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Audit Committee Agenda

Wednesday, 21 January 2015 at 6.30 pm

Council Chamber - Town Hall, Queens Road, Hastings TN34 1QR

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For further information, please contact Emily Horne on 01424 451719 or email: ehorne@hastings.gov.uk

AUDIT COMMITTEE

25 SEPTEMBER 2014

Present: Councillors Beaver (Chair), Birch, Charman and Clark

11. APOLOGIES FOR ABSENCE

Absence for lateness was noted for Councillor Charman and absence was noted for Councillor Webb.

The Head of Finance announced the resignation of Stuart Frith, BDO Manager, and expressed his thanks for Mr Frith's contribution to the work of the Council and wished him well for the future.

12. DECLARATIONS OF INTEREST

There were no declarations of interest made at this meeting.

13. MINUTES OF THE MEETING HELD ON 26 JUNE 2014

RESOLVED – (unanimously) that the minutes of the meeting held on 26 June 2014 be approved and signed by the Chair as a true record.

14. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS

None.

15. FINAL ACCOUNTS 2013/14

The Head of Finance presented his report setting out the final accounts position for 2013-14. The Committee was asked to approve the Statement of Accounts on behalf of the Council in accordance with the Accounts & Audit Regulations 2011. Appended to the full report was the Financial Report 2013-14.

The Head of Finance informed the committee that it was necessary to make some adjustments to the Financial Report 2013-2014 in view of new information evolving around business rate appeals. It was advised that the provision for appeals had been further increased to £1.8m from £1.3m. The overall impact on the accounts is not material in accounting terms.

It was confirmed that the Corporate Risk Register had been updated to reflect the serious effect that business rate appeals had on the council. Councillor Birch asked whether a list of all of the most substantial appeals pending could be circulated to Audit Committee members so that they could gain a clearer picture of what has happened.

At this juncture, Councillor Charman arrived.

Councillor Clark asked if each authority negotiated their terms of conditions under the National Pension Scheme. The Head of Finance advised that it was a national scheme with all the main terms and conditions being the same, although some discretions existed. Contributions varied between authorities mainly dependent upon the demographics of the workforce. Councillor Clark went on to ask how charges were levied. The Head of Finance replied that aside from specific costs, charges were spread evenly across all local authority organisations and the fund was fully audited. The Director of Corporate Resources added that the pension scheme was now based on a career average scheme. The new scheme had resulted in employee contributions increasing from 1 April 2014. The Head of Finance said the actuaries make assumptions for the next 30 years and adjust the contribution up or down to pay off the deficit in real cash terms.

Stuart Frith, BDO Manager stated that the budget deficits were factored in the review of the medium term strategy update. A member seminar will cover this matter.

> **RESOLVED – (unanimously) that the Audit Committee approve the draft Statement of Accounts and a copy signed by the Chair of the Audit Committee in accordance with the Accounts & Audit Regulations 2011.**

16. BDO ANNUAL GOVERNANCE REPORT 2013/14

The Head of Finance introduced this report on matters raised by the Council's external auditors (BDO) in respect of their audit. This included an unqualified opinion of the Council's 2013/14 accounts, and their conclusion that Hastings Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Appended to the full report was the Final Report to the Audit Committee – Audit for the year ended 31 March 2014.

The External Audit Manager explained the content of each page of the Annual Governance Report and referred to the key matters in the audit. He said he was happy with governance reporting and the outstanding issues had been addressed.

Appendix IV 'Recommendations and Action Plan' was amended and replaced with a page populated with full management response, responsibility and timing.

Councillor Beaver sought reassurance that controls and procedures over Purchase order Authorisation were in place. The Chief Auditor informed the committee that the control weakness allowing officers who had been given substitute access to both raise and authorise payment for orders, still persisted. Internal Audit examined every single case where this had happened and was able to confirm that each purchase had been for valid business purposes. Substitute access for all officers has now been removed and enquiries are continuing with the main accounting system software supplier to resolve the system weakness.

Councillor Birch offered his thanks and congratulations to the finance team and the council as a whole for their work in achieving a helpful report.

RESOLVED – (unanimously) that the audit report and action plan be noted.

17. TRANSFER OF HOUSING BENEFIT INVESTIGATIONS TO THE DEPARTMENT FOR WORK AND PENSIONS SINGLE FRAUD INVESTIGATION SERVICE (SFIS)

The Head of Finance presented his report on the actions planned following the transfer of Hastings BC Investigators to the Department for Work and Pensions Single Fraud Investigation Service.

Councillor Clark raised concern that Hastings Borough Council had cut its own internal capabilities too soon. The Director of Corporate Resources said the timescales for transfer were not within our jurisdiction.

Councillor Charman asked if there was an opportunity to employ a locum or temporary worker after 1st November 2014. The Director of Corporate Resources explained that a post would have a cost but good referrals of potential Council Tax Reduction fraud are expected and will be managed internally.

Councillor Birch asked that the committee be updated on the outcome of the 2 bids for counter fraud funding and any other steps taken. The Chief Auditor said that there would be a meeting on 6th November to discuss the East Sussex wide bid outcome and if successful, how it would work for the named authorities. An update will be provided at the next Audit Committee meeting in January 2015.

RESOLVED – (unanimously) that the report be accepted.

18. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented his report on the recent audit findings of the Housing Benefit Grant Subsidy and Disabled Facility Grant audits.

The Housing Benefit Grant Subsidy audit work had gone more smoothly than planned this year and that it was completed early with just one minor query waiting to be resolved.

The Disabled Facility Grant reports concluded that the overall audit assessment was ‘A – good’ and that controls are in place and are working effectively. There are no significant audit concerns.

RESOLVED – (unanimously) that the Audit Committee accepts the report.

(The Chair declared the meeting closed at 7.17 pm)

AUDIT COMMITTEE

25 SEPTEMBER 2014

Agenda Item 5

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 January 2015

Report Title: Audit of Housing Benefit Subsidy Claim - Year Ended 31 March 2014

Report By: Peter Grace
Head of Finance

Purpose of Report

The BDO report summarises the matters arising from the certification of the Housing Benefit Subsidy Claim for the financial year ended 31 March 2014. The report also includes the amount of fees incurred.

Recommendation(s)

1. **To accept the External Auditor's Report on the Audit of the Housing Benefit Subsidy Claim for the year ended 31 March 2014.**

Reasons for Recommendations

The audit of the Housing Benefit Subsidy Claim is undertaken by external audit in accordance with the Statement of Responsibilities issued by the Audit Commission.

The Audit Committee role includes receipt and consideration of all reports produced by the external auditors which are directed at Hastings Borough Council

Introduction

1. The full report is attached as Appendix A to this document. A representative from BDO (the Council's auditors) is expected to be at the meeting to introduce the report.

2. BDO applied the 'Certification Instruction' issued by the Commission after its consultation with the Department for Work and Pensions. After completion of the tests contained within the Certification Instruction the subsidy claim can be certified with or without amendment or, where the correct amount cannot be determined, the claim is qualified based on the testing completed. Sample sizes used and the extent of audit procedures are prescribed by the Commission.

3. The fee for certifying the subsidy claim was £11,792 and is the level recommended by the Commission.

4. While the 2013/14 claim was qualified, the scope and extent of errors found by the audit was reduced and the Government's deadline was met. The draft claim amounted to over £53 million and was amended to reduce the Council's entitlement to subsidy by only £270. The Department for Work and Pensions will consider the extrapolation of errors and other issues highlighted on the final amount of subsidy to be paid for the year.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

Background Information

Appendix A - Audit of Housing Benefit Subsidy Claim (Year ended 31 March 2014)

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HASTINGS BOROUGH COUNCIL

AUDIT OF HOUSING BENEFIT SUBSIDY CLAIM

Year ended 31 March 2014

BDO

CONTENTS

INTRODUCTION

THE PURPOSE OF THIS REPORT

This report summarises the matters arising from the certification of the housing benefit subsidy claim for the financial year ended 31 March 2014. The subsidy claim is the only government return we were required to certify in the period as an agent of the Audit Commission. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Commission.

As in prior years, we applied the Certification Instruction (CI) issued by the Commission after its consultation with the Department for Work and pensions (DWP). After completion of the tests contained within the CI the subsidy claim can be certified with or without amendment or, where the correct amount cannot be determined, the claim is qualified based on the testing completed. Sample sizes used and the extent of audit procedures completed are prescribed by the Audit Commission.

The fee for certifying the subsidy claim was £11,792 and is the level recommended by the Audit Commission. Appendix I of this report (page 4) shows the Council's progress against the action plan following our audit of the 2012/13 claim. A further recommendation is contained at Appendix II.

The audit of the housing benefit claim is complex. In 2012/13 our audit was delayed and our certificate was given with an extensive qualification letter. While the 2013/14 claim was qualified, the scope and extent of errors found by our audit was reduced and the Government's deadline was met. The draft claim amounted to over £53 million and was amended to reduce the Council's entitlement to subsidy by only £270. The DWP will consider the impact of the extrapolation of errors and other issues highlighted in our qualification letter on the final amount of subsidy to be paid for the year.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our audit.

KEY FINDINGS

Housing benefit subsidy

Local authorities responsible for managing housing benefit schemes are able to claim subsidy towards the cost of these benefits from central government. The final value of subsidy claimed by the Council for the financial year ended 31 March 2014 was £53.5 million and was notified to central government on form MPF720A.

Our work on the claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A. The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions (DWP). We have no discretion over how this methodology is applied.

Regardless of the value of error identified, the DWP requires auditors to consider extending the scope of testing. Additional work was therefore undertaken to assess the nature of errors and the possible impact on the value of benefit claimed.

We have made recommendations in response to the findings from this year's audit (see Appendix II).

Findings and impact on claim

In planning our work, we concluded the control environment surrounding the preparation of the claim was satisfactory. However, regardless of the effectiveness of the control environment, the DWP requires us to undertake detailed testing of a sample of 20 benefit cases for each benefit type, due to the complexity of the claim and the significant expenditure involved.

As a result of our work, errors were found in calculating entitlement to benefit across certain claim types. The errors involved are shown overleaf:

Benefit type	Error type	Impact on entitlement to subsidy
Non-HRA rent rebates	Misclassification of benefit between type of property (should be rent allowances).	We reported in our qualification letter that based on extrapolation £6,816 should be removed from non-HRA rent rebate expenditure and included in rent allowances expenditure.
Non-HRA rent rebates – eligible overpayments	Misclassification of expenditure due to incorrect overpayment period	All eligible overpayment expenditure was reviewed. Further errors were found and expenditure of £60 was removed from the claim (the overall amount of eligible overpayments for non-HRA rent rebates amounted to only £5,195 in the draft claim)
Rent allowances	Overpayment of benefit because the incorrect rental liability was calculated.	We extrapolated the outcome of our testing and calculated the Council over-claimed subsidy of £4,770. We reported the outcome to the DWP in a qualification letter.
	Overpayment of benefit because incorrect overpayment period used.	Based on review of all such expenditure, further errors were found and £50 was removed from the claim.
	Incorrect date for transition to Employment Seekers Allowance (ESA) used	Benefit was underpaid. There is no entitlement to subsidy for underpaid benefit.
	Late processing of a rent officer determination	Benefit was underpaid. There is no entitlement to subsidy for underpaid benefit
Modified Schemes - Rent Allowances	Entitlement to enhanced disability premium was not applied	Our qualification letter stated expenditure of £745 should be transferred from modified schemes to rent allowances.

