agree the business rates estimate for 2017-18 and delegate authority to the Corporate Director of Finance and Resources for finalising the NNDR1 Form (detailed business rates estimate) in line with this estimate. (**Paragraph 6.1**)
- 2.5. To note the NNDR forecast for 2016-17. (**Paragraph 6.2 and Appendix D**)

### **3. BACKGROUND**

- 3.1. The Local Government Finance Act 1992 (as amended) and associated Regulations require the Council to calculate its proposed Council Tax base for 2017-18 during the period commencing 1<sup>st</sup> December 2016 and ending 31<sup>st</sup> January 2017. The Council Tax base will be used to calculate the level of Council Tax to be set by Full Council on 23<sup>rd</sup> February 2017.
- 3.2. The Local Government Act 2003 enables the Council to delegate responsibility for determining the Council Tax base to a committee or sub-committee. On 26<sup>th</sup> June 2008, the Council established an Audit Committee and delegated responsibility for determining the Council Tax base to that committee.

- 3.3. The Lloyd Square Garden Committee, under The Levying Bodies (General) Regulations 1992, issues a levy on the Council to meet the expenditure involved in the maintenance of the private garden in Lloyd Square. The Local Government Finance Act 1992 requires authorities to carry out separate calculations for all areas that are subject to special expenses. It is therefore necessary for the Council to calculate separately the tax base for the Lloyd Square Garden area.

#### **4. COUNCIL TAX BASE ESTIMATE 2017-18**

- 4.1. The Council Tax base calculation is based on the number of dwellings in the borough, the approved local Council Tax support scheme and the collection rate, as follows:
- 4.1.1. The number of dwellings reflects those on the Valuation List as at 30<sup>th</sup> November 2016, adjusted for exemptions, discounts and disabled relief.
- 4.1.2. The Council Tax support scheme for 2017-18 was formally approved by Council on 15<sup>th</sup> December 2016.
- 4.1.3. The estimated collection rate for 2017-18 is 97.0%.
- 4.2. The Council Tax base calculation for the Council's whole area for 2017-18 is set out at **Appendix A**; applying a collection rate of 97.0% results in a Council Tax base figure of 77,209.5.
- 4.3. The Council Tax base calculation for the Lloyd Square Garden area for 2017-18 is set out at **Appendix B**; applying a collection rate of 97.0% results in a Council Tax base figure of 44.8.

#### **5. COUNCIL TAX FORECAST POSITION 2016-17**

- 5.1. In the 2015-16 Statement of Accounts the final Council Tax position was a surplus of £5.9m, of which £4.0m was budgeted in setting the 2016-17 Council Tax base and £1.9m was an additional unbudgeted surplus carried forward to 2016-17. A further £0.9m in-year surplus is forecast in 2016-17, resulting in a total forecast Council Tax surplus of £2.8m in 2016-17 (£2.2m Islington Council share; £0.6m Greater London Authority (GLA) share). The is set out at **Appendix C**. This one-off Council Tax surplus has arisen due to growth in the net tax base compared to the estimate before the start of the financial year, a buoyant collection rate and joint work with the GLA to improve arrears recovery. The GLA will be notified of this position and the Council's share of the one-off surplus will be included in the 2017-18 budget.

#### **6. NATIONAL NON DOMESTIC RATES 2017-18 ESTIMATE AND 2016-17 FORECAST POSITION**

- 6.1. The Council estimates that it will collect £261m in business rates in 2017-18, with £78.3m (30%) to be retained by Council and the remaining £182.7m (70%) to be shared between Central Government and the GLA. It is recommended that authority is delegated to the Corporate Director of Finance and Resources for finalising the NNDR1 Form (detailed business rates estimate) in line with this estimate.
- 6.2. In the 2015-16 Statement of Accounts the NNDR account was in balance. An unbudgeted surplus of £6.2m is forecast in 2016-17 (£1.9m Islington Council share; £3.1m Central Government share; £1.2m GLA share). The is set out at **Appendix D**. This one-off NNDR surplus has arisen due to growth in the net business rates base

compared to the estimate before the start of the financial year and a buoyant collection rate. Central Government and the GLA will be notified of this position and the Council's share of the one-off surplus will be included in the 2017-18 budget.

## **7. IMPLICATIONS**

### **Financial Implications**

- 7.1. The financial implications of this report will be directly incorporated in the 2017-18 Budget Report and statutory Council Tax calculations to be considered by Executive on 9<sup>th</sup> February 2017 and Full Council on 23<sup>rd</sup> February 2017.

### **Legal Implications**

- 7.2. The Council, as billing authority, is required to calculate the amount which will be its Council Tax base for the next financial year by 31st January of the preceding financial year. (Section 31B of the Local Government Finance 1992 Act (as amended) and the Local Authorities (Calculation of Council Tax Base) Regulations 2012).
- 7.3. The Council must make similar calculations in relation to any items of expenditure which relate to a part only of the Council's area. This enables the Council to collect, as Council Tax, the contributions of the local residents for these expenses. In Islington, the expenses of meeting the special levy issued by the Lloyd Square Garden Management Committee qualify and the Council can take such expenses into account in calculating its budgetary requirements provided it has defined them as "special expenses" in a resolution in force at the time it calculates such requirements (Section 34 of the 1992 Act and the 2012 Regulations).
- 7.4. The precepting authorities must be notified by the Council of its Council Tax base calculation between 1<sup>st</sup> December and 31<sup>st</sup> January to enable those authorities to calculate their budgetary requirement for the following year and the precept they will issue to the Council before 31<sup>st</sup> March. If the Council fails to comply with the end of January deadline, the regulations prescribe a notional formula for the precepting authorities to use in default, which will bind the Council. Similar rules require the precepting authorities to notify the Council of relevant prescribed information between 1<sup>st</sup> and 31<sup>st</sup> December of the preceding year.
- 7.5. The calculation of the Council Tax base may, but no longer has to, be approved by Full Council. It may be approved by a Council committee or sub-committee, but not by the Executive (Section 84 of the Local Government Act 2003 and Regulation 4(9) to (11) of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended)).
- 7.6. The Council must set the Council Tax for the next financial year before 11<sup>th</sup> March of the preceding financial year (although it will not be invalid merely because it is set on or after that date). Before the Council can decide this amount, it has to complete a further series of statutory calculations to establish its budgetary requirements for 2017-18. Again, these calculations under Section 31A-36 of the 1992 Act need to be made before 11<sup>th</sup> March of the preceding financial year and are usually made at the same time as the Council Tax is set.
- 7.7. The Council, as billing authority, must estimate for each financial year whether there is a surplus or deficit in its Collection Fund. Any surplus or deficit in respect of Council Tax must be shared between the Council and its relevant major precepting authorities and the Council is required to inform them should this be applicable (The Local Authorities (Funds) (England) Regulations 1992).

- 7.8. The Council, as billing authority, is required to estimate its national non domestic rates income and the shares of that income payable to Central Government and the Greater London Authority for the next financial year and to notify those bodies of the amounts so calculated by 31<sup>st</sup> January of the preceding financial year (Regulation 3 of and Schedule 1 to the Non Domestic Rating (Rates Retention) Regulations 2013).
- 7.9. The Council is required to consult persons or bodies who appear to be representative of non-domestic ratepayers in the borough. The consultation must take place in regard to each financial year and in relation to the Council's proposed expenditure (both revenue and capital expenditure) in that financial year, prior to the Council finalising its budget (Section 65 of the 1992 Act).

**Environmental Implications**

- 7.10. This report does not have any direct environmental implications.

**Resident Impact Assessment**

- 7.11. The Council Tax (Reductions for Disability) Regulations 1992 (as amended) make provision for billing authorities to reduce by one band the Council Tax due on properties occupied by people with disabilities who fulfil certain criteria. This is reflected in the Council Tax base figures at **Appendix A**.

**Background papers:** None

**Responsible Officer:**  
 Mike Curtis  
 Corporate Director of Finance and Resources

**Report Author:**  
 Martin Houston  
 Strategic Financial Advisor

**Signed by**



Corporate Director of Finance and Resources

21<sup>st</sup> December  
 2016

Date

**Received by** .....

Head of Democratic Services

Date

**APPENDIX A: ISLINGTON WHOLE AREA COUNCIL TAX BASE 2017-18**

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Number of Dwellings as at 30th November 2016	4548	6148	29558	32275	17914	9037	6855	908	107243
Less Disabled Relief	-2	-7	-37	-61	-56	-46	-23	-7	-239
Plus Disabled Relief	9	37	61	56	46	23	7	0	239
Less Exemptions	-2889	-298	-889	-1302	-818	-504	-99	-20	-6819
<b>Total Chargeable Dwellings</b>	<b>1666</b>	<b>5880</b>	<b>28693</b>	<b>30968</b>	<b>17086</b>	<b>8510</b>	<b>6740</b>	<b>881</b>	<b>100424</b>
Discounts (25%)	-802	-3216	-13423	-10726	-4582	-1723	-994	-77	-35543
Discounts (50%)	0	-2	-7	-10	-5	-2	-10	-10	-46
Discounts (10%)	0	0	0	0	0	0	0	0	0
Less Equivalent Discount Value	-201	-805	-3359	-2687	-1148	-432	-254	-24	-8909
<b>Total Sub Adjusted Dwellings</b>	<b>1466</b>	<b>5075</b>	<b>25334</b>	<b>28282</b>	<b>15938</b>	<b>8078</b>	<b>6487</b>	<b>857</b>	<b>91515</b>
Less Council Tax Support	-290	-1776	-7738	-6321	-2521	-930	-356	-4	-19936
<b>Total Adjusted Dwellings</b>	<b>1175</b>	<b>3299</b>	<b>17596</b>	<b>21960</b>	<b>13417</b>	<b>7148</b>	<b>6131</b>	<b>853</b>	<b>71579</b>
Ratio to Band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
<b>Band D Equivalent</b>	<b>783</b>	<b>2566</b>	<b>15641</b>	<b>21960</b>	<b>16399</b>	<b>10325</b>	<b>10218</b>	<b>1705</b>	<b>79597</b>

Band D Equivalent Assuming 97.0% Collection Rate

77,209.5

**APPENDIX B: LLOYD SQUARE GARDEN AREA COUNCIL TAX BASE 2017-18**

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Number of Dwellings as at 30th November 2016	0	0	0	1	2	3	18	5	29
Less Disabled Relief	0	0	0	0	0	0	0	0	0
Plus Disabled Relief	0	0	0	0	0	0	0	0	0
Less Exemptions	0	0	0	0	0	0	0	0	0
<b>Total Chargeable Dwellings</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>18</b>	<b>5</b>	<b>29</b>
Discounts (25%)	0	0	0	0	0	-1	-3	0	-4
Discounts (50%)	0	0	0	0	0	0	0	0	0
Discounts (10%)	0	0	0	0	0	0	0	0	0
Less Equivalent Discount Value	0	0	0	0	0	0	-1	0	-1
<b>Total Adjusted Dwellings</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>17</b>	<b>5</b>	<b>28</b>
Ratio to Band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
<b>Band D Equivalent</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>29</b>	<b>10</b>	<b>46</b>

Band D Equivalent Assuming 97.0% Collection Rate

44.8

	<b>2015-16 Actual £000</b>	<b>2016-17 Budgeted £000</b>	<b>2016-17 Forecast £000</b>
<b>Income</b>			
Net Council Tax Income (excluding Council Tax Support)	(122,697)	(126,964)	(126,161)
Council Tax Support	24,633	26,276	24,944
<b>Total Income</b>	<b>(98,064)</b>	<b>(100,688)</b>	<b>(101,217)</b>
<b>Expenditure</b>			
<b>Precepts and Demand</b>			
Islington Council			
- General Expenses	70,634	76,858	76,858
- Special Expenses (Lloyd Square Garden Area)	15	16	16
	70,649	76,874	76,874
Greater London Authority Precept	21,240	20,794	20,794
<b>Total Precepts and Demand</b>	<b>91,889</b>	<b>97,668</b>	<b>97,668</b>
<b>Provision for Bad debts &amp; Write Offs</b>	<b>2,070</b>	<b>3,020</b>	<b>2,698</b>
<b>Total Expenditure</b>	<b>93,959</b>	<b>100,688</b>	<b>100,366</b>
<b>(Surplus)/Deficit for the year</b>	<b>(4,105)</b>	<b>0</b>	<b>(851)</b>
<b>Contributions towards Previous Year's Forecast Surplus</b>			
Islington Council	3,843	3,057	3,057
GLA	1,194	919	919
<b>Total Distribution of Surplus/(Deficit)</b>	<b>5,037</b>	<b>3,976</b>	<b>3,976</b>
(Surplus)/Deficit for the year net of share of contributions	932	3,976	3,125
(Surplus)/Deficit brought forward at beginning of the year	(6,832)	(3,976)	(5,900)
<b>(Surplus)/Deficit carried forward to next year</b>	<b>(5,900)</b>	<b>0</b>	<b>(2,775)</b>
<b>Share of Forecast (Surplus)/Deficit</b>			
Islington Council			(2,184)
Greater London Authority			(591)
<b>Total (Surplus)/Deficit</b>			<b>(2,775)</b>

	<b>2015-16 Actual</b>	<b>2016-17 Budgeted</b>	<b>2016-17 Forecast</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b><u>Income</u></b>			
<b>Net Income (excluding Transitional Protection Payments and Business Rate Supplement)</b>	(201,364)	(204,949)	(213,603)
Transitional Protection Payments	555		2,147
<b>Total Income</b>	<b>(200,809)</b>	<b>(204,949)</b>	<b>(211,456)</b>
<b><u>Expenditure</u></b>			
<b>Precepts and Demand</b>			
Islington Council	57,288	57,760	57,760
Greater London Authority (excluding Business Rate Supplement)	38,192	38,507	38,507
Central Government	95,481	96,267	96,267
<b>Total Precepts and Demand</b>	<b>190,961</b>	<b>192,534</b>	<b>192,534</b>
<b>Other Expenditure</b>			
Disregards Renewable Energy	60	62	62
Cost of Collection Allowance (excluding Business Rate Supplement)	645	644	644
<b>Total Other Expenditure</b>	<b>705</b>	<b>706</b>	<b>706</b>
<b>Provisions for Bad Debts &amp; Write Offs</b>	1,076	3,865	2,412
<b>Appeal Provisions</b>	9,858	7,844	9,598
<b>Total Expenditure</b>	<b>202,600</b>	<b>204,949</b>	<b>205,250</b>
(Surplus)/Deficit for the year	1,791	0	(6,206)
(Surplus)/Deficit brought forward at beginning of the year	(1,784)	0	7
<b>(Surplus)/Deficit carried forward to next year</b>	<b>7</b>	<b>0</b>	<b>(6,199)</b>
<b>Share of Forecast (Surplus)/Deficit</b>			
Islington Council			(1,860)
Greater London Authority			(1,240)
Central Government			(3,100)
<b>Total (Surplus)/Deficit</b>			<b>(6,199)</b>

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Report of: **Corporate Director of Finance and Resources**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 January 2017		

Delete as appropriate	Exempt	Non-exempt

## **SUBJECT: Annual Treasury Management and Investment Strategy 2017-18**

### **1. Synopsis**

- 1.1 This report discusses the council's 2017-18 annual treasury management strategy and investment strategy.

### **2. Recommendations**

- 2.1 To consider the council's 2017-18 annual treasury management strategy and investment strategy before full council's approval at its budget and council tax setting meeting on 23 February 2017. The strategy covers

- The balance sheet and treasury position
- Prospects for interest rates
- Borrowing requirement and strategy
- Debt rescheduling
- Investment strategy and policy
- HRA Self Financing

- 2.2 To note the key points of the treasury strategy summarised below:

## **Summary of the key points of the treasury strategy**

- £70.3 m is estimated to be required to be borrowed over the next 3 years
  - £37.6million to replace existing borrowing that matures
  - £32.7million of new borrowing to fund capital expenditure
- The borrowing strategy is to minimise borrowing costs, through
  - Using surplus internal cash, and
  - Borrowing at optimal times at either variable or fixed rates which can include borrowing in advance of need
- It is expected that sums for investments will be minimal. Investment activity is restricted to institutions set in para 3.6.7 and Appendix C gives the details
- The Council's investment priorities in order of importance are :
  - security of the invested capital;
  - liquidity of the invested capital;
  - an optimum yield which is commensurate with security and liquidity

## **3. Background**

### **3.1 INTRODUCTION**

- 3.1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has defined treasury management as “the management of the organisations’ investments and cashflow, its banking, money market and capital market transactions; the effective control of the risks associated with these activities and the pursuit of optimum performance consistent with those risks.
- 3.1.2 Treasury management activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 26<sup>th</sup> February 2002. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. The Council has incorporated the changes from the revised 2011 CIPFA Code of Practice into its treasury policies procedures and practices.
- 3.1.3 The treasury management function is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. The Council is required to set out an Annual Treasury Strategy outlining at the least the expected treasury activity for the forthcoming three years.
- 3.1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with treasury management which include:

- Liquidity Risk (Inadequate cash resources).
- Market or Interest Rate Risk (Fluctuations in interest rate levels).
- Inflation Risk (Exposure to inflation).
- Credit and Counterparty Risk (Security of Investments).
- Refinancing Risk (Impact of debt maturing in future years).
- Legal and Regulatory Risk.

