PETERBOROUGH CITY COUNCIL

AUDIT COMMITTEE

MONDAY 27 JANUARY 2020
7.00 PM

Bourges/Viersen Room - Town Hall

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

AGENDA

		Page No
1.	**Apologies for Absence**	
2.	**Declarations of Interest** At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests or is a "pending notification " that has been disclosed to the Head of Legal Services.	
3.	**Minutes of the Meeting Held on 18 November 2019**	**3 - 8**
4.	**Internal Audit Plan 2020/21: Approach and Emerging Themes**	**9 - 16**
5.	**National Fraud Initiative: Investigating Allegations of Fraud**	**17 - 56**
6.	**Asset Investment Acquisition Strategy and Asset Management Plan**	**57 - 104**
7.	**2020/21 Draft Treasury Management Strategy (TMS)**	**105 - 134**
8.	**Use of Consultants - Update report**	**135 - 140**
INFORMATION AND OTHER ITEMS		
9.	**Use of Regulation of Investigatory Powers Act 2000 (RIPA)** The Committee is asked to **NOTE** that there have been no RIPA authorisations in this quarter.	
10.	**Uncollectable Debts in Excess of £10,000**	

The Committee is asked to **NOTE** that there have been no approved write-off amounts to report since 18 November 2019, which exceed the Council's Financial Regulation threshold of £10,000.

11. Feedback Report **141 - 144**

12. Work Programme **145 - 152**

There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Daniel Kalley on 01733 296334 as soon as possible.

Did you know? All Peterborough City Council's meeting agendas are available online or via the modern.gov app. Help us achieve our environmental protection aspirations and view this agenda online instead of printing it.

Emergency Evacuation Procedure – Outside Normal Office Hours

In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair. In the event of a continuous alarm sounding remain seated and await instruction from the duty Beadle.

Recording of Council Meetings: Any member of the public may film, audio-record, take photographs and use social media to report the proceedings of any meeting that is open to the public. Audio-recordings of meetings may be published on the Council's website. A protocol on this facility is available at:

http://democracy.peterborough.gov.uk/ecSDDisplay.aspx?NAME=Protocol%20on%20the%20use%20of%20Recording&ID=690&RPID=2625610&sch=doc&cat=13385&path=13385

Committee Members:

Councillors: D Over (Chairman), A Shaheed, Warren, Joseph, Coles, E Murphy and Jones

Substitutes: Councillors: Lillis, Burbage, Iqbal and Nawaz

Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk

PETERBOROUGH CITY COUNCIL

MINUTES OF THE AUDIT COMMITTEE MEETING HELD AT 7:00PM, ON MONDAY, 18 NOVEMBER 2019 BOURGES/VIERSEN, TOWN HALL, PETERBOROUGH

Present: Councillors Over (Chairman), Joseph, Shaheed, A Coles, Murphy, S Nawaz and Warren

Officers in Attendance:
Peter Carpenter, Acting Corporate Director of Resources
Dan Kalley, Senior Democratic Services Officer
Steve Crabtree, Chief Internal Auditor
Julie Taylor, Group Auditor
Louise Cooke, Group Auditor

Also in Attendance: Councillor David Seaton, Cabinet Member for Finance

23. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Skibsted. Councillor Shaz Nawaz attended as substitute.

24. DECLARATIONS OF INTEREST

No declarations of interest were received.

25. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 16 SEPTEMBER 2019

The minutes of the meeting held on 16 September 2019 were agreed as a true and accurate record.

26. INTERNAL AUDIT: MID YEAR PROGRESS REPORT 2019/2020

The Audit Committee received a report in relation to the Internal Audit: Mid-Year Progress Report 2019/2020.

The purpose of the report was for the Committee to receive an overall opinion on the soundness of the control environment in place to minimise risk to the Council.

The Chief Internal Auditor introduced the report and informed members that the report summarised detailed work from the audit team for the year so far. Risks were re-assessed throughout the year, this could involve closing down some planned audits or introducing new ones. The Audit team had also carried out work for Vivacity and the Combined Authority to date. A number of the audits originally identified for the year were completed or in progress, however some had yet to begin. In line with protocols, if no assurance was given to any of the audit work these would be brought to the attention of the Committee.

There had been one vacancy within the team at the start of the year that had now been succesfully filled, with the new employee starting on 28 October. With the team now at full capacity a number of additional audits could now been completed during the course of the year. Members were informed that anti-fraud remained a key focus. The audit work using the National Fraud Initiative had identified areas of fraud and error and the Council sought to reclaim monies back.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- In terms of monies that the Council were trying to collect there were examples of underpaid Council tax for those who were claiming single person discount. The numbers on this had grown following the audit and the Council was now pursuing avenues to claim any amounts owed back.
- In terms of blue badges the recoveries team were now able to access records held by birth, marriages and deaths in order to ask the question to those families who had a relative pass away whether they had a blue badge and asking them to return this to the Council.
- With regards to housing benefits the Council received matches via the DWP data sets and were then risk assessed before being referred to DWP to lead on any potential interviews. So far 350 cases had been identified.
- At the current time the workload for the Audit team was manageable. However with any increase in audit activity at the Combined Authority this could potentially lead to discussions with the Acting Corporate Director of Resources and the Chairman of the Audit Committee if any changes were needed.
- The recently declared climate emergency motion was not currently identified within the audit plan, however it was now on the Council's risk register. The budget now considered the climate emergency and was an appendix to this year's budget process. It was important going forward that departments learnt from one another on how best to tackle the carbon footprint when making decisions.
- In terms of any monies owed to residents the length of time to repay these was dependent on how long the information took to get onto the systems in order for the payment to be made.
- The officer time used in researching and billing those who had underpaid had improved from previously. This was because the data sets used by the Council had improved and was now more readily available.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the progress of the Internal Audit plan 2018/2019

ACTIONS:

The Chief Internal Auditor to investigate how long it takes refunds to be made back to customers.

27. TREASURY MANAGEMENT MID YEAR UPDATE

The Audit Committee received a report in relation to the Treasury Management Mid Year Update.

The purpose of the report was to report current performance and the forecast outturn position against the Prudential Indicators in the strategy.

The Acting Corporate Director Resources introduced the report. Members were informed that the report was part of the budget setting process which was then presented to Full Council. The Strategy was in place to ensure borrowing was affordable and sustainable. There were ten prudential indicators all of which were within acceptable limits. If any fell outside this limit it would come back to the Committee to be looked at further. The public loan boards rates had increased by 1% which would have an impact on local authorities. The Local Government Association were asking Councils for examples of how the increase affected housing schemes as some authorities were investing heavily in the housing market.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The prudential indicators code was voluntary in nature. The Government and Treasury had concerns over Councils' use of borrowing and had tried a number of different ways to control this.
- There was potential for the increased rates to have a detrimental impact on the Council trying to build more properties in the future.
- A comparison against other Councils could be carried out in terms of new revenue. Although the prudential indicator for this was within limit there might be concern if this was to rise by a few percent. The reason behind this was because Peterborough was classified as a new town, similar to that of Milton Keynes.
- The Council had invested large amounts into building new schools and refurbishing old schools.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the report and reviewed the current performance against the Prudential Indicators approved in the Treasury Management Strategy.

ACTIONS:

Officers to investigate an update to the Fair Tax proposal motion presented at Full Council.

A briefing note to circulated with an update on the Climate Change Emergency agreed at Full Council in July.

A briefing note on the differences between the Councils New Homes Bonus (NHB) and those of the Capacity Grid.

28. MAYORS' COSTS

The Audit Committee received a report in relation to the Mayors' Costs.

The purpose of the report was to provide the Committee with an update following an adverse report produced by Internal Audit in relation to the Mayor's Charities. The report was to provide further details and seek the views of the Audit Committee.

The Chief Internal Auditor introduced the report and explained that Internal Audit had identified issues around the Mayors Charity Fund. The original audit completed gave no assurance. However work had been carried out with the Mayor's Office in order to bring the accounts up to date and improve processes going forward, which provided protection to the Mayor, Council and Officers.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The accounts were originally prepared and kept by volunteers and therefore the Council at that stage had no control. The Charity Commission had notified the Council that the accounts had not been done properly or timely.
- Members were informed that an audit would only have to be carried out if the gross value exceeded £25,000. This had only been the case in a select few years when the Mayor activities / events had been busy.
- Members welcomed the closer control now that the financial management and record keeping had been bought in house.

The Audit Committee considered and **RESOLVED** (Unanimous) to note the report

29. AUDIT COMMITTEE START TIME 2020/2021

The Audit Committee received a report into the start time of the Audit Committee for the year 2020/21.

The purpose of the report was to allow the Audit Committee the opportunity to discuss and agree the start times for meetings from the beginning of the Municipal Year 2020-21.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- There were arguments to having the meeting during the daytime in order to work around officer's time. This had to be balanced against those members who worked during the day and were unable to make daytime meetings.

- The Committee agreed that a compromise of 5pm be suggested for the next municipal year and for this to be reviewed going forward.
- Members were keen to promote the work of the Audit Committee further and to get more of the public involved.

The Audit Committee considered and **RESOLVED** (Unanimous) to agree the start time of the meeting for 2020/21 as 5pm for the municipal year 2020/21.

30. USE OF CONSULTANTS

The Audit Committee received a report in relation to the use of consultants for the financial year 2019/20

The purpose of the report was to provide the Committee with an update on the use of consultants over the past financial year.

The Acting Corporate Director Resources introduced the report and explained that spending on consultants was in line with what was spent last year. However the amount spent on agency staff had reduced significantly in comparison to previous years.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- Members queried whether it was possible to build in some capacity into existing officers roles to cover off work carried out by consultants. In terms of consultants these were usually appointed when the Council did not have the expertise in-house.
- At the current time 150 properties had been identified and brought into use as part of the Empty homes review.
- There were still 129 properties currently empty, this was a low percentage compared to other authorities around the country.
- A lot of work had been carried out in the People and Communities directorate which had saved unnecessary expenditure. It was hoped this would deliver a more vigorous process within the directorate going forward.
- Reed consultants specialised in helping the Council with regards to its bidding processes and had helped the Council sign up a number of businesses.
- Grant Thornton had already come up with a number of ways the Council could save money and therefore the consultancy fee had already started to bear savings for the Council.
- With the new recruitment processes in place teams were now more aware of their recruitment needs and in most cases can continue to function without the need to replace posts.

The Audit Committee considered and **RESOLVED** (Unanimous) to note the report.

ACTIONS:

A briefing note to be circulated around the Council's drive to reduce the use of consultants and agency staff.

31. WORK PROGRAMME

The work programme was to be updated to remove the external examination of internal audits as this took place every five years and had been completed last year.

In addition members agreed that an update on the fair tax procurement would be presented to committee at the next meeting, however any policies and processes would be presented to the Growth Scrutiny Meeting as a general rule.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the report.

7:00pm – 7.56pm
Chairman

AUDIT COMMITTEE	AGENDA ITEM No. 4
27 JANUARY 2020	PUBLIC REPORT

Report of:	Peter Carpenter - Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

INTERNAL AUDIT PLAN 2020/2021: APPROACH AND EMERGING THEMES

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	**Deadline date:** *N/A*

It is recommended that Audit Committee:

1. Note and comment upon the emerging themes to be considered for inclusion in the 2020 / 2021 Internal Audit Plan

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the 2020 / 2021 Internal Audit plans.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide Members with details of current and emerging issues which are seen as potential risks to the delivery of quality services to the Council. It provides an opportunity for Members to consider these themes and provide input into the development of the Audit Plan.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.9 "*To commission work from internal and external audit.*"

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	N/A

4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Chief Audit Executive must "*establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals*". Within Peterborough City Council (PCC), the role of Chief Audit Executive is undertaken by the Chief Internal Auditor.

4.1.2 In an ever changing risk and control environment, it is important that audit plans can adapt quickly to the needs of the Council. To ensure a flexible and prioritised approach to our work, we utilise an assessment and planning tool which is used throughout the year on a rolling basis. This helps to ensure that each 'next' piece of work is the highest priority one, according to our assessment of risk.

4.2 APPROACH

4.2.1 Research is currently underway to determine possible themes and areas for audit work. This includes consulting with senior management and reviewing risk registers, budgets, plans, decisions, project and contract registers.

4.2.2 The list of ideas that this generates will then be subject to an assessment, using our planning tool (see **Appendix A** for details). The key factors being assessed are:

- Materiality: The size of a system or process in terms of financial value or numbers of transactions or number of people affected.
- Corporate Importance: The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.
- Stability: The degree of change within the process.
- Vulnerability: Extent to which the system is liable to breakdown, loss, error or fraud.
- Specific concerns: Arising from management's assessment of risk as well as audit intelligence.

4.2.3 The Annual Audit Plan will be compiled on the basis of:

- The prioritised list of potential audit reviews generated by the above assessment.
- The number of audit days available for the year.
- The skills, knowledge and experience of audit staff.
- Information from other assurance providers.
- An allowance for statutory activities, ad hoc consultancy, supporting the democratic process and follow-up reviews

4.2.4 During the year, our assessment tool is applied to any new risks that emerge or concerns that are raised. This will determine its priority for review compared to those areas already in the plan. Coordination between Internal Audit and Risk Management functions is of value here in “horizon scanning” such that emerging local and national risks are identified and can be covered in audit work where appropriate.

4.2.5 We also aim to develop an assurance framework as part of this and ongoing future year’s plans. This will map the controls in key areas to the sources of assurance for those controls. It will provide valuable insight for management and will also give the Chief Internal Auditor an oversight of the control framework at the Council, which will feed into the Annual Opinion report at the end of the year. The assurance framework will be based on the Three Lines of Defence model, which categorises assurance according to its source:

- First Line of Defence: Operational managers and staff carrying out day to day responsibilities and monitoring activities.
- Second Line of Defence: Oversight functions that set policy and process and monitor implementation, such as HR, Finance, Health and Safety, Legal, Procurement, ICT and Property.
- Third Line of Defence: Independent assurance providers, such as Internal and External Audit as well as regulators.

4.3 THEMES EMERGING

4.3.1 Following our initial works as determined in 4.2.1, the following areas have been identified for potential coverage. Assurance will be established from elsewhere in the business if appropriate.

4.3.2 Financial Governance

- Financial resilience – arrangements for ensuring that savings proposals are robust and targets are achieved;
- Fair Tax Mark – compliance with the scheme;
- Brexit arrangements, including impact on procurement activities, regulatory framework, service demand and EU funding;
- Financial Systems, particularly where changes are proposed.

4.3.3 Information Governance

- Cyber security activities carried out by Serco and also the process of dealing with a cyber incident;
- The operation of new or upgraded IT systems such as the Mosaic finance module and Human Resources self-service technology;
- Data Quality – how we ensure data is accurate, up to date, meets data protection requirements and enables PCC to maximise its use in decision making. This will tie in with the National Fraud Initiative refresh in October 2020;
- The project to integrate the ICT estate with CCC and to share IT systems.

4.3.4 Corporate Governance

- Risk management, following the removal of a centralised co-ordination role;
- Anti-fraud and corruption including the NFI Initiative 2020;
- High level review of compliance with our Code of Corporate Governance to feed into our annual opinion report, including a look at policies such as Financial and Contract Regulations.

Other Service Delivery Arrangements

- Medesham Homes Joint Venture;
- Shared Service models - new arrangements for back office teams which may be different to the current models for customer facing teams.
- Aragon Wholly Owned company – this is dependent on the amendment to the company's Articles to allow Internal Audit access to review governance arrangements.

4.3.5 Contracts and Procurement

- Financial and operational performance of contracts. A significant number of specific contracts have been put forward by management for consideration and we will review, and risk assess, our register of contracts. Examples include the schools Public Finance Initiative; Aragon; S75 agreements; Serco; Integrated Community Equipment Service; Norfolk Property Service; The Adolescent and Children's Trust; Transport;
- Off-contract and spot/block purchasing.

4.3.6 Project and Programme Management

- An overview of corporate arrangements, following the removal of a centralised co-ordination role;
- Think Communities, focussing on partnership working, shared decision making and data sharing;
- Syrian Refugee Resettlement programme;
- Climate Change Action Plan;
- Northminster Car-park – ongoing oversight;
- Peterborough Integrated Energy Infrastructure – processes in place to ensure criteria met to enable grant to be claimed.

4.3.6 People Management

- Arrangements for DBS checks of staff;
- HR policies – tackling mental health at work;
- Upskilling of managers, following re-shaping of HR and Finance functions.
- Arrangements for managing sickness absence, annual and other leave, and expenses.

4.3.7 Service Delivery

- Schools – the DfE are proposing to re-introduce a cyclical 3-year audit programme for maintained schools. This will mean a significant increase in time spent on this area of work;
- Management of temporary accommodation;
- Event Management and Public Safety;
- Domestic Abuse Service;
- Parking Services;
- Business Improvement District – arrangements for collection of additional levy and also for payment of claims against the fund.

4.4 Other Activities

Internal Audit also provides support for other activities of the Council as well as a commercial service to other organisations. These include:

- Grant certification/independent examination, as required by Central Government and the Charities Commission;
- Cambridgeshire and Peterborough Combined Authority; and
- Vivacity

4.5 It should be reiterated that this is the initial data collection and not all areas will be covered either as a result of low scoring or finite resources. Furthermore, if the audit area is included in future audit plans it does not imply that a service, system or activity is poor - it indicates activities that most need to be subject to effective controls to manage the risks identified.

5. CONSULTATION

5.1 Directors and Heads of Service have been invited to input into the planning process to date. Consideration of any information received has been incorporated into this report where applicable and further consultation is in train with Directors and their Management Teams.

The Audit Committee is similarly invited to input into the annual planning process by way of this report. Any comments will be incorporated and assessed for inclusion within the plan in accordance with the planning tool (see Appendix A).

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Audit Committee note and comment on the contents of this report.

7. REASON FOR THE RECOMMENDATION

7.1 To provide members with an insight into the development of the audit plan to provide assurance to the Council on its governance and operations.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

9. IMPLICATIONS

Financial Implications

9.1 The Audit Plan needs to be deliverable within available resources and the achievement of the audit plan will require that the current structure remains essentially intact throughout the year. Resource requirements are reviewed each year during the planning process, however there is an additional review currently underway as part of the Budget 2020 process. This includes investigation of a shared service arrangement with CCC, as well as the possibility of reducing staff numbers.

It should also be noted that a similar planning process is underway with the organisations for which we provide a service, and for which we derive an income. The results of that will have implications for the resources available to Peterborough City Council.

Any changes to the structure and resourcing of Internal Audit will result in a further review of our programme of work, and this will be reported to the Audit Committee.

Legal Implications

9.2 The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk, controls and governance.

Equalities Implications

9.3 The identification of risks and the proper management of those risks will ensure that:

- The Council's environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None.

11. APPENDICES

11.1 Appendix A

Appendix A

INTERNAL AUDIT PLANNING AND ASSESSMENT TOOL

Category	***Weight***	***Description***	***Total Possible Category Score***
Materiality	1	Value (budgeted income and expenditure; contract values; project costs etc.) and volume (number of transactions, number of staff/public affected). 1= up to £100k or 100 transactions 2= £100k-£1m, or 100-1000 transactions 3= £1-10m, or 1000-10,000 transactions 4= £10-£100m, 10,000 or 100,000 transactions 5= £100m plus, or 100,000 plus transactions Score 1 to 5 (1= low, 5 = high).	5
Stability	2	Amount of change within a system or process. Growth in size or responsibilities; staff turn-over; legislative change; new or upgraded IT systems; cultural change; new service delivery models; significant internal policy change. Score 1 to 5 (1= low, 5 = high)	10
Vulnerability	4	Inherent risks (fraud, corruption, error, commercial or sensitive information, health and safety, vulnerable adults and children). Control environment (limited central control or ownership, poor physical security, high turn-over of staff, complexity of systems and processes, poor SoD, lack of expertise) Score 1 to 5 (1= low, 5 = high)	20
Corporate Importance	5	Dependence on the system to meet regulatory requirements or corporate priorities and objectives. Score 1-5 (1= low, 5= high)	25
Specific Concerns	4	Concerns and risk assessment of management and auditors. Review risk registers, specific areas raised by management, audit intelligence. score 1-5 (1= low, 5= high)	20
		Total Possible Overall Score	**80**

Prioritisation Schedule

>50	High Priority	30-50	Medium Priority	< 30	Low Priority

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 5
27 JANUARY 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

NATIONAL FRAUD INITIATIVE: INVESTIGATING ALLEGATIONS OF FRAUD

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	**Deadline date:** *N/A*

It is recommended that Audit Committee:

1. Note progress and the outcomes to date in relation to tackling fraud against the Council through the National Fraud Initiative; and
2. Note results from national studies to raise awareness of the extent and types of fraud impacting on the public purse.

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee to provide awareness of some of the steps undertake within the Council to tackle fraud and corruption within the Council.

2. PURPOSE AND REASON FOR REPORT

2.1 Audit Committee has a remit to oversee that appropriate governance arrangements are in place to protect the public purpose and this report provides Members with details of current initiatives to investigate fraud.

2.2 This report is for Audit Committee to consider under its Terms of Reference 2.2.2.15 "*To monitor Council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy"*

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	N/A

4. BACKGROUND AND KEY ISSUES

4.1 **Introduction**

4.1.1 This report provides details of the background and evolution of the National Fraud Initiative (NFI), progress updates in relation to the NFI 2018 exercise, pilot studies and future requirements. Details of national studies are provided to place further context on fraud and corruption. This is a biennial data matching exercise whereby all Local Authorities and some government agencies match their data to prevent and detect fraud and error in their systems. The NFI compares different sets of data, for example payroll and benefit records against other records held by the same or other organisation, bringing to light potentially fraudulent claims and payments. Where a match is found it may mean that further investigation is required.