APPENDICES

APPENDIX I: STATUS OF 2012/13 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
The Council should complete a review of the processes for administering benefit to ensure the accuracy of data recorded in the benefits system.	High	The Council does undertake testing of claims to ensure accuracy of assessment. The level has been increased in 2013/14 and complete reviews of all claims processed in some categories have been undertaken for 2013/14. In addition a review of the revenues and benefits service and processes is being undertaken.	Revenues and Benefits Manager	Immediate	The recommendation was implemented.

APPENDIX II: 2013/14 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Our work on rent rebate cases found: • Misclassification of benefit between type of property (should be rent allowances) • Misclassification of expenditure due to incorrect overpayment period	The Council should ensure rent rebate expenditure is classified in accordance with the underlying evidence of property type provided by the claimant. Where overpayments are identified, these should be correctly classified.	High	Agreed. Additional testing has already been introduced	Revenues and Benefits Manager Service	Immediately
Our work on rent allowance cases found: • Overpayment of benefit because the incorrect rental liability was calculated • Overpayment of benefit because incorrect overpayment period used incorrectly calculated • Incorrect date for transition to Employment Seekers Allowance (ESA) used • Late processing of a rent officer determination	The Council should ensure rent allowance claims are calculated in accordance with the underlying evidence provided by the claimant. Rent officer determinations should be processed in a timely way.	High	Agreed. Additional testing has already been introduced	Revenues and Benefits Service Manager	Immediately

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item 6

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 January 2015

Report Title: Annual Audit Letter 2013 - 2014

Report By: Peter Grace
Head of Finance

Purpose of Report

To formally confirm that the Annual Audit Letter 2013 - 2014 has been noted by the Audit Committee.

Recommendation(s)

1. **To note the report.**

Reasons for Recommendations

The Annual Audit Letter is circulated to all members and posted to the Council's website. It is of particular interest to those charged with governance.

Introduction

1. The Annual Audit Letter 2013 - 2014 prepared by BDO is one of the external auditor's key outputs. It was received during October 2014 and posted to the Council's website for the public and members' view.

2. The report and its key findings were agreed and accepted by senior management.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

Background Information

Website link:

http://www.hastings.gov.uk/content/decisions_democracy/pdfs/annual_audit_letter2013 14

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Agenda Item 7

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 January 2015

Report Title: **Treasury Management - Mid Year Report 2014-15**

Report By: Peter Grace
Head of Finance

Purpose of Report

This report advises the Audit Committee of the Treasury Management activities and performance during the current year. It provides the committee with the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Cabinet to take account of any issues or concerns that have arisen since approving it in February 2014.

Recommendation(s)

1. **The Committee recommend to Cabinet that the Strategy remains unaltered.**
2. **To note that the investments made are in compliance with the investment strategy and the latest advice provided from the Council's Treasury Management advisers.**

Reasons for Recommendations

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2014). It is a requirement of the Code of Practice that the Mid year review is considered by full Council.

Introduction

1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties.

2. The other main part of the treasury management service is the funding of the Council's capital plans. Whilst parts of the Capital programme are financed by grants, contributions or capital receipts, the unfinanced elements will determine the borrowing needs of the Council - essentially the longer term cash flow planning to ensure the Council can fund its capital spending. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3. Accordingly treasury management is defined 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."

4. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) has been adopted by this Council and this Council fully complies with its requirements.

5. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead), a Mid-year Review Report (as a minimum) and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

6. The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the Mid Year review of treasury management activities, for the financial year 2014/15.

7. This mid-year report covers

a) An economic update for the first nine months of 2014/15;
b) The Council's treasury position
c) A review of the Council's borrowing strategy in 2014/15
d) A review of the Council's investment strategy in 2014/15
e) A review of compliance with treasury management prudential indicator limits for 2014/15

Economic Update

Economic performance to date

8. Strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), were followed by 0.7% in Q1, 0.9% in Q2 and 0.7% in Q3 2014 (annual rate 3.0% in Q3). It hopeful that growth will continue into 2015 as forward surveys for the services and construction sectors are encouraging and business investment is also more modestly recovering.

9. This overall growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC**)** last August, before it said it would consider any increases in Bank Rate.

10. It is forecasted that growth will peak in 2014 and then to ease off a little in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to feed through into a return to increases in real pay rates at some point during the next three years.

11. Also encouraging has been the sharp fall in inflation (CPI) during 2014 after being consistently above the MPC's 2% target between December 2009 and December 2013. CPI Inflation fell to 1.2% in September 2014, a five year low, whilst RPI was 2.3%. Forward indications are that inflation is likely to fall further in the first half of 2015 to possibly near to or below 1% and then to remain near to the 2% target level over the MPC's two year ahead time horizon. Overall, markets are expecting that the MPC will be cautious in raising the Bank Rate as it will want to protect heavily indebted consumers from too early an increase in the Bank Rate at a time when inflationary pressures are also weak. A first increase in the Bank Rate is therefore currently forecast for Q2 2015 and the Bank has said that increases after that will be at a slow pace and to lower levels than prevailed before 2008.

12. The return to growth in 2013 and 2014 helped to lower forecasts for the increase in Government debt in the 2013 Autumn Statement, and the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed in the first seven months of 2014/15 and the autumn statement in December 2014 pushed back the achievement of a budget surplus until 2019-20.

13. **The Eurozone (EZ).** The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some

rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. During November, the ECB stated that if this latest programme failed to stimulate growth, then it would soon embark on full quantitative easing (purchase of sovereign debt). Current fears over Greece have seen the value of the Euro fall in the currency exchange markets.

Outlook for the next six months

14. Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds. Comments by the ECB in respect of the potential start of quantitative easing in early 2015 have also sharply depressed gilt yields during the closing weeks of 2014.

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

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

    Downside risks to UK gilt yields and PWLB rates include:

    - Commencement of substantial quantitative easing by the ECB in early 2015.
    - Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
    - UK economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
    - A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
    - Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

17. Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

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

- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.
- A surge in investor confidence that a return to robust world economic growth is imminent causing a flow of funds out of bonds into equities.

18. If the MPC does takes action to do more QE in order to reverse a rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below.

Interest rate forecasts

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
3 Month LIBID	0.50%	0.60%	0.80%	0.90%	1.10%	1.30%	1.40%	1.60%	1.90%	2.10%	2.10%	2.30%	2.40%	2.60%
6 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.80%
12 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.70%	1.80%	2.10%	2.20%	2.30%	2.40%	2.60%	2.80%	3.00%
5yr PWLB Rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB Rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB Rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB Rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

(The Capita Assets Services forecasts above are for PWLB certainty rates.)

The Council's Treasury Position – 31 December 2014

Borrowing

19. The Council's debt and investment position at the 31 December was as follows:

Table 1 **Debt**	31 March 2014 Principal	Rate	Maturity	30 December 2014 Principal	Rate
PWLB Loan 1	£7.5m	4.80%	2033	£7.5m	4.80%
PWLB Loan 2	£1.0m	2.02%	2016	£1.0m	2.02%
PWLB Loan 3	£1.0m	1.63%	2018	£1.0m	1.63%
PWLB Loan 4	£2.0m	0.55% (Variable Rate)	2019	£2.0m	0.56% (Variable Rate)
PWLB Loan 5	£0m		2044	£0.9m	3.78%
PWLB Loan 6	£0m		2044	£1.8m	3.78%
Total Debt	£11.5m	3.54%		£14.2m	3.59%

20. At the 31 December 2014 the Council had debt amounting to £14.2m (all PWLB debt).

Investments in 2014-15

21. In terms of investments the Council had £24.85m invested as at 31 December 2014 with a variety of institutions (this level varies on a daily basis throughout the year).

22. The table below provides a snapshot of where the investments are placed (as at 31 December 2014)

Counter Party	Rate/ Return	Start Date	End Date	Principal	Term
Barclays Bank PLC	0.65%	25/04/2012		£0.001m	On Call
CBA	0.20%	22/12/2014	05/01/2015	£2.85m	
Nordea Bank	0.60%	01/10/2014	01/04/2015	£5m	
Lloyds 1	4.45%	05/01/2012	10/01/2017	£1.0m	Fixed
Lloyds 2	1.97%	26/03/2013	26/03/2018	£1.0m	Fixed
Lloyds 1 year fixed	0.95%	11/04/2014	10/04/2015	£5.0m	Fixed
Nat west	0.60%	21/08/2013		£5.0m	On call 90 day notice
Standard Chartered	0.65%	01/10/2014	01/04/2015	£5.0m	
				£ 24.85m	

23. The performance for the first 9 months of 2014/15 provided an average return of 0.65% (excluding Local Authority Mortgage Scheme (LAMS). This compares to 0.91% for the same period last year

24. The total interest receivable for the first 9 months is £125,000 (excluding Local Authority Mortgage Scheme). This compares to £166,000 for the same period last year.

Borrowing Strategy

25. The Council has £14.2m of PWLB debt, and could potentially borrow up to a level of £17.0m. This figure takes account of capital spending of some £4.5m in 2014/15 of which some £2.8m has been funded by new borrowing to date.

26. A new capital scheme involving the construction of a new industrial unit has been approved by the council in the year. This has an estimated capital cost of £700,000 and is likely to be financed through borrowing in 2015/16.

27. The coastal space regeneration project (£3.62m) achieved 38 units of the 51 projected but at a reduced cost of £2.7m. This is the sum that has been borrowed rather then the £3.62m originally predicated.

28. Whilst the borrowing rates are attractive on a historical basis the difference between the return on investment and the cost of borrowing is significant – the revenue cost falling on the Council taxpayer. Rates have reduced when compared to last year so careful attention is being made when placing funds for longer periods of time.

29. The Council also keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. No debt rescheduling is being contemplated at present

Investment Strategy

30. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent.

31. The Council has a limit of £5m with any one institution (rated A or above, supported by Government, and given a blue (12month) rating by Sector). This represents a level of up to 25% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

32. The continuing Eurozone problems have led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Head of Finance has the authority to amend the limits.

    Table 3 below compares the Estimated Interest Payable and Received and associated fees for the year 2014/15.

Table 3	2014 -15 Budget year £000's	2014 -15 Estimated Outturn £000's
Gross Interest Payable	576	450
Gross Interest Received	(282)	(218)
Fees	13	13
Investment Property (Income) / Expense (net)	(73)	21
Other (e.g. PWLB Discount)	(53)	(53)
Net Cost	181	213

33. From the table above whilst the overall budget position is generally in line with forecasts, both the level of interest payable and receivable are lower than forecast. This is due to the difference in timing and loan value in respect of the Amicus Horizon in relating to the Coastal Space Regeneration project.