### 3.2 Scope

3.2.1 This Treasury Management Strategy considers the impact of the Council's revenue budget and capital programme on the balance sheet position, the prospects for interest rates, borrowing requirement and strategy, debt rescheduling, investment strategy and policy, monitoring, members training and advisors.

#### Balance sheet and treasury position

3.2.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR represents the level of borrowing for capital purposes. Revenue expenditure cannot be financed from borrowing. Net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need, up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of the invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

3.2.3 The CFR together with balances and reserves are the core drivers of Treasury Management activity. The estimates, based on the current revenue budget and capital programmes and in advance of any changes to the 2017-18 budget to be considered in February, are set out in **Table 1** below:

**Table 1 – Capital Financing, Balances and Reserves Forecasts**

	31/03/2017 Estimate £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
General Fund CFR	118.4	132.1	145.7	145.6
HRA CFR	442.3	442.3	442.3	442.3
<b>Total CFR</b>	560.7	574.4	588.0	587.9
Less Long term Liabilities- PFI	-145.3	-134.9	-125.5	-116.7
Less Balances and Reserves	-143.0	-159.5	-141.7	-102.9
<b>Net Balance Sheet Position</b>	<b>272.4</b>	<b>280.0</b>	<b>320.8</b>	<b>368.3</b>

3.2.4 The Council's level of physical debt and investments is linked to these components of the balance sheet. Market conditions, affordability, interest rate expectations and credit risk

considerations will influence the Council’s strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

### 3.3 Prospects for interest rates

3.3.1 Treasury management activities such as borrowing introduce risk to the Council via the impact of unexpected adverse movements in interest rates. The Council employs Arlingclose treasury consultants, to advise on the treasury strategy, to provide economic data and interest rate forecasts, to assist planning and reduce the impact of unforeseen adverse movements.

**Appendix A** draws together a number of current forecasts for short-term and longer-term fixed interest rates. The major external influence on the authority’s treasury management strategy for 2017/18 will be the UK’s progress in negotiating a smooth exit from the European Union. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18. The central case forecast is for UK Bank Rate to remain at 0.25% during the coming year. Gilt yields and PWLB rates are expected to trend broadly flat from current levels, albeit with short-term volatility.

3.4.1 The Council’s underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR). To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision (MRP) for debt redemption from within the revenue budget each year.

3.4.2 Capital expenditure not financed from internal resources (i.e. capital receipts, capital grants and contributions, revenue or reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the revenue account. The Council’s borrowing requirement is shown in the **Table 2** below.

	2016-17	2017-18	2018-19	2019-20
	estimate £M	estimate £M	estimate £M	estimate £M
New Borrowing	0	15.0	15.4	2.3
Replacement borrowing	11.1	14.4	12.1	11.1
<b>TOTAL</b>	<b>11.1</b>	<b>29.4</b>	<b>27.5</b>	<b>13.4</b>

3.4.3 In conjunction with advice from our treasury advisor, Arlingclose Ltd, the Council will keep under review the options it has in borrowing from the Public Works Loan Board (PWLB), other local authorities, the market and other sources up to the available capacity within the Authorised Limit (contained within the Prudential Indicators in **Appendix B** to be adopted in the 2017/18 budget).

- 3.4.4 The chief objective of the council when borrowing money is achieve an appropriate risk balance between securing low interest rates and cost certainty over the periods for which funds are required. Given the significant cuts to public expenditure and in particular local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. The types of borrowing that are still appropriate for a low interest rate environment from the PWLB are:
- Variable rate borrowing.
  - Medium term equal instalments of principal (EIP) or annuity loans.
  - Long term maturity loans where affordable.
- 3.4.5 The council's strategy is to minimise its borrowing costs over the medium to longer term and maintain maximum control over its borrowing activities as well as flexibility on its loans' portfolio. The use of internal resources in lieu of borrowing and short to medium term borrowing will continue because of the "cost of carry" (that is the differential between debt costs and investment earnings). Exposure to variable loans including PWLB rates will be kept under regular review, The Bank Rate is expected to remain at 0.25% during 2017-18. As at 31 December 2016, the council had agreed non PWLB long term loans of £46.5m. All these loans are from other local authorities over periods of 2 to 6 years at an average rate of 1.8%.
- 3.4.6 Capital expenditure levels, cash flow projections, market conditions and interest rate levels will be monitored in conjunction with our treasury advisors, Arlingclose, to determine the most appropriate option.
- 3.4.7 The Council's borrowing requirement over the next three years is estimated to be around £70.3million. £37.6million of this borrowing will be used to replace existing PWLB debt taken in the 1980's that matures over the next three years. If market rates were to fall considerably or future rates were expected to rise, then some borrowing could be taken ahead of spend. The borrowing strategy will therefore consider opportunities to borrow not only for 2017-18 but ahead for the next two financial years.

### 3.5 **Debt rescheduling**

3.5.1 The factors affecting any decision on debt rescheduling will include, the generation of cash savings and / or discounted cash flow savings in interest cost, helping to fulfil the strategy outlined in the paragraphs above; enhancing the balance of the fixed to variable rate debt in the portfolio and, amending the maturity profile. All rescheduling activity will comply with the accounting requirements of the local authority Statement Of Recommended Practice (SORP) and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No. 573 as amended by SI 2008/414).

### 3.6 **Investment strategy and policy**

3.6.1 To comply with the Government's guidance, the Council's general policy objective is to invest its surplus funds prudently.

3.6.2 The Council's investment priorities, in order of importance, are:

- security of the invested capital.
- liquidity of the invested capital.
- an optimum yield which is commensurate with security and liquidity.

3.6.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

3.6.4 Investment instruments identified for use in the financial year are categorised under the 'Specified' and 'Non-Specified' Investments based on the CLG guidance.

#### **Specified Investments**

3.6.5 Specified investments are described in the guidance as those identified as offering high security and high liquidity, and can be relied on with minimal formalities. All must be in sterling and with a maturity of no more than one year. All such short-term investments with the UK Government, other local authorities, or Parish Councils will automatically be considered "specified", for other deposit takers a "high" credit rating is required which the authority defines. This Council's definition is included at the end of this report.

#### **Non-Specified Investments**

3.6.6 Non-specified investments carry a higher degree of potential risk, and the guidance requires the types of investments that can be used be set out in the Strategy, and limits to be set on how much can be held in these investments at any time during the year. The guidance states that it is not the objective to discourage investment in any type of instrument, but to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies that are not highly credit rated.

3.6.7 Potential instruments for the Council's use within its investment strategy are listed in the specified and non-specified investment schedule attached as **Appendix C**

3.6.8 The Council has reviewed the way it formulates its counterparty criteria. The lending list criteria is devised from the use of rating agencies which will include Fitch, Moody's Investor Services, Standard & Poor's (or other rating agency where necessary) as well as other factors. The main sovereign states whose banks are to be included are Australia, Canada, Finland,

France, Denmark, Germany, Netherlands, Switzerland and the US. These countries and the Banks within them have been selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ minimum short term F1).
- Credit Default Swaps.
- GDP; Net Debt as a Percentage of GDP.
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution.
- Share Price.

3.6.9 The Council will also take into account information on corporate developments and market sentiment towards the counterparties. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

3.6.10 The Council's internally managed investments as at 31 December 2016 totalled £110million and the forecast position for the end of March through 2017/18 will average £80million. The Council has restricted its investment activity to the following institutions while conditions in the financial sector are monitored for stability and cashflow positions are averaging around £80m:

- The Debt Management Agency Deposit Facility (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure).
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV).
- Deposits with other local authorities.
- Business reserve accounts and term deposits. These have been primarily restricted to UK institutions that are rated at least A+ long term.

3.6.11 If the cash flow positions were to increase because of forward borrowing then investments criteria will revert to credit ratings as stated in paragraph 3.6.8

3.6.12 A copy of the Council's current lending list and the institutions actually lent to as at December 2016 is attached as **Appendix D** for information. In addition the Council has borrowed £45.5m at an average rate of 0.28% short term, from other Local Authorities & Public Bodies – this has proved to be a cheaper alternative to variable rate PWLB borrowing.

3.6.13 The UK bank rate had been maintained at 0.5% since March 2009 but was cut to 0.25% in August 2016 and it is anticipated to remain at low levels throughout 2017-18 with a low possibility to drop to zero Short-term money market rates are likely to remain at low levels for an extended period.

3.6.14 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose, is attached as **Appendix A**. The Council will reappraise its strategy with evolving market conditions and expectations for future interest rates.

3.6.15 The Corporate Director of Finance and Resources under delegated powers will undertake the most appropriate form of investments in keeping with the investment objectives, income and

risk management requirements and Prudential Indicators. All investments will be made in accordance with the Council's investment policies and prevailing legislation and regulations.

### **3.7 Housing Revenue Account policy on apportioning interest**

3.7.1 Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with determinations issued by the Department for Communities and Local Government. The CIPFA Code recommends that authorities present this policy in their TMSS.

3.7.2 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed are assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are charged/ credited to the respective revenue account.

#### **3.7.3 Internal borrowing**

Where the HRA or GF has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the rate charged on this internal borrowing will be based on the 14.5 -15year PWLB fixed loan rate to reflect the assumed opportunity cost forgone.

### **3.8 Monitoring**

3.8.1 Treasury management monitoring will be incorporated in the regular Executive financial monitoring reports. The Executive Member for Finance is regularly briefed on treasury activities. At the end of the financial year, an outturn report will be prepared on the Council's investment activity as part of its Annual Treasury Report. The Audit committees will scrutinise the Annual Treasury Strategy Statement before Council approval at its budget and council tax setting meeting.

### **3.9 Members Training**

3.9.1 CIPFA's revised Code requires the Director of Finance to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. A training session on treasury management was provided to Members by Arlingclose in May 2016.

### **3.10 Advisors**

3.10.1 Arlingclose, our appointed treasury advisors, undertake their role as advisors to enable the Council to make informed decisions.

## **4 Implications**

### **4.1 Financial Implications**

The activities of the treasury management function has resource implications on the council's revenue budget. The paramount objective of the treasury management function is capital security and the pursuit of optimum performance must be consistent with the risk undertaken.



**4.2 Legal Implications**

Local authorities have restricted freedoms with regard to the investment of surplus funds. The rules are prescribed by statute and are laid out under section 15(1)(a) of the Local Government Act 2003. Local authorities are also required to have regard to supplementary guidance provided by the Office of the Deputy Prime Minister (ODPM; now Communities and Local Government) and by CIPFA. CIPFA's guidance is defined as a proper practice for these purposes.

**4.3 Equalities Impact Assessment**

4.3.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

4.3.2 An equalities impact assessment has not been undertaken at this stage because this report is an update on an existing policy that is agreed at the annual council tax and budget setting.

**4.4 Environmental Implication**

None applicable to this report.

**5. Conclusion and reasons for recommendations**

5.1 This is the annual treasury and investment strategy statement report discussing the council's strategy on borrowing and investment and also reviewing current investment policy. Members are asked to consider this strategy before it is presented for approval at the council budget and council tax setting meeting on 23 February 2017

**Background papers:**

Audit Commission National Report 2009; Council Budget Report on 25 February 2016  
CIPFA guidance on treasury management issued in November 2009

Final Report Clearance

**Signed by** .....



.....  
Corporate Director for Finance and Resources

Date

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## Appendix A - Arlingclose Economic & Interest Rate Forecast September 2016

### Underlying assumptions:

- The economic trajectory for the UK has been immeasurably altered following the vote to leave the European Union. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations (notwithstanding the Olympic and summer feel-good effects). The rapid installation of a new Prime Minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proactive in tackling the economic uncertainty.
- Purchasing Managers Index data, and consumer and business confidence surveys presented a more positive picture for August following the shock-influenced data for July, in line with expectations for an initial overreaction. However, many indicators remain at lower levels than pre-Referendum.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.
- UK Consumer Price Index inflation (currently 0.6% year/year) will rise close to target over the coming year as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.
- The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- There is a debatable benefit to further interest rate cuts (particularly with regard to financial stability). Negative Bank Rate is currently perceived by policymakers to be counterproductive, but there is a possibility of close-to-zero Bank Rate. QE will be used to limit the upward movement in bond yields.
- Following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than a few months ago. However, financial market volatility is likely at various points because the stimulus has only delayed the fallout from the build-up of public and private sector debt (particularly in developing economies, e.g. China).

### Forecast:

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero later in the forecast period.
- Gilt yields will be broadly flat from current levels, although there will likely be much volatility as reports of negotiations between the UK and the remaining EU affect market perceptions of both parties' economic growth potential.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
<b>3-month LIBID rate</b>														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
<b>1-yr LIBID rate</b>														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
<b>5-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.30	0.30	0.30	0.30	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.39
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
<b>10-yr gilt yield</b>														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	0.83
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
<b>20-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64
<b>50-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64

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**EXTERNAL DEBT INDICATORS**

<b>Authorised Limit for External Debt (including PFI)</b>							
1			2016-17 £000s Approved	2016-17 £000s Revised	2017-18 £000s Estimate	2018-19 £000s Estimate	2019-20 £000s Estimate
	<b>Borrowing</b>		474,000	370,000	472,000	486,000	487,000
	<b>Other Long Term Liabilities</b>		145,000	145,000	135,000	126,000	117,000
	<b>TOTAL AUTHORISED LIMIT</b>		<b>619,000</b>	<b>515,000</b>	<b>607,000</b>	<b>612,000</b>	<b>604,000</b>

The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow. The limit also provides scope for the Council to borrow in advance of need. Other long-term liabilities include items such as PFI schemes and finance leases.

<b>Operational Boundary for External Debt (including PFI)</b>							
2			2016-17 £000s Approved	2016-17 £000s Revised	2017-18 £000s Estimate	2018-19 £000s Estimate	2019-20 £000s Estimate
	<b>Borrowing</b>		434,000	345,000	442,000	456,000	457,000
	<b>Other Long Term Liabilities</b>		135,000	135,000	125,000	116,000	107,000
	<b>TOTAL OPERATIONAL BOUNDARY</b>		<b>569,000</b>	<b>480,000</b>	<b>567,000</b>	<b>572,000</b>	<b>564,000</b>

The Operational Boundary for External Debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similarly to the authorised limit it also provides scope for the Council to borrow in advance of need. Other long-term liabilities include items such as PFI schemes and finance leases.

<b>Actual External Debt (including PFI)</b>							
3							31.3.16 £000s Actual
	<b>Borrowing</b>						269,000
	<b>Other Long Term Liabilities</b>						155,000
	<b>TOTAL EXTERNAL DEBT</b>						<b>424,000</b>

This is the actual external debt that the Council held at 31st March 2016. Other long-term liabilities include items such as PFI schemes and finance leases.

**TREASURY MANAGEMENT INDICATORS**

<b>Adoption of CIPFA's Treasury Management Code of Practice</b>							
4	The Council formally adopted CIPFA's Code of Practice on Treasury Management on 26th February 2002 and CIPFA's revised Code of Practice on Treasury Management on 25th February 2010.						

<b>Upper Limit for Fixed Interest Rate Exposure</b>							
5		31.3.16 £000s Existing (Benchmark) Level	2016-17 £000s Approved	2016-17 £000s Revised	2017-18 £000s Estimate	2018-19 £000s Estimate	2019-20 £000s Estimate
	<b>Net principal relating to fixed rate borrowing/investments</b>	188,000	240,000	183,000	263,000	278,000	280,000

This indicator identifies a maximum limit for the level of debt (net of investments) taken out at fixed rates of interest and its purpose is to help the Council to manage its exposure to adverse movements in interest rates.

<b>Upper Limit for Variable Interest Rate Exposure</b>							
12		31.3.16 £000s Existing (Benchmark) Level	2016-17 £000s Approved	2016-17 £000s Revised	2017-18 £000s Estimate	2018-19 £000s Estimate	2019-20 £000s Estimate
	<b>Net principal relating to variable rate borrowing/investments</b>	94,000	120,000	92,000	135,000	139,000	140,000

This indicator identifies a maximum limit for the level of debt (net of investments) taken out at variable rates of interest and its purpose is to help the Council to manage its exposure to adverse movements in interest rates.

<b>Maturity Structure of New Fixed Rate Borrowing</b>							
13					31.3.16	2017-18	2017-18

					Existing (Benchmark) Level %	Upper Limit %	Lower Limit %
					5.0%	100%	0%
					4.0%	100%	0%
					13.0%	100%	0%
					14.0%	100%	0%
					24.0%	100%	0%
					40.0%	100%	0%

These limits are set to reduce the Council's exposure to large fixed rate sums of borrowing falling due for refinancing in any one year.

Upper Limit for Total Principal Sums Invested for over 364 Days							
			2016-17 £000s Approved	2016-17 £000s Revised	2017-18 £000s Estimate	2018-19 £000s Estimate	2019-20 £000s Estimate
14	Total principal sum invested		40,000	55,000	60,000	60,000	60,000

These limits are set to reduce the need for the early sale of an investment, and are based on the availability of investments at each year-end.

### Credit Risk

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The Council considers security, liquidity & yield in that order when making investment decisions. It uses credit ratings along with a range of other criteria such as sovereign support mechanisms, credit default swaps & share prices to assess the credit strength of a counterparty. A full description of credit criteria used is included in section 6.2 of the Strategy Statement of the Councils Treasury Management

**Islington Council Specified Investments**

All “Specified Investments” listed below must be sterling-denominated, with maximum maturity one year.