4.1.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under Part 2A of the Audit Commission Act (1988). The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act. The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the exercise must by law, have regard to a statutory Code of Data Matching Practice.

4.1.3 Over time the exercise has evolved to extend across all Local Authorities in the United Kingdom and now includes pension details from the Police, Health Service and Fire Service. To date over £1.69bn has been identified in fraud and overpayments over the various exercises across the country. The exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission in 2015. Each authority has a responsible officer and data coordinator specialist. These are Acting Corporate Director of Resources and the Chief Internal Auditor respectively.

4.2 **NFI Exercise 2018 / 2019**

4.2.1 The current exercise commenced in autumn 2018 when data was supplied for matching purposes by all the relevant parties. These are coordinated centrally, some data quality checks are performed, for example, to ensure that forenames / surnames are not held in address fields and vice versa.

4.2.2 The data was submitted to the Cabinet Office in October 2019 and following data submissions by other organisations, verification that data met prescribed criteria, analysis and cross matching the outputs began to be released at the end of January 2019. These have been supplemented throughout the year as and when late data provider information is matched. The datasets provided:

Blue Badge Parking Permit	Concessionary Travel Pass;
Council Tax Reduction Scheme	Creditors (Addresses)
Creditors (Payments)	Housing Benefits (data provided by DWP)
Market Trader Licences	Payroll
Personal Alcohol Licence Holders	Personal Budgets
Private Residential Care Homes	Resident Parking Permits
Taxi Drivers	Waiting List

4.2.3 A separate annual exercise is also undertaken in relation to comparing the data from the full Council Tax records and the Electoral Roll.

4.2.4 The matched data is contained on a secure website and access is granted to selected officers. The NFI system has its own inbuilt risk assessment system and this is used as guidance to prioritise those matches which need attention. Each report type is subject to a preliminary assessment and the high risk matches are reviewed first. There are usually extremely large volumes of matches received and consequently the risk rating allocated by the NFI is essential in helping prioritise the workload.

4.3 **Results To Date**

4.3.1 The table below sets out the results which have been considered for review to date (as at 13 December 2019). Throughout the year, additional matches are provided as data records are updated elsewhere or new organisations are brought online. Excluding creditors, 2,391 matches were provided (see below).

	High	**Medium**	**Low**	**Nil** (*)	**Total**
Blue Badge Parking Permit	64	69	1	0	134
Concessionary Travel Pass	310	279	0	0	589
Council Tax Reduction Scheme	25	72	501	18	616
Housing Benefit Claimants (**)	75	18	481	11	585
Market Traders	0	0	0	0	0
Payroll	1	7	9	2	19
Personal Alcohol Licence	1	0	0	0	1
Personal Budgets	6	11	5	1	23
Private Residential Care Homes	14	10	0	0	24
Residential Parking Permit	8	0	3	0	11
Taxi Drivers	1	0	0	0	1
Waiting List	23	362	2	1	388
TOTAL MATCHES	**528**	**828**	**1,002**	**33**	**2,391**

(*) As part of the exercise the data matching has identified a number of individuals for which no fraud factors were identified.

(**) Additional matches were released on 23 December 2019 for this area. This has increased the number of matches to 83 High and 499 Low.

4.3.2 Work is ongoing to verify the data in relation to these datasets. Key points to date across all datasets are:

1. Data quality remains a key issue across the authority to be resolved. A large number of matches highlighted data being held in wrong fields. As part of this exercise we

have provided key officers for each dataset with details as to where these changes need to be made to the raw data, reducing future potential multiple erroneous matches and improving the quality of its data records.

2. Timeliness of records being updated e.g. DWP deceased. All the data is extracted on or around second week of October, inevitably there will be records which have not been amended for any circumstance changes.
3. Referrals have been made to other agencies where there are identified links, for example, where matches have found for student loans or housing benefits. Responses remain outstanding.
4. Notional savings have been established in relation to Blue Badge Parking Permits **(£77,050**); Concessionary Travel Passes (**£14,136**) and removing errors from the Housing Waiting List (**£304,560**).

4.3.4 Full analysis of progress against each dataset is highlighted in **Appendix A**.

4.4 Trade Creditors

4.4.1 From the matching exercise, various anomalies were identified in relation to creditor payments.

Payroll to Creditors	18
Duplicate Creditors by: Creditor Name	275
Duplicate Creditors by: Address Details	202
Duplicate Creditors by: Bank Account	139
Duplicate Records by: Reference, Amount and Creditor Reference	195
Duplicate Records by: Amount and Creditor Reference	2,485
VAT Overpaid	251
Duplicate Records by: Name, Invoice No., Amount but different Creditor Reference	24
Duplicate Records by: Invoice No., Amount but different Creditor Reference and Name	94
Duplicate Records by: Postcode, Invoice Date and Amount but different Creditor Reference	2
Duplicate Records by: Postcode, Invoice Amount but different Creditor Reference	21
Procurement: Payroll to Companies House (Director)	51
TOTAL MATCHES	3,757

4.4.2 Having reviewed all the creditor matches, the following observations can be made:

- Payroll matches identify instances where an employee and creditor are linked by the same bank account or the same address which could indicate employees with interests in companies with which Peterborough is trading. This could indicate potential undeclared interests and possible procurement corruption or where a member of staff has set up a creditor with their own bank details in order to receive payments they are not entitled to. All matches have been reviewed and no issues identified.
- Duplicate creditors have been identified through a number of matches. Overwhelming, the majority of the matches can be linked to data quality. For example, the company name may have been misspelt or moved address but are linked by the same bank account. Similarly, a number of recurring quarterly payments have been identified, for example, energy payments. From the exercise, two duplicate payments have been identified totally **£1,989-90** which is being recovered.

- 251 instances where VAT may have been overpaid were identified. This was based on the information provided within the NFI invoice history data submission and the output includes the level and scale of overpaid VAT. The VAT amount is compared to a calculated maximum VAT of 20%, the maximum VAT rate in the payment period covered by the NFI exercise. No such errors where established.
- Finally, Payroll to Companies House (Director) matches identify potential undeclared interests that have given a pecuniary advantage. The matches identified employees who appear to be registered directors of companies that Peterborough has traded with and those where the employees address appears to have links to the company directors or the company. All interests have been declared.

4.5 **<u>Council Tax Records</u> (Single Person Discounts)**

4.5.1 As part of the annual data matching, there is a focus on Council Tax records. In order to look at an appropriate responses to the inherent risk of fraud / error in this area, various initiatives are undertaken. The Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. Council taxpayers are under a duty to report within 21 days if they think they should no longer qualify for a discount. The Council has in excess of 26,000 households within Peterborough who currently receive the 25% discount.

4.5.2 While most residents are claiming the discount appropriately, there are likely to be a minority who are attempting to defraud the system. From the National Fraud Initiative, the potential anomalies for investigation to verify data held to look to cancel identified errors or fraudulent claims are shown below.

Council Tax to Electoral Register	1,784
Council Tax to Rising 18s	105

4.5.3 Matches identify addresses where the householder is claiming a SPD on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over.

4.5.4 The electoral register also includes details of individuals who are approaching their 18th birthday. Unless there is an exemption, for example, a student, then the single person discount would need to be revoked from the date of their birthday.

4.5.5 There is ongoing dialogue / works with Revenues and Benefits to ensure that all cases are verified for accuracy, errors cancelled or fraudulent claims investigated. Where there are data quality issues, for example forename and surname transposed, similar discussions are being held with Electoral Services.

4.5.6 Unlike the rest of the NFI exercise, these datasets are provided annually. Outcomes to date are set out in **Appendix A**. As part of the exercise, some **£61,226-98** has been identified to date for recovery in relation to **147 cases**. Steps have been taken to recover this. A further **158 cases** have been cancelled with the total amount of discount awarded per annum for these where discount withdrawn is **£43,320**.

4.5.7 The next download of Council Tax (86,303 records) and the Electoral Register (144,633 entries) has been sent to the Cabinet Office and matches are awaited.

4.6 **Pilot Studies: Additional Matches (HMRC)**

4.6.1 NFI undertake various pilot studies each year. In early August they announced that they now had agreement to compare Local Authority data with records held by HMRC. Subsequently, in mid-September (with the exception of SPD which was received later) they released matches to identify potential fraud grouped into three areas – property ownership; earnings and capital and household composition. None of these are risk assessed currently.

Fraud Risk	Property Ownership	Earnings and Capital	Household Composition
Housing Benefit	0		147
Council Tax Reduction	0	23	463
Housing Tenancy	0		0
Personal Budget	0	0	
Residential Care Homes	3	8	
Right To Buy	0		
Council Tax Single Person Discount			6,280

4.6.2 Sample testing to date has identified that:

- PCC is aware of where properties are held by residents if in a care home
- Earnings identified refer to previous years where there is no live claim in place for Council Tax Reduction Scheme; and
- Similarly, matches generated are linked by property. A number of matches have provided data for previous tenants / owners.

4.6.3 With the later arrival of SPD matches, these are being picked up as part of the new matches received in 2020.

4.7 **Conclusions**

4.7.1 NFI continues to be an important exercise for detecting fraud across the public sector. With more and more datasets being requested and the increasing numbers of organisations matched against, there is a risk that this could become unmanageable to keep track of and do justice to the wealth of data and matches received.

4.7.2 Works are coordinated and investigated through Internal Audit currently but going forward greater ownership is required by the organisation to manage and regularly update its own records – enhancing the data quality so as to reduce the number of matches to those of highest fraud risk only.

4.7.3 Regular national studies report on the extent of fraud within local government. **Appendix B** sets out the latest position.

5. CONSULTATION

5.1 This progress report is subject to consultation with the Acting Corporate Director of Resources and the Director of Law and Governance.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Raised Audit Committee awareness of the processes in place to investigate potential fraudulent activity against the Council and the successes to date.

7. REASON FOR THE RECOMMENDATION

7.1 To enable Audit Committee to fulfil part of its role within its Terms of Reference.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

9. IMPLICATIONS

Financial Implications

9.1 The investigation works undertaken to date have enabled the Council to look to recover additional monies to supplement the Councils budget.

Legal Implications

9.2 None

Equalities Implications

9.3 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None.

11. APPENDICES

A: National Fraud Initiative Progress

B: Fraud and Corruption Tracker Report 2019

This page is intentionally left blank

NATIONAL FRAUD INITIATIVE: UPDATE

	High	Medium	Low	Nil	Total	Cases
Blue Badge Parking Permit	64	69	1	0	134	All investigated

132 blue badge cases relate to where the recipient has died and the badge could still be in circulation, with the other 2 cases relating to matches where a badge has been issued at two different local authorities. While the Council records have been updated we are awaiting confirmation with the section that administers the scheme to establish whether each permit has been recovered or are in the process of being recovered.

For NFI outcomes, if the Permit is cancelled, a notional value of £575 per badge is attributed resulting in an estimated **£77,050** in potential future parking income.

Concessionary Travel Pass	310	279	0	0	589	All investigated

Similarly, 589 travel passes relate to where the recipient has died and the travel pass could still be in circulation. Permit records have been updated. For NFI outcomes, if the Pass is cancelled, a notional value of £24 per pass is set aside – potentially a loss of **£14,136**.

Council Tax Reduction Scheme	25	72	501	18	616	Under review: 76 Cleared: 369 Not in sample:171

Matches identify cases where individuals in receipt of council tax reduction have failed to declare employment or pension income that might remove or reduce entitlement to reduction scheme. Cases for investigation are referred through to Council Tax and Benefits for reassessment of each case – if there remains a live claim. Records are updated and closed once the position is known.

With a high percentage of low risk matches, these have been sample checked.

Housing Benefit Claimants	75	18	481	11	585	Under review: 45 Cleared: 430 Not in sample: 110

Matches identify cases who are claiming Housing Benefits and income may not have been declared, such as employment and pension income, student loans or it may be the case that the claimant has died and the benefits may still be being paid.

A large percentage of income has been declared and the matches cleared. Where there is a live claim and income not declared, each case is referred through to DWP for investigation. No values of fraud have been provided by DWP to date.

Similarly, low risk cases have been sampled.

	High	Medium	Low	Nil	Total	Cases
Payroll	1	7	9	2	19	All investigated

Matches identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another at the same time. The criteria for a match are a person having one full time post plus at least one other post elsewhere.

All cases have been investigated and no issues identified. Each case relates to an officer who either joined or left PCC during the early part of the year (between local authorities) so that they will appear on each respective Councils payroll.

Personal Alcohol Licence	1	0	0	0	1	Closed

This case has matched against a potential identity fraud record elsewhere, this could be that the person may be the actual victim of identity fraud rather than a fraudster. We have liaised with the Metropolitan Police.

Personal Budgets	6	11	5	1	23	Investigated

Matches identify cases where individuals have died but payments may still be being made or where individuals may have failed to declare pension income that might affect entitlement.

No issues have been found.

Private Residential Care Homes	14	10	0	0	24	Investigated

Matches identify cases where individuals have died but PCC may not have been notified so potentially continuing to make payments.

No overpayments have been identified.

Residential Parking Permit	8	0	3	0	11	Investigated

Matches identify cases where a resident parking permit has been matched to deceased records.

All permits have been cancelled, there has been a small delay in updating records around the time of the data download.

Taxi Drivers	1	0	0	0	1	Closed

This case has matched against a potential identity fraud record elsewhere, this could be that the person may be the actual victim of identity fraud rather than a fraudster. We are liaised with the Metropolitan Police.

	High	Medium	Low	Nil	Total	Cases
Housing Waiting List	23	362	2	1	387	Under review: 81 Cleared: 306

These are cases were the applicant has died and not been removed from the list or the individual appears to have registered on the list using two different addresses suggesting possible undisclosed changes in circumstances or that false information has been provided. This could be at addresses within PCC or other Councils.

94 records so far have been removed from the housing waiting list with an estimated notional value (£3,240) as prescribed by the NFI, of **£304,560**. It is expected that further records will be removed from the waiting list.

One of the primary records verified to is the Electoral Roll, this has identified further changes which are being acted upon.

We have also noted that the department is migrating to a new housing system. Despite notifying of a number of data errors, it is understood that the data has been transferred including the errors.

Council Tax – Single Person Discounts

<table>
<tr><th></th><th>Total</th><th></th></tr>
<tr><td>Council Tax to Electoral Register</td><td>1,784</td><td>Reviewed to date: 1,777 cases</td></tr>
<tr><td colspan="3">Matches identify addresses where the householder is claiming a SPD on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over.

A total of £61,227 has been identified to date for recovery in relation to 147 cases and steps have been taken by Council Tax to recover. (In comparison, the previous years exercise was 35 cases / £16,000),

A further 158 cases saw SPD cancelled, with the total amount of discount awarded per annum for these where discount was withdrawn being £43,320. (Previous years exercise comparison 77 cases / £22,000).</td></tr>
<tr><td>Council Tax to rising 18s</td><td>105</td><td>Cleared: 47 cases

Investigating: 58</td></tr>
<tr><td colspan="3">The electoral register also includes details of individuals who are approaching their 18th birthday. Unless there is an exemption, for example, a student, then the single person discount would need to be revoked from the date of their birthday.

Council Tax have been following up on each case.</td></tr>
</table>

Pilot Studies: HMRC Records Matches

Council Tax Reduction Scheme to HMRC Earnings and Capital • Identify potential non-declaration or under declared income from earnings	23
Council Tax Reduction Scheme to HMRC Household Composition • Identify potential non-declaration of non-dependent adults residing at the property with potentially non / under declared income from earnings	463
Housing Benefit Claimants to HMRC Household Composition • Identify potential non-declaration of non-dependent adults residing at the property with potentially non / under declared income from earnings	147
Private Residential Care Homes to HMRC Property Ownership • Identify potential non-declaration of property impacting on the charges for care	3
Private Residential Care Homes to HMRC Earnings and Capital • Identify potential non-declaration or under declared income from earnings	8
TOTAL INITIAL MATCHES RELEASED	644

Sample testing to date has identified that:

- PCC is aware of where properties are held by residents if in a care home'
- Earnings identified refer to previous years where there is no live claim in place for Council Tax Reduction Scheme; and
- Similarly, matches generated are linked by property. A number of matches have provided data for previous tenants / owners.

A supplementary data release has recently been received which compares HMRC records with those properties which are the Council Tax database where there is an associated single person discount. These should be new matches as they would not have been identified previously as other studies have focussed on the Electoral Roll.

Council Tax Single Person Discount to HMRC Household Composition • Identifies potentially more than one adult residing at the property	6,280

As a recent addition, no time has been spent on this to date. This will be sample tested alongside the January 2020 release of SPD matches.

This page is intentionally left blank

CIPFA The Chartered Institute of Public Finance & Accountancy

fraud and corruption tracker

Summary Report 2019

CIPFA COUNTER FRAUD CENTRE

Contents

3 Foreword

4 Introduction

5 Executive summary

6 Main types of fraud

– Council tax

– Disabled parking (Blue Badge)

– Housing

– Business rates

12 Other types of fraud

– Adult social care

– Insurance

– Procurement

– No recourse to public funds/welfare assistance

– Payroll, recruitment, expenses and pension

– Economic and voluntary sector support and debt

– Mandate fraud and manipulation of data

16 Serious and organised crime

17 Sanctions

17 Cyber fraud

18 Whistleblowing

18 Counter fraud structure

19 Joint working/data sharing

20 Fighting Fraud and Corruption Locally

21 Recommendations

22 Appendices

Foreword

Rob Whiteman

Rob Whiteman
Chief Executive, CIPFA

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

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

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

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

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

The survey was supported by:

Fighting Fraud & Corruption LOCALLY

Local Government Association

The CIPFA Counter Fraud Centre

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

CIPFA **COUNTER FRAUD** CENTRE

Acknowledgements

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

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

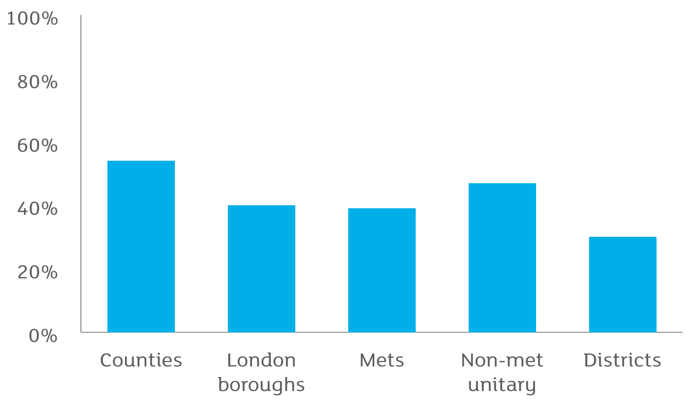
Introduction

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

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

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

Response rate

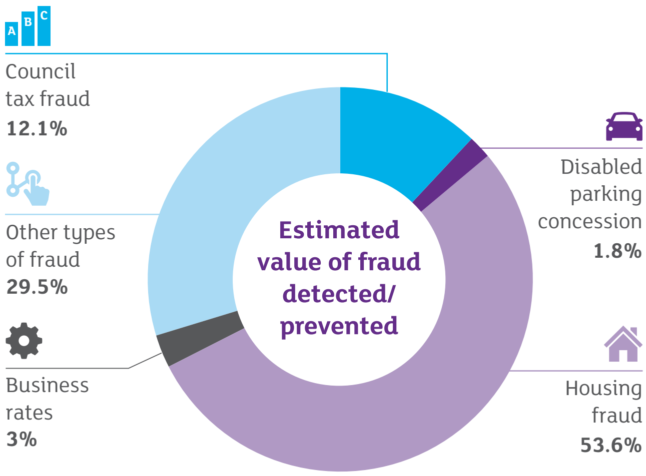


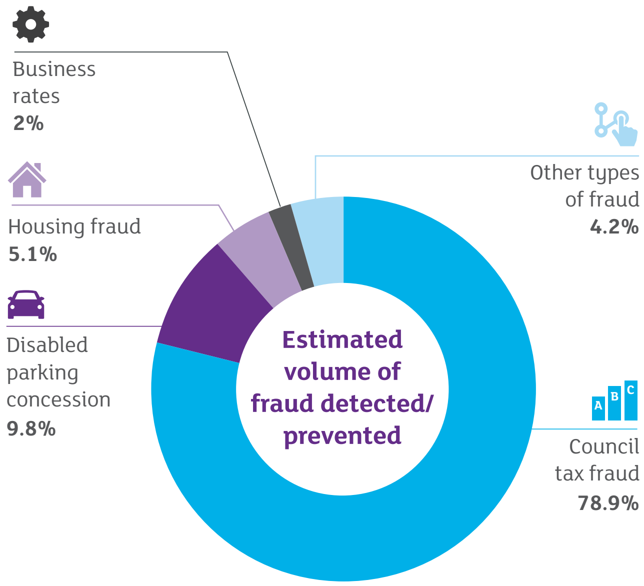
This report highlights the following:

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

Executive summary

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





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

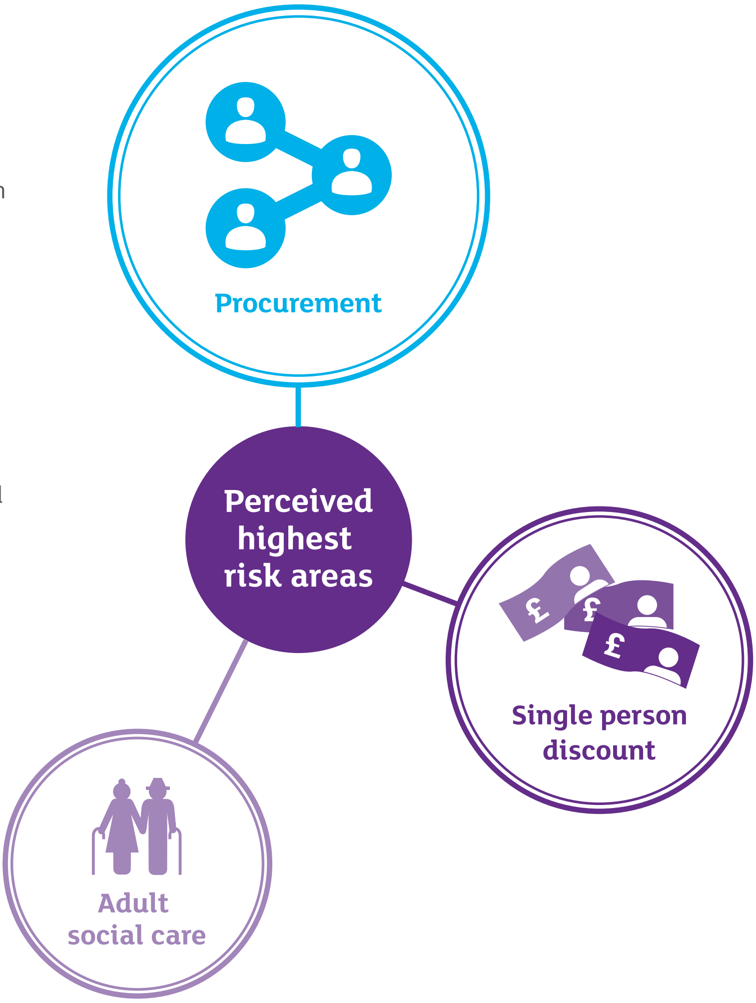
Improvements in the review of allocations and applications by many local authorities have limited the risk of new fraud cases and strengthened overall degrees of prevention. Together with low rates of tenancy turnover associated with the current social housing stock, this prevention strategy has been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

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

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

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

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



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

£253m

Major fraud areas

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

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

Council tax

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

Table 1: Estimated council tax fraud

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

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

55,855

instances of council tax fraud amounted to

£30.6m

in the last year

Disabled parking (Blue Badge)

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

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

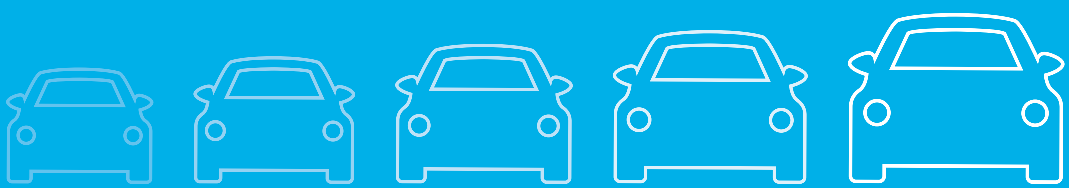
This indicates that although procurement, council tax SPD and adult social care are identified nationally as the three main fraud risk areas, Blue Badge fraud is an area of increasing risk and prominence.

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

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

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

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



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

Housing and tenancy fraud

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

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

Table 2: Estimated housing fraud

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

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

3,632

instances of housing fraud occurred in the UK last year

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

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

Business rates

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

Examples of business rates fraud include fraudulent applications for exemptions, tax relief and the failure to list properties as being a business address. It often takes a visit from someone in the fraud team to discover the truth.

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

Business rate fraud represents

of all detected and prevented cases of fraud in the UK

Other types of fraud

This section of the report examines survey responses related to other notable types of fraud that did not emerge as major types of fraud within the national picture. This section includes the following fraud types, among others[2]:

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

Adult social care

Table 3: Estimated adult social care fraud

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

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

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

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

Insurance fraud

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

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

Local authority insurance fraud cases included in this survey are a mixture of both one-off, high-value employer liability claims (such as injury at work) and frequent, low-value public liability claims (such as 'slips and trips' or property damage).

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

Procurement fraud

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

This year, there was an estimated number of

125

prevented or **detected** procurement frauds.

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

Table 4: Estimated procurement fraud

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

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

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

Welfare assistance and no recourse to public funds

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

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

Economic and voluntary sector (grant fraud) and debt

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

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

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

Payroll, expenses, recruitment and pension

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

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

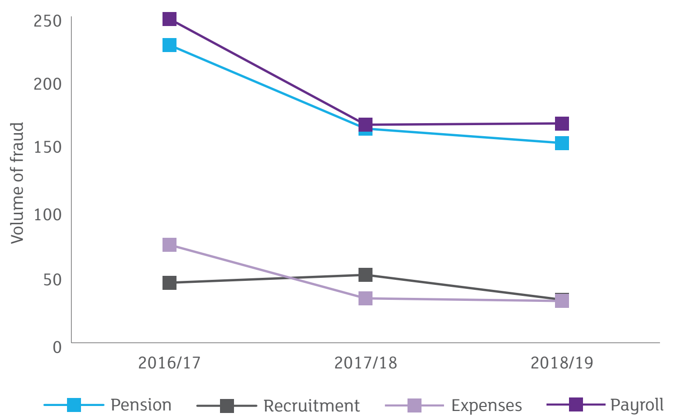
Payroll has had the highest volume and value of fraud out of these four areas (payroll, expenses, recruitment and pension) for every year since 2016/17. Recruitment fraud has the second highest with an estimated average per case of £11,381.

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

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

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

Changes in fraud volume



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

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

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

Serious and organised crime

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

The 2018/19 survey identified 24 cases of serious and organised crime, a decrease from the 56 in 2017/18 which had doubled from the year before that. All of this year's cases come from metropolitan, districts, London boroughs and counties. This may indicate that larger and more complex authorities bear a greater risk of being targeted by serious and organised crime. The responses show that councils share a significant amount of data both internally and externally, with 72% sharing data with the Cabinet Office/ National Fraud Initiative, 52% sharing data with the police and 49% sharing data with their peers (other councils).

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

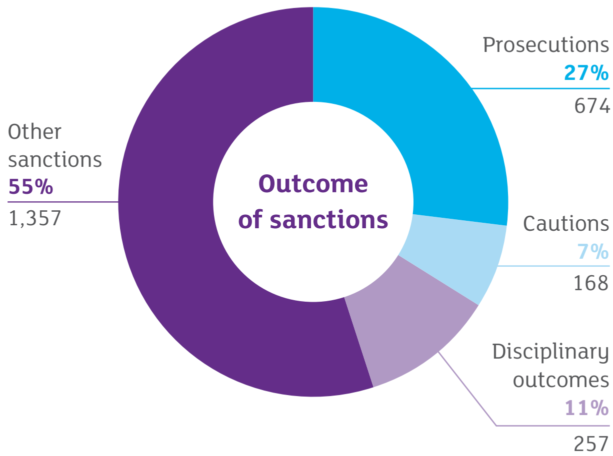
24

cases of serious and organised crime

Sanctions

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

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



Cyber fraud

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

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

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

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

Whistleblowing

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

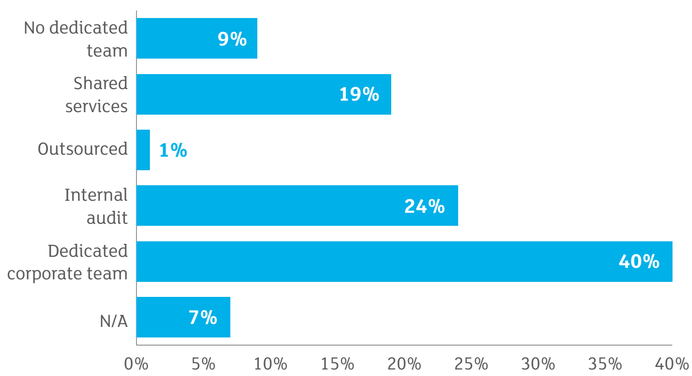
Of those questioned, 86% confirmed that staff and the public had access to a helpdesk and 70% said that the helpline conformed to the BS PAS1998:2008.

Respondents reported a total of 755 whistleblowing cases logged, made in line with BS PAS 1998:2008, representing disclosures in all areas – not just with regard to suspected fraudulent behaviour. This is an average of six cases logged per authority, double last year's average of three per authority. Responses showed that the majority of cases were logged by London councils and metropolitan districts.

Counter fraud structure

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

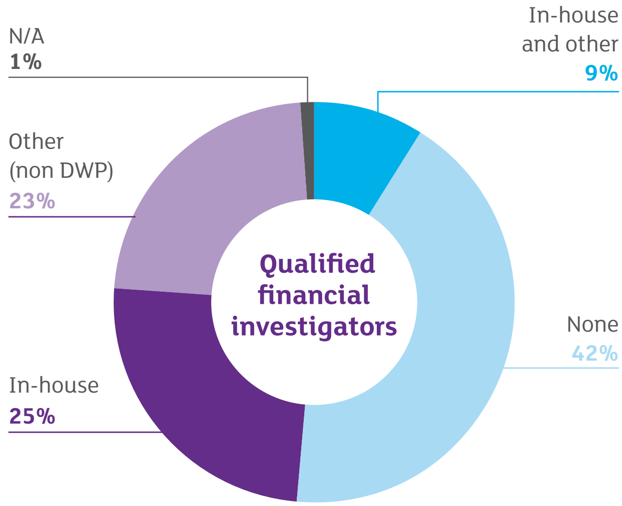
Counter fraud structure breakdown



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

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

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



Joint working/data sharing

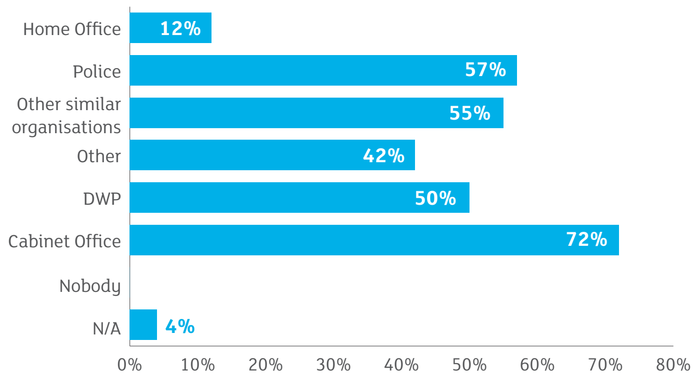
Eighty-nine percent of survey respondents have stated that they share data internally, mainly with housing, council tax and revenue/benefits departments.

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

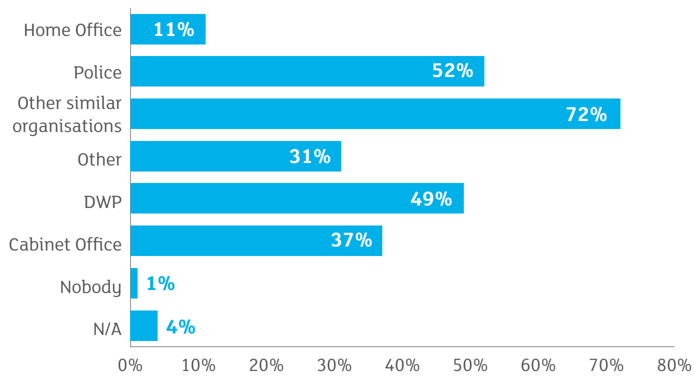
The sort of data that is shared relates to persons of interest, areas of interest and emerging frauds. Some authorities also highlighted that the kind of data they share is for data-matching purposes.

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

Share/exchange data with:

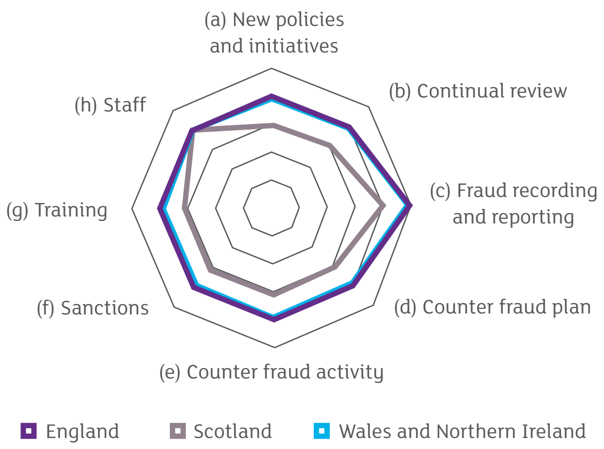


Work jointly with:



Fighting Fraud and Corruption Locally

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



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

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

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

Recommendations

CIPFA recommends

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

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

Appendix 1: Fraud types and estimated value/volume

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

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

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

Appendix 2: Methodology

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

From the responses, the number of cases per each unit of measurement is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.

Appendix 3: Glossary

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

Adult social care fraud:

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

Investigations cover cases where:

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

Blue Badge:

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to those with disabilities so they can park nearer to their destination.

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

Business rates fraud:

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

Cautions:

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

Council tax fraud:

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

Council tax fraud is split into three sections:

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

Debt fraud:

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

Disciplinary outcomes:

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

Economic and voluntary sector (grant fraud):

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

Housing fraud:

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

Insurance fraud:

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

Mandate fraud:

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

Manipulation of data fraud:

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

No recourse to public funds:

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

Organised crime:

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

Payroll fraud:

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

Procurement fraud:

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

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

Recruitment fraud:

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

Right to buy:

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

Welfare assistance:

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

Whistleblowing:

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

The Chartered Institute of Public Finance & Accountancy

Registered office:
77 Mansell Street, London E1 8AN
T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700
www.cipfa.org

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

recycle

2019/11

AUDIT COMMITTEE	AGENDA ITEM No. 6
27 JANUARY 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director: Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

ASSET INVESTMENT ACQUISITION STRATEGY AND ASSET MANAGEMENT PLAN

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter, Acting Corporate Director: Resources	**Deadline date:** Cabinet 24 February 2020
Audit Committee is asked to: 1. To review the Asset Acquisition and Asset Management Plan before they are approved as part of the Medium Term Financial Strategy (MTFS) at Full Council in March 2020.	

1. ORIGIN OF REPORT

1.1 The Acting Corporate Director of Resources is responsible for the update of these plans and their inclusion each year in the Medium Term Financial Strategy (MTFS).

2. PURPOSE AND REASON FOR REPORT

2.1 The Asset Investment Acquisition Strategy and Asset Management Plan set out how the Council ensures its assets are properly maintained and the rules by which the Council can purchase assets in the future. These strategies are updated on a yearly basis as part of the Medium Term Financial Strategy (MTFS). This report gives Audit Committee the time to comment on the draft updates to be included in the 2020/21 MTFS papers.

2.2 This is in accordance with the Committees' Terms of Reference – 2.2.1.15. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

2.3 This report sets out how the Council will maintain its existing assets and purchase new assets in order to fulfil service and corporate and service objectives.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	24 February 2020
Date for relevant Council meeting	4 March 2020	Date for submission to Government Dept. *(Please specify which Government Dept.)*	

4. BACKGROUND AND KEY ISSUES

4.1 The Asset Acquisition Strategy and Asset Management plans set out how the Council ensures its assets are properly maintained and the rules by which the Council can purchase assets in the future.

4.2 These strategies are updated on a yearly basis as part of the Medium Term Financial Strategy (MTFS). This report gives cabinet the time to comment on the draft updates to be included in the 2020/21 MTFS papers. These plans were also be considered by Cabinet on the 13 January 2020.

4.3 There have been no significant changes in legislation since last year where changes were made in terms of how Councils can purchase assets following the significant resources that have been invested in Property by a number of Councils. The acquisition paper takes account of the latest government guidance.

4.4 **Asset Management Plan (AMP)**

4.4.1 Peterborough City Council has a continued commitment to creating vibrant local communities with a strong local economy and good provision of infrastructure, housing and employment. Buildings are important in creating a sense of place and the property assets which the council owns make a contribution to creating sustainable communities within Peterborough. This presents the Council with the challenge of reviewing its property portfolio to ensure that it is optimised in terms of its resources and so that it can contribute to community needs and the Council's budget. The AMP describes the Council's asset management policy and practice.

4.4.2 The AMP identifies the key strategic policy and resource influences affecting the Council and sets parameters for asset management over the medium term. The plan has a five year horizon with annual reporting on progress.

4.4.3 The AMP defines how the Council:

- Integrates property decisions with wider Council policy;
- Enhances the financial value from its property holdings;
- Maintains and improves its assets;
- Drives efficiencies within the portfolio;
- Supports the Council's aspirations as an environmental city;
- Listens and responds to its residents' evolving needs.

4.4.4 The Council owns a diverse property portfolio. These properties are:

- Operational – those supporting direct service provision;
- Investment – those producing a positive financial return;
- Surplus – property no longer used in service provision which are sublet or vacant;
- Strategic land or property with growth and regeneration potential.

4.4.5 This diverse property estate is spread throughout its administrative area. The bulk of the estate is operational property used for direct delivery of services for which the Council has a statutory or discretionary responsibility and is predominantly freehold. The broad dimensions of the portfolio are:

- The portfolio comprises 1,741 land and property assets;
- £3.8m rent generated per annum;
- Is worth £425.5m in terms of book value (this excludes the asset categories: infrastructure assets; vehicles, plant and equipment; asset under construction);
- Incurs running costs of £18.8m per annum;

4.4.6 The AMP includes within its appendices further detail on:

- Appendix A - Asset Management Policies and Partnerships
- Appendix B – Service Strategies and Portfolio Implications
- Appendix C – Consistency with Best Practice, Key Themes and Requirements
- Appendix D – A summary of the present Property Portfolio

4.5 **Asset Investment Acquisition Strategy**

4.5.1 The Asset Investment Acquisition Strategy is updated to take account of both:
- the changes to legislation around how and where Councils can invest funds in Property, and,
- ensuring there is a framework within which commercial investment decisions can be made quickly - as long as investment rules are adhered to.

4.5.2 The Strategy sets out the rationale of Property as an investment class including:
- Defining Property as an asset class;
- Setting out different approaches to property investments;
- Setting out the differences between Investment and Strategic decisions;
- Setting out the relationship between risk and return.

An overall context is given to this asset class including the national and local market outlooks.

4.5.3 The requirements of an effective property portfolio is then set out including:
- Operating principles and governance arrangements;
- Day to day management (including performance measures);
- Acquisition, Review & Disposal Criteria.

4.5.4 This framework gives the council the rules within which it can look to acquire property as part of commercial and operational requirements as well as the Governance arrangements required to ensure these decisions can be made quickly.

5. CONSULTATION

5.1 These plans will undergo a full consultation via the scrutiny process as it forms part of the Annual MTFS.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report and Strategy are presented to the Audit Committee to provide the opportunity to review the approach being applied in the Asset Acquisition Strategy and Asset Management plans in advance of it being presented to Full Council in March 2020.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 These strategies have to be updated on a yearly basis. This report is part of that update process.

9. IMPLICATIONS

Financial Implications

9.1 The assumptions as contained in this strategy have been used to inform the Capital Financing budget as contained and detailed in the MTFS.

The financial implications from these plans feed into:

- The 5 Year Capital Programme
- The asset disposal programme
- The asset acquisition programme

Legal Implications

9.2 There is the requirement to publish these reports and run them though the full scrutiny process on a yearly basis.

Equalities Implications

9.3 The Council's property strategy includes equalities access and associated legislative requirements.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- 2018/19 Asset Management Plan
- 2018/19 Asset Acquisition Strategy
- 2019/20 Asset Management Plan
- 2019/20 Asset Acquisition Strategy

11. APPENDICES

11.1
- Appendix 1 - 2020/21 Asset Management Plan
- Appendix 2 - 2020/21 Investment Acquisition Strategy

Peterborough City Council

Asset Management Plan

January 2020

Contents

		Page
	Foreword	**2**
	Executive Summary	**2**
1.0	**Introduction**	**3**
1.1	Purpose & Scope of AMP	3
1.2	Overview of the Portfolio	3
1.3	Links to Other Plans	3
2.0	**Strategic Context & Direction**	**4**
2.1	Influences for Change	4
2.2	Council & Service Priorities	5
2.3	Service Strategies & Partnerships	6
2.4	Resource Context	7
2.5	Challenges in the Portfolio	7
2.6	Strategic Direction	7
2.7	Making it Happen – A Framework for Action	9
3.0	**Asset Management Policy & Practice**	**10**
3.1	Organisational Arrangements	10
3.2	Governance & Decision Making	11
3.3	Consistency with 'Best Practice'	11
3.4	Supporting Policies & Procedures	11
4.0	**The Property Portfolio**	**12**
4.1	Summary Dimensions of the Portfolio	12
4.2	Tenure & Use	12
4.3	Condition & Fitness for Purpose	12
4.4	Value, Cost & Income	13
4.5	Sustainability & Energy	13
4.6	Statutory Compliance	13
5.0	**Performance & Monitoring**	**14**
5.1	Measurements of Portfolio Performance	14
5.2	Review Arrangements	14
6.0	**Appendices**	**15**

Foreword

Peterborough City Council has a continued commitment to creating vibrant local communities with a strong local economy and good provision of infrastructure, housing and employment. Buildings are important in creating a sense of place and the property assets which the council owns make a contribution to creating sustainable communities within Peterborough. This presents the Council with the challenge of reviewing its property portfolio to ensure that it is optimised in terms of its resources and so that it can contribute to community needs and the Council's budget. This document describes the Council's asset management policy and practice.