34. The net interest on the deposits in respect of the LAM scheme for the year will amount to some £27,700 and will be transferred into the mortgage reserve in order to meet potential defaults (none at present).

Compliance with Treasury Limits

35. During the financial year to date there have been a few occasions where it has not been possible to find institutions to take the Council's money given the strict criteria in place. In these circumstances the Council will place money in its existing call accounts and this can thus result in the investments exceeding general limits. Where such an occasion looks likely to arise the approval of the Head of Finance is required in compliance with the Council's Treasury Management Practices.

36. The Prudential Indicators have been complied with - reproduced in Appendix 1 for reference.

37. There was an under spend in the Capital programme in 2013/14 with some expenditure being carried forward into 2014/15. The Council's overall borrowing requirement has not however increased and therefore there are no negative implications for the Council's revenue budget. The revisions will be taken account of in the Council's revised budget for 2014/15 and in future year estimates.

Financial Implications

38. The Council's 2014/15 budget estimated a 1% return on investments. Based on current market conditions this will be increasingly difficult to achieve given the lower interest rates currently available. However savings from the timing of new borrowing should help to ensure overall budget projections are achieved.

Risk Management

39. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Capita Asset Services) ratings advice.

40. The security of the principal sum remains of paramount importance to the Council.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

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Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

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Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

Officer to Contact

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APPENDIX 1

PRUDENTIAL INDICATOR	2013/14	2014/15	2015/16	2016/17	2017/18
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£20,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£10,000	£10,000	£10,000	£10,000	£10,000
TOTAL	£30,000	£30,000	£30,000	£30,000	£30,000
Operational Boundary for external debt -					
borrowing	£20,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£10,000	£10,000	£10,000	£10,000	£10,000
TOTAL	£30,000	£30,000	£30,000	£30,000	£30,000
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments OR:-	100 %	100 %	100 %	100 %	100 %
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments OR:-	100 %	100 %	100 %	100 %	100 %
Upper limit for total principal sums invested for over 364 days – LAMS Scheme and Coastal Space	£5,620	£5,620	£6,000	£6,000	£6,000

Maturity structure of fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Agenda Item 8

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 January 2015

Report Title: Treasury Management and Annual Investment Strategy 2015/16

Report By: Peter Grace
Head of Finance

Purpose of Report

To consider the draft Treasury Management and Annual Investment Strategy and draw any concerns or recommendations to Cabinet and Council as appropriate, to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities. The Council has £14.2 million of debt as at December 2014, and investments of up to £25 million at any one time in the year.

There is a statutory requirement to determine, by full Council, the Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2015/16) prior to the start of the new financial year.

Recommendation(s)

1. **The Audit Committee recommend that Cabinet approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2015/16)**

Reasons for Recommendations

The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The sums involved are large and the assumptions made play an important part in determining the annual budget. Compliance with the CIPFA Code of Practice represents best practice and ensures compliance with statutory requirements.

Introduction

1. The CIPFA Code of Practice on Treasury Management has been adopted by this Council and its requirements and subsequent revisions are fully complied with.

2. The purpose and requirements of the Code are identified as Appendix 7.

3. Treasury management in this context is defined as:

   "The management of the 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"

4. The Council maintains detailed Treasury Management Practices (TMPS), which are determined by the Chief Finance Officer and kept under regular review. These ensure effective day to day management of Treasury management activities.

5. The reporting arrangements proposed, in accordance with the requirements of the revised Code, are summarised below:-

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet and Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet and Council	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet and Council	As required
Annual Treasury Outturn Report	Cabinet and Council	Annually by 30 September after the end of the year
Treasury Management Practices	S151 Officer	Reviewed as required (minimum - annually)
Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of treasury management performance and strategy	Audit Committee	Quarterly Monitoring reports, Mid Year report,

6. The Council is required to determine the Prudential Indicators as part of the Treasury Management Strategy; these are identified in Appendix 3.

Investment Performance 2013-14

7. The performance for the first 9 months of 2014/15 provided an average return of 0.65% (excludes Local Authority Mortgage (LAM) scheme).This compares to 0.91% for the same period last year. The government's Funding for Lending Scheme has seen the interest rates on offer to local authorities diminish significantly over the last 12 months. The Council has in the past been able to take advantage of the special rates on offer to Councils e.g. the opportunity was taken in April 2012 to invest £5m for a year at a rate of 3.0% and an opportunity to invest £5 million in August 2012 at 2.4% the comparable rates at the end of December are between 0.6% and 0.95%.

8. The total interest for the first 9 months is £125,000 (excluding Local Authority Mortgage Scheme). This compares to £166,000 for the same period last year.

9. All treasury management indicators e.g. borrowing limits have been adhered to during the year to date.

Treasury Management Strategy for 2015/16

10. The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

11. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

12. The suggested strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services (previously Sector).

13. The strategy covers:

    a. treasury limits in force which will limit the treasury risk and activities of the Council
    b. Prudential and Treasury Indicators
    c. the current treasury position
    d. the borrowing requirement
    e. prospects for interest rates
    f. the borrowing strategy
    g. policy on borrowing in advance of need
    h. debt rescheduling
    i. the investment strategy

j. creditworthiness policy

k. policy on use of external service providers

l. the MRP strategy

The key changes from the previous year's strategy are:

i. The third Local Authority Mortgage Scheme did not proceed partly due to the introduction of the Government's help to buy scheme.

ii. The loan value in regards to Amicus Horizon and the Coastal Space Regeneration project was reduced and requested later than originally planned which in turn will reduce the Minimum Revenue Provision (MRP) required

iii. That investment returns are expected to remain fairly consistent rather than continuing to reduce.

Balanced Budget

14. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to calculate its Council Tax requirement. In particular, Section 31 requires a local authority in calculating the Council Tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. Thus any increases in costs (running costs & borrowing costs) from new capital projects must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

TREASURY LIMITS FOR 2015/16 TO 2017/18

15. The treasury indicators for borrowing activity are the Operational Boundary and the Authorised Limit for external debt.

16. The Operational Boundary is the limit beyond which external debt is not normally expected to exceed.

17. The Authorised Limit, which is a limit beyond which external debt is prohibited, needs to be set or revised by the full Council; it is a statutory duty under Section 3 of the Act and supporting regulations. Essentially the Council is required to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is 'acceptable'.

18. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements (certain leases). The Authorised Limit and operational boundary are to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

19. Another key indicator is the CFR (Capital Financing Requirement). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure which has not been funded from grants, revenue, reserves or capital receipts will increase the CFR.

20. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) reduces the balance.

21. The Council needs to ensure that its total debt does not exceed the CFR.

PRUDENTIAL AND TREASURY INDICATORS FOR 2014/15 TO 2017/18

22. Prudential Indicators (as set out in appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

CURRENT PORTFOLIO POSITION

23. The Council's debt position at 31 December 2014 comprised:

Table 1 **Debt**	31 March 2014 Principal	Rate	Maturity	30 December 2014 Principal	Rate
PWLB Loan 1	£7.5m	4.80%	2033	£7.5m	4.80%
PWLB Loan 2	£1.0m	2.02%	2016	£1.0m	2.02%
PWLB Loan 3	£1.0m	1.63%	2018	£1.0m	1.63%
PWLB Loan 4	£2.0m	0.55% (Variable Rate)	2019	£2.0m	0.56% (Variable Rate*)
PWLB Loan 5	£0m		2044	£0.9m	3.78%
PWLB Loan 6	£0m		2044	£1.8m	3.78%
Total Debt	£11.5m	3.54%		£14.2m	3.59%

* rate at 29th October (rates change every 3 months)
PWLB - Public Works Loan Board

BORROWING REQUIREMENT

24. Our long term borrowing will need to be determined by the relative merits of using alternative funding sources, including the reduction of investments, based on an assessment of market conditions as set out in the borrowing strategy below. Borrowing will not exceed the figures set out in the Prudential Indicators.

PROSPECTS FOR INTEREST RATES

25. The Council has appointed Capita Asset Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates (Appendix 2).

26. Capita Asset Services' bank base rate forecast for financial year ends (March) is:-

- 2014/15 0.50%
- 2015/16 1.00%
- 2016/17 1.50%

27. Strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), were followed by 0.7% in Q1, 0.9% in Q2 and 0.7% in Q3 2014 (annual rate 3.0% in Q3). It hopeful that growth will continue into 2015 as forward surveys for the services and construction sectors are encouraging and business investment is also more modestly recovering.

28. Also encouraging has been the sharp fall in inflation (CPI) during 2014 after being consistently above the MPC's 2% target between December 2009 and December 2013. CPI Inflation fell to 1.2% in September 2014, a five year low, whilst RPI was 2.3%. Forward indications are that inflation is likely to fall further in the first half of 2015 to possibly near to or below 1% and then to remain near to the 2% target level over the MPC's two year ahead time horizon

29. The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area may continue to hinder UK growth.

30. The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. During November, the ECB stated that if this latest programme failed to stimulate growth, then it would soon embark on full quantitative easing (purchase of sovereign debt). Current fears over Greece have seen the value of the Euro fall in the currency exchange markets.

31. This challenging and uncertain economic outlook has several key treasury management implications:

    - The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
    - Investment returns are likely to remain relatively low during 2015/16 and for a period beyond;
    - The borrowing interest rates have risen so it is necessary consider the timing of any borrowing to ensure the best deals are obtained;
    - There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

32. A detailed view of the current economic background by Capita Asset services is contained within the Treasury Management Mid Year Report.

BORROWING STRATEGY

The Council again registered for the PWLB certainty rate earlier in the year which has given a 20 basis point reduction in the average rate of borrowing. The Capita forecast for the Public Works Loan Board (PWLB) new borrowing rate is as follows:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

33. In view of the above forecast the Council's borrowing strategy will be based upon the following information.

    a. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against the potential increase in long term costs should rates be higher in future years.

    b. The use of PWLB variable rate loans for up to 10 years

    c. The use of long term fixed rate market loans should rates be below PWLB rates for the equivalent maturity period.

    d. Preference will be given to PWLB borrowing by maturity loans

    e. Rates are expected to gradually increase during next year. The Council need to be alert to opportunities particularly at the start of the year.

34. Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

a. if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered

b. if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then 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.

External versus Internal Borrowing

Comparison of gross and net debt positions at year end	2013/14	2014/15	2015/16	2016/17
	Actuals	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
External debt (gross) at 1st April	11,500	11,500	14,300	16,225
Expected change in debt	0	2,800	1,925	0
Other Long term liabilities at 1st April	0	0	0	0
Actual Gross Debt at 31st March	11,500	14,300	16,225	16,225
CFR	16,372	18,676	20,087	19,536
Under/(Over) borrowed	4,872	4,376	3,862	3,311

35. The additional new borrowing in 2014/15 results from delays to the Coastal Space project in partnership with Amicus Horizon. A new loan for a 40 year period being secured to match the agreement period with Amicus Horizon and provide greater certainty on the financial viability of the scheme – particularly in respect of the £1.8m loan to Amicus Horizon (Amicus Horizon meet the interest and principal repayments).