\*\* If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Investment	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Max period
<b>Debt Management Agency Deposit Facility* (DMADF)</b>  * this facility is at present available for investments up to 6 months	Yes	Government-backed.	In-house and by external fund managers	1 year *
<b>Term Deposits</b> with the UK Government or other UK Local Authorities and Police Commissions	Yes	High security although the majority of Local Authorities do not have credit rating with one of the three recognised credit rating agencies.	In-house and by external fund managers	1 year
<b>Term Deposits</b> with credit-rated deposit or UK Government backed (banks and building societies), including callable deposits.	Yes	<b>Minimum Short Term Ratings</b> Fitch F1 Moodys P-1 S & P A-1  <b>Minimum Long term Ratings</b> Fitch A+ Moodys A1 S & P A+  <b>Maximum Deposit</b> £30 m per institution  Plus  <b>Council Bankers</b> Overnight, weekend & Public Sector Reserve – Maximum of £10m For late funds only	In-house and by external fund managers	1 year

Investment	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Max period
<p><b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) up to 1 year.</p> <p><i>Custodial arrangement required prior to purchase</i></p>	Yes	<p>Fitch IBCA Short-term F1</p> <p>Maximum 10% of fund with fund manager.</p>	To be used in house or by fund managers;	1 year
<p><b>Gilts</b> : with maturities up to 1 year</p> <p><i>Custodial arrangement required prior to purchase</i></p>	Yes	<p>Government-backed</p> <p>Minimum credit rating: AA+</p>	<p>(1) Buy and hold to maturity or trade: to be used in-house after consultation / advice from Arlingclose.</p> <p>(2) trading by external cash fund manager(s) only subject to the guidelines agreed.</p>	1 year
<p><b>Money Market Funds</b></p> <p><i>These funds do not have any maturity date</i></p>	Yes	<p>Minimum credit rating: AAA</p>	<p>In-house and by external fund managers subject to the guidelines agreed.</p>	subject to cash flow / liquidity
<p><b>Forward deals</b> with credit rated or UK government backed banks and building societies plus other Local Authorities &lt; 1 year (i.e. negotiated deal period plus period of deposit)</p>	Yes	<p><b>Minimum Short Term Ratings</b></p> <p>Fitch F1 Moody's P-1 S &amp; P A-1</p> <p><b>Minimum Long term Ratings</b></p> <p>Fitch A+ Moody's A1 S &amp; P A+</p> <p><b>Maximum Deposit</b></p> <p>£30m per institution</p>	In-house and fund managers	1 year in aggregate
<p><b>Gilt Funds and other Bond Funds</b> (dependent on set-up structure)</p>	Yes	<p><b>Minimum Rating:</b></p> <p>Fitch: A+ Moody's: A1 S&amp;P: A+</p>	<p>External fund managers only subject to guidelines agreed</p> <p><b>*Important : In choosing the manager we</b></p>	



Investment	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Max period
<p>*** These are open-end mutual funds investing predominantly in UK Government gilts and corporate bonds. These funds do not have any maturity date and would hold highly liquid instruments.</p>			<p>will ensure that the fund is not a body corporate by virtue of its set up structure</p>	
<p><b>Treasury bills</b> [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</p> <p><i>Custodial arrangement required prior to purchase</i></p>	Yes	Government-backed	In- house or External fund managers subject to the guidelines and parameters agreed	1 year
<p><b>Bonds issued by a financial institution that is guaranteed by the United Kingdom Government</b> (as defined in SI 2004 No 534) with maturities under 12 months</p> <p><i>Custodial arrangement required prior to purchase</i></p>	Yes	AA+ (Government-backed)	<p>(1) Buy and hold to maturity or trade: to be used in-house after consultation / advice from Arlingclose</p> <p>(2) trading by external cash fund manager(s) only subject to guidelines agreed</p>	1 year
<p><b>Bonds issued by multilateral development banks</b> (as defined in SI 2004 No 534) with maturities under 12 months</p>	Yes	AAA	<p>(1) Buy and hold to maturity or trade: to be used in-house after consultation/ advice from Arlingclose</p> <p>(2) ) trading by external cash fund manager(s) only subject to guidelines agreed</p>	1 year

Investment	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Max period
<p><i>Custodial arrangement required prior to purchase</i></p> <p><b>UK Sterling Denominated Corporate Bonds issued by UK PLC`s or Public Sector Bodies ( From 01/04/2012 )</b></p>	<p>Yes</p>	<p><b>Minimum Short Term Ratings</b> Fitch F1 Moodys P-1 S &amp; P A-1</p> <p><b>Minimum Long Term Ratings</b> Fitch A+ Moodys A1 S &amp; P A+</p> <p><b>Maximum Deposit</b> £10m per institution</p>	<p>(1) Buy and hold to maturity or trade: to be used in-house after consultation/ advice from Arlingclose</p> <p>(2) ) trading by external cash fund manager(s) only subject to guidelines agreed</p>	<p>1 year</p>

**\*\*\*Open ended funds continually create new units (or shares) to accommodate new monies as they flow into the funds and trade at net asset value (NAV).**

**Islington Council Non Specified Investments**

<u>Investment</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 Months?</u>	<u>Security / Minimum Credit Rating **</u>	<u>Capital Expenditure?</u>	<u>Circumstance of Use</u>	<u>Maximum Held at Any One Time During the Year</u>	<u>Maximum Maturity of Investment</u>
						£M	
<b>Term deposits</b> with UK government or other local authorities and Police Commissions (with maturities in excess of 1 year)	No	No	High security although the majority of Local Authorities do not have credit rating with one of the three recognised credit rating agencies	No	In-house and fund managers	100	5 years
<b>Term deposits</b> with credit rated deposit takers or UK government backed (banks and building societies) with maturities greater than 1 year	No	No	<b>Minimum Short Term Ratings</b> Fitch F1 Moodys P-1 S & P A-1  <b>Minimum Long term Ratings</b> Fitch A+ Moodys A1 S & P A+  <b>Maximum Deposit</b>  £30m per institution		In-house and fund managers	100	5 years
<b>Certificates of Deposit</b> with credit rated deposit takers or UK government backed (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	No	Yes	<b>Minimum Short Term Ratings</b> Fitch F1 Moodys P-1 S & P A-1  <b>Minimum Long term Ratings</b> Fitch A+ Moodys A1 S & P A+  <b>Maximum Deposit</b>  £30m per institution	No	To be used by fund managers.  To be used in-house “buy and hold” or trade after consultation / advice from Arlingclose.	100	5 years

## APPENDIX C

<u>Investment</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 Months?</u>	<u>Security / Minimum Credit Rating **</u>	<u>Capital Expenditure?</u>	<u>Circumstance of Use</u>	<u>Maximum Held at Any One Time During the Year</u>  £M	<u>Maximum Maturity of Investment</u>
<p><b>Callable deposits</b> with credit rated deposit takers or UK government backed (banks and building societies) with maturities greater than 1 year</p>	No	No	<p><b>Minimum Short Term Ratings</b> Fitch F1 Moody's P-1 S &amp; P A-1</p> <p><b>Minimum Long Term Ratings</b> Fitch A+ Moody's A1 S &amp; P A+</p> <p><b>Maximum Deposit</b>  £30m per institution .</p>	NO	<p>To be used by fund managers.</p> <p>To be used in-house "buy and hold" or trade after consultation / advice from Arlingclose.</p>	100	5 years in aggregate
<p><b>UK government gilts</b> with maturities in excess of 1 year</p> <p><i>Custodial arrangement required prior to purchase</i></p>	No	Yes	Government backed	No	<p>(1) Buy and hold to maturity or trade: to be used in-house after consultation / advice from Arlingclose</p> <p>(2) for trading: by external cash fund manager(s) only subject to the guidelines and parameters agreed with them.</p>	100	10 years including but also including the 10 year benchmark gilt
<p><b>Sovereign issues ex UK Government gilts</b> : any maturity</p>	No	Yes	AAA	No	<p>(1) Buy and hold to maturity or trade: to be used in-house after consultation/ advice</p>	100	10 years

## APPENDIX C

<u>Investment</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 Months?</u>	<u>Security / Minimum Credit Rating **</u>	<u>Capital Expenditure?</u>	<u>Circumstance of Use</u>	<u>Maximum Held at Any One Time During the Year</u> £M	<u>Maximum Maturity of Investment</u>
<i>Custodial arrangement required prior to purchase</i>					from Arlingclose		
<b>Forward deposits</b> with credit rated or UK government backed banks and building societies plus other Local Authorities and Police Commissions for periods > 1 year (i.e. negotiated deal period plus period of deposit)	No	No	<b>Minimum Short Term Ratings</b> Fitch F1 Moodys P-1 S & P A-1  <b>Minimum Long Term Ratings</b> Fitch A+ Moodys A1 S & P A+  <b>Maximum Deposit</b>  £30m per institution <b>For Maturities&gt;2 years</b> Long Term Minimum AA	No	(2) for trading: by external cash fund manager(s) only subject to the guidelines and parameters agreed with them  To be used by fund managers.  To be used in-house after consultation/ advice from Arlingclose	100	5 years in aggregate
<b>Bonds issued by a financial institution that is guaranteed by the United Kingdom Government</b> (as defined in SI 2004 No 534) with maturities in excess of 1 year	Yes	Yes	AA+ / government guaranteed	No	(1) Buy and hold to maturity or trade: to be used in-house after consultation/ advice from Arlingclose  (2) for trading: by external cash fund manager(s) only, subject to guidelines and parameters agreed	100	10 years
<i>Custodial arrangement required prior to purchase</i>							
<b>Bonds issued by multilateral development banks</b>	Yes	Yes	AAA or government guaranteed	No	(1) Buy and hold to maturity or trade: to be used in-house after	100	10 years

## APPENDIX C

<u>Investment</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 Months?</u>	<u>Security / Minimum Credit Rating **</u>	<u>Capital Expenditure?</u>	<u>Circumstance of Use</u>	<u>Maximum Held at Any One Time During the Year</u>  £M	<u>Maximum Maturity of Investment</u>
(as defined in SI 2004 No 534) with maturities in excess of 1 year  <i>Custodial arrangement required prior to purchase</i>					consultation/ advice from Arlingclose  (2) for trading: by external cash fund manager(s) only, subject to the guidelines and parameters agreed with them		
<b>UK Sterling Denominated Corporate Bonds issued by UK PLC's or Public Sector Bodies (From 01/04/2012 )</b>	No	No	<b>Minimum Short Term Ratings</b> Fitch F1 Moodys P-1 S & P A-1  <b>Minimum Long Term Ratings</b> Fitch A+ Moodys A1 S & P A+  <b>Maximum Deposit</b> £10m per institution	No	(1) Buy and hold to maturity or trade: to be used in-house after consultation/ advice from Arlingclose  (2) for trading: by external cash fund manager(s)	100  Max £10m per institution	10 years

APPENDIX D														
Counter-Party List as at December 2106														
Minimum criteria	A+	F1	A1	P-1	A+	A-1								
	Fitch L/T	Fitch S/T	Moodys L/T	Moodys S/T	S & P L/T	S & P S/T	Sovereign Rating - F/M/S&P	5 year CDS	Share Price	Maximum Limit - £	Maximum Term	LBI	Arlingclose Current Advice	funds Invested - 31/12/2016
<b>UK Banks</b>														
Barclays	A	F1	A1	P-1	A-	A-2	AA/Aa1/Aau	77	233	30,000,000	36 Months	Council Bankers from Mar 2015 - overnight liquidity only	Limit to 100 Days - CHECK !!!	
HSBC	AA-	F1+	Aa2	P-1	AA-	A-1+	AA/Aa1/Aau	67	667	30,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
Lloyds	A+	F1	A1	P-1	A	A-1	AA/Aa1/Aau	66	65	30,000,000	36 Months	SUSPENDED !!!	Limit to 13 Months - CHECK !!!	
RBS	BBB+	F2	A3	P-2	BBB+	A-2	AA/Aa1/Aau	110	232	30,000,000	36 Months	SUSPENDED !!!	Limit to 35 Days - CHECK !!!	
Santander UK	A	F1	Aa3	P-1	A	A-1	AA/Aa1/Aau/ BBB+/Baa2/BBB+(Spain)	83	N/A	30,000,000	36 Months	SUSPENDED !!!	Limit to 6 Months - CHECK !!!	
Standard Chartered	A+	F1	Aa3	P-1	A	A-1	AA/Aa1/Aau	113	680	30,000,000	36 Months	SUSPENDED 02/03/16 !	SUSPENDED 02/03/16 !	
<b>UK Building Societies</b>														
Nationwide	A	F1	Aa3	P-1	A	A-1	AA/Aa1/Aau	97	N/A	30,000,000	36 Months	SUSPENDED !!!	Limit to 6 Months - CHECK !!!	
<b>Non UK Banks</b>														
<b>Australia</b>														
Australia & NZ Banking Group	AA-	F1+	Aa2	P-1	AA-	A-1+	AAA/Aaa/AAAu	70	N/A	15,000,000	36 Months	Limit to 6 Months - CHECK !!!	Limit to 6 Months - CHECK !!!	
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	AAA/Aaa/AAAu	70	N/A	15,000,000	36 Months	Limit to 6 Months - CHECK !!!	Limit to 6 Months - CHECK !!!	
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	AAA/Aaa/AAAu	70	N/A	15,000,000	36 Months	Limit to 6 Months - CHECK !!!	Limit to 6 Months - CHECK !!!	
Westpac Banking Group	AA-	F1+	Aa2	P-1	AA-	A-1+	AAA/Aaa/AAAu	70	N/A	15,000,000	36 Months	Limit to 6 Months - CHECK !!!	Limit to 6 Months - CHECK !!!	
<b>Canada</b>														
Bank of Montreal	AA-	F1+	Aa3	P-1	A+	A-1	AAA/Aaa/AAA	N/A	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
Bank of Nova Scotia	AA-	F1+	Aa3	P-1	A+	A-1	AAA/Aaa/AAA	N/A	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
Canadian Imperial Bank of Commerce	AA-	F1+	Aa3	P-1	A+	A-1	AAA/Aaa/AAA	N/A	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	AAA/Aaa/AAA	N/A	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
Toronto-Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	AAA/Aaa/AAA	N/A	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
<b>Finland</b>														
<b>Germany</b>														
Deutsche Bank	A-	F1	Baa2	P-2	BBB+	A2	AAA/Aaa/AAAu	240	N/A	15,000,000	36 Months	SUSPENDED !!!	SUSPENDED 02/03/16 !	
<b>Netherlands</b>														
ING Bank	A+	F1	A1	P-1	A	A-1	AAA/Aaa/AAAu	65	N/A	15,000,000	36 Months	SUSPENDED !!!	Limit to 100 Days - CHECK !!!	
Rabobank	AA-	F1+	Aa2	P-1	A+	A-1	AAA/Aaa/AAAu	65	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
<b>Sweden</b>														
Svenska Handelsbanken	AA	F1+	Aa2	P-1	AA-	A-1+	AAA/Aaa/AAAu	70	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	AAA/Aaa/AAAu	70	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
<b>Switzerland</b>														
Credit Suisse	A	F1	A1	P-1	A	A-1	AAA/Aaa/AAAu	120	N/A	15,000,000	36 Months	SUSPENDED !!!	Limit to 100 Days - CHECK !!!	
<b>USA</b>														
JP Morgan Chase	AA-	F1+	Aa3	P-1	A+	A-1	AAA/Aaa/AA+u	65	N/A	15,000,000	36 Months	Limit to 13 Months - CHECK !!!	Limit to 13 Months - CHECK !!!	
<b>Other</b>														
Deutsche Bank Global Liquidity Fund			Aaa / MR1+		AAA m		N/A	N/A	N/A	15,000,000	N/A	OK - Limit to 0.5% of Fund Size (approx £25M)	OK - Limit to 0.5% of Fund Size (approx £25M)	
<b>UK Local Authorities</b>							<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>15,000,000(per authority)</b>	<b>36 Months</b>	<b>OK</b>	<b>OK</b>	<b>110,000,000</b>
Supra-National Bonds ( EIB )	AAA		Aaa		AAA		N/A	N/A	N/A	Unlimited	Unlimited	SUSPENDED !!!	OK - CHECK !!!	
UK DMADF	AA		Aa1		AA		N/A	N/A	N/A	Unlimited	6 Months	OK	OK	
TOTAL FUNDS INVESTED													110,000,000	

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Report of: Corporate Director of Finance and Resources

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 January 2017		All

**SUBJECT: External Auditor Reports**

**1. Synopsis**

- 1.1 KPMG has produced two reports. The Annual Audit Letter 2015/16 summarises the outcome of all the audit work for the year and the Annual Report on grant claims and returns 2015/16 sets out the outcome of their grants audit work.

**2. Recommendations**

- 2.1 To note the attached Annual Audit Letter and grants claims and returns reports from KPMG for 2015/16.

**3. Background**

- 3.1 KPMG provides various reports to the Audit Committee throughout the year. The following reports are included on the agenda for this meeting:

- A. Annual Audit Letter 2015/16
- B. Annual Report on grant claims and returns 2015/16

- 3.2 There are no issues of concern contained within these reports.

**4. Implications**

- 4.1 **Financial Implications:**  
None.

- 4.2 **Legal Implications:**

None.

**4.3 Environmental Implications:**

There are no direct environmental implications.

**4.4 Equalities Impact Assessment:**

An equality impact assessment is not relevant as this is a report from an external body.