Executive Summary

The current operating context for public services is challenging and those challenges are exacerbated by demographic changes and financial pressures due to diminishing central government funding. Peterborough is a rapidly growing city which puts pressure on demand for housing, infrastructure, employment opportunities and council services.

The Council has a vision for a bigger and better Peterborough – for improving quality of life in its communities and creating a sustainable thriving place to live, work and visit. It also has aspirations to be the environmental capital of the UK. Accordingly, the asset management plan must have a continued focus on using property to support growth, inward investment and financial security whilst having a positive impact on the environment.

The Council and their joint venture partners need to be clear about their objectives for operational, investment, surplus and strategic assets. Any deficiency in resources required to manage the portfolio needs to be identified.

There should be a financial assessment of surplus assets to ensure that they are making contribution either from a financial or community perspective. Where they are not, the Council can consider refurbishment, redevelopment or disposal. Buildings need to be reviewed to understand whether operational costs can be mitigated. In some cases there will be synergies between environmental objectives and cost reduction. Efficient use of services such as sharing buildings between Council services should be considered. Efficient asset management can help to optimise property's contribution to the revenue budget and meet the Council's growth and regeneration priorities.

1 Introduction

1.1 Purpose & Scope of AMP

This Asset Management Plan (AMP) identifies the key strategic policy and resource influences affecting the Council and sets parameters for asset management over the medium term. The plan has a 5-year horizon with annual reporting on progress.

The AMP is to define how the Council:

- Integrates property decisions with wider Council policy
- Enhances the financial value from its property holdings
- Maintains and improves its assets
- Drives efficiencies within the portfolio
- Supports the Council's aspirations as an environmental city
- Listens and responds to its residents' evolving needs

1.2 Overview of the Portfolio

The Council owns a diverse property portfolio. These properties are:

- Operational – those supporting direct service provision
- Investment – those producing a positive financial return
- Surplus – property no longer used in service provision which are sublet or vacant
- Strategic land or property with growth and regeneration potential

1.3 Links to Other Plans

The AMP is aligned with a number of wider supporting policies, corporate and service strategies which are listed in appendix A.

2 Strategic Context & Direction

2.1 Influences for Change

National

At a national level there is a drive to promote sustainable communities and an aspiration to create vibrant, attractive places to live and work. Current policy has a strong emphasis upon encouraging community participation and place-shaping with a view to the Council and community working together to improve the character of an area.

The government's localism agenda has a focus on decentralisation – moving resources and decision-making towards individuals, communities and councils. Voluntary groups, social enterprises and parish councils now have a 'community right' to challenge local authorities over their services. New rights mean communities can ask councils to list certain assets as being of value to the community. Where a listed asset comes up for sale, communities have the right to bid for it.

Under Community Asset Transfer (CAT) initiatives there is also potential for the transfer of management, sometimes ownership of council property to community organisations in order to achieve a social, economic or environmental benefit.

There is a strong drive for partnership working - a policy exemplified by the One Public Estate (OPE) initiative. OPE is an established national programme coordinated by the Cabinet Office and the Local Government Association. Its objective is to encourage public sector partnerships and a strategic approach to asset management. By bringing national and local government together and supplying the necessary expertise, OPE has been able to achieve tangible results and is now working with over 300 councils. Their main aims and outcomes have been:

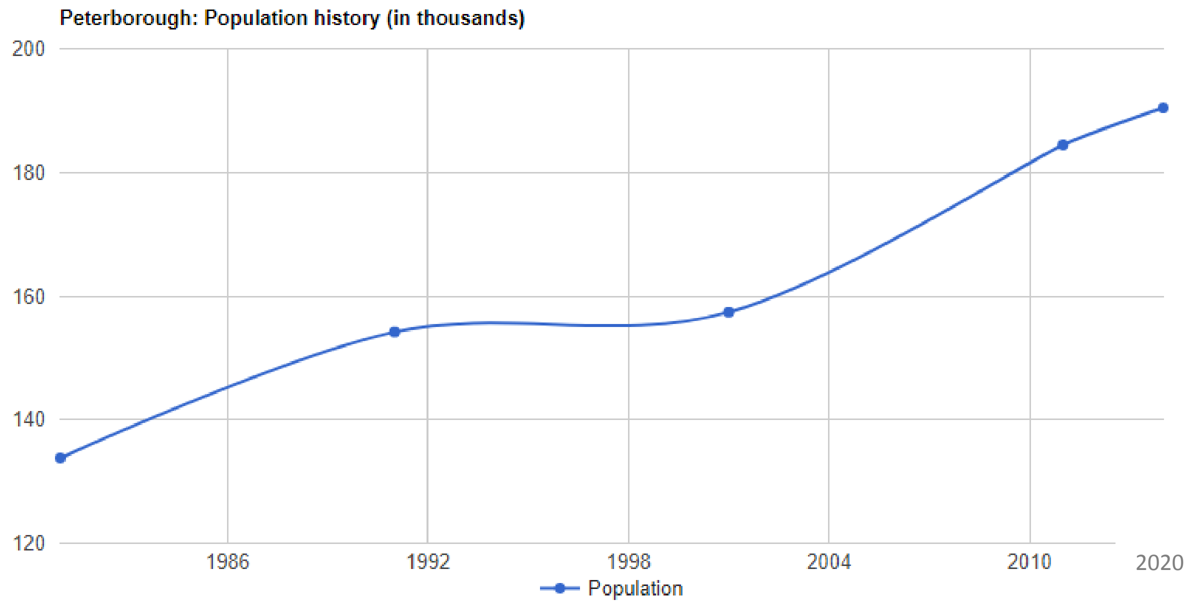
- Driving local growth and job creation
- Creating efficiencies and reducing cost
- Releasing capital to reinvest in communities
- Sharing best practice in asset management
- Using dedicated local teams to work on specific projects
- Freeing up sites to promote the building of new homes

Regional

Under the government's devolution agenda, the Cambridgeshire & Peterborough Combined Authority was created in March 2017; the Combined Authority has a directly elected mayor and more discretion on how services are provided. It has new powers and access to funding for new homes and infrastructure. The Council is part of the Local Enterprise Partnership (LEP) that covers Greater Cambridgeshire and Greater Peterborough. The LEP's role is to provide a broad vision for the area to explore ways of building infrastructure and to encourage the development of local skills.

Local

Peterborough has seen a period of sustained population growth with population for the Council's administrative area estimated to be c.200,000 in 2018 and 204,000 by 2020 (source - Office of National Statistics).



Whilst the number of migrants has contributed to this growth, the city also enjoys one of the highest birth rates and lowest death rates in the country. The area's proximity to London and good transport links continue to act as a draw to the area. This growth requires investment in infrastructure, especially housing and increases demand on essential services.

2.2 Council & Service Priorities

The key priorities underpinning the Council's vision are:

- Growth, regeneration and economic development of the city to bring new investment and jobs; supporting people into work and off benefits
- Improving educational attainment by developing university provision and employment opportunities
- Safeguarding vulnerable children and adults
- Pursuing the Environment Capital agenda to position Peterborough as a leading city in environmental standards

- Supporting Vivacity (Peterborough's culture and leisure trust) to deliver arts and culture

- Keeping our communities safe, cohesive and healthy

There are a range of corporate strategies to which the Council's property portfolio must align.

The most significant of these are highlighted briefly below.

- **People & Communities Strategy** – The Council will develop new models of service delivery working with constrained financial resources. The focus will be upon targeting services and moving further towards a commissioning model. There is a need to adapt service delivery with fewer services being provided directly by the Council, increasing 'shared services' provided by partner agencies and more use of community / voluntary resources. The Council will retain a regulatory role but it is likely to employ fewer staff in the future.

- **UK's Environmental Capital** – The Council has a vision to be a sustainable city. Its aspirations are encapsulated in '*Creating the UK's Environmental Capital: Action Plan'*.

  This sets targets out themes which include:

  - Reducing carbon emissions
  - Sustainable water management
  - Protection of wildlife
  - Use of sustainable materials
  - Sustainable food production
  - Sustainable waste management
  - Sustainable transport solutions
  - Heritage preservation

All of these will impact how the Council manages and uses its property portfolio.

2.3 Service Strategies & Partnerships

There are a range of existing service strategies and partnerships which directly affect properties which the AMP addresses. These are shown in appendix B.

2.4 Resource Context

The Council's budget is set within a national context of continuing funding cuts and PCC is itself facing a significant funding gap. To meet this challenging environment it will need to operate more commercially and pursue efficiency savings wherever possible. Where there is no commercial, community or strategic case for retaining property, assets will be disposed of; the proceeds of which will be used to support the revenue budget. Within the operational portfolio there is a need to reduce cost through more efficient utilisation, sharing between services and use of energy.

2.5 Challenges in the Portfolio

A number of challenges have been identified in the portfolio which need to be addressed.

- Ageing Portfolio – The operational portfolio is ageing and thus has increasing maintenance and repair needs. There is a need to identify and agree Planned Preventative Maintenance (PPM) programmes and if appropriate dispose of assets which are a drain on resources. The capital expenditure budget for the portfolio is significant and for 2019 is circa £1.75 million.

- 'Portfolio Intelligence' and data management. The council has robust data from managing the property portfolio however it needs to ensure the information is collated to provide the necessary high level reporting. That will allow oversight of the portfolio and ensure strategic opportunities are maximised.

- Asset Management – A clear role for the Council's joint venture Estates and Strategic Asset Services Partner NPS Property Consultants is key to delivery of the actions identified in this AMP, as are clarity of roles within the Council's client function.

2.6 Strategic Direction

The context outlined suggests a requirement for asset management to focus on using property to support growth, inward investment and financial security. Going forward, there are specific objectives for the various elements of the portfolio.

For example:

- Operational portfolio.
  - Focus on core council assets
  - Increase sharing between services
  - Promote agile working
  - Use planned preventative maintenance to spread cost
  - Reduce energy use
  - Support provision of integrated public services with partners to create multi-agency service facilities

- Surplus portfolio:
    - Refurbish property where there is potential to create long term income and transfer the asset to a dedicated investment portfolio
    - Dispose of assets that are a drain on the Council's resources and where retention does not present a wider community or strategic benefit

- Strategic land and property
    - Keep reviewing opportunities to meet growth and regeneration objectives, and potential opportunities to create income.

There are a number of actions required to respond to the challenges identified above. Given the Council's resource constraints it will need to determine the relative priority of each action and analyse the cost / benefit.

Key Actions

- Set out schedule of properties with status showing suitability for retention, disposal or review
- Review potential for shared use
- Establish an asset management forum at director level; meet quarterly with NPS to review portfolio
- Approve Investment Acquisition Strategy
- Clarify roles within 'intelligent client' and NPS Peterborough
- Review forthcoming lease events of the 54 leased properties and identify areas for cost reduction
- Review fire insurance valuations on a rolling programme to ensure costs & risks are managed
- Develop planned maintenance strategy for 'core' retained
- Finalise the Community Asset Transfer strategy for remaining community buildings
- Develop plan for strategic sites

2.7 Making it Happen – A Framework for Action

NATIONAL

- Public Sector Spending Constraints
- Public Service Reform
- Socio-economic & Demographic Changes
- Sustainable Communities place-shaping
- Localism & decentralisation
- Partnership Working and One Public Estate

Regional

- Devolution Combined Authority
- Population Growth
- Infrastructure Pressures
- Skills Development & Employment
- Cambridgeshire Peterborough Combined Authority

LOCAL (Corporate & Council Wide)

- Bigger & better Peterborough
- Long term Sustainability
- Commissioning' service delivery model
- Sustainable Communities ' place shaping
- Customer Service Strategy (digital access)
- Smart Cities – Peterborough DNA

Vision: to create a bigger and better Peterborough that grows sustainably

Improves the quality of life for all its residents and ensures that all communities benefit from the growth and the opportunity it brings

Creates a thriving regional community of villages and market towns; a healthy, safe and exciting place to live, work and visit; aspires to be the environmental capital of the UK

Using property to support growth, inward investment and financial security

Enhancing Portfolio Value

Invest in operational portfolio to ensure fit for purpose buildings; dispose of assets which are a drain on resources. Improve the energy efficiency of the portfolio and reduce running costs.

Partnership Working

Working with public and private sector partners to transform service delivery and reduce operating costs. Review operational assets and seek opportunities to promote integrated public services.

All Portfolios

- Establish Asset Management Forum at Director / Head of Service Level
- Approve investment strategy
- Complete H & S organisational responsibilities flow and implement
- Implement EPC & DEC requirements
- Review rates saving opportunities
- Review lease events for leased portfolio
- Review fire insurance valuations to ensure costs & risks are managed

Operational Portfolio

- Review operational assets to categorise
- Develop planned maintenance programme for 'core' retained assets
- Ensure current occupiers directorate are included on Technology Forge
- Finalise the Community Asset Transfer Strategy

Surplus Portfolio

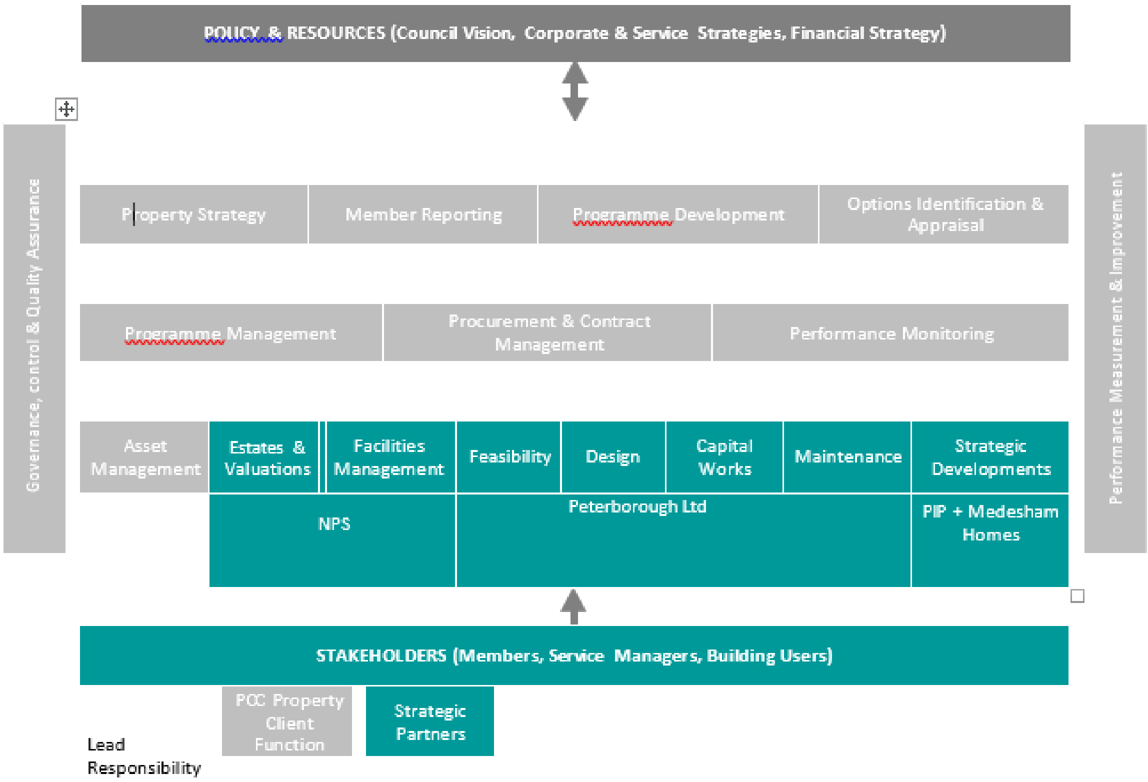
- Maximise revenue and consider refurbishment and / or disposal
- Review strategic assets and categorise

3 Asset Management Policy & Practice

3.1 Organisational Arrangements

The main professional property services are conducted through NPS Peterborough Ltd for the broad range of estates and valuation services and Peterborough Ltd carry out design, capital works, facilities and property maintenance. The Peterborough Investment Partnership (PIP) – a 50/50 joint venture with the private sector established in December 2014, supports growth and regeneration through the development of strategic sites. Medesham Homes and Cross Key Homes work with PCC to deliver social housing. The Council also has partnerships with Skanska for highways work and Vivacity for culture and leisure services.

The Council's operating model is shown in the diagram below.



3.2 Governance & Decision Making

The Cabinet Member for Resources has the lead political role for property matters and acting under delegated powers reports on property issues. The Cabinet or the Cabinet member acting with the Corporate Property Officer (CPO) are responsible for decisions on acquisitions, use and disposal of assets and for ensuring asset management policy and actions are consistent with the Council's corporate strategies and objectives.

The prioritisation of projects in the capital programme is undertaken as part of the budget setting process. The responsibility for service buildings and their operating budgets lies with service departments. Service managers can place orders directly with strategic partners, without necessarily involving property staff and this may mean at times works can be placed without appropriate professional advice. Client managers within the Council oversee the specific contracts and budgets for the various joint ventures that underpin the delivery of the Council's property activities. This approach will be reviewed.

3.3 Consistency with 'Best Practice'

The Council working with East of England LGA undertook a 'health check' of its asset management governance arrangements, processes and practice in 2013; with a further analysis of asset management services in 2015. This review acknowledged the Council's areas of good practice and innovation in asset management but also identified some areas of risk where further development work was required. The Council has made progress in addressing the identified deficiencies. Appendix C provides a review of the Council's existing practices against 'best practice' in asset management as a reference point to help clarify further development according to the Council's priorities and resources.

3.4 Supporting Policies & Procedures

This AMP is amplified by a range of further property policies and procedures. These are referenced through Appendix A.

4 The Property Portfolio

4.1 Summary dimensions of the portfolio

The Council has a diverse property estate spread throughout its administrative area. The bulk of the estate is operational property used for direct delivery of services for which the Council has a statutory or discretionary responsibility and is predominantly freehold.

The broad dimensions of the portfolio are:

- The portfolio comprises 1741 land and property assets
- £3.8m rent generated per annum
- Is worth £425.5 M in terms of book value (*December 2018)*
- Incurs running costs of 18.8m per annum

4.2 Tenure & Use

The portfolio is predominantly in freehold ownership. There are 54 leasehold buildings currently and these will be reviewed to identify what opportunities there may be to terminate leases in order to reduce the running cost of the portfolio.

4.3 Condition & Fitness for Purpose

It is important to survey and record the condition of the building stock in order to be aware of immediate health and safety issues in the portfolio, risks and liabilities to the Council, its service delivery obligations and statutory requirements. It is also an important element of 'Best Practice' within current asset management guidance. Currently the Council's maintenance spend is directed predominantly to reactive maintenance. An important aim of the asset management strategy should be to formalise a maintenance programme with a view to reducing reactive maintenance costs. Regular review of property can reveal whether or not a property is fit for purpose or is in need of refurbishment or even replacement.

A backlog summary is given in Appendix D.

4.4 Value, Cost & Income

The objective should be to minimise property expenditure in order to release revenue for service priorities. Property running costs for the entire portfolio are £18.8 M (2017/18), whilst the Council's utilities costs for 2017/2018 were £4.6 M.

The asset value of the portfolio is £425.5M. The asset value is a 'notional value' required for capital accounting purpose and reported on the Council's Balance Sheet through the annual statement of the accounts. It does not necessarily represent the achievable market value of the portfolio. See Assets Investment Receipts Summary at the end of this report for further details about the capital receipts figures expected in 2018/19 and 2019/20.

Profile of Capital Receipts (£m)							
Achieved					Expected		
13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
£1.489	£1.769	£1.027	£5,978	£12.738	£2.922	£4.319	Nil

4.5 Sustainability & Energy

Energy use in buildings is becoming increasingly important, as organisations lead by example in reducing carbon emissions to meet the UK's national target of reducing carbon emissions by 80% by 2050. The Council also has an aspiration to reduce its carbon emissions and the energy efficiency of Council buildings is important as these represent a significant element of the Council carbon emissions. The Council has entered into an Energy Performance Framework agreement with Honeywell Control Systems with the intention to make energy efficiency improvements to Council properties; with the potential of widening the scheme to other local authorities and partners.

4.6 Statutory Compliance

Ensuring the portfolio conforms to statutory obligations is a high priority of the Council. Failure to do so may expose Council staff and clients to health and safety risks or expose the Council to financial risks. The statutory obligations for the portfolio and related professional services are varied and subject to continued revision and therefore need to be monitored closely.

- Asbestos Management - Asbestos surveys of all properties have been undertaken. Asbestos removal work is carried out on a reactive basis as and when required for refurbishment or demolition.

- Display Energy Certificates (DECs) and Energy Performance Certificates (EPCs). Ensuring these are kept up to date and property meets the necessary legislative requirements.

- Water Safety – water management testing (including legionella) is under taken on a systematic basis in accordance with legislative requirements.

- Fire Safety – Fire Risk Assessments are undertaken within the Council's corporate buildings to identify risks, issues and whether mitigation is required. Remedial works to address issues identified from the surveys are undertaken as required.

5 Performance & Monitoring

5.1 Measurement of Portfolio Performance

The Council could adopt a simple reporting approach which is based on each of the principle asset types:

- Asset types
  - Operational
  - Investment
  - Surplus
  - Strategic

These will concentrate on a small number of indicators chosen to review each portfolio which will provide a framework for the management of each portfolio.