36. The general aim of this treasury management strategy is to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing. However to minimise longer term costs it needs to borrow when rates are a historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

37. Over the next two to three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that

value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

38. However, short term savings by avoiding new long term external borrowing in 2015/16 will also be weighed against the potential for incurring additional long term extra costs by delaying new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

39. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 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.

40. The Council is currently maintaining an under-borrowed position as identified above. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

41. Against this background caution will be adopted with the 2015/16 treasury operations.

Policy on borrowing in advance of need

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

43. In determining whether borrowing will be undertaken in advance of need the Council will:

    a. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.

    b. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

    c. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

    d. consider the merits and demerits of alternative forms of funding.

    e. consider the appropriate funding period.

    f. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the

consequent increase in exposure to counterparty risk, and the level of such risks given the controls in place to minimise them.

DEBT RESCHEDULING

44. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

45. As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

46. The reasons for any rescheduling to take place will include:

    a. the generation of cash savings and / or discounted cash flow savings,

    b. helping to fulfil the strategy outlined above

    c. enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Minimum Revenue Provision (MRP)

47. Appendix 1 of this report provides the detail on what the MRP is and the basis of the calculation. Basically, authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

48. The Council is required to make a "Prudent Provision" which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision (MRP). The MRP for 2015/16 is estimated at £514,000 (the statutory charge to revenue that remains within the accounts).

ANNUAL INVESTMENT STRATEGY

Investment Policy

49. The Council will have regard to the government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

    a. the security of capital and

    b. the liquidity of its investments.

50. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

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

52. Investment instruments identified for use in the financial year are listed in Appendix 4 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

53. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita ratings, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Creditworthiness Policy

54. This Council uses the creditworthiness service provided by Capita Asset Services. This service has been progressively enhanced over the last couple of years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

    - credit watches and credit outlooks from credit rating agencies
    - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
    - sovereign ratings to select counterparties from only the most creditworthy countries

55. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of

CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

56. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands: -

- Purple 2 years (but HBC will only invest for up to 1 year – except LAMS)
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

57. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Capita creditworthiness service does though, use ratings from all three agencies, but by using a risk based scoring system, does not give undue weighting to just one agency's ratings.

58. The Council is alerted to the changes to credit ratings of all three agencies through its use of the Capita creditworthiness service. These are monitored on a daily basis with lists updated weekly by Capita Asset Services.

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

60. The Council only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. The maximum investment in any non UK country is not to exceed £10m.

61. The Local Authority Mortgage Scheme (LAMS) – The Council is currently participating in the cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This investment is an integral part of the policy initiative and is outside the criteria above.

62. The Council transferred to Lloyds Bank on 1st December 2014, whilst the counterparty limit is set at £5 million for most institutions, the level of investments

that is held with Lloyds Bank is £5 million plus up to £500,000 short term. In addition there is £2 million invested in respect of LAMS

Investment Strategy

The table below provides a snapshot of where the investments are placed (as at 31 December 2014). The level varies daily.

Counter Party	Rate/ Return	Start Date	End Date	Principal	Term
Barclays Bank PLC	0.65%	25/04/2012		£0.001m	On Call
CBA	0.20%	22/12/2014	05/01/2015	£2.85m	
Nordea Bank	0.60%	01/10/2014	01/04/2015	£5m	
Lloyds 1	4.45%	05/01/2012	10/01/2017	£1.0m	Fixed
Lloyds 2	1.97%	26/03/2013	26/03/2018	£1.0m	Fixed
Lloyds 1 year fixed	0.95%	11/04/2014	10/04/2015	£5.0m	Fixed
Nat west	0.60%	21/08/2013		£5.0m	On call 90 day notice
Standard Chartered	0.65%	01/10/2014	01/04/2015	£5.0m	
				£ 24.85m	

The year end balance is expected to be in the region of £19m.

63. The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile (up to 1 year) and within the risk parameters set by this council.

64. For 2014/15 the Council's revised budget estimates an investment interest return of 0.75%, and in 2015/16 the return is budgeted at 0.70%.

65. For its cash flow generated balances, the Council will seek to use Business Reserve accounts, 15 and 30 day accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year investment report

66. At the end of the financial year, officers will report to Council on its investment activity as part of its Annual Treasury Report (to be presented by no later than 30 September).

Policy on use of external service providers

67. The Council uses Capita Asset Services (Sector previously) as its external treasury management advisers. There is currently value in employing external providers of treasury management services in order to acquire access to credit worthiness information and specialist advice.

68. The Council was given notice by the Co-op Bank that they will not be tendering for any new contracts. Hastings entered into a joint procurement with Eastbourne

Borough Council, Lewes District Council, Rother District Council and Wealden District Council and Lloyds bank was appointed. Hastings was one of the first authorities to switch and went live with Lloyds on 1st December 2014.

Scheme of delegation

69. Please see Appendix 8.

Role of the Section 151 Officer

70. Please see Appendix 9.

RISK MANAGEMENT

71. The strategy prioritises security of investments over return. Where investments are made they are limited in size and duration. External treasury advisers are used to advise the Council and have been used to train members. The Council has introduced further checks on credit worthiness of counterparties over the last three years as and when these have been further developed by its advisers.

72. Whilst there is no absolute security for investments made, the Council has limited its investments to the higher rated institutions, in order to mitigate the risk as far as practical and looks to reduce the risk by spreading its investment portfolio. The Council has adopted the CIPFA Code of Practice.

ECONOMIC/FINANCIAL IMPLICATIONS

73. The Council generally has investments in the year of between £15m and £28m at any one time, and is estimated to have longer term borrowings of £19m by the end of March 2015. Management of its investments, borrowing and cash flow remains crucial to the proper and effective management of the Council. The Strategies and Policies detailed in the report directly influence the Council's Medium Term Financial Strategy and the annual budget.

ORGANISATIONAL CONSEQUENCES

74. The Cabinet is responsible for the development and review of the Treasury Management Strategy, The Minimum Revenue Provision (MRP) Policy and the Investment Strategy. The Audit Committee is responsible for scrutinising these strategies, policies and performance throughout the year. Full Council, as the budget setting body, remains responsible for the approval of the Treasury Management Strategy, MRP Policy, and Investment Strategy.

75. Monitoring reports will be produced and will be presented to Cabinet and the Audit Committee. A mid year report is presented to full Council on any concerns arising since approving the initial strategies and policies. Only full Council will be able to amend the Treasury Management Strategy, MRP Policy or Investment Strategy. The Chief Finance Officer will determine the Treasury Management Practices and associated schedules.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No

Background Information

Supporting Documents
APPENDICES
1. MRP Introduction and Policy Statement
2. Interest Rate Forecasts
3. Prudential and Treasury indicators
4. Specified and non specified investments
5. Approved countries for investments
6. Treasury Management Policy Statement
7. Purpose and requirements of the code
8. Treasury management scheme of delegation
9. The treasury management role of the section 151 officer

Other Supporting Documents:-
CIPFA - Treasury Management Code of Practice (Revised 2011)
CIPFA - The Prudential Code (Revised second edition 2011)

Officer to Contact

Peter Grace
pgrace@hastings.gov.uk
01424 451503

APPENDIX 1

Minimum Revenue Provision – An Introduction

1. What is a Minimum Revenue Provision?
Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore 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 Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty
Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance
Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -
Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
equal instalment method – equal annual instalments,
annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Minimum Revenue Provision Policy Statement 2015/16

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 , and will assess the MRP for 2015/16 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A major proportion of the MRP for 2015/16 relates to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2015 will under delegated powers be subject to MRP under option 3, which will be charged over

a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council participates in LAMS using the cash backed option. The mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

Repayments included in finance leases are applied as MRP. It should also be noted that the Council will not make any MRP in regards of the loans to Amicus Horizon in respect of the Coastal Space scheme. Amicus Horizon will meet the costs of the loan (Principal and Interest).

APPENDIX 2 Interest Rate Forecasts

The data below shows Sectors forecast

Capita Asset Services Interest rate forecast - 2014-2018

Capita Asset Services Interest Rate View														
	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
3 Month LIBID	0.50%	0.60%	0.80%	0.90%	1.10%	1.30%	1.40%	1.60%	1.90%	2.10%	2.10%	2.30%	2.40%	2.60%
6 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.80%
12 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.70%	1.80%	2.10%	2.20%	2.30%	2.40%	2.60%	2.80%	3.00%
5yr PWLB Rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB Rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB Rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB Rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
Bank Rate														
Capita Asset Ser	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.25%	2.25%	2.50%
Capital Economic	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Ser	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economic	2.30%	2.60%	2.80%	3.00%	3.20%	3.40%	3.50%	3.60%	3.70%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Ser	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.40%	4.40%	4.40%
Capital Economic	3.05%	3.25%	3.45%	3.60%	3.80%	3.85%	3.90%	3.95%	4.05%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Ser	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	5.00%	5.00%	5.00%
Capital Economic	3.70%	3.95%	4.05%	4.15%	4.25%	4.35%	4.45%	4.55%	4.60%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Ser	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	5.00%	5.00%	5.00%
Capital Economic	3.80%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	-	-	-	-	-

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

APPENDIX 3 Prudential Indicators

PRUDENTIAL INDICATOR	2013/14	2014/15	2015/16	2016/17	2017/18
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£20,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£10,000	£10,000	£10,000	£10,000	£10,000
TOTAL	£30,000	£30,000	£30,000	£30,000	£30,000
Operational Boundary for external debt -					
borrowing	£20,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£10,000	£10,000	£10,000	£10,000	£10,000
TOTAL	£30,000	£30,000	£30,000	£30,000	£30,000
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments OR:-	100 %	100 %	100 %	100 %	100 %
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments OR:-	100 %	100 %	100%	100%	100%
Upper limit for total principal sums invested/deposited for over 364 days e.g.LAMS Scheme, Coastal Space	£5,620	£5,620	£6,000	£6,000	£6,000

Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 4 Specified and Non-Specified Investments

Specified Investments:

The idea of specified investments is to identify investments offering high security and high liquidity. All these investments should be in sterling and with a maturity of less than one year.

Schedule A

	Security / Minimum Credit Rating	Maximum Maturity Period
Local authorities	N/A	1 year
DMADF – UK Government	N/A	1 year
Money market funds	AAA	Liquid
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
Certificates of deposits (CDs) issued by credit rated deposit takers (banks and building societies)	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
UK Government Gilts	UK sovereign rating	364days
UK Government Treasury Bills	UK sovereign rating	364days

Non-Specified Investments

These are any investments which do not meet the specified investment criteria. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a “high” credit rating. As far as this Council is concerned the risks are in relation to the value of the investments, which may rise or fall, rather than deficient credit rating. There is no intention to invest in Non- Specified Investments without taking specialist advice first.

Schedule B

Investment	Security / Minimum credit rating	(A) Why use it? (B) Associated risks
UK Government Gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	Government backed	(A) (i) Excellent credit quality. (ii) Very liquid. (iii) if held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk. (B) (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.