**4.5 Resident Impact Assessment**

There are no direct resident impact implications arising from this item.

**5. Conclusion and reasons for recommendations:**

5.1 The Committee is asked to note the contents of the attached reports.

**Appendices:**

- KPMG Annual Audit Letter 2015/16
- KPMG Annual Report on grants claims and returns 2015/16

**Background papers:** (available online or on request)

- None

Final Report Clearance:

**Signed by:**



Corporate Director of Finance and Resources

Date 9 January  
2017

**Received by:**

Head of Democratic Services

Date

Report Author: Alan Layton, Director of Financial Management  
Tel: 020 7527 2835  
E-mail: alan.layton@islington.gov.uk



# Annual Audit Letter 2015/16

London Borough of Islington

—

October 2016

# Contents

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### Report sections

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#### — Headlines

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### Appendices

#### 1. Summary of reports issues

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#### 2. Audit fees

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Islington in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

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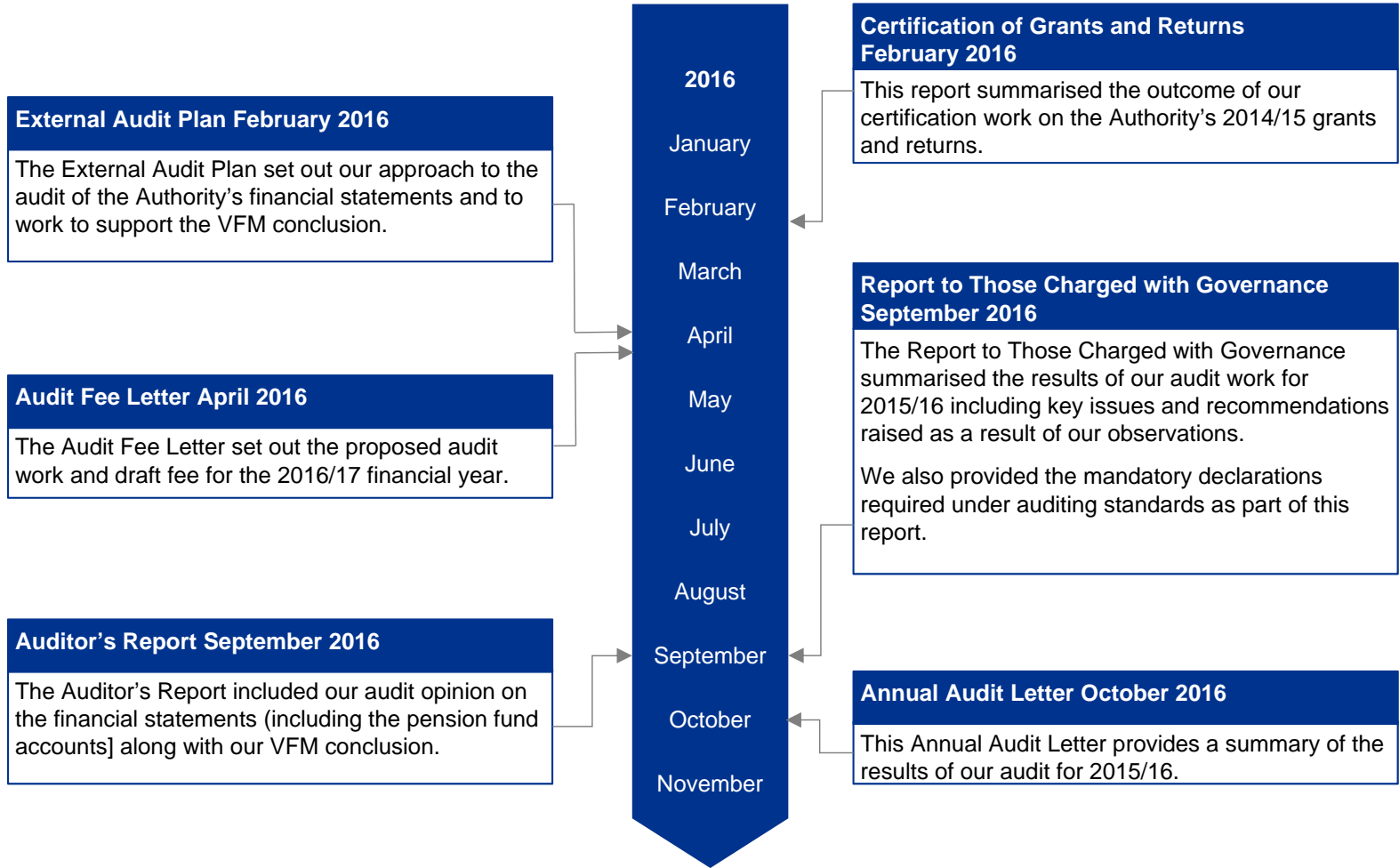
<b>VFM conclusion</b>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 29 September 2016. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p> <p>We issued an unqualified opinion on the pension fund financial statements as part of our audit report.</p>
<b>Financial statements audit</b>	<p>Our audits of the Authority's financial statements and those of the Pension Fund did not identify any significant adjustments to figures in the principal financial statements. As with previous years, the Authority has produced high quality draft financial statements and working papers and ensured staff are available to answer audit questions and resolve questions on a timely basis.</p>
<b>Other information accompanying the financial statements</b>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>
<b>Certificate</b>	<p>The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2013/14, 2014/15 and 2015/16. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.</p>
<b>Audit fee</b>	<p>Our scale fee for the audit was £202,830 plus VAT (£270,440 in 2014/15) as set by Public Sector Audit Appointments (PSAA). This fee was in line with that highlighted within our audit plan presented to the Audit Committee in March 2016. Our scale fee for certification for Housing Benefit Subsidy was £24,912 plus VAT and fees for the Teachers Pension Return and Pooling Housing Capital Receipts were £6,000 in total, plus VAT (£6,000 in 2014/15).</p> <p>The scale fee for the Pension fund was £21,000 (2014/15 £21,000) plus VAT. The fee is in line with that highlighted in our audit plan presented by the Audit Committee in March 2015.</p>

# Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at [www.islington.gov.uk](http://www.islington.gov.uk).

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This appendix provides information on our final fees for the 2015/16 audit.

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To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

**External audit**

Our final fee for the 2015/16 audit was £202,830 plus VAT, which is in line with the planned fee ((£270,440 in 2014/15).

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000 (2014/15 £21,000)

Our fees are still subject to final determination by Public Sector Audit Appointments.

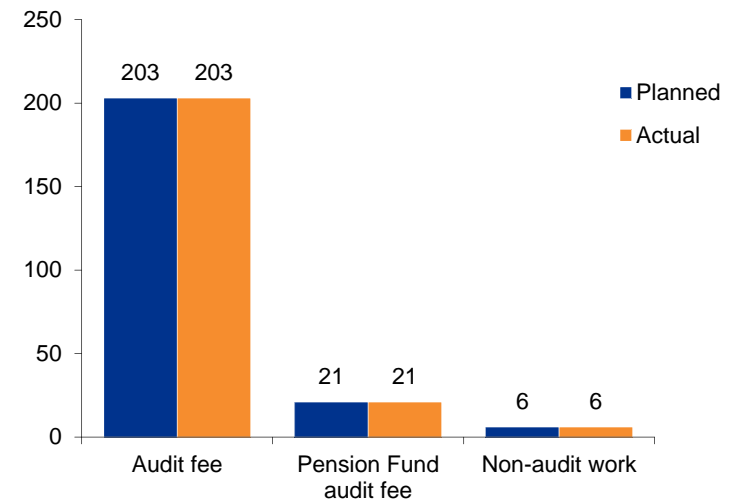
**Certification of grants and returns**

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority’s housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in February 2017.

**Other services**

We charged £6,000 for additional audit-related services for the certification of the End of Year Certificate grant claim Pooling of Housing Capital Receipts and Teachers Pension Return, which are outside of Public Sector Audit Appointment’s certification regime.

External audit fees 2015/16 (£'000)





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# Annual Report on grant claims and returns 2015/16

**London Borough of Islington**

**January 2017**



# Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

### Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified the Council's 2015/16 Housing Benefit Subsidy claim.
- Under separate assurance engagements we certified two returns as listed below.
  - Teachers' Pension Return; and
  - Pooling of Housing Capital Receipts.

### Certification and assurance results (Pages 3-4)

Our certification work on Housing Benefit Subsidy claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, we are pleased to report that no amendments were required and the claim has been certified as unqualified.

This was an improvement on 2014/15 where there were four errors identified as part of our sample testing of 60 cases that resulted in 40+ testing being undertaken on one cell.

Our work on the other grant assurance engagements resulted in unqualified assurance reports for both the Teachers' Pension return and Pooling of Housing Capital Receipts Return with no amendments identified.

### Recommendations

We have made no recommendations to the Council from our work this year.

There were three recommendations from previous years' work on grants and returns which were all implemented.

### Fees (Page 5)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy claim was £24,912, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and totalled £6,000.




# Summary of reporting outcomes

Overall, we carried out work on three grant claims and returns. All three were certified unqualified without amendment.

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council’s 2015/16 grant claims and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed is appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
<b>Public Sector Audit Appointments regime</b>					
— Housing Benefit Subsidy	1				
<b>Other assurance engagements</b>					
— Teachers’ Pension Return	2				
— Pooling of Housing Capital Receipts Return	3				
		0	0	0	3

# Summary of certification work outcomes

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This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p><b>Housing Benefit Subsidy Claim</b></p> <p>Our initial testing of 60 cases did not identified any errors and no amendments to the claim were required. This is an improvement on the results of our 2014/15 audit where we identified four errors were identified in relation to non-HRA rent rebates that resulted in 40+ testing being completed.</p>	No amendments required.
2	<p><b>Teachers' Pension Return</b></p> <p>The return was submitted to KPMG by the deadline. Working papers provided to support the claim were of a good quality and no amendments were required. The claim was therefore certified in advance of the deadline set by the TPA.</p> <p>This is a significant improvement on 2015/16 when the claim was subject to amendment in relation to refunds that required a significant amount of work for management time to identify the correct figure and resulted in the claim being submitted after the TPA's deadline.</p>	No amendments required.
3	<p><b>Pooling of Housing Capital Receipts</b></p> <p>The return was submitted to KPMG by the deadline. Working papers provided to support the claim were of a good quality and no amendments were required. The claim was therefore certified in advance of the deadline set by the CLG. This is an improvement on 2014/15 where the claim was subject to a minor amendment of £6k.</p>	No amendments required.

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grant claims and returns in 2015/16 was £30,912.

### Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £24,912. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £33,000.

### Grants subject to other assurance engagements

The fees for our assurance work on other returns are agreed directly with the Council. Our fees for 2015/16 were in line with those in 2014/15.

### Breakdown of fees for grants and returns work

Breakdown of fee by grant claim and returns		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	24,912	33,300
Teachers' Pension Return	3,000	3,000
Pooling of Housing Capital Receipts	3,000	3,000
<b>Total fee</b>	<b>30,912</b>	<b>39,300</b>



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### Report of: Corporate Director of Finance

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 January 2017		ALL

## OPT IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS WITH PSAA AS THE 'APPOINTING PERSON'

### 1. SYNOPSIS

- 1.1 Islington is determined to achieve its vision of a "Fairer Islington". Significant amongst these is the achievement of sound financial management and confidence in this Council's financial future. This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits.

### 2. RECOMMENDATIONS

- 2.1 To note the preferred option of the Council's acceptance of Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for financial years commencing 1 April 2018

### 3. BACKGROUND

- 3.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 3.2 The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission. KMPG LLP was appointed as the

Council's external auditors. This current appointment will end with the completion of the 2017/18 audit.

- 3.3 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.4 In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
- 3.5 PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.
- 3.6 The deadline for a response to the PSAA is 9 March 2017 and the decision is a matter reserved to Full Council.

## **4. OPTIONS AVAILABLE TO THE COUNCIL**

- 4.1 As a result the Council has three options:
  - 1) To undertake a complete procurement process itself and appoint its own auditor, or
  - 2) Undertake a joint procurement with other bodies
  - 3) To opt into a national collective scheme that PSAA is developing.
- 4.2 The option to undertake an individual procurement provides the Council with the independence to select a supplier itself. However this will require the time and effort of having to undertake a procurement and appointment process. It will also involve specifying the service required, inviting tenders, evaluating tenders. In addition a single procurement will lack the buying power to significantly influence quality and price. There would also be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
- 4.3 The option of a joint procurement with a small number of Councils is superseded by a national collective arrangement as a larger arrangement will attract better economies of scale and all the benefits of a joint or smaller procurement but on a greater scale. In addition many of our local neighbouring boroughs have also indicated their likely opt in to the PSAA collective arrangement and would thus not be inclined to join a smaller local joint procurement.

4.4 The option to take advantage of the national collective scheme is beneficial to the Council for a number of reasons. Although the Council loses some influence on the final outcome and will gain from:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

## **5. IMPLICATIONS**

### **Financial Implications**

- 5.1 The proposed fees cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. There is a risk that current external fees levels could increase when the current contracts end in 2018.
- 5.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 5.3 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

5.4 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council

**Legal Implications**

5.5 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements;

5.6 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

5.7 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing

**Resident Impact Assessment**

5.8 There are no direct equality implications.

**7. CONCLUSION**

7.1 The significant effort of all concerned in producing the statement of accounts and supporting the audit has been rewarded with a clean audit sign-off and an encouraging Annual Governance Report. The Audit Committee can be confident that the Council is well positioned to continue to report its financial activities and address the recommendations made by the auditors.

**Background papers:**

None



<b>Signed by</b>	.....	.....
	Corporate Director of Finance	Date
<b>Received by</b>	.....	.....
	Head of Democratic Services	Date

Responsible Officer: Alan Layton, Director of Financial Management  
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**Report of:** Corporate Director of Finance and Resources

<b>Meeting of:</b> Audit Committee	<b>Date:</b> 24 January 2017	<b>Ward(s)</b>

## **SUBJECT: Annual Report – Local Government Ombudsman Letter**

### **1. Synopsis**

- 1.1 The Annual LGO complaints letter is presented for review.
- 1.2 Using the statistics provided in the LGO review letter a review of all Maladministration/Fault cases has been undertaken and results summarised.
- 1.3 No further additional action is recommended to the Committee in regards to process and performance of complaint handling.
- 1.4 Sharing with Members is considered as best practise by the LGO.

### **2. Recommendations**

- 2.1 Audit Committee to note/confirm findings in Appendix 1 specifically section 5.0 Summary.
- 2.2 No specific new actions are recommended.

### **3. Background**

- 3.1 The LGO issues an Annual Report containing information on complaints received for each authority. The report covers, volumes of Complaints and enquires received and Decisions made including outcomes of detailed investigations which resulted in cases being Upheld with findings of “Maladministration/Fault with our without Injustice”.
- 3.2 Given the associated reputational risks relating to cases of Maladministration an internal report summarising the annual letter passes through CMB, MPP, Joint Board and Audit Committee.
- 3.3 Appendix 1 provides and overview and summary of our performance together with

associated recommendations.

- 3.4 As part of our Complaint handling the council has implemented the recommendations arising from the 3 complaints where we were found against us.

## 4. Implications

### 4.1 Financial implications:

Note, a total of £2150 paid in compensation by the Council as part of any remedial action.

### 4.2 Legal Implications:

None.

### 4.3 Environmental Implications:

None/ N/A

### 4.4 Resident Impact Assessment:

N/A

## 5. Conclusion and reasons for recommendations

- 5.1 Audit Committee to note the information within the report and findings in Appendix 1. The management of Complaints received by the LGO and associated management of risk, is viewed as acceptable at this time.

### Appendices: Appendix 1 Local Government Ombudsman (LGO) Annual Review Performance report Central Complaints Team

Final report clearance:

**Signed by:**



**Report Author:** Martin Bevis, Service Director, Resources Operations & Karen McKenzie, Customer Service Manager, Resources Operations

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## Appendix 1

# Local Government Ombudsman (LGO) Annual Review performance report

## Central Complaints Team

Following the publication of the LGO Annual Review Letter 2016 this report provides a summary of performance from 1 April 2015 to 31 March 2016 highlighting specific cases.

### Related documents

Local Government Ombudsman Annual Review letter 2016 dated 21 July 2016.  
Review of Local Government complaints 2015-16, July 2016

### 1.0 KEY FACTS

A total of 21 out of the 100 cases received by the LGO underwent detailed investigation. Of the 21 cases investigated 10 were upheld by the LGO which is an upheld rate of 48%.