5.2 Review Arrangements

The AMP will be reported upon annually to Cabinet and updated periodically with progress reported to Cabinet through the Corporate Property Officer. These will concentrate on the progress of the specific Key Actions identified in the AMP.

Appendix A – Asset Management Policies and Partnerships

Strategies & Policies

- Asset Management Plan
- Investment Strategy
- Capital Strategy
- Community Asset Transfer Policy
- Farms Estate Strategy
- Disposals Strategy
- Service asset strategies (to be improved)
- Carbon Reduction strategy
- Protocols, Procedures & Partnerships
- Skanska Highways Partnership
- NPS Peterborough Partnership
- Cross-Keys Housing Joint Venture Partnership
- PiP – Peterborough Investment Partnership

Appendix B - Service Strategies and Portfolio Implications

Asset Type	Number Of Assets	Existing & Future Perspectives of the Portfolio
Operational Assets		
Car Parks	12	The Council has 12 designated paying car parking sites, the majority of which as surface car parks. There is a need to review the car parks to assess car parking capacity against current and future demand and to identify whether individual car parking sites may have some strategic development potential.
Offices		The development of a modern work environment for the Council has been completed, along with strategic partners in the form of a new 90k square foot office scheme at Fletton Quays. This is the largest office built in the city for over 20 years. The Council have taken a new long term lease, using its covenant strength to support regeneration of this part of the city. The office forms a key part of the 17 acre regeneration site adjoining the river, south of the city centre. In addition, it will include a 160 bed hotel, 400 residential units (mainly apartments) a further 60,000 sq. ft. of offices, a 410 space multi-storey car park and 90 space surface car park (now complete), new retail units and Listed goods shed which become a distillery and visitor centre. This will be complemented by new public realm works including riverside walkways, new public square and improved cycle routes.
Libraries	10	The Council has recently reviewed its library service and implemented Open+ technology enabled facilities which will allow libraries to stay open for longer hours. Libraries are open for a set number of staffed hours with additional hours operating on a self-service basis. The mobile & library at home service has not changed. The Open+ technology is designed to allow libraries to stay open for longer. The future direction for the library service is to encourage greater and more innovative use of the library facilities to promote neighbourhood based multiuse facilities. Reductions in the existing number of libraries are not anticipated.

Community Assets	Community assets are those properties in the Council's ownership which have a community use or from which a community based activity or service is delivered. The Community Asset Transfer Strategy aims to encourage retention of local facilities without the use of Council funds, increase effectiveness of community assets through local community management and to explore innovative ways to enhance existing community facilities. The Strategy sets out the Council's objectives for community assets and the process and criteria around the transfer of assets to community bodies.
Farms	• The Council has developed a strategy for its Rural Estate which is focussed on retaining it as a viable land holding, providing opportunities for new entrants into farming, farm amalgamations to create larger more financial sustainable holdings and service provision for environmental and educational objectives. • An annual Action Plan is drawn up from the Management Strategy with input from councillors, Country Land and Business Association and the tenants themselves to explain in practical terms how the Strategy will be delivered each year, and where amalgamations and capital expenditure will be targeted. • Repairs are proactive rather than reactive, with an emphasis on drainage schemes – this in term supports more robust rents. • Capital receipts are generated from the disposal of small areas of garden extension land, and realising the potential of old buildings unfit for agriculture which can be converted under Class Q (of permitted development regulations) to residential dwellings.
Strategic Assets	The focus of developing the Strategic portfolio is to retain market awareness of potential opportunities and to intervene where there are strategic opportunities to support the regeneration of the city.

Appendix C - Consistency with Best Practice; key themes and requirements

Roles & Responsibilities	Current corporate asset management plan	Running cost performance known	Statement of data needs & priorities
The council has a designated corporate property function	AMP linked to corporate objectives	Statutory obligations met	Processes to ensure data quality
There is Corporate Property Officer with defined responsibilities	Asset management integrated with service planning	Targets set for running costs	Organisational focus for data management
Corporate Property Officer reports to a strategic committee	Key areas for change in the portfolio defined	Suitability of buildings assessed	Information easily available to users (cost, suitability etc)
Cross-service forum established on property matters	Commercial portfolio strategy identified	Satisfaction with buildings measured	Non-core data available
Property occupiers / users role defined	**Capital programme management**	**Review of need, utilisation and cost**	Property IT systems periodically reviewed
Group to oversee development of AM practice & AMP	Option appraisal / prioritisation / whole life costings	Profile of capital receipts	**Performance management**
Cabinet member lead on property matters	Outcome targets for capital spend	Systematic review programme	Reporting on national performance indicators
Decision making and consultation	Processes for identifying projects	Criteria to challenge retention	Portfolio performance reported to members
Clearly defined decision making processes on property matters	Projects assessed using an agreed methodology	Incentives to release property	KPIs related to defined property objectives
Consultation process on the AMP	Authority-wide group to oversee programme	Identification of under-utilisation	Agreed targets for KPIs
Views of service users & occupiers sought	Process for post-project evaluation	Specific organisational focus on property review	Comparisons made with others
Public consultation on property matters	Projects completed on time & to budget	Disposal processes monitored	Local KPIs in place
Full member reporting	**Managing properties in use**	Shared use of buildings promoted	Improvement plan (informed by performance data)
Partnership Working	Maintenance backlog know and reported to members	Framework for assessing performance of the portfolio	**Data management**
Integrated approach to assets with other agencies	Periodic assessment of building condition	Identifying property needs	Inventory & core data available
Policy on community asset transfer	Maintenance spend prioritised	Defined aims & objectives for asset management	

Appendix D – Summary of Property Portfolio

Portfolio	Sub-Portfolio	Type / Use	Number
Operational	Operational (excl. Schools)	Car parks Children's Centres Day centres Depots / stores Libraries Sports Centres Play centres Pools Public Conveniences Residential homes Waste / Infill sites Youth Centres	
	Operational (Schools)		
	Administrative	Offices	
	Community assets	Allotments Cemeteries Community Centres Community related asset land Open Spaces (incl Section 120) Recreation grounds Community Use	
			744
Investment	Industrial Public House Retail Farms Estate		
		Farms / Agricultural land	**156**
Growth		Options to PIP Dev Partner	**3**
Miscellaneous		Former housing land Land	
			838

Summary of Repair Backlog (£000s)

Condition	Total Value	%	Category	Total Value	%
A-Good	£292.	0.63	Urgent	£2,812	6.05
B-Satisfactory	£8,831	18.99	Essential	£11,331	24.37
C-Poor	£28,37	61.02	Desirable	£23,370	50.25
D-Bad	£9,004	19.36			
	£46,505			**£37,513**	

Note: The backlog figures are based on the assumption that all properties in the portfolio have a useful life of at least 10 years if all works are progressed as scheduled and do not allow for inflation. These assumptions may not be applicable to the existing portfolio and financial budgeting.

Peterborough City Council

Investment Acquisition Strategy

January 2020

Contents

		Page
	Executive Summary	**1**
1.0	**Introduction**	**2**
1.1	The Importance & Nature of Property	2
1.2	Scope & Purpose of Strategy	2
2.0	**The Rationale for an Investment Portfolio**	**3**
2.1	Property As an Investment Class	3
2.2	The Legal Framework	3
2.3	Approaches to Investing in Property	5
2.4	Benefits from Investing Directly in Property	6
2.5	Difference between Investment & Strategic Acquisitions	7
2.6	Risk & Return	7
3.0	**Strategic Context for the Strategy**	**7**
3.1	Overall Context	7
3.2	Key Council Strategies & Policies	8
3.3	Resource Context	8
3.4	Market Outlook	9
3.4.1	National	9
3.4.2	Local	10
4.0	**Managing the Portfolio**	**11**
4.1	Aims & Objectives	11
4.2	Operating Principles & Governance Arrangements	11
4.3	Day to Day Portfolio Management	12
4.4	Acquisition, Review & Disposal Criteria	13
4.5	Performance Measures	13
5.0	**Implementation**	**14**
5.1	Action Plan	14
5.2	Implementation Considerations	14
5.3	Monitoring Arrangements	14
	Appendices	
A	Summary of Risk & PCC Approach to Mitigation	15
B	Summary of Aims, Objectives & Operating Principles	17
C	Acquisition & Review Criteria for Investment Assets	18
D	Initial Investment Appraisal Scorecard	19
E	Governance Arrangements	20
F	Indicative Performance Measures	21
	References	**22**

Executive Summary

Under the Local Government Act 2003 and the Localism Act 2011 Local authorities have extensive statutory powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs. On this basis land and property can be acquired, developed or sold.

Local authorities have well established policies and procedures in place for their estate management activities. These do not however include a specific policy governing land and property acquisition, albeit there are a number of policy documents governing more generic capital investment within the public sector. Property investment may be for income generation, for strategic purposes or where there are wider community and economic benefits that can be achieved. This can be achieved by investing and/or developing property within their existing ownership, whether for onward sale or income generation. With the changing climate for local government finance and significant budget pressures in the foreseeable future, local authorities are embracing a more innovative, commercial and entrepreneurial approach to closing the budget gap and the development of a property investment portfolio is one element of this approach.

This strategy sets out the principles, approach and governance for a new enabling policy covering the selective acquisition of property assets within Peterborough and its immediate environs. This approach will have a range of benefits including the generation of income to support Peterborough City Council's revenue budget. The strategy identifies an approach based on the direct ownership and management of property assets, to enable the Council to acquire or redevelop property.

All such acquisitions will be subject to robust appraisal and undertaken in accordance with agreed governance procedures. The regulatory environment and best practice around local authorities investing in property is changing. The Council will need to be aware of this, take a balanced approach to risk and ensure appropriate review and performance arrangements are in place. The strategy sets out the rationale for acquiring properties and the criteria upon which asset selection will be based and reviewed. It also identifies the nature of risk associated with property investment and how the Council can mitigate it. The procedures, criteria and metrics presented through this strategy will be subject to annual review.

Of critical importance in adopting the strategy will be the need for a single point of accountability for the development of an investment portfolio. Equally important is, the ability to intervene in the market in a swift manner, subject to robust business case appraisal and governance, and taking a long term perspective of the portfolio (10 year+).

1.0 Introduction

1.1 The Importance & Nature of Property

Property is a multi-faceted and multi-purpose resource which is used to deliver a broad range of services within the public sector. It can both consume and generate cash. Increasingly it is being recognised in having strategic importance over the long term in supporting community prosperity and vibrancy. It is proposed that the Council holds different property assets for different purposes. In simple terms these fall within four distinct categories. An operational portfolio for service delivery, a surplus portfolio, an investment portfolio (principally for generating income or capital growth) and a strategic portfolio for assets to support corporate priorities such as regeneration and meeting housing need. The operational portfolio consumes cash, the investment portfolio generates cash and the strategic portfolio has long term 'latent value.'

The Council has a vision for a 'bigger and better Peterborough' that grows in the right way - improving quality of life for all its people and communities and creating a sustainable and thriving sub-regional centre which is an exciting place to live in, work and visit; and which is the environmental capital of the UK. How the Council uses its property assets will be a critical underpinning element in meeting this vision. As revenue budget pressures continue to impact on the Council so it will increasingly need to take a strategic perspective on its property assets. To do this means recognising and developing two key dimensions of property – its ability to generate cash (income or capital) and its ability to support wider strategic priorities, such as regeneration and meeting housing demand. Both are important and point to the need to grow and develop the investment and strategic property portfolios. This strategy focusses on the development of the Council's investment and strategic portfolios, and in particular the rationale for acquisition to grow these portfolios.

1.2 The Scope & Purpose of the Strategy

The Council is focussed on investing in property to enhance its financial resilience, safeguard services and to meet regeneration objectives. Adopting a commercial approach will ensure that investment returns, capital growth and long term latent value can be used to meet those objectives.

This strategy is designed to define a broad direction for developing the Council's investment and strategic property portfolios over the long term in order to ensure they are optimised to support the Council's vision for the city. The strategy is not a static document but rather part of a process designed to promote discussion about the nature of, and future direction for the management of the Council's investment and strategic property assets.

The strategy is a practical tool that will:

Provide a rationale for developing the investment and strategic portfolios.
Set out governance arrangements covering management of the portfolios.
Define key objectives and operating principles for day to day management.
Identify how investment decisions are made (acquisition & review criteria).
Define an approach to managing risk across its asset holdings.
Define how the financial viability of the portfolio will be sustained.
Identify how the performance of the portfolio will be measured.

The strategy takes a medium term planning horizon of over 5 years plus but will be reviewed on an annual basis.

2.0 The Rationale for an Investment Portfolio

2.1 Property as an Investment Class

The Council's approach to investment is to obtain the optimum return while maintaining a proper level of security and liquidity. Property is one of several asset classes the Council can invest in. Other assets will include cash, fixed interest securities (bonds) and shares. An overall approach is required which ensures a degree of diversification in order to balance risk; with cash (held in savings accounts) and bonds having the lowest risk profile, followed by property. The Council needs to periodically review its balance across these asset classes and take a judgement on return versus risk.

2.2 The Legal Framework

Councils have the legal power to acquire and hold both commercial and residential property for investment purposes. Historically commercial property could be acquired and operated directly by councils, providing that the clear purpose was investment. If the purpose was to undertake a trading activity, the commercial property would need to be held in a company vehicle. Residential property can be acquired if the assets are being held and operated indirectly through a local authority controlled Special Purpose Vehicle. It can also be held and operated directly where a council has a Housing Revenue Account (HRA). As PCC does not have an existing HRA it may need to reinstate one in order to participate in any significant residential property investment.

Currently local authorities have broadly drawn powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s.1 & s.12 of the Local Government Act 2003).

They have also been able to acquire property either inside or outside of their administrative area to support any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s.120 of the Local Government Act 1972).

Lastly, they have been able to take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s.111 of the Local Government Act 1972).

Under the general power of competence set out in s.1 of the Localism Act 2011 local authorities have also built and managed investment property. In accordance with this Act, councils have all the necessary powers to purchase assets inside or outside of their administrative area and manage them for investment and commercial gain.

However, revised Statutory Guidance on Local Authority Investments issued in April 2018 by Ministry of Housing Communities & Local Government is directed towards curbing local authorities borrowing to invest in commercial property solely to raise revenue. There is a distinction between authorities who are taking on debt for regeneration and meeting local objectives, and those who borrow purely to get a return on investment.

The guidance contains a number of key points:

- A call for transparency and democratic accountability with regard to local authority investment.
- Councils should prepare a new investment strategy each financial year.
- Investments by local authorities can be classified into two main categories:
    - investments held for treasury management purposes or other investments;
    - Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code 2011.
- Councils should disclose the contribution that these investments make to the objectives of the local authority to support effective treasury management.
- Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making. It is for individual authorities to define the types of contribution that investments can make and a single investment can make more than one type of contribution.
- There is a requirement to prioritise security, liquidity and yield in that order of importance when considering investment strategy

- The local authority's reporting should include quantitative indicators that allow councillors and the public to assess a council's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return received. Where investments are funded by borrowing, indicators should reflect the additional debt servicing costs.

This guidance is supported by new advice released by the Chartered Institute of Public Finance and Accounting (CIPFA) in late 2018/19. CIPFA issued a statement on Borrowing in Advance of need and Investments in Commercial Properties in October 2018. This statement guards against local authorities 'borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.' The statement goes on to say that commercial investments including property must be proportionate to the resources of the authority, otherwise they are unlikely to be consistent with the requirements of the Prudential Code or the Treasury Management Code.

2.3 Approaches to Investing in Property

There are a range of approaches to investing in property assets, from on the one hand investing in a commercial property fund, (or real estate investment trust etc.) and on the other hand owning the physical assets – each with its own advantages and disadvantages. The simple diagram below is intended to provide a framework for developing a strategy based on two broad criteria, ownership and management. The proposed positioning of PCC is shown - which favours both direct ownership and direct management of investment property. This is a considered choice of the Council and the respective pros and cons of this strategy are identified.

Pros & Cons of Direct Ownership & Management of Investment Property	
Pros	Cons
Ownership of property assets	Potential over-reliance on investment property to fund essential services
Achieve direct return	Reliance on own expertise
Control over property decisions	Management time & expense
No fund management costs	Relative lack of liquidity

The advantage of PCC's approach is that it will retain direct ownership of the assets with any returns coming direct to the Council. The Council will also retain control over decision making regarding strategy and management of the portfolio, including flexibility as to when to dispose of assets to generate capital.

With this approach the costs associated with other parties holding and managing properties on the Council's behalf are kept to a minimum. Conversely it requires resources to participate in direct property investment and requires a degree of capacity and expertise to manage the portfolio. There can be staff time (and thus cost) tied-up in managing a portfolio and there is a relative lack of liquidity in comparison with other indirect forms of property investment.

When considering direct ownership and management of property the selection of individual acquisitions becomes a critical factor. There are decisions to be made about the property sector and risks in relation to the broad portfolio asset mix, the risk profile of the tenants and the opportunities in the market. At one end of the scale (lower risk but lower opportunity) is a building already let, with a good lease length and tenant; whilst at the other end is a property coming to the end of its lease which is likely to need upgrading / expenditure prior to re- letting.

Alternatively, there may be freehold property which is untenanted but could be redeveloped, providing greater risk but greater opportunity. PCC's strategy will tend towards low risk investments where the covenant strength of the tenant is strong and where there is a good length of lease. There may occasionally be times where PCC may wish to invest in assets it already owns to get a return which would present a low-moderate risk and moderate opportunity. This issue of asset selection is considered in Section 4.4 and Appendix C

2.4 Benefits from Investing Directly in Property

The range of benefits that can arise from investing in property assets are more than simple financial returns, although this will be the prime objective of the portfolio. The table below summarises the range of benefits that can be realised and the combination of these need to be borne in mind when managing the portfolio. The relative priority given to these benefits needs to be considered when deciding on the key objectives.

Benefits from Investing Directly in Property

Direct Returns	Income
	Capital growth
Multiplier Effects	Supporting growth of key local industries
	Improving confidence in local economy
	Supporting the local planning framework
Indirect Returns	Local job creation
	Increase in NDR (Business Rates)
Strategic Advantages	Key site assembly
	Long term strategic perspective

2.5 Difference between Investment & Strategic Acquisitions

Acquisition opportunities often arise unexpectedly and it is important to be quick to mobilise in order to take advantage of them when they occur. It is therefore important that the Council has an appraisal framework that permits them to respond without delay when opportunities arise, to save time and allow them to compete in a market where competition is fierce and demand outstrips supply. To do this the Council needs to be in a position to assess opportunities in a systematic but timely manner and to understand the nature of the opportunity in terms of its financial or strategic perspective.

A simple scorecard approach to support this initial appraisal is given below. This looks at a set of financial or strategic criteria to determine whether the Council should proceed. It recognises that some assets will be acquired for investment reasons (long term financial returns) whereas other assets will be acquired for strategic reasons (longer term latent value). Some assets will also have a combination of investment and strategic potential.

An initial set of criteria form both financial and non-financial perspectives can be developed to give a simple score to assess whether to proceed. An initial appraisal ‘scorecard’ is illustrated in Appendix D.

2.6 Risk & Return

At its simplest, a property investment is an investment in land or buildings which has the potential to give the investor a return in the form of rental income and capital growth. Capital growth may come over time by holding the asset and can be maximised through asset management initiatives (for example by re-gearing a lease to obtain a greater length of lease). Risk and return in property investment come both at a market level and from individual asset choice. In practice, property investment can be structured to create a range of different risk / reward profiles from stable bond-like annuity income performance to more volatile equity-like returns. A summary of the main risks and the PCC approach to mitigating these is given in Appendix A.

3.0 Strategic Context for the Strategy

3.1 Overall Context

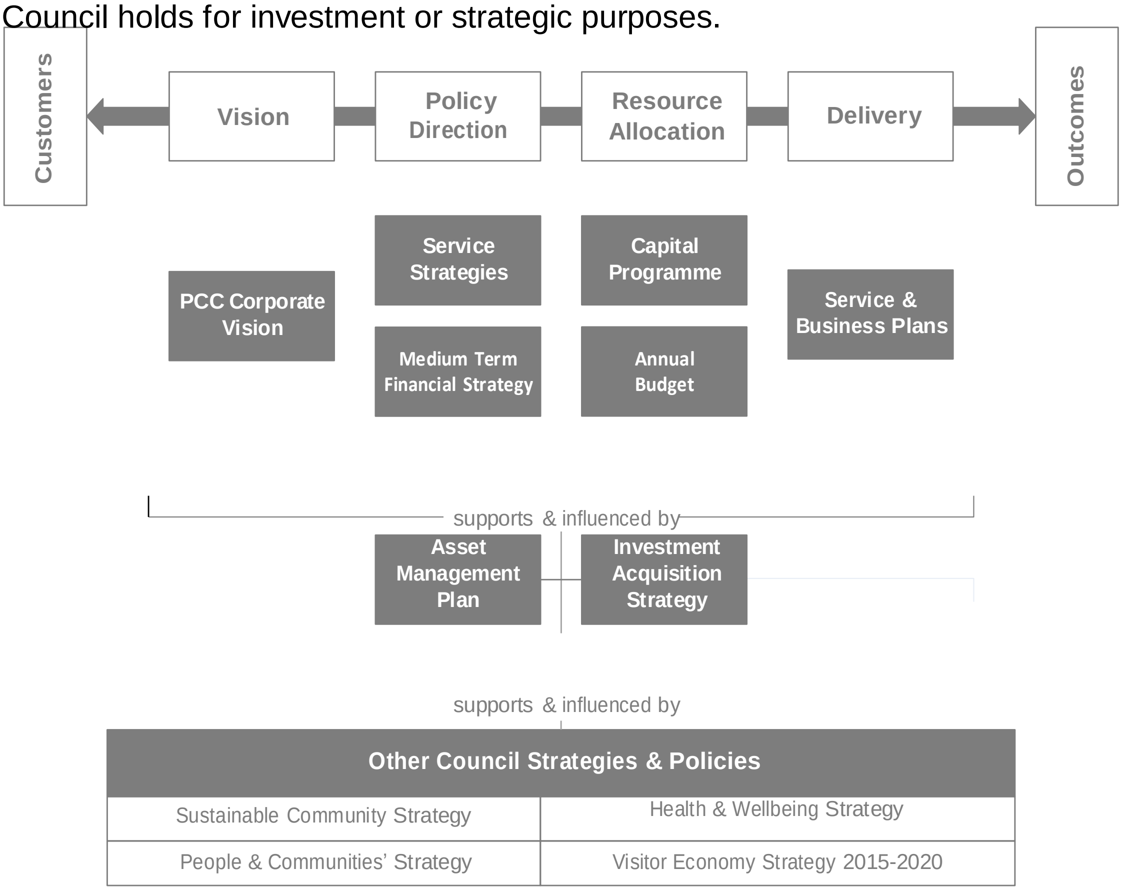
This strategy is set within the context of broader changes in the operating context for local government. The most impactful of these is the move towards a ‘self-funding’ model for local government as traditional sources of central government funding are reduced (as in the case of the Revenue Support Grant) or possibly withdrawn. This profound change in the funding basis of local government is prompting the need for councils to explore new ways of generating income to support their revenue budgets.