APPENDIX 5 Approved Countries for Investments

Countries that meet our criteria 1, 2, 3:-

1. AAA rated

   Australia
   Canada
   Denmark
   Finland
   Germany
   Luxembourg
   Norway
   Singapore
   Sweden
   Switzerland
   U.S.A.
   Netherlands

2. AA+

   Hong Kong
   U.K.

3. AA
   Abu Dhabi (UAE)
   France
   Belgium
   Saudi Arabia

Examples of countries that do not meet our criteria :-

Japan
Kuwait
Spain
Italy
Qatar

APPENDIX 6 Treasury Management Policy Statement

The Council defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

The Council 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.

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.”

APPENDIX 7 Purpose and requirements of the code

The primary requirements of the Code are as follows:

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

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

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

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

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

APPENDIX 8 Treasury Management Scheme of Delegation

(i) Full Council

1.Approval of the Treasury Management Strategy - prior to the new financial year
2.Approval of the Investment Strategy - prior to the new financial year
3.Approval of the MRP Policy - prior to the start of the new financial year
4.Approval of any amendments required to the Strategy during the year
5.Receipt of a Mid year report on the Treasury Management Strategy, to include consideration of any recommendations of the Cabinet or Audit Committee arising from any concerns since the original approval.

(ii) Cabinet

1. Developing and determining the Treasury Management strategy, Investment Strategy and MRP policy and recommending them to full Council - prior to the start of the new financial year
2. Receipt of a Mid year report on the Treasury Management Strategy and any concerns since the original approval and making recommendations to Council as appropriate.
2. Receiving, and reviewing reports on treasury management policies, practices, activities, and performance reports (based on quarterly reporting).
.

(iii) Audit Committee

1. Scrutinising the Council's Treasury Management Strategy, Investment Strategy and MRP policy, Treasury Management Policy Statement and Treasury Management Practices and making recommendations to Cabinet and Council as appropriate.
2. Receiving and reviewing monitoring reports (based on quarterly reporting) and making recommendations as appropriate.

APPENDIX 9 The Treasury Management Role of the Section 151 Officer

Head of Finance (S151 Officer)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy 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 providers.

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Agenda Item 9

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 January 2015

Report Title: Update on Counter-fraud bid outcomes and steps taken to mitigate non-benefit fraud

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee on the results of the 2 counter-fraud bids.

Recommendation(s)

1. **To note the report.**

Reasons for Recommendations

As reported to the September 2014 Audit Committee, Hastings Borough Council's Housing and Council Tax Benefit Investigations Service transferred across to the Department for Work and Pensions Single Fraud Investigation Service (DWP SFIS) on 1 November 2014. At the time of that meeting, Hastings Borough Council was involved in 2 bids for counter-fraud funding and was waiting to learn the outcome of those applications. It was agreed at the September meeting that a report would be brought back to the committee on the results.

Both bids were successful. In addition, the Governement has announced a further fund, Fraud and Error Reduction Incentive Scheme (FERIS) available to assist councils to combat fraud and error. This is subject to successful bid application.

Introduction

1. Hastings Borough Council is named on 2 successful counter fraud fund bids confirmed in Sir Bob Kerslake's November newsletter. These are 'Fighting Fraud in East Sussex' led by Eastbourne Borough Council and the 'Council Tax Reduction Review Service (CTRRS)' led by Pendle Borough Council. The amounts awarded over 2 years were £365,000 and £1,181,000 respectively.

Fighting Fraud in East Sussex Bid

2. The partners in this bid were; East Sussex County Council, Eastbourne Borough Council, Hastings Borough Council, Lewes District Council, Rother District Council and Wealden District Council.

3. The objectives of the partnership are to:

   Establish and develop a co-ordinated approach to fighting fraud locally

   Build local capacity to detect and prevent fraud

   Focus on identified vulnerable areas

4. The partnership is looking to target investigation in East Sussex in the following areas:

   Council Tax discounts

   Non-Domestic Rates

   Social Housing

   Right to Buy

   Procurement

   Insurance

   Economic and third sector

   Blue badge abuse

   Internal fraud

5. Governance arrangements for the fraud partnership hub are still being determined. Hastings Borough Council's requirement is for access to sufficient resources where it needs to perform an investigation in to non-benefit fraud, for example, Council Tax Reduction, to the Criminal Procedure and Investigations Act (CPIA) 1996 standard.

6. Hastings Borough Council expects to benefit from occasional training and fraud awareness campaigns organised by the 'Fraud Hub'.

7. Details of the Fighting Fraud in East Sussex bid can be found at appendix A.

Council Tax Reduction Review Service (CTRRS)

8. This project is a partnership consortium between 13 local authority members and 2 private sector suppliers. The bid was put together following a group of Council Tax managers getting together and was led by Pendle Borough Council.

9. The key objective is to protect the public purse by targeting fraud and error within the Council Tax Reduction caseloads of local authorities by applying sophisticated data matching and analytics.

10. The proposed outcomes include:

    Significantly reducing the levels of fraud and error in Council Tax Reduction schemes

    Ensuring the vulnerable are protected

    Applying risk based targeting of interventions

11. Details of the Council Tax Reduction Review Service bid can be found at appendix B.

Fraud and Error Reduction Incentive Scheme (FERIS)

12. FERIS is an incentive scheme that offers a financial reward to local authorities that find reductions to Housing Benefit entitlement as a result of claimant error or fraud. FERIS will run from 1December 2014 to 31 March 2016. You will need to opt into the scheme in order to qualify for FERIS payment. However it is for each local authority to decide how best they can identify additional changes to entitlements resulting from fraud and error. Up to £12 million is being made available to local authorities in incentive payments for 2014/15. The level of payment for 2015/16 will be confirmed at a later date.

13. The Department for Work and Pensions are also pleased to announce that up to £9 million of Performance Improvement Funding is being made available for local authorities to bid for in order to support them with this activity.

14. Councils have been invited to apply for funding by 30 January 2015.

Summary

15. As a result of the 2 known bid outcomes, Hastings Borough Council should begin to receive smart referrals for non-benefit fraud and have the facility to further investigate them.

16. If we are successful with a bid for FERIS funding, this will assist with driving down Housing Benefit claimant error or fraud. Hastings Borough Council has arrangements in place with a Single Point of Contact based in Rother District Council for Housing Benefit referrals and the Department for Work and Pensions Single Fraud Investigation Service.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

Background Information

Appendix A - Fighting Fraud in East Sussex bid
Appendix B - Council Tax Reduction Review Service bid
HB Circular A17/2014: Fraud and Error Reduction Incentive Scheme - Guide for Local Authorities

Officer to Contact

Tom Davies
tdavies@hastings.gov.uk
Telephone: 01424 451524

Counter fraud fund

Application form

Supporting local authorities to boost their capability and capacity in tackling non-benefit fraud.

This form should be submitted to fola@communities.gsi.gov.uk no later than **5pm on 5 September 2014.** Any queries about the fund should also be submitted to this address.

Section A: Applicant contact information

Principal local authority name/name of bidding organisation:	Eastbourne Borough Council
Name of Contact(s):	Louise Powell
Position in authority:	Fraud Investigations Manager
Telephone number(s) of the contact(s):	01323 415340
Email address of the contact(s):	louise.powell@eastbourne.gcsx.gov.uk

Section B: Eligibility criteria

Please complete as appropriate:

The bid is from an English principal local authority	YES
All expenditure will be spent on counter fraud activities	YES
The bid is not dependent on a separate Counter Fraud Fund bid	YES
The bidding authority agrees to provide relevant project progress monitoring information to DCLG	YES
The proposal has been signed off by the relevant Section 151 officer and this proposal is accompanied by evidence to support this.	YES
The bid demonstrates that funding will support additional outcomes and/or service improvements.	YES

Section C: Project description

Short project title: Please give the bid a short name, unique to any other counter fraud fund bids involving your organisation.

Fighting Fraud in East Sussex

Short Project Description (75 words maximum): Please give the bid a short description, outlining the key objectives and proposed outcomes of the proposal.

An East Sussex wide partnership of District, Borough & County Councils with private sector partners. The objectives of the project are to:

- establish and develop a coordinated approach to fighting fraud locally;
- build local capacity to detect and prevent fraud;
- focus on identified vulnerable areas.

This innovative project will deliver the following outcomes:

- concrete measurable savings
- sophisticated data collection and analysis;
- data-sharing across and beyond the partnership;
- a self-supporting partnership by 2016.

Project Summary (500 words maximum): Please provide a brief description outlining the rationale for the project, the key elements of the scheme planned and how the counter fraud fund funding will be used. You should demonstrate how the funding will be used to achieve additional outcomes and/or service improvements.

Historically, the focus of dedicated fraud teams in District and Borough Councils across East Sussex has been on benefit fraud. There has been limited capacity to address non-benefit fraud and this has largely been carried out by Internal Audit teams and has included National Fraud Initiative activities. With the advent of SFIS there is now an opportunity to:

- build a coherent partnership across the county, including the County Council and neighbouring authorities;
- develop a shared, standardised approach to tackling fraud;
- build closer working relations with other bodies, (e.g. the Police), other authorities and other partnerships across Sussex.

This will enable:

- better data analysis and data sharing across all the partners;

- greater synergy and coordinated action to initially detect but ultimately prevent and deter fraud in East Sussex.

The partnership is expected to evolve over a period of some 2 years to become self sufficient, offering services across the county and developing links with other public and private sector partners. Support from the Counter Fraud Fund would bolster the initial impetus to establish the partnership and help ensure its growth.

Evidence from 'Protecting the Public Purse 2013' would indicate there is scope to target investigation in East Sussex on the following areas:

- Council Tax discounts;
- NNDR;
- social housing;
- right to buy;
- procurement;
- insurance;
- economic and third sector;
- blue badge;
- internal fraud.

In addition to recovery of incorrect payments and levying of fines and penalties investigations would help improve data on the actual level of existing fraud and enhance understanding and assessment of risk. It would also assist development of appropriate counter fraud strategies, future action plans and enable better fraud proofing of other policies and strategies.

The existing fraud teams across East Sussex have a strong record of tackling fraud. Eastbourne Borough Council was awarded IRRV Excellence in Anti-Fraud in 2012. Authorities are also part of the Sussex Tenancy Fraud Forum and play an active part in LAIOG.

The project will:

- establish a hub drawing on the extant fraud teams in each of the partner authorities to share data and develop a joint work programme;
- develop a comprehensive training programme to ensure appropriate expertise in new areas of work and leading to professional accreditation where not already held;
- share software and hardware to enhance data analysis and data sharing;
- develop a joint communication and publicity strategy, including internal and external fraud awareness campaigns;
- establish links with other potential partners across the county and build on the work of the Sussex Tenancy Fraud Forum.

Funding would:

- provide a dedicated coordinator develop the work of the hub;
- purchase appropriate software and hardware to enhance data analytics;
- support relevant training needs;
- enable development of communication and publicity strategies;
- support networking events with, e.g. social landlords, housing associations and voluntary organisations.

Support would provide additional resources to enhance the capacity of the hub to develop and enable effective delivery of services to tackle fraud across East Sussex. It would demonstrate commitment to increasing capabilities at District and Borough level to address fraud.