#### Table 1: Services and Decisions

##### Adult Social Care - Total 3

Summary of complaint	Compensation amount	Compensation reason
Investigation conducted by the council regarding an incident in 2013. The investigation was not done in a timely manner and resulted in time, trouble and distress.	£200.00 <b>Suitable local resolution no further remedy from LGO</b>	Time and Trouble
The council failed to consider the families concerns regarding the suspension of the direct payments. <b>Maladministration No injustice</b>	Direct payments resumed <b>Suitable local resolution no further remedy from LGO</b>	
Delay in 2014 assessment of care and withholding personal care budget. <b>Maladministration No injustice</b>	Monies held by the council paid no injustice caused by the fault <b>Suitable local resolution no further remedy from LGO</b>	

## Housing - Total 4

<b>Summary of complaint</b>	<b>Compensation amount</b>	<b>Compensation reason</b>
Delay in deciding on homelessness application. Delay in referral to Children in Need service. <b>Maladministration and injustice</b>	£500.00 <b>Suitable local resolution no further remedy from LGO</b>	Failure to forward a safeguarding referral
The council's response to suggestion to pay compensation after it served a Prohibition Order on the complainant's home. <b>Maladministration and injustice</b>	£400.00	Uncertainty time and trouble
Council perusal of Breach of Lease while seeking to impose conditions on the sale of freehold. <b>Maladministration and injustice</b>	Legal costs refunded <b>Suitable local resolution no further remedy from LGO</b>	
Error in a letter informing complainant of outcome of the medical priority for housing and delays in responding to complainants emails. <b>Maladministration and injustice</b>	£50.00	Time and Trouble

## Planning and development - Total 1

<b>Summary of complaint</b>	<b>Compensation amount</b>	<b>Compensation reason</b>
Incorrect advice given on an application for changes to an extension. <b>Maladministration and injustice</b>	£750.00 <b>Suitable local resolution no further remedy from LGO</b>	Recognition of in justice

## Benefits and Tax service Total - 1

<b>Summary of complaint</b>	<b>Compensation amount</b>	<b>Compensation reason</b>
Council tax arrears; failure to record discussions; note follow-up discussions/ Letter sent caused confusion and stress. <b>Maladministration and injustice</b>	£250.00	Time and Trouble

**\*Corporate Total - 1**

<b>Summary of complaint</b>	<b>Compensation amount</b>	<b>Compensation reason</b>
Inclusion on the councils vexatious register renewal and notification of vexatious status. <b>Maladministration and injustice</b>	Review length of time on register, review policy and signposting <b>Suitable local resolution no further remedy from LGO</b>	

**2.0 COMPARISON TO PREVIOUS YEAR**

There was an overall increase in complaints and enquiries received for 2015/16 however we saw a reported decrease in Adult Social Care complaints from 19 to 13, Benefit and Tax from 14 to 9 and Environment Service, Public Protection & Regulation from 10 to 6.

Highways and transport complaints increased from 11 to 14.

The number of complaints that underwent detailed investigation increased along with the number upheld.

	<b>Complaints received</b>	<b>Complaints investigated</b>	<b>Complaints upheld</b>	<b>Upheld rate</b>
<b>2014/2015</b>	111	16	7	43%
<b>2015/2016</b>	100	21	10	48%

**Borough comparisons**

<b>2015/16</b>	<b>Complaints Received</b>	<b>Complaints investigated</b>	<b>Complaints upheld</b>	<b>Upheld rate</b>
Camden	139	29	12	41%
Hackney	118	23	12	52%
Haringey	214	46	32	70%
Islington	100	21	10	48%

**3.0 FINANCIAL IMPACT**

A total of **£2150** has been paid in compensation to complainants of which £900 was attributed to Time and Trouble and the highest payment of £750 was paid for recognition of injustice.

In addition to compensation payments £350 would have been charged to each department for the investigation at Chief Executive (CE) stage of the complaint, making a total **£3150** recharge \*(excluding Corporate complaint).

#### **4.0 LGO HEADLINE MESSAGE**

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- We received 19,702 complaints and enquiries, which is a similar level to the previous year.
- We upheld 51% of detailed investigations, which has increased from 46% the previous year.
- The area most complained about is education and children's services.
- We also saw the biggest increase in percentage terms (13%) in complaints and enquiries about education and children's services.

#### **5.0 SUMMARY**

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The council has not seen a significant change in the number of complaints on the previous year however there has been a 5% increase in our upheld rate.

We have not seen any identifiable trends and departments continue to monitor complaint types and in most cases take suitable action to remedy any injustice caused when at fault.

Of the 10 cases that underwent investigation the LGO agreed that the council took suitable action to remedy the fault of 7 cases and no further remedies were recommended. This shows that at a local level the council is using effective solutions to resolve complaints; however complainants are still choosing to escalate to Ombudsman level. Of the remaining 3, actions/remedies were recommended by the LGO for the fault and the council has complied.

**Karen McKenzie**

**Customer Services and Improvements Manager**

**September 2016**



Resources Department  
7 Newington Barrow Way, London N7 7EP

Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Audit Committee	24 January, 2017		

**Subject: Islington Council's use of Agency Workers**

### 1 Synopsis

- 1.1 This report provides the Audit Committee with an up-date on the council's use of agency workers.

### 2. Recommendations

- 2.1 To note the information provided in this report.

### 3 Background

- 3.1 In 2013/14 a review was undertaken of the council's use of agency workers. A list of recommendations were agreed and considered by the Executive. The Executive agreed that a bi-annual update be provided on the council's use of agency workers and its implementation of the actions agreed by the Executive. This is the fifth such report.
- 3.2 In the fourth report it was noted that an analysis has been undertaken of the use of agency workers in all departments to identify how the long term annual average 10% target could be broken down between services which may have very different needs to use agency workers. This report provides a general update on agency use and on progress in respect of departmental targets.
- 3.3 In the fourth report it was established that the actions agreed by the Executive had been either completed or embedded on an on-going basis. This report therefore only provides a further update.

#### 4 Spend on agency workers

4.1 Appendix 1 shows the spend on agency workers by department for the past 3 years and demonstrates a reduction between the period 2014/5 and 2015/16 of slightly less than £3/4m

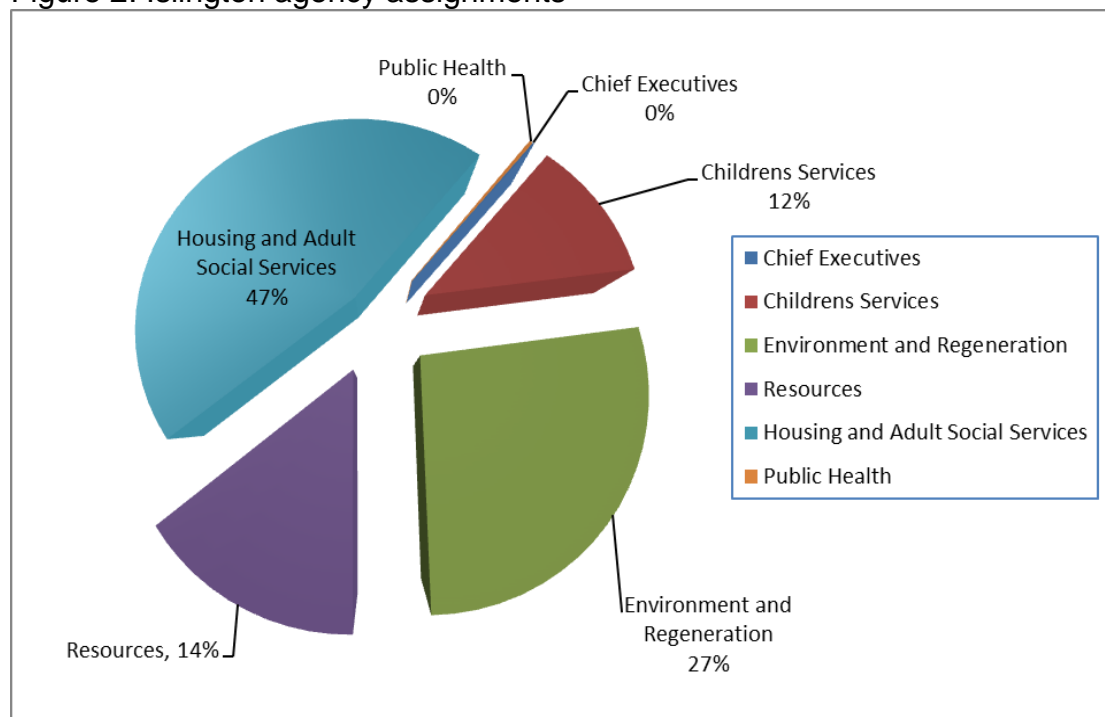
#### 5 Use of agency workers

5.1 Figure 1: Use of agency workers compared to council employees

	Live agency assignments through Comensura	Use of agency workers by full time equivalent	Agency workers as a percentage of the workforce	Agency workers as a percentage of the workforce based on fte
October 2016	763	689.32	14.04%	13.75%
May 2016	720	666.37	13.6%	12.48%
September 2015	807	719.91	14.7%	13.09%
June 2015	972	900.46	17.39%	17.00%

As at 31<sup>st</sup> October 2016 there were 763 live agency assignments via the Comensura contract compared to the 720 in May 2016 and 807 reported to this committee in December 2015. It should be noted that an assignment does not equate to a full-time post, and can be as short as one day's work. The full time equivalent (fte) figure for these 763 assignments is 689.32 agency workers, which demonstrates a small increase from May this year. Based on headcount, agency workers made up 14.04% of Islington Council's workforce, as at 31<sup>st</sup> October 2016, (based on fte, it is 13.75%) compared to 17.39% reported in June 2015. This compares to an average figure of 14.7% (based on headcount) across all London councils. This London-wide figure relates to 2015/16.

Figure 2: Islington agency assignments



Source: Comensura: October 2016

On 31<sup>st</sup> October 2016, HASS had the highest number of live assignments, with 356 (compared with 363 in the last report to this committee), followed by Environment and Regeneration, with 205 (compared with 163 in the last report to this committee), Resources with 110, Children's Services with 89, Public Health with 2 and Chief Executive's Department with 1.

## **5.2 Use of agency workers by service**

Figures for use of agency assignments by particular services as at the end of October 2016 are contained at Appendix 2. As explained above, this figure relates to the number of occasions on which agency workers have been engaged, not the full-time equivalent figure

## **5.3 Average length of assignment**

The average agency worker has been at the council for 368 days (12 months). 250 agency workers have been at the council for longer than 12 months, which equates to 32.76% of assignments. This is a major improvement from the last time this was reported to this committee, when the figure was 411 agency workers, which equated to 35.69% of assignments.

## **5.4 Types of assignments undertaken**

Appendix 3 sets out the roles undertaken by agency workers, shown by department, based on the October snapshot report. The categories of roles are those available for selection when entering an assignment in the Comensura system.

- In the Public Health and Chief Executive's Department, agency workers are used mostly to cover professional staff.
- In Children's Services the majority of cover is for qualified or unqualified social care staff, who also make up a substantial part of the contingent labour in HASS.
- In HASS, organisational changes are planned and agency workers are being engaged until there is clarity around staffing needs, at which point the number of agency workers is expected to reduce. This may account for the relatively high number of agency workers categorised as administrative and clerical workers in that department at present.
- In December 2015, in E&R the most common category of agency assignment, manual labour, stood at 183, which has reduced to 154 in October 2016. E&R reports that the fte equivalent for this type of worker represents 118, with the overall number standing at 165. The position has remained relatively stable following the reductions seen in the previous reporting period, and the number of agency staff is expected to further reduce after February 2017, when the Village Principle is phased in.
- In Resources, agency workers are most commonly used in technical roles and there is a focus on reducing the use of these agency workers, with campaigns currently under way to recruit to permanent and fixed-term contracts. Once this recruitment has been completed, the use of agency workers is also expected to reduce.

## 5.5 Progress towards meeting departmental targets

The analysis of service requirements for agency workers has led to the following departmental targets for use of agency workers to enable the long-term annual average 10% target to be achieved. The agency worker strategy identifies a medium term target of 11.7% based on departmental use figures and actions underway to reduce use. Current progress on these targets is set out below.

Department	Target %	Current Performance %
Chief Executive's	2.5	1.92
Children's Services	9.5	7.9
E&R	12	14.62
Resources	10	10.76
HASS	16	19.93
Public Health	3	4.44
<b>Medium term annual average target</b>	<b>11.7</b>	<b>14.04</b>

As the Public Health department is small, use of a small number of agency workers can amount to a quite high percentage. The department regularly has no agency workers at all so the significant discrepancy shown in the table does not represent the typical use of agency workers. In addition, both of the current agency assignments in Public Health are funded entirely from the Camden budget to deliver Camden-specific projects.

## 6 Factors expected to impact the use of agency workers

- 6.1 In the Autumn Statement, the much anticipated reforms to the IR35 legislation were confirmed. These provide for shifting the responsibility of applying IR35 from Personal Service Companies to the party who pays the Personal Service Company. IR35 is a set of rules designed to ensure that individuals working for a client through an intermediary (such as a personal service company) pay roughly the same amount of tax and National Insurance contributions, as if they had been directly employed. This change is designed to move as many public sector contractors as possible to be 'on payroll' and therefore considered for tax purposes to be the same as an employee. In the case of contractors who, applying the IR35 criteria, are not deemed to be 'on payroll', and who can therefore still operate as contractors, the 5% tax-free allowance will be removed. These reforms may result in a reduction in the number of agency workers.

**ACTION:** Monitor the impact of reforms to IR35 legislation on the number of agency workers.



## **7 Proposal for further work to reduce the use of agency workers**

- 7.1 A list of the agency workers in each department is sent to the relevant Corporate Director every month, to give them the opportunity to review the use of agency workers regularly. This month, this list has been accompanied by some narrative which highlights the length of some of the contracts and the nature of some of the roles being undertaken by agency workers. HR Business Partners have been asked to engage directly with senior managers to assess whether the most appropriate resourcing route is being followed, starting with the longest contracts and Corporate Directors have been asked to encourage managers to consider whether fixed-term or permanent contracts may be more relevant, particularly where the need for the skills or capacity is longer-term.

**ACTION:** Human Resources to continue to engage constructively with senior managers to assist them in reviewing their approach to the use of agency workers.

- 7.2 Agency workers are often used to fill gaps until recruitment to permanent or fixed-term contracts bears fruit.

**ACTION:** It is proposed to carry out analysis of the timescales of the various stages of recruitment campaigns to identify if any delays are occurring. If delays are affecting the time taken to appoint to permanent or fixed-term roles, appropriate action should be taken to reduce them. This may include providing additional training for managers or reviewing procedures.

## **8 Recommendation**

As the actions agreed by the Executive in 2013 have now either been completed or are embedded on an on-going basis, and the actions proposed above form part of the on-going work in Human Resources, the committee may wish to consider whether the council's use of agency workers still merits monitoring by the Policy and Performance Scrutiny Committee.

## **9 Implications**

### **Financial implications:**

None arising directly from this report.

### **Legal Implications:**

None arising directly from this report.

### **Environmental Implications:**

None

### **Resident Impact Assessment:**

No resident impacts arise directly from this report. An equalities analysis of agency workers as at 31<sup>st</sup> October 2016 is set out below:

## Gender

The gender balance of the agency workforce closely matches the directly employed workforce: 53.2% of agency workers are male, compared to 48.3% of council employees.

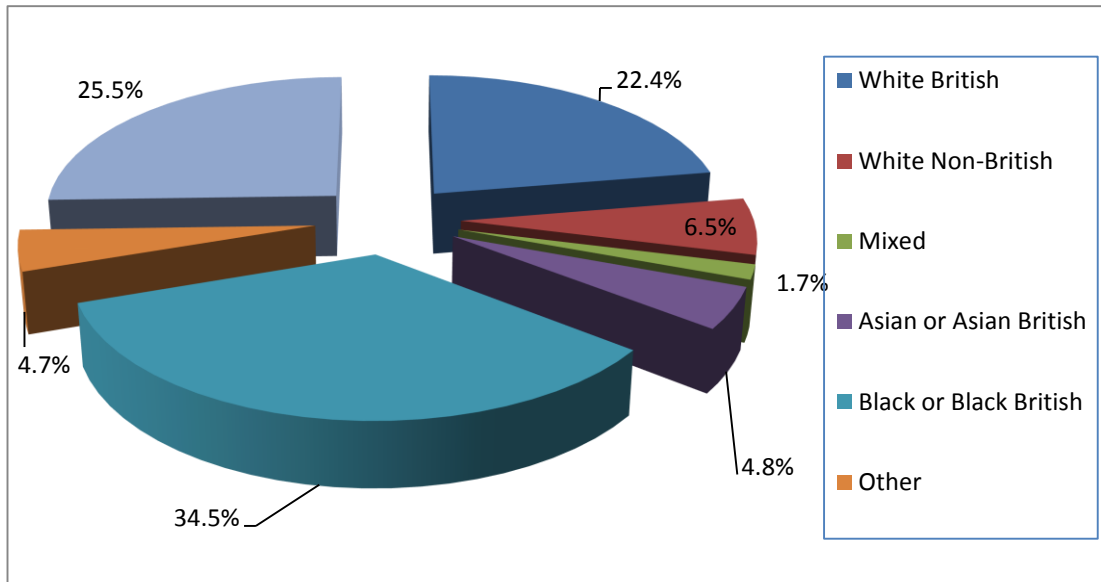
## Disability

The percentage of agency workers declaring a disability is 1.00%, which is significantly lower than the figure for directly employed staff, which is 7.69%.

## Ethnicity

Agency workers are more ethnically diverse than the permanent workforce, with 45.7% of agency workers coming from BME groups compared to 41.00% of directly employed staff. There is a large percentage (25.5%) of Agency staff who prefer not to declare their ethnicity.

Figure 3: Ethnic breakdown of agency workers



Source: Comensura: October 2016

## Age

The age distribution of the agency workforce is set out in the table below. The agency workforce is younger than the Council's: 6.6% of agency workers are under 25 compared to 3.64% of directly employed staff.