It is also encouraging councils to become more entrepreneurial and to invest in commercial property with a view to generating stable long term income. This strategy is designed to help support the delivery of council services in the future and allow councils to have more influence in shaping the local economy.

3.2 Key Council Strategies & Policies

This property investment strategy does not exist in isolation. It is related to the Council's wider corporate and service strategies and in particular the Council's Medium Term Financial Strategy.

This strategy underpins the overall management of the Council's property portfolio, the broad framework for which is articulated through the Council's Asset Management Plan (AMP). Whereas the AMP sets the context and direction for management of the portfolio as a whole, which includes operational and surplus property, this strategy is focused on the property assets the Council holds for investment or strategic purposes.



3.3 Resource Context

Over the medium term PCC is seeking to address the potential revenue gap from changes to local government through a range actions. There will be a renewed focus on innovation and efficiency with a view to mitigating and

controlling service demand, maximising funding and expanding commercial income.
A key strand of the action will be in placing a greater focus on income generation. This will be reflected in the Acquisition Strategy and AMP, both through leveraging existing commercial property assets and investment acquisition. The Council has agreed an initial capital allocation of £70m in order to grow its portfolio with an emphasis on acquiring income bearing assets or strategic assets which may have long term latent value.

Whilst no specific income target has been set there is an expectation that there will be a significant and sustained growth in income from property as a contribution to bridging an identified funding gap in the Council's revenue budget.

3.4 Market Outlook

3.4.1 National

Commercial property returns tend to be linked to national economic performance and to the relative prosperity of the economy. The short term outlook is therefore likely to be generally a positive one but also potentially turbulent given that the implications of Brexit are not yet clear. How the national economy will perform over the long term cannot be guaranteed.

The investment portfolio does however need to be seen over the longer term, as reactions to short term market changes can distort yields which are likely to be more stable if viewed over a greater timeframe. In this context it will be important to balance a one year budget cycle and any expenditure required for this with the longer term perspective that is required for investment management of either a commercial or residential portfolio.

The changing nature of the economy, globalisation the growth in home-working, automation and the use of artificial intelligence (AI) may yet have unforeseen impacts on the demand for different types of buildings. As businesses strive to become more agile many are seeking shorter lease lengths than was historically the case or regular break options so they can react quickly to change. Increasing use of artificial intelligence and automation will change the demand for commercial space over time. Currently there is a very strong demand for industrial and warehouse space, driven to some extent by a change in consumer shopping habits. The trend for internet shopping is also impacting on demand for more traditional retail space. The outcome of such trends and the speed at which they are developing is ever-changing so a degree of forward thinking is required in terms of the portfolio strategy.

The conventional wisdom of retaining a balanced portfolio (between industrial, office and retail) to mitigate risk is therefore shifting and to optimise overall returns from investment a new portfolio balance may be required. This may also necessitate a greater emphasis on residential development where long term demand has proven to be very stable.

In the current climate with rates of return on cash reserves very low (typically between 0.5% and 2.0%) property still presents an opportunity for better returns and also has a potential for significant capital growth over the long term.

3.4.2 Local

It will be important for the Council to understand the local property market and its outlook over the medium term. This should include the city and its immediate surroundings and also the Cambridge area because of emerging working relationships across the authorities and its strength as a technology centre.

A local market report for Peterborough published in September 2018 by Savills identified a strong demand for residential and commercial property in Peterborough. This demand is being driven by strong population and economic growth in the area. Whilst demand for accommodation is strongest in the commercial and residential sectors, it is strong across all sectors.

The Savills *"Peterborough: A growing city"* report highlights that whilst the area is responding to strong residential demand and a healthy land supply, high levels of development are still required to meet housing need.

Both the adopted and emerging local plan targets for Peterborough are well in excess of 1,200 homes each year.

The largest share of housing supply will be on the city fringe with planning consent granted for 5,300 homes at Great Haddon. The residential market therefore offers a long term investment opportunity for the City Council as this land supply comes on stream.

The industrial market has benefitted from a shift towards online retailers, many of whom have established large distribution centers in the city. Due to strong demand, vacancy rates are at a historic low. Attracted by strong rail and road links, Amazon, Debenhams and Ikea have established large scale distribution centers in Peterborough. At present, there is just one unit of 100,000 sq.ft of industrial space available within a 50 mile radius of Peterborough and the opportunity exists to take advantage of second hand units to undertake refurbishments to bring poor quality stock up to standard. It is a similar picture in the office market with low vacancy rates creating upward pressure on rents.

4.0 Managing the Portfolio

4.1 Aims & Objectives

As this is the Council's first Investment Acquisition Strategy it is important to explicitly state the aims and objectives in developing a property investment portfolio. These are summarised in Appendix B along with basic operating principles for the portfolio. The overall aim has a dual purpose, both to create a financial return and to promote local economic prosperity, however these objectives may sometimes conflict. There is a risk that the pursuit of socio-economic aims through for example supporting job creation, may dilute the purely financial goals. However there should also be many opportunities where these objectives can be aligned.

4.2 Operating Principles & Governance Arrangements

In order to manage the portfolio effectively it is important to have a set of explicit operating principles which include a clear rationale for holding each asset and an understanding of the expectations, (financial or otherwise) for managing it. To do this the Council has a set of basic operating principles as shown in Appendix B and a simple framework for assessing the portfolio in terms of acquisition, performance and disposal.

In practice this will mean making judgements around the acquisition and disposal of assets, the portfolio structure, portfolio mix, holding period for individual assets and the performance of the portfolio. A framework for assessing individual assets and the portfolio as a whole is given in Appendix C.

Acquisitions & Disposals – The management of the portfolio will from time to time require the acquisition and disposal of individual assets. These must be undertaken in accordance with the Council's financial procedures, but will need to be expedited to take advantage of investment opportunities.

Development – the Council will seek to invest in developing commercial property assets or land which is already within their ownership either using internal resource or in partnership with existing suppliers, subject to a robust business case.

Portfolio Structure – the Council will seek to create a balanced investment portfolio that provides long term rental returns and capital growth. A core portfolio of property assets will be sought with a view to diversification in individual assets by sector (industrial, offices and retail), location and risk.

Portfolio Mix – the Council will take an opportunity led approach to investments but seek to maintain a balance between different assets types (office, industrial and retail assets) with a guideline approach of maximum of 50% of any type. Given that the portfolio is relatively small and a single transaction can adjust the balance significantly this is only seen as an initial guideline. The Council will seek to avoid investing in specialist asset types (such as hotel & leisure) or distressed property requiring extensive capital expenditure which would necessitate a higher risk investment strategy.

Holding Period – The Council will determine a ‘holding period’ for each property at the point of acquisition. This is so that provisions can be made where a property is likely to need refurbishment in the future and to ensure a formal periodic review of the rationale for holding individual assets.

Measuring Performance – Individual assets and the whole portfolio will need to be subject to periodic performance assessment.

A set of clear, simple governance arrangements will be required which will allow speedy intervention in the market whilst also ensuring consistency with financial regulations and robust business case appraisal. An outline of these is given in Appendix E.

4.3 Day to Day Portfolio Management

Effective day to day management of the portfolio is critical to its overall performance. This management needs to happen at both a strategic and operational level.

The key activities include:

At a strategic level:

- Annual refresh of strategy and measurement of performance;
- Effective financial management including rent collection;
- Effective void management and marketing;
- Identifying new investment opportunities;
- Minimise management costs associated with direct ownership;
- Ensure there is a regime of planned maintenance and statutory compliance where PCC manage.

At a property level:

- Preparation of strategies for individual properties;
- Identifying opportunities to add value for example by refurbishing premises or re-gearing leases;
- Identifying 'marriage value' arising from acquisition of adjoining properties;
- Identifying properties for disposal where performance prospects are poor;
- Ensuring premises are secure and safe and are regularly inspected.

4.4 Acquisition, Review & Disposal Criteria

Appendix C identifies a range of criteria that will be used in the acquisition of properties. The same criteria for selecting acquisitions can also be used for asset review. All assets will be reviewed on a periodic basis to ensure that the criteria in Appendix C are still met and in light of any wider portfolio considerations. It is recommended that a 'holding period' is identified for assets when first acquired which should act as a guide for subsequent disposal. Such an approach allows for the portfolio to be refreshed on a regular basis and promotes a long term perspective for portfolio management. Individual assets identified for disposal will follow the same governance procedures.

4.5 Performance Management

The performance indicators for the portfolio should be based on industry benchmark standards. These should be measured at an individual property and whole portfolio level with indicative targets set for each. A simple set of initial performance measures are presented in Appendix F. This is an evolving framework which will be need to be developed as the portfolio grows, especially given the changing regulatory and best practice environment identified in Section 2.2.

The return on investment (or property yield) is perhaps the single most important performance indicator and this should be judged against IPD (Investment Property Database) which is generally considered to be the most authoritative benchmarking index. Property should be considered as a long term investment and whilst its value can fluctuate in the short term due to specific circumstances, it will tend to provide stable long term returns. A degree of judgement will need to be used in evaluating the portfolio performance which will need to take into consideration the long term perspective.

5.0 Implementation

5.1 Action Plan

The lead officers with accountability for managing the investment portfolio will be the Executive Director Place and Economy and the Corporate Director of Resources.

Governance:

As detailed in Appendix E, the Corporate Property Officer will have delegated authority to approve investments up to a level of £20 million. For opportunities which are in excess of £20m a Cabinet Member Decision Notice would need to be completed.

5.2 Implementation Considerations

Effective and successful management of an investment portfolio requires a combination of skills including, but not restricted to building surveying, valuation, market intelligence, legal, financial and property management. It will also require specific senior officers to be accountable and appropriate capacity to ensure there is adequate focus on the portfolio.

5.3 Monitoring Arrangements

It is important to measure the overall progress in the management of the investment portfolio. Whilst property will be held for the medium to long term, there needs to be monitoring over shorter timescales to measure performance and the impact of any actions, such as building improvements. The portfolio will be kept under review by:-

- PCC head of property and financial director. NPS Property Consultants are to advise and seek agreement to decisions on specific actions (e.g. acquisitions or disposals).
- An annual report on performance of the portfolio, with the report based on a set of performance indicators as suggested in Appendix E.
- Formal review of each asset holding at least every two years using the acquisition and review criteria set out in Appendix C.
- Informal leader briefings by the joint venture property team as required.

Appendix A – Summary of Risks and PCC Approach to Mitigation

Risk	PCC Approach to Mitigation
Costs - Abortive costs, including legal costs, survey fees, officer time, may all be incurred in abortive transactions including costs for initial feasibility investigations.	PCC will adopt a 'whole portfolio' view of costs and accept risk associated with occasional abortive costs whilst also undertaking due diligence to reduce the likelihood of these.
Market forces - Fluctuation in demand and supply and in the wider economy may see the value of assets and income rise and fall, with a risk that the Council may not recoup the original amount invested in full.	To limit this risk due diligence will be followed for all transactions. PCC will adopt a 'whole portfolio' and medium term (10 year +) view of its investment to mitigate the potential losses from one individual investment asset.
Competition – Where the local market is very strong (for example Cambridge), there will be increased competitive activity for limited supply of high quality investment property. This means that the Council are likely to be one of several bidders for available assets.	PCC will adopt procedures which will allow them to compete in the market but with appropriate governance procedures covering the necessary delegated authority and decision making.
Liquidity - The process of buying and selling investment property is fairly lengthy (e.g. an investment disposal will usually take between 3 to 6 months from heads of terms to completion), making it a more illiquid than other asset classes such as equities or bonds.	PCC will manage the portfolio by adopting the Institute of Public Finance (IPF)'s best practice advice contained in "Readiness for sale - A guide for streamlining commercial property transactions". Furthermore PCC will identify a recommended 'holding period' for each investment which will be aligned with the strategic aim of long term income.
Opportunity - The availability of property stock for investment in the Council's administrative area may be limited. As the Council seeks to grow the portfolio it may at times be frustrated by a lack of opportunity.	To counter this PCC will seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform.

Management - The portfolio may have the risk of void periods or tenants may default on rent payment. Voids create holding and re-letting costs; if they persist for prolonged periods these costs can be significant.	Active portfolio management will be undertaken by PCC during the holding period to anticipate and reduce such risks where possible.
Capacity & Expertise - Management of an investment portfolio requires specific skills, expertise and capacity. Direct ownership and direct management means this can be resource intensive. As the portfolio grows, so the management burden will grow.	This specific issue along with knowledge of the local market opportunities will be critical. PCC will identify a 'lead officer' with appropriate expertise to provide a focus on the investment portfolio.
Reputation - How the Council acts to intervene in the market and deals with day to day management of its properties and tenants will have an impact on the Council's overall reputation.	PCC will seek to adhere to 'best practice' in all its transactions and ensure effective regular liaison with tenants. Reviews of individual assets and the portfolio as a whole will identify any works required to protect or enhance the fabric of buildings which may be needed in order to re-let a void property.
Regulatory Compliance - The Council should ensure it operates within the applicable regulatory framework and regularly takes steps to review that framework.	PCC will act in accordance with appropriate statutes and in line with current financial regulations and 'best practice' including the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code, CIPFA's treasury management guidance for local authority funds and the Department for Communities and Local Government (DCLG) statutory guidance on local authority investment.

Appendix B – Summary of Aims, Objectives & Operating Principles

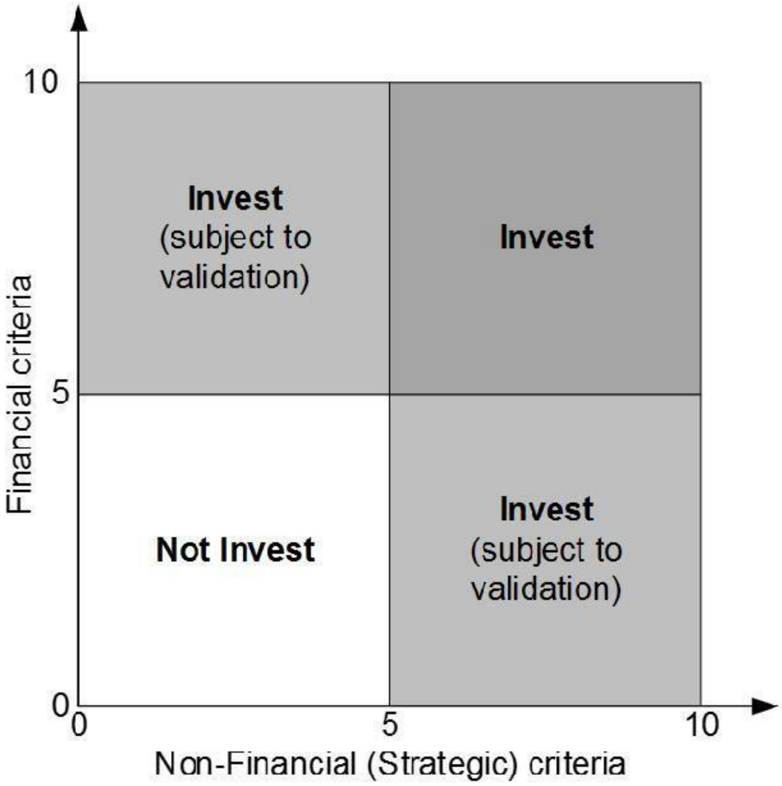
Aim To acquire and manage investment property (the investment portfolio) in order to support the Council's revenue budget and its priority in ensuring the economic prosperity and well-being of Peterborough.
Objectives • To acquire property that can provide long term income and capital growth. • To maximise returns whilst minimising risk through sound property selection and effective governance. • To prioritise investment towards property that can provide strong stable long term income. • To maintain and enhance the condition of property to ensure long term income strength and income growth.
Operating Principles The Council will retain direct ownership of all its investment property assets. The Council will undertake the management of the investment portfolio in-house (as a landlord) or with established suppliers / joint ventures. The geographical operating scope of the portfolio will be restricted to Peterborough City Council's administrative area and its immediate surroundings. The council will seek to retain a 'balanced' portfolio through its mix of asset types and lease lengths with emphasis on industrial, office and retail uses. To minimise management and risk, preference will be for single occupancy investments although multi-let properties may be considered. Preference will be for full repairing and insuring (FRI) terms or FRI by way of service charge, meaning that all costs relating to occupation and repairs are borne by the tenant(s) during the lease term. There will be an annual portfolio review with an executive summary report to the Audit Committee which will examine the portfolio's performance and allow for strategic decision making.

Appendix C - Acquisition & Review Criteria for Investment Assets

Criteria	Scoring 1 Poor	2 Marginal	3 Acceptable	4 Good	5 Very good	Score
Location	Tertiary	Micro Secondary	Major Secondary	Micro Prime	Major Prime	1-5
Tenancy Strength	Tenants with unstable or poor financial covenant	Multiple tenants with good financial covenant	Multiple tenants with strong financial covenant	Single tenant with good financial covenant	Single Tenant with strong financial covenant	1-5
Tenure	Lease less than 20 years	Lease between 20 & 50 years	Lease between 50 & 125 years	Lease 125 years with option to buy freehold	Freehold	1-5
Lease Length	Less than 2 years or Vacant	Between 2 & 4 years	Between 4 & 7 years	Between 7 & 10 years	Greater than 10 years	1-5
Repairing Terms	Landlord	Internal repairing – non recoverable	Internal repairing – partially recoverable	Internal repairing – 100% recoverable	Full repairing & insuring	1-5
Physical Condition	In a poor state of repair with significant liabilities	In a poor condition with some repairs required	In a reasonable condition with limited repairs required	In a good condition with only limited repair issues	Fit for purpose, well maintained with no outstanding repairs	1-5
Note: This is an initial framework which will be updated and refined in use. The exact criteria and scoring approach is subject to review					**Maximum Score**	**30**

Appendix D – Initial Investment Appraisal 'Scorecard'

Financial Criteria	Strategic Criteria
Does the net yield exceed PCC agreed target?	Does the investment support local community vibrancy?
Is the location classified as major prime, micro prime or major secondary?	Will the investment support local job creation or retention?
Is the property freehold or have a lease in excess of 150 years?	Will it facilitate strategic site assembly / increase scope for intervention?
Is the lease an 'operating lease' so all income can be treated as revenue?	Will it support improvement in infrastructure?
Can it be let on full repair & insuring terms or with 100% recovery of internal repairs?	Will it support local place shaping in line with PCC objectives?
Is the occupier's lease length greater than 5 years?	Does it support equity of prosperity & opportunity across Peterborough?
Is there a single tenant with good or strong covenant?	Does it support anti-poverty or deprivation policies?
Does the location reflect good potential for rental growth & high letting prospects	Will it support education, skills or apprenticeship policies?
Does the asset improve the balance of the PCC portfolio (risk management)?	Is it in a specific priority area for regeneration or growth?
Does the asset have good market exit (sales) prospects?	Does it contribute to better balance within and between 'places'?



Appendix E – Governance Arrangements

The Council will acquire assets where it can demonstrate:

- An investment return can be generated
- Value can be added to existing assets held by the Council
- There is a strategic benefit from acquiring the assets.
- A contribution to the maintenance of a balanced commercial property portfolio.

All acquisitions will be assessed through a robust business case and with particular reference to the cost, benefit, impact and risk of the property. How it relates to the Council's corporate objectives and its assessment against the acquisition and review framework (See Appendix C) will also be key. In all cases an independent valuation will be obtained by a member of the Royal Institution of Chartered Surveyors to ensure that the transaction represents market value.

Acquisitions and disposals relating to the commercial portfolio, whilst needing to be consistent with the Council's financial strategy, will need to be completed quickly. This is even more likely to be in the case of acquisition, as securing a good investment will require the ability to respond and act quickly to secure it ahead of the competition.

Acquisitions and disposals will, under the Council's Rules of Financial Governance require consultation with and agreement of the Section 151 Officer. In all cases, they will need to be supported by a financial appraisal setting out all the financial and budgetary implications. Under the Council's practice of delegated authority nominated senior officers along with the Corporate Property Officer can approve acquisitions or disposals subject to a maximum value of £20M. Acquisitions over this value will be identified as 'key decisions' and included in the Council's standard processes around key decisions.