Grant Requirement: Please state the total amount you are bidding for from the counter fraud fund.

2014/15: £135,500
2015/16: £231,500
Total grant sought: £365,000

Bidding partners: Please describe details of any proposed partnership arrangements, detailing the number and name of partners including any local authority matched funding and/or funding from other public or private sector organisations. If this proposal has been submitted on a single authority basis, please detail why it has not been possible to form a partnership, or provide an explanation as to why partnership working would not be appropriate.

Partners are:
East Sussex County Council
Eastbourne Borough Council
Hastings Borough Council
Lewes District Council
Rother District Council
Wealden District Council

The partnership will initially be based upon working together as a hub to share information and deliver an agreed work programme. The hub would be coordinated on behalf of the partners with resources within Eastbourne Borough Council. This relationship will be developed as required to become a more formal agreement with appropriate governance arrangements as necessary. The hub will also work closely with Housing Partners and utilise their 'Who's Home' data matching module.

Other bids: If you are submitting other bids for counter fraud fund funding, please list all other bids specifying the name of the bid, lead bidding organisation, and the partnership arrangements of the bid.

None.

Section D: Financial savings and wider benefits

Your bid should provide reasonable estimates as to how the funds will result in financial savings that are at least equivalent to the funding requested.

Expenditure

Please use this box to detail the funding requested and how the funding will spent. Proposals should work on the basis of approximately one third of the total funding to be allocated in 2014/15 with the remaining two thirds in 2015/16. Additional rows can be added as necessary.

Description of expenditure	2014/15 Funding requested (£)	2015/16 Funding requested (£)	Total funding requested
Training	4,000	8,000	12,000
Software	12,500	75,000	87,500
Hardware (ID scanner)	12,000	5,500	17,500
Staffing costs (coordinator and other officer time)	20,000	50,000	70,000
Fraud Awareness campaigns	5,000	10,000	15,000
Networking events	1,000	2,000	3,000
Development of 'Who's Home' data matching module	81,000	81,000	162,000
Total funding requested	135,500	231,500	365,000
Matched Funding (if applicable)			

Please use the box below provide:

- an explanation of why you believe the costs to be reasonable, and confirmation that all costs associated with the project have been identified;
- that financial risks have been identified and mitigation plans are in place (a risk register can be attached);
- the nature and agreement on governance arrangements and project management arrangements, necessary to take forward this project.

Training costs are based on group rates on established courses provided by ITS. Staffing costs are based on employment costs for Eastbourne Borough Council of one 0.5 FTE coordinator post together with other lead officer time across the partners. Development of 'Who's Home' is based on estimates of potential costs from 'Housing Partners' for development of a programme to tackle tenancy fraud for each partner authority. These costs are based on a percentage of the stock held by each authority broken down as follows:

- Lewes, General Needs Stock level = 2,871. Cost = £25,839
- Eastbourne, General Needs Stock level = 3,132. Cost = £28,188
- Wealden, General Needs Stock level = 3,019. Cost = £27,171

Other costs are estimates, including estimated software costs for data investigation toolkits. Other day to day costs (e.g. travel, stationery, IT, printing) will be met from the existing budgets in each authority for the running of their fraud teams. Costs identified relate to running costs for establishment and operation of the hub. The main risks would be that expenditure is not incurred, or that awareness campaigns do not result in a reduction in fraud.

The initial work of the hub and for the period of funding will be run as a project with the coordinator acting as project manager. Reporting mechanisms will be through the lead authority's own governance arrangements. It is expected that the hub will develop into a more formal partnership with appropriate governance arrangements put in place in due course.

Matched funding

If this proposal is to be supported by matched funding, please detail the amount and source of the matched funding in the table below, including the level of organisational and financial commitment and any dependencies.

Work of the hub will be supported by the staff engaged in fraud investigations in each authority. It is difficult to attribute a precise cost to this but is likely to involve the engagement of some 6 FTE members of staff. In addition other resources and accommodation costs will be provided by the partners in support of the hub.

Estimated savings

Please use this box to identify the financial savings that will result from the funding. The savings identified below must be additional to those that would be realised through those counter fraud activities currently planned. Additional rows and columns can be added as necessary.

Description of financial saving	**Estimated financial saving (£,000)**				
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Reduction in procurement fraud	100	300	200	200	50
Social Housing tenancy fraud	100	400	300	300	200
Right to Buy fraud	75	150	75	75	75
Council Tax Reduction fraud	50	100	75	75	50
Council Tax Discounts fraud	50	100	75	75	50
NNDR fraud	50	100	75	75	50
Grant fraud	5	10	7	7	5
Blue Badge	10	20	15	15	10
Total financial savings	440	1,180	822	822	490

Please use the box below to provide reasonable estimates of how the estimated financial savings have been calculated, including any evidence to support your estimates.

Savings estimates have been based on Table 3 in Protecting the Public Purse 2013 – 'Estimated annual loss to fraud in local government'. Percentage levels of fraud listed in that table have been applied to caseload and/or expenditure across all authorities in the partnership for each of the areas above. When relevant, lower percentage estimates have been used to avoid overstatement of potential savings (for example, for council tax discounts a figure of 1% has been used instead of the 4% cited by the Audit Commission). Based on these estimates assumptions have then been made about likely levels of savings which result in the figures included in the table above. It has been presumed that savings will gradually increase over years 1 & 2 as the work of the hub takes off and then reduce for later years as a consequence of the deterrent effect.

Wider benefits

If this proposal seeks to achieve wider benefits, for example reducing the social costs that result from types of fraudulent activity, these should be documented and quantified as far as possible.

It is anticipated that the establishment of county wide fraud investigation will have a deterrent effect and serve to reduce levels of fraud more generally. Due to absence of data it is not yet possible to quantify such impacts but the work of the hub would

generate these data. There would also be beneficial effects to general perceptions of tax payers by seeing their councils taking a pro-active approach to fraud.

Intelligence gathering and sharing across authorities and other partners will generate synergies and enable greater expansion across the region.

Section E: Sustainability

Please provide evidence (up to 250 words) of how the funding requested will result in financial savings, and any wider benefits, beyond the funding period.

Funding will provide an impetus to establishment of an East Sussex wide hub. Subsequent development of that hub will lead to closer working ties across partner authorities and other partner organisations. The intention of the partners at this juncture is that this will evolve into a self supporting partnership providing links into other initiatives such as the CIPFA Counter Fraud Centre. This will generate efficiencies through a standardised approach and enhanced data analysis to provide a robust counter fraud strategy for East Sussex. It is expected that such a partnership will be proven and established by the end of the funding in April 2016. At the very least, the establishment of a shared data hub would in itself generate efficiencies.

Section F: Innovation

Please provide an assessment (up to 250 words) on the level of innovation in the proposal and how this approach could be transferred to other local authorities and partnerships.

A shared approach to fraud across District, Borough and County Councils is itself an innovative approach in the region. The large, rural areas involved, particularly Lewes, Rother and Wealden, would also provide an unusual case study of the nature and extent of fraud in such rural areas, highlighting any peculiarities involved. This would help enhance data sources beyond an urban and metropolitan focus and enable more sophisticated analysis that would have relevance for other authorities in developing appropriate counter fraud strategies. The coastal authorities will also generate insight into transient populations, issues around HMO's, bed and breakfast and student accommodation that would have relevance for other areas. The mix of the two types of authority would provide enhanced specialised knowledge with the potential for wider application and lesson sharing. In addition, the initial work programme of the hub is expected to investigate potential fraud in IER and taxi escort. So far as we are aware these would be new areas of investigation that may generate lessons for others in tackling and preventing such fraud. Development of the partnership would also provide a valuable template for other authorities and a toolkit would be developed and made available through the partner's websites.

Section G: Procurement Strategy

Where applicable, please outline any procurement strategy including evidence of compliance with European Procurement Rules as relevant.

Not applicable

Section H: Other Information

Please use this section to provide any additional information that you think the assessors may require to evaluate your bid. Please limit your comments to no more than 250 words (Arial font, size 12).

The intention of the hub is to expand and include other partners from the public and private sector leading to a more effective, coherent and shared approach to tackling fraud. In addition to the local authority partners listed the intention is that work will be taken forward with 'Housing Partners' from the outset with gradual expansion to others.

Disclaimer
There shall be no expectation of grant until authorities have been formally notified in writing by the department. All the Applicant's costs and charges incurred as a result of making this application shall be for the applicant's account and cannot be claimed as part of the project.

The Data Protection Act: Freedom of Information Act 2000

The Department for Communities and Local Government undertakes to use its best endeavours to hold confidential any information provided in any application form submitted, subject to our contracting obligations under law, including the Freedom of Information Act 2000. If you consider that any of the information submitted in the application form should not be disclosed because of its sensitivity then this should be stated with the reason for considering it sensitive. The department will then consult with you in considering any request received under the Freedom of Information Act 2000 before replying to such a request.

Applicants should be aware that the following conditions will also apply to all bid applications:

- We may use your information for the purposes of research and statistical analysis and may share anonymised information with other government departments, agencies or third parties for research and statistical analysis and reporting purposes.
- Our policies and procedures in relation to the application and evaluation of grants are subject to audit and review by both internal and external auditors. Your information may be subject to such audit and review.
- We propose to include light touch monitoring by the department utilising publicly available information. We would encourage applicants to regularly publicise progress on their websites and disseminate good practice.
- The department will publish summaries of all successful bids.

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Counter fraud fund

Application form

Supporting local authorities to boost their capability and capacity in tackling non-benefit fraud.

This form should be submitted to fola@communities.gsi.gov.uk no later than **5pm on 5 September 2014.** Any queries about the fund should also be submitted to this address.

Section A: Applicant contact information

Principal local authority name/name of bidding organisation:	Pendle Borough Council
Name of Contact(s):	Dean Langton
Position in authority:	Head of Central and Regeneration Service
Telephone number(s) of the contact(s):	Tel: 01282 661866 Mob: 07894 937351
Email address of the contact(s):	dean.langton@pendle.gov.uk

Section B: Eligibility criteria

Please complete as appropriate:

The bid is from an English principal local authority	YES
All expenditure will be spent on counter fraud activities	YES
The bid is not dependent on a separate Counter Fraud Fund bid	NO
The bidding authority agrees to provide relevant project progress monitoring information to DCLG	YES
The proposal has been signed off by the relevant Section 151 officer and this proposal is accompanied by evidence to support this.	YES
The bid demonstrates that funding will support additional outcomes and/or service improvements.	YES

Section C: Project description

Short project title: Please give the bid a short name, unique to any other counter fraud fund bids involving your organisation.

Council Tax Reduction Review Service (CTRRS)

Short Project Description (75 words maximum): Please give the bid a short description, outlining the key objectives and proposed outcomes of the proposal.

The project is a partnership consortium between 13 LA members and 2 private sector suppliers.

The key objective is to protect the public purse by targeting fraud and error within the Council Tax Reduction (CTR) caseloads of Local Authorities by applying sophisticated data matching and analytics.