Figure 3: Age profile of agency workers

16-24	25-34	35-44	45-54	55-64	65+
6.6%	24.9%	26.8%	29.3%	10.9%	1.5%

Source Comensura: October 2016

**9 Conclusion**

Use of agency workers is stable and below the average across London councils. Scrutiny of the number of agency workers continues and efforts are on-going to reduce their use, which has resulted in a significant reduction in spend.

The actions agreed by the Executive have been completed and/or embedded, and further actions have been proposed as part of the on-going work of the Human Resources function, working alongside service managers.

Final report clearance:



**Signed by:**

Director of Human Resources

Date 9<sup>th</sup> January,  
2017

**Received by:**

Head of Democratic Services

Date

**Report  
Author:**

Liz Haynes, Director of Human Resources, Resources Department

**Tel:**

020 527 3523

## Appendix 1

### Spend on agency workers from November 2015 to October 2016

Year Period	Spend by Directorate						Total Spend
	Chief Executives	Childrens Services	Environment and Regeneration	Finance & Resources	Housing and Adult Social Services	Public Health	
November 15 - October 16	£526,101	£3,845,127	£5,506,032	£5,078,407	£12,001,568	£107,836	£27,065,071
November 14 - October 15	£415,499	£4,200,612	£6,262,262	£4,531,437	£12,311,011	£76,953	£27,797,773
November 13 - October 14	£527,575	£3,503,109	£6,703,345	£4,111,210	£9,831,405	£173,995	£24,850,639
<b>Total</b>	<b>£1,469,175</b>	<b>£11,548,848</b>	<b>£18,471,639</b>	<b>£13,721,054</b>	<b>£34,143,984</b>	<b>£358,784</b>	<b>£79,713,483</b>

## Appendix 2:

### Number of agency worker assignments by council service

Chief Executives		1
	Business Support Unit	1
Childrens Services		89
	Business Support Services	1
	Children and Families	1
	Children In Need	29
	Children Looked After	11
	Childrens Services	2
	Commissioning and Business Support	18
	Partnerships and Employability	1
	Play and Youth Service	3
	Project Team	4
	Pupil Services	6
	Safeguarding and Quality Assurance	1
	School Improvement Alternative Provision	1
	Strategy and Commissioning	6
	Targeted and Specialist Children and Family Services	2
	Targeted Youth Support and Youth Offending	2
	Workforce Development	1
<b>Environment and Regeneration</b>		<b>205</b>
	Building Control	3
	Cemetery Service	1
	Development Control	15
	Development Management	1
	Education Library Service	1
	Environmental Services	1
	Greenspace and Leisure	3
	Library and Heritage Service	2
	Planning and Development	1
	Public Realm	2
	Street Environmental Services	158
	Street Management	12
	Street Works	1
	Trading Standards	1
	Traffic and Engineering	2
	Waste Management and Enforcement	1
<b>Resources</b>		<b>110</b>
	Accommodation and Facilities	33
	Corporate Health and Safety	1
	Customer Services	15
	Customer Services Unit	1
	Digital Services	37

	Facilities	1
	Human Resources (HR)	5
	Legal Services	2
	Networks	2
	Property and Procurement	2
	Property Services	3
	Revenues - Council Tax and Business Rate	6
	Scrutiny and Democratic Services	1
	Service Finance	1
<b>Housing and Adult Social Services</b>		<b>356</b>
	Administration Drayton	1
	Adult Social Care	1
	Allocation	1
	Camden and Islington Mental Health	1
	Capital Programme Delivery (HASC)	26
	Central Admin (HASC)	4
	Central Services (HASC)	2
	Community Services	126
	DLO	17
	HFI Legal Disrepair (HASC)	13
	Highbury House Area Office	1
	Holland Walk (Caretakers) (HASC)	3
	Holland Walk (HASC)	3
	Home Ownership Unit (HASC)	2
	Housing Direct	10
	Housing Needs and Strategy	6
	Housing Operations	19
	Housing Property Services	4
	Human Resources	1
	Investigations And Interventions	1
	Islington Adult Integrated Community Service	3
	Islington Re-Hab Team	1
	Joint Services	58
	Learning Disabilities	3
	Mental Health	5
	Mental Health Service	1
	Mental Health Trust	1
	Old ST AO (HASC)	2
	Old St Ao Caretakers (HASC)	1
	Partnerships	2
	Planned Maintenance Repairs (HASC)	5
	Productivity and Compliance	15
	Property Services	2
	Property Services Repairs	4
	Rent Arrears (HASC)	1
	Repairs and Maintenance	4

	Senior Management Team	2
	Sensory Team	3
	Transformation Programme	1
<b>Public Health</b>		<b>2</b>
Public Health		2
<b>Grand Total</b>		<b>763</b>

### Appendix 3 - Agency worker roles

	Chief Executives	Childrens Services	Environment and Regeneration	Resources	Housing and Adult Social Services	Public Health	Grand Total
Admin and Clerical	1	24	13	6	25	1	70
Education	0	9	0	0	0	0	9
Engineering and Surveying	0	0	6	3	41	0	50
Facilities and Environmental Services	0	0	13	1	4	0	18
Financial	0	3	0	1	2	0	6
Housing Benefits and Planning	0	0	3	19	46	0	68
Human Resources	0	0	0	4	1	0	5
Information Technology	0	1	0	6	1	0	8
Interim Executive	0	0	0	32	4	0	36
Legal	0	2	0	2	2	0	6
Management	0	0	0	0	1	0	1
Manual Labour	0	0	154	33	11	0	198
Marketing	0	0	0	1	0	0	1
Social and Healthcare Qualified	0	43	0	0	70	1	114
Social and Healthcare Unqualified	0	7	0	2	116	0	125
Trades and Operatives	0	0	16	0	32	0	48
<b>Grand Total</b>	<b>1</b>	<b>89</b>	<b>205</b>	<b>110</b>	<b>356</b>	<b>2</b>	<b>763</b>





Report of: **Corporate Director of Finance and Resources**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 January 2017		

Delete as appropriate		Non-exempt	
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## **SUBJECT: Internal Audit Interim Report 2016/17**

### **1. Synopsis**

- 1.1. The provision of a continuous internal audit service assists the Council in providing assurance on the control environment that supports the delivery of the Council's Strategy.
- 1.2. This report summarises the work that Internal Audit has undertaken from 1<sup>st</sup> April 2016 to 31<sup>st</sup> October 2016, identifies the key themes that we have identified across the authority, and also highlights how responsive management have been in implementing recommendations.

### **2. Recommendations**

- 2.1. To note the content of this report and the information provided in Appendix A.

### **3. Background**

- 3.1. The provision of a continuous internal audit service assists the Council in ensuring it has an effective control environment and so supports the delivery of the Council's services.

3.2. The Internal Audit Programme (Annual Plan) was approved by this Committee in March 2016. The findings from the execution of that work programme to October 2016 are attached as Appendix A.

## 4. Implications

### 4.1. Financial implications

The programme of audit work was met from within the existing Internal Audit revenue budget

### 4.2. Legal Implications

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states 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'*. The standards for 'proper practices' in relation to internal audit, are laid down in the Public Sector Internal Audit Standards 2013

### 4.3. Resident Impact Assessments

There are no direct Resident Impact Assessment implications arising from the recommendations in this report.

## 5. Conclusion and reasons for recommendations

This report indicates the level of work being undertaken by Internal Audit in order to provide assurance over Islington's control environment.

Final Report Clearance

Signed by



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...

.....  
Corporate Director of Finance

Date

Received by

.....  
Head of Democratic Services

.....  
Date

Report author: Michael Bradley, Head of Internal Audit  
Tel: 07979834012  
E-mail: michael.bradley@islington.gov.uk

# London Borough of Islington

## Internal Audit 2016/17 Interim Report

January 2017

## 1. Purpose of this report

This report summarises the work that Internal Audit has undertaken from 1<sup>st</sup> April to 31<sup>st</sup> October 2016 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority.

## 2. Overview of Year to Date

From 1<sup>st</sup> April 2016 to 31<sup>st</sup> October 2016 we have issued the following (details of individual reports can be found in Service Summaries below):

- Two **Limited** Assurance reports
- One **Moderate** Assurance report
- Six management letters

We are on track to complete the audit plan as agreed by end March 2017. Deferrals may need to be made to accommodate high priority/urgent pieces of work as necessary; these will, however, be discussed and agreed with management.

## 3. Update on progress on implementation of previous years' recommendations

The following areas were reported in the 2015/16 Annual Report as either:

- assurance had not increased from limited to moderate on follow up; or
- high priority recommendations were still outstanding on follow up.

The current status is detailed below:

Department	Audit Title	Original Assurance Rating	Revised Assurance Rating	Outstanding Recommendations
E&R	Planning/S106/ Building Control	Limited	Limited	Follow up of reports originally issued in 2011/12. Originally 31 recommendations were made, of which 15 were high priority, 13 medium and 3 low. All three areas remain limited, with the following remaining outstanding: 5 high priority recommendations; 2 medium priority; 2 low priority. The outstanding recommendations relate to, or are associated with, the M3 system in place preventing adequate management information allowing effectiveness in the process and monitoring of planning/building control applications. Internal Audit understands that management have put manual work-arounds in place to counteract the issues with M3 and mitigate the risks. The effectiveness of these controls have not yet been independently verified by Internal Audit.

## 4. Update on progress on implementation of 2015/16 recommendations (as at 31st October 2016)

Department	2015/16 Audit Title	Original Assurance Rating	Revised Assurance Rating	Direction of Assurance	Position as at 31 <sup>st</sup> October 2016
Cross-Cutting	Sunnyside (INTERIM)	No	Indicative of Limited	↑	The original audit was completed in December 2015. A follow up exercise was completed in July 2016 and it was identified that three recommendations (one critical, one high and one medium) have not been implemented, three recommendations (one critical and two high) have been partially implemented and four recommendations (one critical, one high and two medium) have been fully implemented. The outstanding recommendations relate to financial management, expenditure, governance arrangements and policies and procedures. This audit originally attracted a 'no assurance' rating. As a result of the rate of implementation of recommendations, the level is now indicative of 'limited' assurance, which suggests that the control environment, in relation to the specific areas covered by this audit, has slightly improved on follow up, however, there remain some areas of weakness which require addressing in order for the control environment to be assessed as adequate. A further follow up has been scheduled for January 2017.
Page 81 E&R	Vehicle Maintenance and Fleet Management (INTERIM)	n/a - Management Letter (indicative of no assurance)	Indicative of limited assurance	↑	Management letter originally issued in August 2015 highlighted that there remain several outstanding recommendations following the 2013/14 Internal Audit review of Council Fleet Management and the wider review of vehicle maintenance raised a further nine high risk issues. An interim follow up review completed in May 2016 identified that from the total of eleven recommendations for Fleet Management, two recommendations (including one high priority) have been fully implemented, one medium recommendation has not been implemented and six recommendations (including one high priority) have been partially implemented. For Vehicle Maintenance, the review has identified that from a total of nine high priority recommendations, one has been fully implemented, one has not been implemented and seven recommendations have been partially implemented. This audit originally attracted a 'No' assurance rating. Internal Audit acknowledges actions already implemented and on-going efforts to implement those actions remaining outstanding. As a result of the rate of implementation of recommendations, the assurance level at the interim stage of the audit is indicative of 'limited' assurance. This suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up. A final follow up will be undertaken in February 2017.
HASS	Harry Weston TMO	No	Moderate	↑	The original audit was completed in June 2015. A follow up exercise was undertaken in May 2016 and it was confirmed that twelve recommendations (including all four high priority) have been fully implemented, two medium recommendations were outstanding and one recommendation had been superseded. As a result of the rate of implementation of recommendations, the level is now indicative of a ' <b>moderate</b> ' assurance rating, which suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up.

Department	2015/16 Audit Title	Original Assurance Rating	Revised Assurance Rating	Direction of Assurance	Position as at 31 <sup>st</sup> October 2016
Children's	Canonbury School	No	Moderate	↑	The original audit was completed in October 2015. A follow up exercise was completed in May 2016 and it was noted that 17 recommendations have been fully implemented and one recommendation (High Priority) has been partially implemented. It should be noted that despite the recommendation not being fully implemented, the School has made significant progress towards implementing this recommendation and improving the controls and processes. As a result of the rate of implementation of recommendations, the level is now indicative of <b>'moderate' assurance</b> , which suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up. We believe the school should be commended for the prompt and thorough response to a challenging audit report.
Children's	The Factory Children Centre	No	Moderate	↑	The original audit was completed in November 2015. A follow up exercise was undertaken in June 2016 and highlighted that sixteen recommendations (including the one critical and eleven high priority recommendations) have now been fully implemented and three recommendations (one high and two medium priority) have been partially implemented. As a result of the rate of implementation of recommendations, the level is now indicative of <b>'moderate' assurance</b> , which suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up. A further follow up will be completed in January 2017.
HASS	Leaseholder service & Major Works charges - Direct Services	Moderate	Moderate	n/a	In the previous report four medium priority recommendations were made. Our follow up audit revealed that two recommendations have been fully implemented, one recommendation has been partially implemented; and one recommendation has not been implemented.
E&R	Vehicle Procurement Investigation	n/a - Management Letter	n/a - Management Letter	n/a	In the previous report five recommendations (four medium and one low priority) were made. Our follow up audit revealed that four recommendations have been fully implemented and one recommendation (medium priority) has been partially implemented.

## 5. Service Summaries: Reports Issued 1st April – 31st October 2016

### 5.1. Cross-Cutting/Corporate Reviews

#### a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Box (addition to plan)	n/a – management letter	The Council commissioned a piece of work to review the security arrangements of the Box application. It is understood that the proposed future rollout of O365 will largely supersede the recommendations made in relation to Box.

#### b) Work in Progress as at 31<sup>st</sup> October 2016

Audit ref	Audit title	Status
CC15_3	Cross-Council Savings	Final Report due January 2017

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#### c) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March

Audit ref	Audit title
CC16_4	Information Governance – General Data Protection Regulation
CC16_2	Cyber Security

Reviews of Voluntary Organisations and Resident Impact Statements postponed to April 2017 as agreed with management.

## 5.2. Environment and Regeneration

### a) Work in Progress as at 31<sup>st</sup> October 2016

Audit ref	Audit title	Status
ER16_1	Commercial Waste	Final Report due February 2017

### b) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March

Audit ref	Audit title
ER16_2	Transforming Street Scene
ER16_3	Street Trading

### a) Follow Ups scheduled 1<sup>st</sup> November to 31<sup>st</sup> March

2015/16 Audit title	Original Assurance Rating
Operational Business Continuity (cross-cutting)	Limited
Anti-Social Behaviour (cross-cutting)	Limited
SES Agency	Limited
Open Spaces/Parks Management	Moderate
E&R Purchase Orders	n/a - Management Letter
High Rise Insulation Project	n/a - Management Letter
Transport Infrastructure Code	n/a - Management Letter
iCo – Trading Company	n/a - Management Letter

Plus the final follow ups for: Vehicle Maintenance and Fleet Management and; Sunnyside will be completed in Q3/4 as outlined above.



## 5.3. Housing and Adult Social Services

### a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Islington Law Centre (addition to plan)	Limited	High priority findings related to financial management, separation of duties, and financial procedures.

### b) Work in Progress as at 31<sup>st</sup> October 2016

Audit ref	Audit title	Status
HASS16_3_2	TMO: Arch Elm	Final Report due January 2017
Addition to Plan	TMO IT Arrangements	Final Report due January 2017

### c) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March

Audit ref	Audit title
HASS16_1	Care Homes
HASS16_3_3	TMO: Dixon Clarke
HASS16_3_4	TMO: Charteris
HASS16_3_5	TMO: Hornsey Lane

Review of Responsive Repairs cancelled at management request

## 5.4. Children's Services

### a) Reports finalised

Report Title	Assurance Rating	Key issues arising
School Audit: The Bridge	Limited	Three high priority recommendations were identified relating to HR and Payroll.
Hornsey Road Children's Centre	Moderate	The audit highlighted five medium risk issues, including budgetary control, income and expenditure statements, purchasing, arrears and risk register.
Stronger Families - September 2016	n/a - management letter	Management letter issued; assurance statement not created. All claims must be approved by the Council's Internal Audit team prior to the closing date of each claim window. Internal Audit was satisfied that the proposed claim for September 2016 was accurate based on the sample testing performed and the provisional number of claims identified.

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### b) Work in Progress as at 31<sup>st</sup> October 2016

Audit ref	Audit title	Status
CS16_4	Education Health Care Plans	Final Report November 2016
CS16_6	Foster Care & Adoption Payments	Draft Report due December 2016
CS15_1_3	St Aloysius	Final Report due December 2016
Addition to Plan	East West Nursery	Final Report due December 2016

c) **Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March**

Audit ref	Audit title
CS16_3	Personal Budgets (follow up to 2015/16 No Assurance report)
CS16_1_1	School: St John's Highbury Vale
CS16_1_2	School: St Jude's & St Paul's
CS16_1_3	School: St Mark's
CS16_1_4	School: Hanover
CS16_1_5	School: St John Evangelist
CS16_1_6	School: Laycock
CS16_1_7	School: Central Foundation

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Further certifications for the Stronger Families grant will also take place in line with submission periods.

## 5.5. Finance and Resources

a) **Reports finalised**

Report Title	Assurance Rating	Key issues arising
Abacus/Controcc - Phase 1	n/a - management letter	Management letter issued; assurance statement not created. Review of processes and controls in place within the ContrOCC application following migration from Abacus. No issues noted with the setup of roles and responsibilities in ControCC. In previous reports relating to the Abacus application, five recommendations (three medium and two low) were made. It was noted that three recommendations have now been fully implemented and two recommendations have been partially implemented. A second phase of work will be completed in January 2017 to test whether controls are operating effectively.