Appendix F – Performance Measures

Indicator	Target	Actual
Rate of Return	5% - 8%	
Revenue Growth (over 5 years)	To be defined	
Capital Growth (over 5 years)	To be defined	
Management & Ownership Costs (as a % of gross income)	To be defined	
Average portfolio score under 'Acquisition & Review Criteria'	20+	

Below is a list of further possible performance indicators that could be used to measure the performance of the portfolio.

Debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*
Investment cover ratio	*The total net income from property investments, compared to the interest expense.*
Loan to value ratio	*The amount of debt compared to the total asset value.*
Target income returns	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*
Benchmarking of returns	*As a measure against other investments and against other council's property portfolios.*
Gross and net income	*The income received from the investment portfolio at a gross level and net level (less costs) over time.*
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*
Vacancy levels and Tenant exposures for nonfinancial investments	*Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.*

References

Local Government Act 2003

Localism Act 2011

CIPFA Prudential Code for Capital Finance In Local Authorities

CIPFA Treasury Management in Public Services Code of Practice

DCLG Statutory Guidance on Local Authority Investment (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003

House of Commons Briefing Paper 16 February 2018; Commercial Property Investment

CIPFA Statement on borrowing to invest by Rob Whiteman and Richard Paver 18 October 2018

AUDIT COMMITTEE	AGENDA ITEM No. 7
27 JANUARY 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director: Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

2020/21 DRAFT TREASURY MANAGEMENT STRATEGY (TMS)

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter, Acting Corporate Director: Resources	**Deadline date:** Cabinet 24 February 2020

Audit Committee is asked to:

1. Review and comment on the draft 2020/21 Treasury Management Strategy (TMS) before it is approved as part of the Medium Term Financial Strategy (MTFS) at Full Council in March 2020.

1. ORIGIN OF REPORT

1.1 The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.2 The annual strategy is approved by Council as part of the MTFS. Members are required to review and approve the strategy to ensure compliance with best practice.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide the Treasury Management Strategy 2020/21 to Audit Committee for approval of the policies and Prudential Indicators in line with the consultation timelines for the MTFS.

2.2 This is in accordance with the Committees' Terms of Reference – 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	24 February 2020 As part of the MTFS process
Date for relevant Council meeting	**4 March 2020** As part of the MTFS process	Date for submission to Government Dept. *(Please specify which Government Dept.)*	

4. BACKGROUND AND KEY ISSUES

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

a) Capital investment plans are affordable;

b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and

c) Treasury management decisions are taken in accordance with professional good advice.

4.2 The 2020/2 – 2022/23 Treasury Management Strategy is contained in **Appendix 1** to this report.

4.3 The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays, Bank of Scotland (part of the Lloyds Banking Group) and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

4.4 The Council has continued to borrow to fund the capital programme. Loans have been arranged at interest rates to achieve budget certainty and for varying periods to fit in with the Councils debt maturity profile.

4.5 The main changes to the TMS policies from last year's MTFS Treasury Strategy are as follows:

- Changes to the prudential indicators to recognise the estimated impact of a new Leasing accounting standard (IFRS16).
- An amendment to the Minimum Revenue Provision (MRP) Policy in line with MHCLG guidance to smooth the impact of MRP for leases.
- Changes to the borrowing strategy to reflect the increase of 100bps on PWLB borrowing as announced by Government 9 October 2019.
- An indication of the changes required to the strategy if a Housing Revenue Account (HRA) is mobilised.

4.6 The strategy presented at this meeting is in draft format as final borrowing assumptions, phasing of the capital programme is refined as part of the final Medium Term Financial Strategy (MTFS) which will be taken to Council on 4 March 2020. It is anticipated that the final indicators will be amended, but overall approach and policy will not be changed from this version.

5. CONSULTATION

5.1 The Council's Prudential Code and Treasury Management Strategy 2020/21 - 2023/24 will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

5.2 The Council continues to liaise with its treasury advisors, Link Asset Services.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report and strategy are presented to the Committee to provide the opportunity to review and approve the policies and Prudential Indicators of the 2020/21 TMS in advance of it being presented to Full Council in March 2020.

7.2 There is a statutory requirement for Council to approve the Prudential Indicators as contained in the TMS, and it is in line with best practice for scrutiny to be undertaken on this strategy prior to full approval by Council.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Prudential Code and Treasury Management Strategy 2020/21 - 2023/24 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2017.

9. IMPLICATIONS

Financial Implications

9.1 The assumptions as contained in the TMS have been used to inform the capital financing budget as contained and detailed in the MTFS.

Legal Implications

9.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017, which clarifies the requirements of the Minimum Revenue Provision guidance.

Equalities Implications

9.3 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- The Prudential Code for Capital Finance in Local Authorities –2017 Edition, CIPFA; and
- Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition, CIPFA

11. APPENDICES

11.1 Appendix 1 - Treasury Management Strategy 2020/21 to 2022/23 - Including: Minimum Revenue Provision Policy 2019/20 and 2020/21

This page is intentionally left blank

Treasury Management Strategy 2020/21 to 2022/23

Including:
Minimum Revenue Provision (MRP) Policy 2019/20 & 2020/21

1. Introduction

1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

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

1.1.4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.1.5. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.1.6. CIPFA defines treasury management as:

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

1.2. Reporting Requirements

1.2.1. Capital Strategy

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

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

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

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy Statement and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy will show:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- for non-loan type investments, the cost against the current market value;
- the risks associated with each activity.

1.2.5. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.2.7. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

1.3. **Treasury Management Reporting**

1.3.1. The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - The first, and most important report is forward looking and covers:

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

1.3.3. **A Mid-Year Treasury Management Report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4. **An Annual Treasury Report –** This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised and this role is undertaken by the Audit Committee, Cabinet and full Council.

1.3.7.

1.4. **Treasury Management Strategy for 2020/21**

1.4.1. The strategy for 2020/21 covers:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the MRP policy.

Treasury management issues

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

1.4.2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code 2017, the MHCLG MRP Guidance, the CIPFA Treasury Management Code 2017, and the MHCLG Investment Guidance.

1.5. **IFRS16 - Leases**

1.5.1. A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1st April 2020. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use as asset (the underlying asset) for a period of time in exchange for a consideration.

1.5.2. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the Council using its approach to determining de minimus items).

1.5.3. This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2020/21 and form part of the Capital Financing Requirement. An estimate of the impact of the transition to the new standard has been built into the relevant indicators. The full impact will not be known until the 2020 Code has been issued and the detailed assessment completed. If this has a material impact on the Prudential Indicators then a revised Treasury Management Strategy will be produced.

1.6. **Training**

1.6.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This requirement is reviewed annual as part of the annual Performance Development Review (PDR) and monthly supervisions. This requirement also applies to Council members responsible for scrutiny.

1.7. Treasury Management Advisors

1.7.1. The Council uses Link Asset Services as its external treasury management advisors who have a contract until September 2021.

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

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

1.7.4. The scope of investments within the Council's operations may in the near future include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers. The Council uses NPS Group in relation to this activity, and other specialist advisers will be engaged depending upon requirements.

1.8. Treasury Management Policy Statement

1.8.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

1.8.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.8.3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.8.4. Investments using the above definition cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework.

1.8.5. The Council's high level policies for borrowing and investments are set out below.

- to invest available cash balances with a number of high quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list;
- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible;
- to seek to reschedule or repay debt at the optimum time.

1.9. **The Treasury Management Role of the Section 151 Officer**

The S151 (responsible) officer must do the following:

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at course and conferences and joint working with Link Asset Services;
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

2. Capital Prudential Indicators 2020/21 to 2022/23

2.1. The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.2. **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following two financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

Capital Expenditure	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
Customer & Digital Services	1.5	4.5	3.9	5.0	3.5
People & Communities	28.5	25.1	24.6	38.6	22.3
Place & Economy	29.6	23.0	28.6	21.8	27.8
Resources	34.7	22.4	29.9	6.6	1.7
IFRS16 Transition adjustment	-	-	22.0	-	-
Invest to Save / Commercial Activities	1.6	18.5	40.0	24.0	10.0
Total	**95.9**	**93.5**	**149.0**	**96.0**	**65.3**
Financed by:					
Capital receipts (repayment of capital loans)	8.2	23.0	-	-	15.0
Capital grants contributions	38.9	35.7	24.4	47.0	33.2
Net financing requirement	**48.8**	**34.8**	**124.6**	**49.0**	**17.1**
Total	**95.9**	**93.5**	**149.0**	**96.0**	**65.3**

2.3. The capital receipts (repayment of capital loans) shown in the table above relate to:
- 2018/19 - Local Authority Mortgage Scheme (LAMS) capital loan - £1m and Axiom Housing Association Loan Repayment - £7.2m
- 2019/20 - ECS Peterborough 1LLP – capital loan - £23.0m
- 2022/23 - Hotel – capital loan - £15m

2.4. The Invest to Save / Commercial Activities schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.

2.5. **Indicator 2** – Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.6. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.7. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next three financial years for Council approval:

Capital Financing Requirement	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
CFR brought forward	540.1	577.4	595.7	701.5	729.5
Borrowing / Repayment	35.7	(0.2)	43.8	4.0	(15.4)
Invest to Save / Commercial Activities	1.6	18.5	40.0	24.0	10.0
IFRS16 Transition adjustment	-	-	22.0	-	-
CFR carried forward	577.4	595.7	701.5	729.5	724.1
Movement in CFR	**37.3**	**18.3**	**105.8**	**28.0**	**(5.4)**
Net financing requirement	48.7	34.8	124.6	49.0	17.1
Less MRP & other financing	(11.4)	(16.5)	(18.8)	(21.0)	(22.5)
Movement in CFR	**37.3**	**18.3**	**105.8**	**28.0**	**(5.4)**

2.8. **Indicator 3 –** Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e. the net interest cost and the provision to repay debt.

Ratio of Gross Financing Costs to Net Revenue Budget	**2018/19 Actual**	**2019/20 Est**	**2020/21 Est**	**2021/22 Est**	**2022/23 Est**
Total Ratio	10.7%	11.4%	20.5%	23.2%	24.3%
Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing)	18.4%	20.8%	20.5%	23.2%	24.3%

3. Minimum Revenue Provision (MRP) Policy Statement

3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual MRP.

3.2. MHCLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3. A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Previous accumulated overpayments were fully utilised as at 31 March 2019.

3.4. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5. During 2019/20 detailed discussions were held with MHCLG with regards to the council's application of capital receipts to redeem debt. Following these discussions there remains a possibility that the government could amend legislation to provide additional clarity with regards to the use of capital receipts to redeem debt. At the time of drafting there has been no additional clarity provided and therefore the council has not amended its approach and continues to use the receipt from asset sales to redeem its debt. Once clarity is provided the Council will review its application of receipts and amend its policy accordingly if it is deemed necessary with relevant reports presented to the member meetings.

3.6. Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.7. The following table summarising the MRP Policy.

Capital Expenditure Incurred	MRP Policy Update 2019/20 & 2020/21
Expenditure funded by unsupported borrowing reflected within the debt liability after the 31 March 2010	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project. If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Chief Finance Officer (S151), taking into account forecasts for future expenditure and the generation of further receipts. The same process will apply for S106, POIS and CIL receipts.
Private Finance Initiative (PFI) - Finance Lease	Use the annuity method of calculation over the remaining asset life
Other Finance Leases	The MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods.

4. Current Treasury Position

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

4.2. The overall treasury management portfolio as at 31 March 2019 and for the position as at 13 January 2020 are shown in the following table for both borrowing and investment.

Treasury Portfolio	Actual 31.03.19 £'000	Actual 31.03.19 %	Current 13.01.20 £'000	Current 13.01.20 %
Treasury Investments				
Banks	9,000	60	10,100	95
Local Authorities	-	-	-	-
DMADF (HM Treasury)	-	-	-	-
Money Market Funds	6,000	40	500	5
Total Treasury Investments	**15,000**	**100**	**10,600**	**100**
Treasury External Borrowing				
Local Authorities	(70,500)	17	(67,500)	15
PWLB	(369,587)	81	(369,587)	81
LOBOs	(17,500)	4	(17,500)	4
Total External Borrowing	**(457,587)**	**100**	**(454,587)**	**100**
Net Treasury Investment / (Borrowing)	**(442,587)**		**(443,987)**	

4.3. **Indicator 4** - The Council's treasury position at 31 March 2020, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR

Gross debt & capital financing requirement	2018/19 Actual £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m
External Borrowing					
Market Borrowing	419.6	457.6	475.9	559.6	587.6
Repayment of borrowing	(22.0)	(48.0)	(73.5)	(19.5)	(23.1)
Expected change in borrowing	60.0	66.3	157.3	47.5	17.7
Other long-term liabilities	49.6	49.2	70.5	69.8	69.1
Gross Debt at 31 March	**507.2**	**525.1**	**630.2**	**657.4**	**651.3**
CFR	577.4	595.7	701.5	729.5	724.1
% of Gross Debt to CFR	**87.8%**	**88.1%**	**93.0%**	**90.1%**	**89.9%**

4.4. Based on the prudential indicators there are a number of key measures to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short-term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

4.5. The Chief Finance Officer (S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this Medium Term Financial Strategy (MTFS).

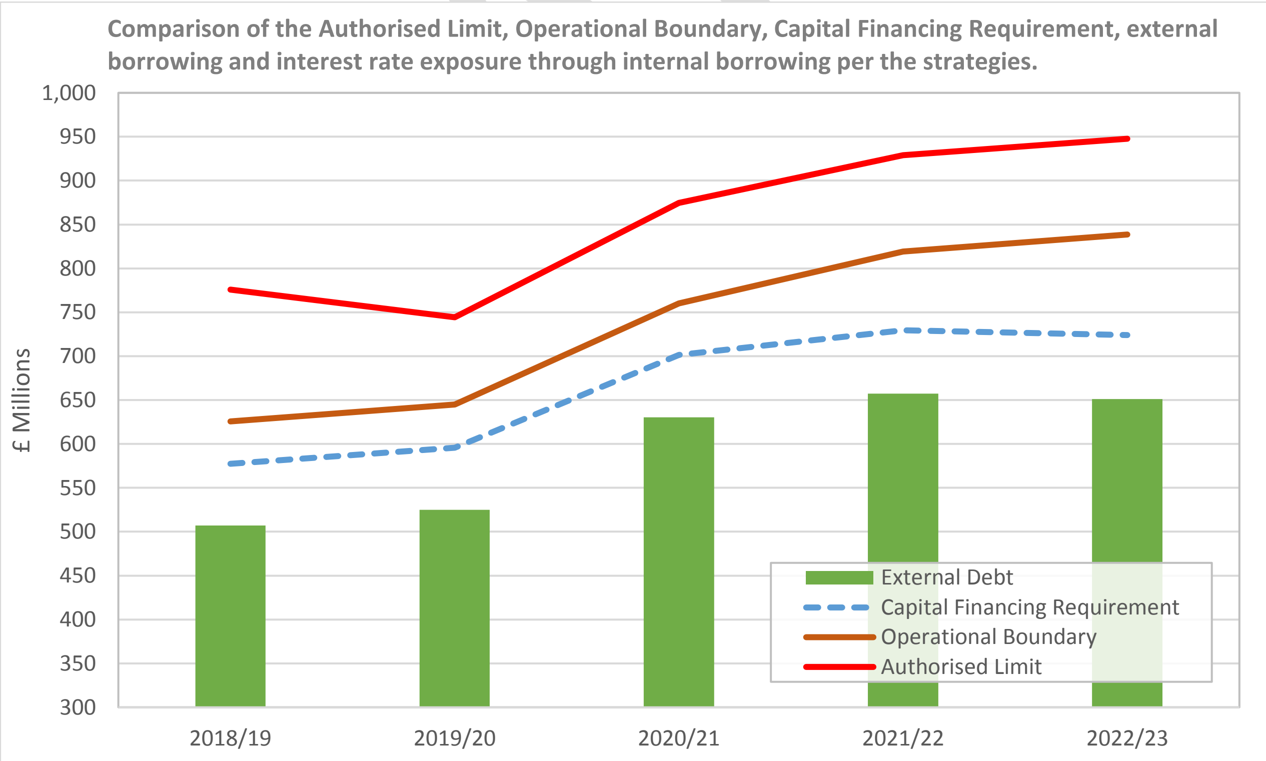
4.6. **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

Operational Boundary	2018/19 Actual £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m
Borrowing	457.6	595.9	689.5	749.5	769.5
Other long-term liabilities	49.6	49.2	70.5	69.8	69.1
Total	**507.2**	**645.1**	**760.0**	**819.3**	**838.6**

4.7. **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

Authorised Limit	2018/19 Actual £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m
Borrowing	457.6	695.1	804.0	859.3	838.6
Other long-term liabilities	49.6	49.2	70.5	69.8	69.1
Total	**507.2**	**744.3**	**874.5**	**929.1**	**947.7**

4.8. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



Comparison of the Authorised Limit, Operational Boundary, Capital Financing Requirement, external borrowing and interest rate exposure through internal borrowing per the strategies.

5. Prospects for Interest Rates

5.1. The Council utilises the treasury services of Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

5.2. The Link Asset Services forecast for bank base rate (as at November 2019) and PWLB new borrowing as at November 2019 is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

Interest Rate (All rates shown as %)	Bank Rate View	5yr PWLB Rate	10yr PWLB Rate	25yr PWLB Rate	50yr PWLB Rate	Budget Assumption
Dec 19	0.75	2.30	2.60	3.20	3.10	1.00*
Mar 20	0.75	2.40	2.70	3.30	3.20	
Jun 20	0.75	2.40	2.70	3.40	3.30	1.50*
Sep 20	0.75	2.50	2.70	3.40	3.30	
Dec 20	0.75	2.50	2.80	3.50	3.40	
Mar 21	1.00	2.60	2.90	3.60	3.50	
Jun 21	1.00	2.70	3.00	3.70	3.60	3.68
Sep 21	1.00	2.80	3.10	3.70	3.60	
Dec 21	1.00	2.90	3.20	3.80	3.70	
Mar 22	1.00	2.90	3.20	3.90	3.80	
Jun 22	1.25	3.00	3.30	4.00	3.90	3.95
Sep 22	1.25	3.10	3.30	4.00	3.90	
Dec 22	1.25	3.20	3.40	4.10	4.00	
Mar 23	1.25	3.20	3.50	4.10	4.00	

** Based on inter-local authority borrowing rates, per point 5.4.*

5.3. The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2019 to 31 October 2020. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

5.4. The MTFS assumes that 2020/21 borrowing is taken from the local authority market at an average rate of 1.5% for loan lengths between 1 to 3 years.

5.5. From 2021/22 the current assumption is to revert to borrowing at the PWLB 50 year rate with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent until the future borrowing strategy is fully developed once the market response to the PWLB rate rise has crystailsed.

5.6. The interest rate forecasts provided by Link Asset Services in paragraph 5.2 are predicated on an assumption of an agreement being reached on Brexit, including terms of trade, between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

5.7. The balance of risks to the UK:

- the overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- the balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similar to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

5.8. One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

5.9. Link Asset Services interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- Brexit - now that the Conservative Government has gained a large overall majority in the general election on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.
- GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.
- While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a

deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

- The MPC meeting of 19 December repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

- If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

- As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

- With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

6. Investment and Borrowing Rates

6.1. Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

6.2. Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed

6.3. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.4. There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

7. Borrowing Strategy

7.1. The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page **Error! Bookmark not defined.**. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

7.2. The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – eg School Extensions
- Rolling Capital Projects eg Enhancing current assets

7.3. Any borrowing decisions will be reported to the appropriate decision making body at the next available opportunity.

7.4. The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2020/21 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long and short term rates may arise. This might be due to a marked increase of risks around relapse into recession or of risks of deflation. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) Following the 100 bps increase in PWLB rates, loans will primarily be arranged from the other Local Authorities as the market responds to this change.

e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

8. New Borrowing Approaches to Be Considered

8.1. To realign the loan maturity profile with the rate the existing CFR debt will be financed by taking out shorter term Local Authority Loans. In the current climate this will reduce interest costs in the short term.

8.2. Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates) and the Municipal Bonds Agency (no issuance at present but there is potential). The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving.

8.3. Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

8.4. The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

8.5. Interest rates are liable to change. In the event of significant changes the Council seeks to avoid an increased revenue cost on its capital financing charges.

8.6. The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically the Council does not spend at the planned level in any financial year.