The proposed outcomes include:

- Significantly reducing the levels of fraud and error in CTR
- Ensuring the vulnerable are protected
- Applying risk based targeting of interventions
- Scalability beyond the consortium

Project Summary (500 words maximum): Please provide a brief description outlining the rationale for the project, the key elements of the scheme planned and how the counter fraud fund funding will be used. You should demonstrate how the funding will be used to achieve additional outcomes and/or service improvements.

The **key rationale** is to ensure Consortium Members provide a CTR scheme that meets local needs whilst:

- Protecting the public purse
- Ensuring fraud and error is minimised
- Reinforcing requirements to report all change of circumstances in a timely manner
- Maximising assistance for those who are vulnerable
- Deterring the future growth of fraud and error

There are **four key elements** to this project.

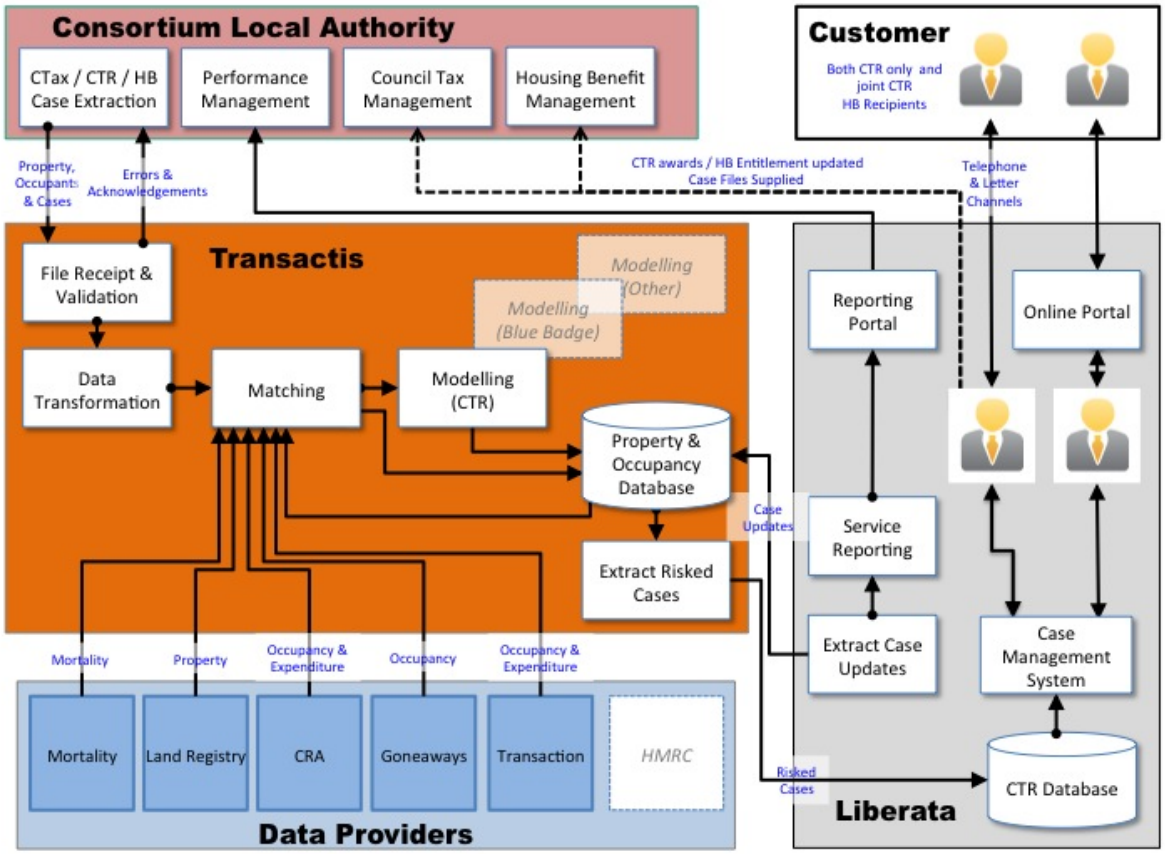
1. The Consortium will provide Transactis with property, occupancy and CTR award data on a scheduled basis. Transactis will utilise their proprietary Datahealth matching engine to identify and assign unique match keys to individuals, households and addresses by combining third party and open data sources with Consortium members' data. This generates a Property and Occupancy Database of enhanced Consortium data

2. Transactis will develop a risk model that profiles each award to calculate a risk score, which reflects the entitlement criteria of the Consortium members. These risk scores will be validated using sample data to ensure the strength of the risk calculation. The scores will be banded into Red, Amber, and Green with control groups established to verify the effectiveness of the model. The risked cases will be supplied to Liberata's Capacity GRID for investigation and review.

3. Capacity GRID will initiate a review of the selected cases either via a bespoke portal (where an Electronic Communications Order exists) or via a paper based form. All correspondence will be individually tailored, informed by the confidence of the data provided through the Transactis modelling. Capacity GRID will handle the entire review process including enquiries, evidence and updating the LAs processing systems. This will include relevant amendments to CTR, Housing Benefit and providing information to adjust Council Tax Discounts and Exemptions. Intervention outcome data will be provided to Transactis, providing a continual source of fresh data to improve the effectiveness of the risk model.

4. Capacity GRID will provide activity, benefits and trend reporting functionality to all Consortium members through their Customer Portal. This will also provide the means to provide up-to-date progress reports to the Department on all areas of the project.

The diagram below highlights these key elements:



The **funding will be used** to develop each of the required component parts, including:

- Development and enhancement of analytic models to prioritise accounts for review
- Secure data processing and matching of third party and Consortium data to identify CTR error and fraud
- Workflow and reporting capabilities to support the efficient processing of CTR award reviews
- Experienced, skilled team conducting CTR award reviews for the Consortium
- Scalable service that additional Authorities can easily join

Additional outcomes and **service improvements** include:

- Accurate CTR awards allowing Authorities more confidence and control over their financial spend in this area.
- Opportunity to identify individuals with occupancies, and potentially awards, in multiple Authorities
- Increased revenue for the Authorities
- Enablement of informed adjustments to the design of future CTR schemes
- Opportunity to identify and remove other areas of LA fraud using the data held within the Property and Occupancy Database (POD)

Grant Requirement: Please state the total amount you are bidding for from the counter fraud fund.

2014/15: £393,000
2015/16: £788,000
Total grant sought: £1,181,000

Bidding partners: Please describe details of any proposed partnership arrangements, detailing the number and name of partners including any local authority matched funding and/or funding from other public or private sector organisations. If this proposal has been submitted on a single authority basis, please detail why it has not been possible to form a partnership, or provide an explanation as to why partnership working would not be appropriate.

The project is a partnership consortium between 13 LA members and 2 private sector suppliers as detailed below:

Local Authorities:

- Pendle Borough Council (Lead Authority)
- London Borough of Bromley
- London Borough of Hounslow
- London Borough of Hillingdon
- Hastings Borough Council
- Lewes District Council
- North Somerset Council
- Northumberland County Council
- Pembrokeshire County Council
- West Dunbartonshire Council
- Rother District Council
- Bracknell Forest Borough Council
- Eastbourne Borough council

Private sector:

- Liberata UK Ltd (Capacity GRID)
- Transactis

The Consortium has been developed as a result of existing relationships through Liberata's Capacity GRID, which provides services and products for the public sector. We were keen to develop a partnership that would demonstrate the value of our solution across all types of Local Authorities. The Consortium members therefore broadly represent a type, size and geographical mix of Authorities.

Our private sector partners, Capacity GRID and Transactis have committed to providing matched funding. They have agreed to forgo some of the development and implementation costs which will be incurred as well as making available existing infrastructures and systems free of charge to the Consortium. These include, for each organisation:

Liberata's Capacity GRID

- Utilisation of extensive experience in the development of public sector solutions and services
- Utilisation of the existing Capacity GRID infrastructure and systems to facilitate the management and delivery of the review service
- Leveraging the exiting Capacity GRID Shared Services Network to provide scale and resilience across the service, in particular the ability to manage peaks and troughs in work
- Utilisation of the Customer Portal to provide tracking and reporting capabilities
- The provision of K-Hub as a resource to share and exchange information across the Consortium
- Governance of the project, including attendance at relevant meetings
- Investment in the further development of the solution both in terms of improvements to the CTR service and the incremental expansion into new areas, such as blue badges and NNDR and opportunities created by the development of the Syndicated Property and Occupancy Database
- Development of a `payment by results` solution based upon the results and outcomes of the projects that will allow the members of the Consortium to continue to benefit from the service beyond the end of the funding period should they so wish.

Capacity GRID is part of the Liberata group providing flexible products and services to meet the specific requirements of public sector customers. They have a proven track record, with partnerships with over 150 Local Authorities in Scotland, England and Wales.

Transactis

- Utilisation of the Transactis award winning DataHealth™ matching engine
- Leverage Transactis in-house IBM Analytics platform and knowledge to create bespoke CTR models and scoring
- Utilising extensive experience of public sector data quality, matching rules and patterns of fraud and error
- Aggregation of 'best in class' data on up to date income, residence, household composition, assets, expenditure, contactability and identity

• Governance of the project, including attendance at relevant meetings Transactis are a Small to Medium Enterprise (SME) specialising in the processing, matching and modelling of individual data for public and commercial sectors, with extensive experience of hosting and handling citizen data in a highly secure environment. Clients include HMRC, Cabinet Office, Big Lottery, Student Loans Company."

Other bids: If you are submitting other bids for counter fraud fund funding, please list all other bids specifying the name of the bid, lead bidding organisation, and the partnership arrangements of the bid.

LB of Hounslow is submitting a joint bid with LB Ealing
Bracknell Forest is submitting a joint bid with Reading
Lewes, Hastings and Eastbourne are part of an East Sussex joint bid
North Somerset is submitting a single authority bid for which they are the lead

Section D: Financial savings and wider benefits

Your bid should provide reasonable estimates as to how the funds will result in financial savings that are at least equivalent to the funding requested.

Expenditure

Please use this box to detail the funding requested and how the funding will spent. Proposals should work on the basis of approximately one third of the total funding to be allocated in 2014/15 with the remaining two thirds in 2015/16. Additional rows can be added as necessary.

We have provided details of the funding requested below. We are able to provide a more detailed breakdown of these costs should they be required.