Report Title	Assurance Rating	Key issues arising
Supplier Bank Detail Amendments (addition to plan)	n/a – management letter	Following an attempted mandate fraud, the Investigations team carried out an immediate investigation into the fraud and Internal Audit also reviewed the controls around supplier bank detail amendments, in line with the recent Continuous Auditing outcome and a follow up of a management letter issued in August 2015 relating to the same area. Investigations presented their findings in a separate management letter. Internal Audit raised two high priority recommendations relating to establishing the veracity of supplier details and documenting procedures.
DBS Checks (addition to plan)	n/a - management letter	High priority findings related to the definition and communication of roles and responsibilities; setting of formal protocols; and the management of DBS renewals for agency staff.

a) **Work in Progress as at 31<sup>st</sup> October 2016**

Audit ref	Audit title	Status
CE16_3	Gifts and Hospitality	Final Report due February 2017
Addition to Plan	IT 3 <sup>rd</sup> Party Arrangements	Final Report due January 2017

b) **Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March**

Audit ref	Audit title
FR16_3	Abacus/Controcc - Phase 2
FR16_1	Continuous Auditing/Key Financial Systems
CE16_1	Payroll



Finance  
7 Newington Barrow Way  
London N7 7EP

Report of: **Corporate Director Finance and Resources**

Meeting of:	Date	Agenda item	Ward(s)
Audit Committee	24 January 2017		

**SUBJECT: Principal Risks Report Update**

### 1. Introduction

- 1.1. This report presents an update on the principal risks facing Islington for 2016/17. It has been prepared for the Audit Committee, and is an update to the Principal Risk Report considered in June 2016.
- 1.2. Since the last report the risk management framework has been reviewed and, in consultation with DMTs and CMB, refined to emphasise materiality and accountability. An updated risk map is presented on page 3.
- 1.3. Section 4 presents an executive summary of the report and section 5 presents the risk map. Thereafter the principal risk report provides an update for each risk as to recent developments and key mitigating actions underway.
- 1.4. For each risk detailed in the report there are a number of control mitigations in place. This report provides an update on key actions underway, but does not detail all of the controls (mitigations) already in place.

### 2. Recommendations

- 2.1. The Audit Committee are asked to note and review the principal risks and be satisfied with the proposed action.

### 3. Implications

#### 3.1 Financial Implications

The programme of work has been met from within the existing Internal Audit revenue budget.

### 3.2 Legal Implications

None specific to this report.

### 3.3 Environmental Implications

There are no environmental implications

### 3.4 Resident Impact Assessments

There are no direct equality implications arising from the recommendation in this report.

#### Background papers:

None.

Final Report Clearance























Received by .....

.....  
Date

Report Author: Michael Bradley  
Tel: 0797 983 4012  
Email: Michael.Bradley@islington.gov.uk

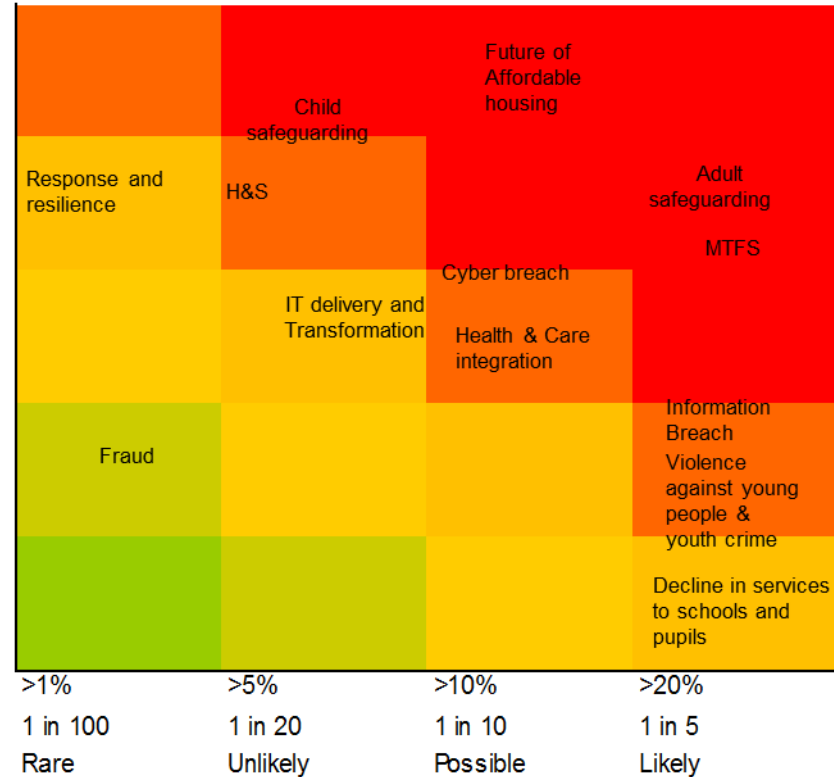
#### 4. Executive summary of the principal risks

		CMB Sponsor	Trend June 16	Trend Dec 16	Comment on change in trend
Financial	Financial strategy	M Curtis			
Strategic	IT delivery and transformation	M Curtis			Rise in risk reflects internal audit findings and shared service timeframe
Service delivery	Safeguarding adults	S McLaughlin			Rising risk represents recent concerns over a small number of providers
	Safeguarding children	C Littleton			
	Decline in services to schools and pupils (NEW)	C Littleton	-	NEW	
	Violence against young people and youth crime	C Littleton	NEW		
	Future of affordable housing	S McLaughlin	NEW		
	Health and social care integration	S McLaughlin	NEW		
Compliance and Governance	Serious information breach	M Curtis			
	Serious fraudulent activity	M Curtis			
	Cyber breach	M Curtis	NEW		Concerns over applications, and PCI compliance
Operational	Health and safety	M Curtis			
	Response and resilience	K O'Leary			June trend was downwards as a result of an increase in controls following an Internal Audit

## 5. Principal Risk Map 2016-18


	Financial	Service delivery	Health and well being	Reputation
5	Financial loss above £10m.	Major disruption to a number of critical services.	Multiple death(s) or serious/ life-changing non-recoverable injury(s) / extreme safeguarding alerts likely. The council fails to fulfil its statutory obligation to protect a child/vulnerable adult from significant harm / a fatality.	Long term damage – eg adverse national or local publicity, highly damaging, severe loss of public confidence. Widespread and high level criticism. Impacts on staff and recruitment.
4	Financial loss above £8m.	Major disruption on an critical service.	Multiple casualties with recoverable injuries. Major safeguarding concerns potentially affecting multiple people. Evidence of known sustained neglect or abuse without intervention.	Medium to long term damage – eg adverse local, regional or national publicity, major loss of confidence, a matter that is frequently referenced in relation to the council.
3	Financial loss above £6m.	Major disruption on an important service. Moderate disruption to a critical service	Noticeable safeguarding risks - known evidence of neglect or abuse without intervention	Medium term damage – eg adverse publicity, local, regional and national coverage, with significant follow-up stories
2	Financial loss above £4m	Moderate disruption on an important service.	Single casualties with recoverable injuries. Noticeable safeguarding risks - evidence of neglect	Short term damage – eg adverse publicity, national follow-up stories on same issue
c	Financial loss above £1m.	Brief disruption on an important service. Repeated disruption on a core service.	Medical treatment required, semi-permanent harm up to 1 year. Safeguarding concerns of neglect	Short term damage – eg adverse publicity, regional follow-up stories on same issue




Impact










## 6. Principal risk report



Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>Financial Strategy</b></p> <p>The Council fails to balance the Council's budget over the medium term – including making the cash savings</p>		<p>Current budget expectations are that the Council will have to save £210m by 2020 from 2010. To date £150m has been built into the budget. A further £60m will need to be found between 2016 to 2020.</p> <p>The General Fund balance was reduced from 5% to 4% as part of 2016/17 budget</p> <p>Frontline service overspends increased in 2015/16 and some savings delivery delayed. That trend has continued into 2016/17. During the summer 2016 replacement savings have had to be found for the 2017/18 budget after the identification of slippage and expected non delivery. A sufficient package of savings has been identified to balance 2017/18. However significant savings will need to be identified for 2018/19 and 2019/20 in the coming years.</p> <p>Adult Social Care (over a third of the General Fund net expenditure) faces very demanding challenges, and delivery of budget is contingent on a number of factors such as demographic changes.</p> <p>Children services face an increasing volume of highly complex adolescent cases creating budget pressures. A review of support for homeless young people aged 16-17 has commenced to consider whether some young people would have their needs better met by intensive work with their families rather than being looked after</p> <p>Income targets from commercial activity for 17/18 look unachievable and some have been revised. Care needs to be taken for future years when setting future targets.</p> <p>EU referendum – It is too early to say with any confidence what the result of the referendum will mean for Council funding and wider policy making processes. If the predictions of an economic slowdown prove correct, local income targets may be impacted in environment and regeneration, and the central government could choose to increase borrowing, raise taxes, or reduce public spending over that already planned. The government target of eliminating the fiscal deficit by 2019/20 has already been abandoned, potentially meaning extended period of austerity. A concern is the devaluation of sterling which could lead some suppliers to raise prices. As yet this hasn't occurred.</p>	<p>Frontline spending and demand management actions include:</p> <ul style="list-style-type: none"> <li>• Redesign of the provision of all early childhood services from pregnancy to 5 to ensure all children, particularly the 35% of children who currently do not achieve the “good level of development” by the end of their reception year, are healthy and ready for school. C. Littleton</li> <li>• Tailor the amount of care offered to people who are eligible for social services support, while maintaining adult social care for people with moderate needs. April 2018, S McLaughlin</li> <li>• The review of Adults and Children demography pressure conducted in summer 2016 needs to be developed into recommendations. S McLaughlin &amp; C Littleton</li> <li>• Complex adolescent cases: Commissioning strategy is currently under review with a new strategy to be in place in January, which will include consideration of commissioning residential placements to reduce the number of secure placements. C Littleton</li> <li>• E&amp;R are developing more robust financial reporting systems to monitor financial savings/expenditure February 2017. K O' Leary</li> </ul>


Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>IT delivery and transformation</b></p> <p>There is a risk we do not deliver IT projects which will enable/optimize business transformation across the Council</p>		<p>Following an internal audit, many actions have been addressed such as ownership and creation of a new Portfolio Management function which carries out Independent desktop reviews of existing projects underway to assess delivery and provide assurance on delivery. This will be extended to the three boroughs.</p> <p>The demand management process approved in November improves the way we interact with the business, capture requirements and plan delivery. However, several actions are still to be closed.</p> <p>Developing foundational technology to support digital delivery to simplify developments and on-going maintenance and support.</p> <p>For the IT shared service programme, the Shared Service Board and programme manager is in place. Work streams underway include: Data Centre, IT contracts, and IT architecture. New highly experienced Programme Director appointed July 2016 provides greater assurance over programme delivery. Head of the ICT Shared Service successfully appointed in July 2016 and began in November 2016.</p>	<p>A senior officer workshop for digital strategy is planned for early January with a view to submitting an updated strategy to CMB in February.</p> <p>We are creating a sustainable development and operations team to reduce dependency on contractors. Paul Savage, March 2017.</p> <p>Desktop review to deliver recommendations in Paul Savage/Vince Huntley June 2017</p> <p>Recruitment of additional Business Relationship Manager &amp; Business Analyst's to help shape the demand management model. Andrew Fitzgerald, January 2016</p> <p>Shared service: Agree Target Operating Model, and complete a skills and finance assessment, to generate a transition plan. E Garcez. May 2017. Transition plan to be agreed July 2017 (at Joint Committee).</p>
<p><b>Safeguarding adults at risk of abuse</b></p> <p>The council fails to fulfil its statutory obligation to identify or respond to preventable harm to adults at risk of abuse either directly or via third party establishments</p>		<p>There have been two Safeguarding Adult Reviews, since 2014 in which a number of prior practice issues emerged. Implementation of the action plans from the Safeguarding Adult Review are in progress, monitored by HASS management and Islington Safeguarding Adults.</p> <p>There are a small number of local provider services which show an increase in the number of safeguarding concerns. Concerns processes have been initiated</p> <p>Joint commissioning and Safeguarding teams respectively monitor and act on safeguarding &amp; quality concerns in contracted providers.</p> <p>Regular meetings with Care Quality Commission to identify any wider concerns about a provider, so that any proposed actions can be appropriately co-ordinated.</p>	<p>Principal Social Worker to develop best practice hub for adult social care by October 2017 to improve support for safeguarding practice. J Nawrockyi</p>
<p><b>Safeguarding children</b></p> <p>Risk of safeguarding procedures not followed which would contribute to ineffective protection of children and parents causing significant harm to a child</p>		<p>External reviews of Children's Services Contact Team and Early Help Services were carried out in 2016 and children were found to be safe and action plans from these reviews are in place to further develop practice.</p> <p>Regular case auditing has been carried out and shows policies and procedures are adhered to.</p>	<p>Introduce a practice week in February 2017 where the Targeted and Specialist Families Service Management team observe, assess and discuss practice. F Culbert</p>

Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>Decline in schools funding</b></p> <p>There is a risk of a decline in funding beyond expectation and a consequent unmanaged decrease in services due to decline in school, high needs and Early Years funding</p>	<p>NEW</p>	<p>Funding consultations have been responded to comprehensively and scenarios have been modelled to understand potential impact and inform a long term strategy. Work has been commissioned to develop a business plan to support the growth of the business in other markets to mitigate loss of income and ensure service viability.</p> <p>The risk is evolving due to changes in national policy. Autumn statement has announced funding will now be available for local authorities for schools improvement savings, but details to follow.</p>	<p>Implement the business plan effectively and expand the service offer to underpin core delivery.</p> <p>Funding consultation on School and High Needs funding was due in December 2016. When issued, this will be responded to carefully and the implications for funding services in 2018-19 will be assessed</p>
<p><b>Violence against young people and youth Crime</b></p> <p>There is a risk that the council fails to respond adequately to and prevent rising crime involving young people despite additional funding and well publicised plans</p>		<p>The additional investment in Youth Violence Prevention funding has significantly increased resources to work with gang affected young people including key working and mentoring and this has also included St Giles providing their SOS project in Islington schools.</p> <p>The Integrated Gang Team has been operational since Jan 2016 and is seeing early signs of success including supporting 17 gang involved young people to secure Education and Employment training during Q 2. Gang Safeguarding Training this autumn was attended by 214 practitioners.</p> <p>The Youth Crime strategy is being refreshed with a new action plan to be published in the Spring to build on the good work that has started and develop an approach that focuses more on early intervention to tackle the root causes.</p>	<p>The Youth Crime Strategy is being refreshed with a new implementation plan that will provide an increased emphasis on vulnerability and exploitation. February 2017. Catherine Briody / Lisa Arthey</p> <p>The new Islington Violence Against Women and Girls strategy will be launched in February 2017 and will have increased alignment with the Youth Crime Strategy regarding prevention and early intervention. Catherine Briody / Lisa Arthey</p>
<p><b>Future of affordable housing</b></p> <p>There is a significant risk that the reduction in social housing supply will reduce the council's ability to meet its longer term objectives for the provision of decent homes, social care and a fairer Islington</p>		<p>Recent announcements have pushed back the time scale for the implementation of High Value Voids levy and scrapped the "pay to stay", however uncertainty still remains over the exact value of the high value levy. In order to finance the payment of the levy the Council will have to sell assets including some housing stock which will result in loss of rental income. The Council has set up a programme to address reforms once more details of the Housing and Planning Act are published and is exploring options.</p> <p>Expected changes will eventually place further pressure on moving households out of temporary accommodation as we will see voids drop. A new procurement framework to attract new supply of temporary accommodation is in place.</p> <p>Turnover in our existing stock remains very low – most likely as a result of high house prices – making it difficult to meet new demand</p>	<p>Negotiate with CLG on formula for sales – M Holdsworth/ L Hajimichael</p> <p>HRA Business Plan to be reviewed to reflect new resource constraints – M Holdsworth/S Kwong</p> <p>HRA savings plans built into budget setting process for 2017/18 S McLaughlin</p> <p>Review of recharges to deliver £2.8m annual savings (£800k from 2018/19 &amp; £2m from 2019/2020) by March 2017 M Sajid</p>

Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>Health and social care integration</b></p> <p>There is a risk that new models of health and social care are financially unsustainable or do not provide adequate quality of care from the Council's point of view.</p>		<p>Health partners, in particular in the acute sector, face increasingly severe financial challenges which may become risks to the whole health and care system, including the council. Increased patient numbers and complexity are causing system capacity pressures.</p> <p>A&amp;E Delivery Boards will be on-going, rather than seasonal in an effort to sustain our positive relationships with NHS and other partners so that local residents get the best possible outcomes.</p> <p>Haringey and Islington's Well Being Partnership, which oversees the development of a new model of care in Haringey and Islington through its Sponsor Board and Delivery Board, is supporting a programme of initiatives to ensure efficient, effective and joined up service provision which also will identify and help address the resource pressures (finances and staffing) faced by individual partners. Risk share/ financial posting will be subject to similar controls as those used at present in Section 75 agreements with NHS organisations.</p> <p>The North Central London (NCL) Sustainability and Transformation Plan (STP) was submitted in October. NHS investment to support transformation from 17/18 onwards remains uncertain, but should be clearer by the end of the 2016/17 financial year.</p>	<p>NCL workshop for the 5 LAs on January 2017.</p> <p>Awaiting NHS England assurance and feedback to STP footprints on their submissions. February 2017 (expected).</p> <p>The STP for NCL will be reviewed to consider implications, opportunities and risks to Social Care and how councils will decide their responses. April 2017. S McLaughlin</p>

Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>Serious Information Breach</b></p> <p>The Council does not keep sensitive and/or personally identifiable information secure resulting in a major breach of Data Protection legislation</p>		<p>General Data Protection Regulation (GDPR) became law in May 2016 and becomes enforceable in May 2018. This regulation will stay in UK Law despite Brexit unless it is overturned or replaced with further legislation. The IG team briefed CMB, DMTs and Corporate Governance Group (CGG) and Data Security Working Group, and had initial meetings with legal to go through the changes</p> <p>The Information Commission Office (ICO) has not yet issued guidance on some aspects of the new regulation, so the full impact of some aspects is not completely clear.</p> <p>Staffing: There is still a concern around staffing capacity as the demand on business as usual services is increasing, new technology services requiring IG input and preparing the organisation for the GDPR. The Data Protection Manager who was recruited fell through, so further recruitment required. In addition changes in structures and new staff mean there are new Information Asset Owners (IAOs) who may not be aware of their responsibilities. As a result, an advanced data protection course was held in November and will continue quarterly.</p> <p>Cloud technologies: There are a number of concerns around new cloud technologies such as box, office 365 and mobiles apps. Whilst there has been some early engagement with the information governance team, the concern is whether the risks highlighted will be given the appropriate consideration.</p> <p>Digital Services: have completed a diagnostic based on CESG guidance on handling of bulk data which indicates we have a long way to go to meet good practice in many areas of cyber-security and information governance. The tension between preventing a cyber breach and providing ready access to information continues. Information Security &amp; Governance role for shared service delivery programme appointed.</p> <p>Organisational change: The separation of technical cyber security and information governance into separate reporting lines and onwards into the shared service requires new protocols for continued joint-working. Furthermore a clear understanding of information risk appetite across the 3 councils is required for the delivery of O365 and the shared digital service</p>	<p>Internal audit/PWC will be conducting a 'readiness assessment' for GDPR – Jan 2017. E Brooks.</p> <p>Internal Audit into Data held by third parties had two high priority findings. These will need to be addressed by council in preparation for GDPR. S Nicolson / P Horlock Sept 2017</p> <p>Further Information Asset Owner Training for new IAOs being developed – Feb 2017. S Nicolson</p> <p>Office 365 shared service programme contains an IG/IS workstream although this is not yet active – expect this to become clearer when the business case is signed off 2016/17 Q4 Ed Garcez</p> <p>Internal Audit to review the strategic approach to information risk management in light of increased shared solutions and a single Shared Digital service across the three councils M Bradley 2017/18 Q4.</p>
<p><b>Serious fraudulent activity</b></p> <p>There is a risk that the Council is not aware of the range of fraud risks facing it and thereby fails to design and implement effective preventive and detective controls. This could result in financial loss, disruption to service delivery and reputational damage</p>		<p>The Anti – Fraud Strategy is currently being readied to be uploaded to the Council's website and on to IZZI. Changes to the format are being made to give the strategy a Corporate Identity. The response and risk plan is complete and is with Communications.</p> <p>A publicity campaign is currently being designed by Communications. Draft posters have been constructed with key themes.</p> <ul style="list-style-type: none"> <li>- Fraud takes money/services away from people in need, and it has to be taken seriously</li> <li>- We all have a role to play in preventing fraud from being possible</li> <li>- We all have a role to play in being alert to fraud attempts</li> <li>- We all have a duty to report suspected fraud</li> </ul> <p>As part of the fraud training awareness programme a presentation has been written and presented to some high risk Service areas in Finance and E&amp;R. Training has commenced within the Finance Department.</p>	<p>Conflicts of interest/hospitality registers are on the Audit plan for 2016/17, C Lobb</p> <p>Participation of the London Counter Fraud Hub Pilot to assist in the development of proof of concept validation, to be confirmed by 2016/17 Q4. M Bradley.</p>

Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>Cyber breach</b></p> <p>Process Control Networks and/or Critical Information Assets may be compromised by computer-based unauthorized access or malicious modification of code</p>		<p>Ransomware will continue to be the biggest threat in 2017: LBI was successfully hit by a ransomware attack in 2015 but damage was controlled to one day's lost work for a single user. We have not had a successful attack due, in large part, to having defence in depth on the initial vector [email].</p> <p>Good computing hygiene [appropriate patching levels, reasonable hardening of new build servers, etc.] is not happening apace to the changes in the environment. This poses a risk for cyber security, Public Sector Network and Payment Card Industry compliance.</p> <p>Ongoing conversations have been started with the development group to address the potential lack of secure development principles in our home grown development of applications.</p> <p>While our cybersecurity approaches improved, 2016 has seen an increase in exploits of simple security breaches such as password reuse between online systems and elaborate technical attacks involving zero day exploits. 2016 has also seen unprecedented number of data breaches exposing users and [potentially LBI's] passwords. We are in the process of implementing log retention and enhanced network monitoring to identify attacks not picked up by other methods. This is implemented, managed and monitored by an expert external vendor. As part of the on boarding this service has highlighted serious configuration issues needing to be addressed and one potential brute force attack against our infrastructure.</p> <p>Digital Services have completed a diagnostic based on National Cyber Security Centre [NCSC] guidance on handling of bulk data which has identified next steps. The tension between preventing a cyber breach and providing ready access to information continues. We are working with the NCSC to identify inbound attack vectors and provide advice on best security practices.</p> <p>With planned separation of technical cyber security and information governance into separate reporting lines and onwards into the shared service we need to establish protocols for continued joint-working.</p> <p>Further risks will arise and need to be addressed as we move towards full implementation / use of cloud and look into introducing Fusion / considering taking part in Camden's project.</p>	<p>We are in the process of implementing firewall management systems. This is implemented by a vendor but managed internally. Proceeding to full implementation. Adrian Gorst – January 2017</p> <p>We are in the process of completing an application landscape – a database of all applications currently in use to help us manage vulnerability testing and updating. Paul McHale – on-going</p> <p>Proceeding to full implementation of log retention and enhanced network monitoring. Adrian Gorst – January 2017</p> <p>Creation of an NCSC action plan from the recent diagnostic. This will combine cyber security and information governance. Initial meeting with PwC December 2016. Adrian Gorst</p> <p>New CDIO is arranging discussions with all three SIRO's to agree risk approaches. Internal Audit review commissioned M Bradley 2017/18 Q4</p> <p>A decision on Fusion will be made early 2017.</p>
<p><b>Significant H&amp;S incident</b></p> <p>There is a risk of a significant H&amp;S incident (life changing/fatality) compromising the safety and wellbeing of service users, public or the workforce</p>		<p>Audits of schools are continuing within both secondary and primary schools to assure the council of continual improvements in health and safety standards. An advisor has been recruited to support school H&amp;S audits.</p> <p>Training of employees continues with 496 employees undertaking classroom courses in April 2016 to September 2016. The following numbers of staff have been trained via the online courses in April 2016 to September 2016: Fire Safety Plus(421) (416 in the previous 6 months)); Managing Stress for Managers (24) (34); Safe Driving Plus (25) ( 39) ; Workstation Safety (637) (428); Health and Safety Induction (190) (196), Legionella Management (56).</p> <p>A contractor has been appointed to carry out monthly Legionella checks at all council sites.</p> <p>A recent audit of Control of Substances hazardous to health management was carried out across the council with no major non compliances highlighted.</p>	<p>Council wide Fire safety audit to commence in January, and report back by March 2017. D Lewis</p> <p>Embarking on a 2 year cycle of primary school audits, to complete by March 2017. D Lewis</p> <p>Introducing a council wide asbestos database – to be in place by April 2017. D Lewis</p> <p>There are currently 14 low risks non-compliance issues to be addressed by Dec 2016 . D Lewis</p> <p>Three minor non conformities were identified which will be closed out by Dec 2016 D Lewis.</p>

Risk	Trend since May	Recent developments, progress & concerns	Actions
<p><b>Responsiveness and resilience</b></p> <p>There is a risk we are not able to recover critical internal processes or respond effectively to an emergency following a disruptive event within a suitable timeframe</p>		<p>Staff awareness briefings on counter terrorism now mainstreamed – 2 Emergency planning officers that are police approved Project Griffin trainers.</p> <p>Islington Borough Resilience Forum emergency exercise on 26/9/16 tested command, control, communications and business engagement.</p> <p>New collaborative working arrangements established between Emergency Planning and Prevent Lead.</p> <p>Reviewed and restocked emergency equipment and supplies. Low level incidents tested response and communication capacity.</p> <p>Business Impact Assessments updated following audit response (requiring enhanced focus on contracted and outsourced services and assessing remote working demands). Lock down procedures introduced and tested</p>	<p>Implement proposals to improve response to out of hours incidents involving LBI tenants. Interim/temporary arrangements to be implemented February 2017 (pending review by HASS).</p> <p>Complete programme of updating business impact assessments and business continuity Plans. On hold due to resignation of Business Continuity Manager and review of Emergency Planning-current cycle of BIA and BCP review to be completed within 3 months of new staff joining EPU.</p> <p>Integrate Emergency Planning and Business Continuity Management activities to provide service that focuses on organisational resilience. In progress – job description being evaluation, change report in draft format, recruitment Feb 2017, implement April 2017.</p>

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Report of: Corporate Director of Finance and Resources

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 January 2017		

Delete as appropriate		Non-exempt	
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## **SUBJECT: Internal Audit Fraud Investigation Report: Anti- Fraud Strategy**

### **1. Synopsis**

- 1.1. The provision of an Anti-Fraud Strategy that focuses on the prevention and detection of fraud protects the Council's valuable resources by ensuring that the Council continues to be vigilant in preventing losses through fraud.
- 1.2. This report presents detail of work undertaken to strengthen the Council's Anti-Fraud Strategy through work undertaken by the Fraud Forum. To inform Audit Committee of the London Counter-Fraud Hub and to update on fraud investigation work undertaken by Internal Audit between April 2016 and December 2016.

### **2. Recommendations**

- 2.1. To note and approve the content of the Fraud Investigation Report at Appendix 1.

### 3. Background

3.1. The provision of an Anti-Fraud Strategy assists the Council in ensuring that fraud risk is reduced and so supports the delivery of the Council's services and protects resources.

### 4. Implications

#### 4.1. Financial implications

None

#### 4.2. Legal Implications

None

#### 4.3. Resident Impact Assessments

There are no direct Resident Impact Assessment implications arising from the recommendations in this report.

### 5. Conclusion and reasons for recommendations

5.1. The Anti-Fraud Strategy presents a clear commitment by the Council in preventing and detecting fraud.

Final Report Clearance

**Signed by**



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Corporate Director of Finance

Date

**Received by**

.....  
Head of Democratic Services

.....  
Date

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# London Borough of Islington

## Internal Audit

### Fraud Report

**April 2016 to December 2016**

# Contents

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# 1. Introduction

## 1.1. Purpose of this report

This report summarises the work that the Council and Internal Audit (Investigations) have undertaken from April 2016 to December 2016. It provides details on the work undertaken on the Council's Anti-Fraud strategy and work that is due to commence on the London Counter–Fraud Hub (LCFH). There is also a report on Whistle Blowing and details of anti-fraud work undertaken by Internal Audit Investigations.

# 2. Anti-Fraud Strategy

The Council's Anti – Fraud Strategy has been signed off by the Chief Executive and will shortly appear on IZZI and the Council's website.

## 2.1. Publicity

Internal publicity on Fraud Awareness has been prepared by the Communications Team. A number of posters have been designed and approved by Members. These are for a generic internal anti – fraud campaign. Members have also approved one of the posters for use in an external anti - fraud campaign. A separate publicity campaign has been agreed for Housing Fraud

The general themes are around:

- Fraud takes money/services away from people in need, and it has to be taken seriously
- We all have a role to play in preventing fraud from being possible
- We all have a role to play in being alert to fraud attempts
- We all have a duty to report suspected fraud

A cross council fraud risk document has been produced to inform service areas where the greater fraud risks lie in relation to the Service being provided. This includes a section on cross cutting fraud risks.

A section on the intranet has been prepared which gives further details and is almost ready to launch.

## 2.2. Training

Fraud awareness training has been provided to the wider Finance Team. The content centres on fraud that may affect the working of the team and frauds that are prevalent currently in the Council. We have also included a session on identity fraud. Further work needs to be undertaken with Central Training to evaluate the fraud risk in Service areas and to understand the levels of training required.

## 2.3. Fraud Forum

In addition to the above, a working group will be set up to establish a way forward in dealing with spikes of investigative work. This will include lead officers from Housing Fraud, Parking Fraud and Internal Audit.

Engagement with directorates that are not represented on the Fraud Forum has commenced to ensure cross Council representation.

# 3. London Counter – Fraud Hub (LCFH)

The London Borough of Ealing has been working with London Councils' Capital Ambition Board and is developing a counter - fraud hub which will use data provided by London Council's and other sources to increase the detection and prevention of fraud across London. The project was launched in 2014 with support from London Councils and the Department for Communities and Local Government. This was supported by all 33 London boroughs who signed a Memorandum of Understanding demonstrating their commitment. This is a payment by results initiative, the details of which are being currently worked on.

The past year has been spent engaging closely with the market to secure a solution that will provide an advanced data analytical capability that will enable fraudulent activity to be detected and prevented. The procurement process has been concluded. BAE systems in conjunction with CIPFA Business Ltd will be the provider of the hub and the contract is in the

process of being finalised.

The planned approach is for an incremental roll-out of the solution across all of the London boroughs. This provides an opportunity to iron out any implementation issues before most boroughs join the hub. It will also serve to manage the capacity of the provider for on-boarding all of the London Boroughs as efficiently as possible.

Islington, Camden, Ealing, Croydon and Southwark are the five London Boroughs who will be part of the pilot in the proof of concept stage which will last six months starting in January 2017 with workshops to enable design of the product



Report of: The Corporate Director of Finance and Resources.

Audit Committee	Date: 24th January 2017	Ward(s): N/A
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### THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION

## SUBJECT: Fraud Report: April 2016 to December 2016

### 1. Synopsis

- 1.1 The report confirms that Internal Audit fraud investigation arrangements in place are effective and that reporting fraud is an integral part of the Council's Anti-Fraud Strategy going forward.
- 1.2 The report gives detail to the types of fraud investigation work undertaken and the quantities of referrals between April 2016 and December 2016.

### 2. Recommendations

- 2.1 Consider and comment on the contents of the report

### 3. Background

- 3.1 The provision of a Fraud Investigation Service that focuses on prevention and detection of fraud and protects the Council's valuable resources by ensuring that they are not lost through fraud. Providing the Council with assurance that on the control environment that supports the delivery of the Council's Strategy.

### 4. Implications

#### Financial implications:

- 4.1 None arising from the content of this report

#### Legal Implications:

- 4.2 None arising from the content of this report

**Environmental Implications**

4.3 None

**Resident Impact Assessment:**

4.4 There are no direct Resident Impact Assessment implications arising from this report.

**5. Reasons for the recommendations / decision:**

5.1 For information and comment from Audit Committee



**Signed by** .....  
Corporate Director of Finance Date

**Received by** .....  
Head of Democratic Services Date

**Appendices**

- Appendix A Exempt

**Background papers:**

- None

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Report of: The Corporate Director of Finance and Resources.

Audit Committee	Date: 24th January 2017	Ward(s): N/A
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### THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION

## SUBJECT: Whistleblowing Report April 2016 to November 2016

### 1. Synopsis

- 1.1 The report confirms that the Whistleblowing arrangements in place are effective and that reporting fraud is an integral part of the Council's Anti-Fraud Strategy going forward.
- 1.2 The report gives detail to the types of whistleblowing referral made and the quantities of referrals between April 2016 and November 2016. This is compared to the referrals made over the previous years.

### 2. Recommendations

- 2.1 Consider and comment on the contents of the report

### 3. Background

- 3.1 Robust Whistleblowing arrangements are a key element of effective governance arrangements within the Council. They are a mechanism to "empower the honest majority" in the fight against fraud and corruption.

### 4. Implications

#### Financial implications:

- 4.1 None arising from the content of this report

#### Legal Implications:

- 4.2 None arising from the content of this report

**Environmental Implications**

4.3 None

**Resident Impact Assessment:**

4.4 There are no direct Resident Impact Assessment implications arising from this report.

**5. Reasons for the recommendations / decision:**

5.1 The report presents the Council’s use of the Whistleblowing arrangements from April 2016 to November 2016.

5.2 The Council is obliged under the Public Interest Disclosure Act to maintain a Whistle-blowing Policy, designed to encourage staff, elected Members, contractors and the public to raise legitimate concerns about wrong-doing within the Council without fear of reprisal.



**Signed by** .....  
Corporate Director of Finance Date

**Received by** .....  
Head of Democratic Services Date

**Appendices**

- Appendix A Exempt

**Background papers:**

- None

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By virtue of paragraph(s) 1, 2, 7 of Part 1 of Schedule 12A  
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