8.7. Link Asset Services have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

9. Treasury Debt Prudential Indicators

9.1. There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

9.2. **Indicator 7 –** Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

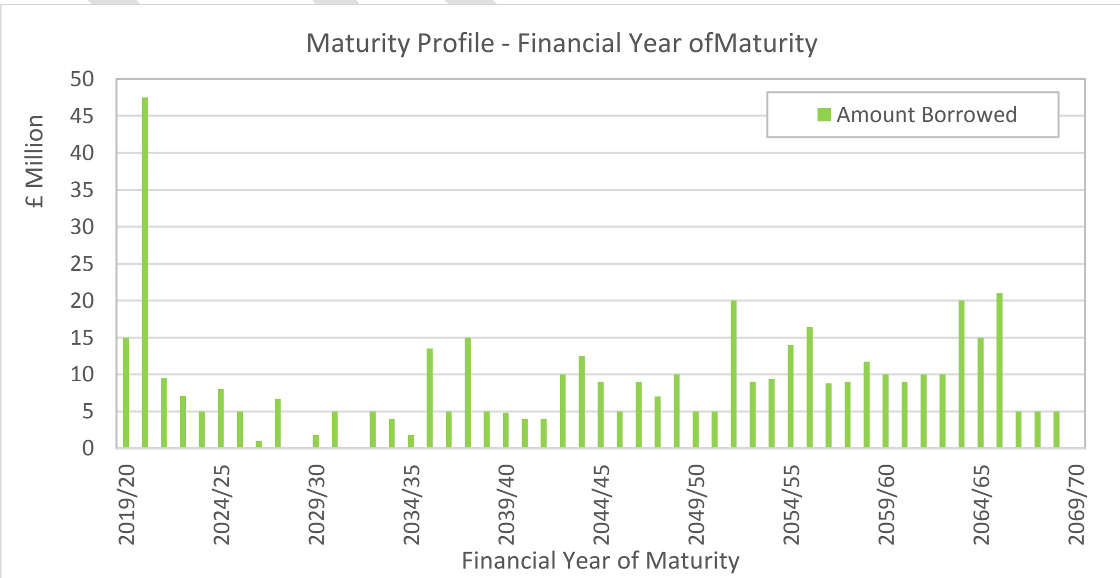
9.3. **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
(7) Limits on fixed interest rate net debt	457.6	695.1	804.0	859.3	878.6
% of fixed interest rate exposure	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	-	173.8	201.0	214.8	219.7
% of variable interest rate exposure	0%	25%	25%	25%	25%

9.4. **Indicator 9** - Maturity structure of borrowing. These gross limits are set to reduce the Council's immediate exposure to large fixed rate sums falling due for refinancing.

Maturity Structure of borrowing	**Upper Limit**	**As at 13 January 2020**
Under 12 months	40%	14%
12 months to 2 years	40%	2%
2 years to 5 years	80%	3%
5 years to 10 years	80%	5%
10 years and above	100%	76%

9.5. The following chart shows the Council's debt maturity profile by financial year as at 13 January 2020:



10. Policy on Borrowing in Advance of Need (Future Capital Expenditure)

10.1. The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to-day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

10.2. The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

10.3. The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

10.4. Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11. Debt Rescheduling on Existing Debt Portfolio

11.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

12. Investment Strategy Principles

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

12.2. The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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

13. Investment Counterparty Selection Criteria and Financial Investment Strategy

13.1. As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

13.2. However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

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

13.3. The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

13.4. The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 13.5. If an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

13.5. In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

Minimum Credit Ratings for Group 2 Banks		
Agency	**Short-Term**	**Long-Term**
Fitch	F1	A
Moody's	P-1	Aa
Standard & Poor's	A-1	A

13.6. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link Asset Services

13.7. The Council does not place sole reliance on the use of Link Asset Service's advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

13.8. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

13.9. The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 13.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 13.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Asset Services

13.10. The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 13.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

13.11. The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

13.12. Link Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Link Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	The Council will not invest with these institutions

13.13. The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

13.14. **Indicator 11** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

Overall limit for sums invested over 365 days	2018/19 Actual £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m
Principal sums invested 365 days	0.0	0.0	10.0	10.0	10.0

14. Loans Made to Third Parties

14.1. The Council makes secured loans to third parties to advance the Council's strategic interests.

14.2. Loans are only made after the Council's formal decision making process has been followed. This includes formal approval by the Chief Finance Officer (S151).

14.3. As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

14.4. Non treasury investments are disclosed in the Capital Strategy.

14.5. A facility for an unsecured loan to Peterborough Limited, a Council wholly own company, of £1.75m was agreed at the end of the 2018/19 financial year for a period of five years. As at 13 January 2020, £1.39m of this loan had been draw down, £0.15m of which was a capital loan.

14.6. Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 14.2 above.

15. Non-financial Investments

15.1. The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

16. Treasury Management Scheme of Delegation

16.1. The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

Audit Committee / S151 Officer (Chief Finance Officer (S151))

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Chief Finance Officer (S151)) / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service advisors

17. Housing Revenue Account (HRA)

17.1. The council wrote to the Regulator of Social Housing on 9th October 2019 to inform them of the possible intention to reopen a HRA and engage in the supply of affordable housing. Discussions have begun with Homes England to determine what funding opportunities are available. The outline business case will need to be completed, which is dependent on funding opportunities and also the Councils final strategic direction in this area. As detailed plans for it's mobilisation will be dependent on this final strategic decision, this change has not been reflected in the current Treasury Management Strategy.

17.2. If it is agreed to move forward with an HRA a revised Treasury Management Strategy will be produced which will include separately identified HRA capital expenditure and associated accumulated debt and further indicators relating to the affordability of this expenditure.

Specified Investment Credit Criteria and Limits
Specified Investment:

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see Section 14.6)

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Deposit accounts with regulated UK Banks and UK Building Societies	Repayable on call, without notice	Minimum of two short-term rating criteria	100	15
Money Market Funds repayable on call, no notice	Call	Minimum rating – AAA (Fitch)	50	10
Debt Management Agency Deposit Facility	6 months currently	UK Government backed	N/A	75
Term Deposits UK Government & Local Authorities	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term Deposits & Certificates of Deposit Banks Group 1	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	75
UK Government & Local Authority Stock Issues	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term deposits & Certificates of Deposit Banks Group 2	6 months	Minimum of three short-term rating criteria	50	10
Forward Term Deposits with Regulated UK Banks	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	15

Non-specified Investment Credit Criteria and Limits

- With the same institutions classified as “specified” investments but have maturity dates in excess of one year – once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity -, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Term deposits with UK Government & Local Authorities	1-5 years	Sovereign risk high security not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	1-5 years (tradable)	F1(Fitch – short-term) AAA (long-term)	10	10
UK Government & Local Authority Stock Issues	1-10 years (tradable)	Sovereign risk high security not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	1-5 years (tradable)	F1 (Fitch-short-term) A (long--term)	20	10
Deposit accounts with regulated UK building societies	1 – 5 years	F1 (Fitch short-term) A (long-term)	5	5
Term deposits UK building societies no formal credit rating	Up to 1 year	Financial position assessed by Chief Finance Officer (S151).	5	5
Bonds issued by financial institution guaranteed by UK Govt	1-10 years (tradable)	UK Govt backed AAA (Fitch, S&P etc.)	5	5

In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time.

Explanation of Credit Ratings

Agency	Short-Term	Long-Term
Fitch	F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a “+” may be added to denote any exceptionally strong credit feature.	A-High credit quality. ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
Moody’s	P-1-superior ability to repay short-term debt obligations	Aa-high quality and are subject to very low credit risk
Standard & Poor’s	A-1-The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.	A-more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor’s capacity to meet its financial commitment on the obligation is still strong.

AUDIT COMMITTEE	AGENDA ITEM No. 8
27 JANUARY 2020	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director Resources	Tel. 452520

USE OF CONSULTANTS – UPDATE REPORT

R E C O M M E N D A T I O N S	
FROM : Corporate Director Resources	**Deadline date :** N/A
1. That Audit Committee consider the update report on the use of Consultants for the financial year 2019/20.	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following the Sustainable Growth Scrutiny Committee review into Peterborough City Council's use of consultants, the subsequent endorsement of their recommendations by Cabinet, and the agreement of Audit Committee to undertake an on-going monitoring role.

2. PURPOSE AND REASON FOR REPORT

2.1 Sustainable Growth Scrutiny Committee recommended that the on-going monitoring role at Member level is undertaken by Audit Committee. Audit Committee considered their approach to this role at their meeting of 26 March 2012. This report is in line with the approach agreed and subsequent updates, and is in accordance with the Committees' Terms of Reference:

- 2.2.1.11 To review any issue referred to it by the Chief Executive or a Director, or any Council body; and
- 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	N/A

4. REVIEW OF THE USE OF CONSULTANTS

4.1 In March 2010, the Sustainable Growth Scrutiny Committee requested a review into Peterborough City Council's use of consultants. A cross-party review group was established to undertake this work on behalf of the Sustainable Growth Scrutiny Committee.

4.2 The report from the Consultancy Review Group was issued in March 2011. Scrutiny also recommended that on-going monitoring of the use of consultants should fall to Audit Committee. Audit Committee considered this role at their meeting of 26 March 2012.

4.3 A further report, outlining the information requested, was discussed at the meeting of 5 November 2012. Further updates have been considered at subsequent meetings, continuing the regular reporting to Audit Committee.

4.4 **Use of consultants**

The definition of consultancy is based upon standard procurement classification. As such it covers a wide range of companies and services. Expenditure is included here if the company meets the standard classification, irrespective of exactly what services have been provided.

4.5 The spend for the last ten full years, plus in current year to date is shown below.

	Total £m
2009-10	8.5
2010-11	6.4
2011-12	5.4
2012-13	4.3
2013-14	4.5
2014-15	3.1
2015-16	2.5
2016-17	3.0
2017-18	2.4
2018-19	2.7
2019-20 (first 9 months)	3.0

4.6 The spend in the first 9 months of 2019-20 was £3.0m. The largest item within this figure is £1.65m spent with Grant Thornton on the council's financial improvement programme. The total projected spend with Grant Thornton is now £2.05m. The full year estimate for consultants costs has increased to £3.7m compared to the estimated full year figure of £2.7m reported to the last meeting. This is mainly as a result of commissioning an additional £950k of work from Grant Thornton, the scope of which increased to cover additional work on the Medium Term Financial Strategy, review of HR function and controls, and commercial contract reviews.

4.7 The policy agreed by Cabinet and Audit Committee to manage use of consultants, including the need for a business case to be produced, remains in place. The Corporate Management Team has continued to keep spend under review as part of the budget monitoring process.

4.8 A list of companies used for the period 1 April 2019 to 31 December 2019 is included in Appendix 1, indicating the breadth of these companies and services that are included in the standard classification and in the analysis in this report.

Agency

4.9 The Council also employs Agency staff through a number of Contracts. The spend for the past 3 financial years on Agency has been:

- 2016/17 - £6.3m
- 2017/18 - £6.5m
- 2018/19 - £8.8m
- 2019/20 - £4.3m for first nine months

5. CONSULTATION

5.1 Audit Committee considered options for how they wish to monitor use of consultants in the future at their meeting of 26 March 2012. Subsequent discussions at the meetings referred to have refined the information they wish to monitor.

6 ANTICIPATED OUTCOMES

6.1 That Audit Committee consider the update report on the use of consultants.

7 REASONS FOR RECOMMENDATIONS

7.1 The recommendations are in line with the recommendations of Scrutiny, and the view of Audit Committee in undertaking this role.

8 ALTERNATIVE OPTIONS CONSIDERED

8.1 Audit Committee considered options for how they wish to monitor use of consultants in the future at their meeting of 26 March 2012.

9 IMPLICATIONS

9.1 Where appropriate, the policy outlines implications for areas such as Legal, Human Resources, Procurement and Finance.

9.2 This report does not have implications for specific wards.

10 BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Consultancy Review Report, March 2011;
- Report to Sustainable Growth Scrutiny Committee, 8 November 2011;
- Report to Sustainable Growth Scrutiny Committee, 6 March 2012;
- Reports to Cabinet and Audit Committee 26 March 2012;
- Reports to Audit Committee of 5 November 2012; 4 February 2013;
- Report to Audit Committee of 4 November 2013;
- Report to Audit Committee of 3 November 2014 and supplementary report to Audit Committee of 2 February 2015;
- Report to Audit Committee of 9 November 2015
- Report to Audit Committee of 22 November 2016
- Reports to Audit Committee of 19 November 2018; 11 February 2019
- Reports to Audit Committee of 15 July 2019; 16 September 2019; 18 November 2019

11 APPENDICES

- Appendix 1 - list of companies used during the period 1 April 2019 to 31 December 2019 with summary

2019/20
Appendix 1 - List of companies with Summary

2019/20 Supplier Name	Initiative	Amount
4OC Ltd	People & Communities Savings programme; Adults Positive Challenge	386,242.75
Airey Consultancy Services Ltd	Council Tax reduction scheme	6,600.00
Allen Lane	Housing Accountant	72,618.06
CapacityGrid	Empty Homes Review	52,237.58
CEB Global Ltd	Finance Improvement & delivery of MTFS savings agenda	15,542.47
Crisp, Mr Brian	Complaint investigation	1,255.40
Eddisons Commercial Ltd t/a Barker Storey Matthews	Fee in relation to lettings support	6,220.00
Fiona Spinks	GDPR work	26,086.50
Gartner U.K. Limited	Finance Improvement Support	47,895.00
Grant Thornton UK LLP	Financial Intervention work in relations to the MTFS; Financial Improvement Programme,	1,651,450.00
Inform CPI Ltd	RV Finder	23,685.00
J C Associates	Complaint investigation	2,383.15
Lisa Bunyan	Integrated Communities Strategy	19,808.10
Liz Holmes Consultancy	Phonics training (schools standards)	667.00
NPS Peterborough Ltd	Provision of Property support	46,441.36
Omnico Group UK Limited	IT project support	2,975.00
Paul Stainton Media Ltd	Media training - production of case study videos	6,000.00
Penna Plc	Interim Development Director	85,787.76
Perfect Motion	Great Eastern Run	1,250.00
PT Consultancy	EU Settlement scheme support & monitoring	5,400.00
Ray Worsley Education Consultancy	HR Employment related support	2,902.35
Reed Specialist Recruitment Limited	Programme Management Office Support 133k; Development of BID proposal 69k; Homeless 50 project 62k	264,191.83
RINA Consulting Ltd	Support related to Empower Loan facility	3,700.00

RJW Associates Ltd	Peterborough Safeguarding Board	23,000.00
Serco Ltd	ICT Stabilisation Strategy 74k; Customer Service transformation 6k	79,844.93
Skanska	Asset management - target cost audit (Bourges Boulevard & Long Causeway)	3,831.85
Terrier Management Services	Complaint investigation	1,056.10
The Planning Inspectorate	Examination in Public of the Peterborough Local Plan	2,969.07
TLT LLP	Legal support regarding accreditation and liability for Climate Change Levy	10,542.00
Valuation Office Agency	Viability advice regarding planning application	3,500.00
Vero HR Ltd	HR support	2,362.93
Vivacity Culture and Leisure	Contribution to 18/19 Penna consultant fees 32k; City of culture consultation	32,603.17
WESTCO TRADING LIMITED	Strategic Communications Support	78,272.50
2019/20 Total for April 2019-Dec 2019		**2,969,321.86**

AUDIT COMMITTEE	AGENDA ITEM No. 11
27 JANUARY 2020	PUBLIC REPORT

Report of:	Councillor Over, Chair of Audit Committee	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Finance	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296334

FEEDBACK REPORT

R E C O M M E N D A T I O N S
It is recommended that Audit Committee: 1. Note the Feedback Report and work completed since the last meeting

1. ORIGIN OF REPORT

1.1 This is a standard report to Audit Committee which forms part of its agreed work programme.

2. PURPOSE AND REASON FOR REPORT

2.1 This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

3. IMPLICATIONS

Financial Implications

3.1 There are none.

Legal Implications

3.2 There are none.

Equalities Implications

3.3 There are none.

4. APPENDICES

4.1 Appendix A - Feedback report

This page is intentionally left blank

APPENDIX A

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2019 - APRIL 2020

AGENDA ITEM	ACTION ARISING	OFFICER RESPONSIBLE	ACTION TO BE TAKEN	COMPLETED
Internal Audit: Mid Year Progress	Chief Internal Auditor to investigate how long it takes refunds to be made back to customers	Steve Crabtree	Briefing Note to be circulated.	Completed and sent
Treasury Management Mid-Year Update	Fair Tax proposal update	George Wallace/Richard McCarthy	Briefing Note to be Circulated	Ongoing
Treasury Management Mid-Year Update	Climate Change Emergency – present position	Charlotte Palmer	Briefing Note to be Circulated	Completed and sent
Treasury Management Mid-Year Update	Differences in Councils NHB and those of Capacity Grid	Kirsty Nutton	Briefing Note to be Circulated	Ongoing
Use of Consultants	Management of long term agency staff	Stephen Fitzgerald	Briefing Note to be Circulated	Ongoing

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 12
27 JANUARY 2020	PUBLIC REPORT

Report of:	Councillor Over, Chair of Audit Committee	
Cabinet Member(s) responsible:	Councilor Seaton, Cabinet Member for Finance	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296 334

WORK PROGRAMME 2019/20

R E C O M M E N D A T I O N S
It is recommended that the Audit Committee: 1. Notes and agrees the Work Programme for the municipal year 2019/20.

1. ORIGIN OF REPORT

1.1 This is a standard report to the Audit Committee which forms part of its agreed work programme. This report provides details of the Draft Work Programme for the following municipal year.

2. PURPOSE AND REASON FOR REPORT

2.1 The Work Programme is based on previous year's agendas. The programme can be refreshed throughout the year in consultation with senior officers and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.

2.2 Training for members on specific aspects of the Audit Committee agenda are available throughout the year and will be arranged on request and will take place on a separate day to that of the committee meeting.

3. IMPLICATIONS

Financial Implications

3.1 There are none

Legal Implications

3.2 There are none

Equalities Implications

3.3 There are none

4. APPENDICES

4.1 Appendix A - Work Programme 2019/20

APPENDIX A

DATE: 15 JULY 2019			
		Section / Lead	**Description**
	Annual Governance Statement	Finance Kirsty Nutton	To consider and endorse the development of the Annual Governance Statement as included in the accounts.
	Internal Audit: Annual Audit Opinion	Internal Audit Steve Crabtree	To receive, consider and endorse the annual Internal Audit Opinion for the year ended 31 March 2019.
	Investigations Team Annual Report 2018 / 2019	Internal Audit Steve Crabtree	To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2019.
	Insurance: Annual Report 2018 / 2019	Internal Audit Steve Crabtree	To receive, consider and endorse the annual report on the delivery of Insurance Services for the year ended 31 March 2019.
	Capital and Treasury Outturn 2018 / 2019	Finance Pete Carpenter	To receive, consider and endorse the Capital and Treasury outturn 2018/2019
	Audit of Statement of Accounts To Those Charged with Governance (ISA260) including Annual Governance Statement	Finance Pete Carpenter / EY	To receive the final Statement of Accounts for the year ended 31 March 2019 incorporating the Annual Governance Statement together with the annual report to those charged with governance following their scrutiny by External Audit.
	Fees report	Finance Pete Carpenter	To approve the fees for the Municipal year 2019/2020
	Audit Committee Effectiveness	Internal Audit Steve Crabtree	To receive and consider the self assessment of the effectiveness of the Audit Committee
	INFORMATION AND OTHER ITEMS		
	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation

	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter / Chris Yates	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Draft Work Programme 2019 / 2020	Democratic Services Dan Kalley	

DATE: 16 SEPTEMBER 2019			
		Section / Lead	**Description**
	Risk Management: Strategic Risks	Governance Pete Carpenter/Susan Baxter	To receive details of the strategic risks impacting on the Council and the mitigating actions to address these.
	Use of Consultants	Finance Pete Carpenter	To receive an update on the use of Consultants
	External Audit: Annual Audit Letter	EY	To receive and approve the External Annual Audit Letter identified as part of their audit works
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required. To also include the outcome of a recent Surveillance Commission Inspection.
	Approved Write-Offs Exceeding £10,000 - None	Finance Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Work Programme 2019 / 2020	Democratic Services Dan Kalley	

DATE: 18 NOVEMBER 2019			
		Section / Lead	**Description**
	Internal Audit: Mid Year Progress Report	Internal Audit Steve Crabtree	To receive an update on progress against the Annual Audit Plan together with details of any concerns
	Mayors Costs	Finance Pete Carpenter	To receive a report on costs associated with the Mayor’s office
	Treasury Management Strategy	Finance Pete Carpenter	
	Audit Committee start times 2020/21	Dan Kalley Democratic Services	Committee to agree it’s start times for the municipal year 2020-21
	INFORMATION AND OTHER ITEMS		
	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter	To receive an update on write offs approved, which exceed the Council’s financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Work Programme 2019 / 2020	Democratic Services Dan Kalley	

DATE: 27 JANUARY 2020			
		Section / Lead	Description
	Internal Audit: Approach to Audit Planning	Internal Audit Steve Crabtree	To receive a report on the approach to Audit Planning
	National Fraud Initiative: Investigating Allegations of Fraud	Internal Audit Steve Crabtree	To receive a report setting out the latest outcomes in relation to tackling fraud and corruption through the National Fraud Initiative and future activities to protect the public purse
	Use of Consultants	Finance/HR Pete Carpenter	To receive an update on the use of consultants and agency staff
	Treasury Management Strategy	Finance Pete Carpenter	
	Asset Management Strategy	Finance Pete Carpenter	
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Finance Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Work Programme 2019 / 2020	Democratic Services Dan Kalley	

DATE: 23 MARCH 2020			
		Section / Lead	**Description**
	Draft Annual Audit Committee Report	Democratic Services Dan Kalley	To receive the Draft Annual Audit Committee Report prior to submission to Council
	Internal Audit: Draft Internal Audit Plan 2020 / 2021	Internal Audit Steve Crabtree	To receive and approve the Internal Audit Plan 2020 / 2021
	Risk Management: Strategic Risks	Governance Pete Carpenter	To receive an update on the strategic risks for the Council
	Refunds of Council Tax and Business Rates	Finance	To review and make any recommendations on the Councils refunds of Council Tax and Business Rates.
	INFORMATION AND OTHER ITEMS		
	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	

This page is intentionally left blank