Description of expenditure	2014/15 Funding requested (£)	2015/16 Funding requested (£)	Total funding requested
Setup and development – data analytics platform, creation of a	£231,000	£0	£231,000

Syndicated Property and Occupancy Database, CTR models and scorings and data testing			
Set-up and development of the workflow system – system scripts, document templates, workflows, work segmentation and routing and activity reporting	£96,000	£0	£96,000
Set-up and development of the reporting and governance system – outcome reporting, access to Portal and project management	£30,000	£0	£30,000
Operational implementation – connectivity, user acceptance testing, telephony, mail set-up, training and procedures	£54,000	£0	£54,000
Data costs (third party)	£40,000	£118,000	£158,000
Service Delivery – data management, analytics and modelling	£32,000	£116,000	£148,000
Service Delivery – resources required to undertake the reviews including mail handling, processing and contact centre (6 FTE), print and mail, account management and support	£148,000	£316,000	£464,000
Total funding requested	**£631,000**	**£550,000**	**£1,181,000**
Matched Funding (from LA's)	£0	£0	£0
Funding from Private Sector Partners	£315,000	£100,000	£415,000

The nature of the project is such that a relatively high proportion of the expenditure will be incurred within the first 5 months of the project. We are aware that the Department is likely to award one third of the funding in 2014/15 and two thirds in 2015/16. We do not wish to delay the start of the project and the subsequent savings due to the profile and timing of the funding awards. Therefore Capacity GRID and Transactis have agreed to defer payment for the proportion of the year one costs that will not be covered by funding due to the way in which the payments will be apportioned. They will defer payment until early year 2 and will meet the cost of the cash flow impact on their business though this has not been accounted for within the Matched Funding calculations.

On the basis that the funding will allocated as described (one third 2014/15 and two thirds 2015/16), our funding requested on this profile is shown below:

Total funding requested	**£393,000**	**£788,000**	**£1,181,000**

Please use the box below to provide:

- an explanation of why you believe the costs to be reasonable, and confirmation that all costs associated with the project have been identified;
- that financial risks have been identified and mitigation plans are in place (a risk register can be attached);
- the nature and agreement on governance arrangements and project management arrangements, necessary to take forward this project.

The Consortium is confident that all costs associated with the development, implementation and delivery of the project have been identified. The costs have been established with both Liberata's Capacity GRID and Transactis and have been through several challenges and iterations.

The costs of the project have been based upon the significant experience of Capacity GRID and Transactis in the development and delivery of similar services including for example, Single Person Discount Reviews servicing over 20 Councils per year, New Homes Bonus Reviews servicing over 75 Councils per year and the HMRC EFAC project, dealing with Fraud and Error in Tax Credits.

In order to further validate both the costs and potential benefits of the project, we are running a pilot using Pendle's data. This work to date has helped us to qualify the processes, costs, benefits and timescales for the project.

Transactis have undertaken a pilot analysis of Pendle data using an extract from the Revenues & Benefits database and a range of 3rd party data sources. The analysis has identified the following cases where discrepancies between Authority data and the 3rd party data sources indicate that there is a risk of error or fraud:

Category	Cases	Description
CTR plus CTR/HB	10,529	
Multi-occupancy	536	Multiple individuals resident at an address in receipt of CTR
Mortality	13	Individuals in receipt of CTR where there is a high confidence they are deceased
Goneaways	50	Individuals in receipt of CTR no longer resident at the address and known to be resident elsewhere
Multiple claims	320	Individuals with multiple instances of CTR
Modelled income	485	Individuals whose apparent income exceeds that which would entitle them to CTR

Capacity GRID are investigating these to establish those that require intervention to help refine the selection criteria

We have also identified a significant number of cases where there is apparent

change of circumstances. Further work is being undertaken to establish clear criteria for those that are not related to operational practice.

We expect this initial pilot to be completed during October 2014.

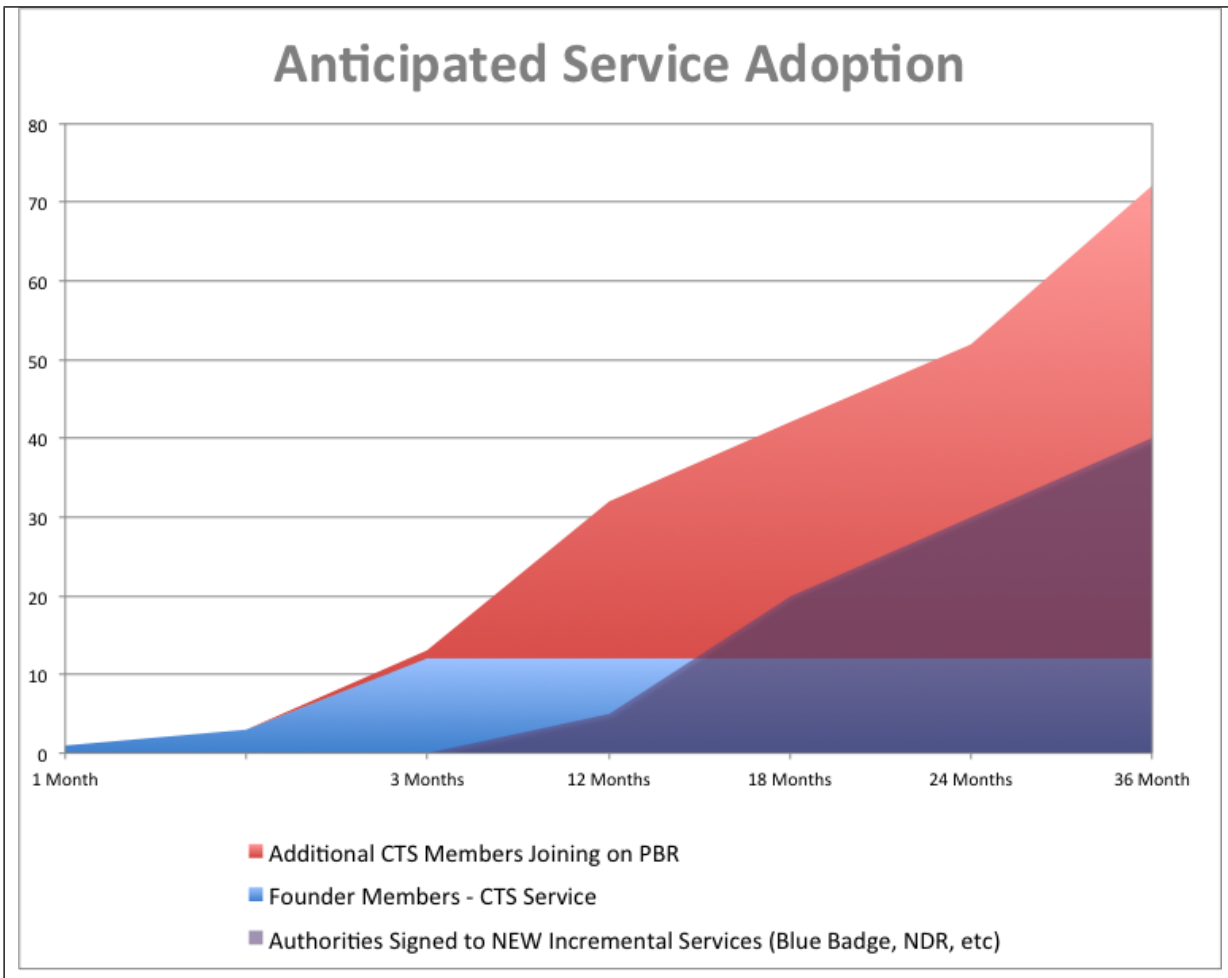
We are aware that the level of our funding application is not insignificant. The cost to develop and implement this solution however, will not only deliver significant direct savings to the 13 Authority Consortium members but will provide the basis of a national infrastructure for other Local Authorities to join on a payment-by- results (PBR) basis. We believe that this will maximise the investment made by the DCLG over a much longer term and beyond the Consortium and is a critical distinction to make in the assessment of the costs of the project.

The initial investment of £1,181,000 will provide the 13 Authority Consortium members (£90,846 per LA) with a 335% return on investment over the 17 month period of the funding alone.

The solution is being developed on a self-funding basis meaning that the Consortium members and other Authorities will continue to benefit from the service way beyond the funding period should they so wish. The systems, services, analytics platform and the Property and Occupancy Database that will be developed for the CTR Review Service will be reusable across other areas of Local Government to prevent, detect and deter fraud and error. We are confident the service will deliver significant savings on an on-going basis, not only in relation to CTR but other discounts, exemptions and services, including for example, NNDR, blue badges and social care assessments. Our private sector partner's confidence is demonstrated by their commitment to continue to develop the service, not only for Consortium members who wish to take advantage of opportunities in other areas for fraud and error, but for potentially all UK Authorities, on an entirely payment-by-results basis.

They will develop a payment-by-results model for the CTR Review Service within the first 6 months of the service based upon the outcomes of the work within the Consortium. This means that new Authorities joining the service will pay a commission for a saving achieved. It is expected that there will likely be an initial `discovery` period to allow for appeals and reconsiderations, with the gain share arrangement based upon actual savings and reduced losses to the participating Authorities.

The chart below indicates anticipated service adoption, beyond the consortium, for both the CTR Review Service and new services.



Risk Register

We have a risk register and have attached our financial risk with controls and mitigations.

Project Governance

The Consortium will establish a Governance Board to oversee the project which will meet on a monthly basis and will be responsible for:

- Reviewing and managing progress against the project plan
- Monitoring and managing risks, issues and mitigation plans
- Monitoring project outcomes with a focus on savings
- Making recommendations for changes and improvements
- Producing update reports to the DCLG and on behalf of the Consortium

Capacity GRID will be responsible for project management, including reporting to the Board. The Project Manager will also provide weekly project updates to all Consortium Members.

In addition, each individual Authority member of the Council will be responsible for local account level activity governance, including the monitoring of any customer complaints. It is anticipated that any account level issues will be dealt with at an operational level, but if and when necessary escalated to the Governance Board. The Authority Consortium members require that Liberata's Capacity GRID will provide Account Management and Executive Sponsorship to support the project.

Live reporting of activities and outcomes will be made available to all Consortium members via the Capacity GRID Customer Portal. Liberata's KHub will be utilised as the means by which the Consortium can share information, ideas, issues and developments and will be the repository for all documents including RAIDD, meeting records, reports, updates and plans.

Matched funding

If this proposal is to be supported by matched funding, please detail the amount and source of the matched funding in the table below, including the level of organisational and financial commitment and any dependencies.

Due to current constraints on Local Authorities finances, consortium members are not in a position to provide match funding in cash terms but, like our private sector partners believe the project will yield real results. We recognise that while the majority of effort associated with the project will be expended by our partners, resources will be required to work with them to establish the data collection, schedule in the monthly returns and provide effective governance and we confirm that we are not requesting funding to cover this time and effort. This will be provided as matched funding by the authorities within the Consortium.

Our private sector partners, Capacity GRID and Transactis have committed to providing matched funding. They have agreed to forgo some of the development and implementation costs which will be incurred as well as making available existing infrastructures and systems free of charge to the Consortium. These include, for each organisation:

Liberata's Capacity GRID

- Utilisation of extensive experience in the development of public sector solutions and services
- Utilisation of the existing Capacity GRID infrastructure and systems to facilitate the management and delivery of the review service

- Leveraging the exiting Capacity GRID Shared Services Network to provide scale and resilience across the service, in particular the ability to manage peaks and troughs in work
- Utilisation of the Customer Portal to provide tracking and reporting capabilities
- The provision of K-Hub as a resource to share and exchange information across the Consortium
- Governance of the project, including attendance at relevant meetings
- Investment in the further development of the solution both in terms of improvements to the CTR service and the incremental expansion into new areas, such as blue badges and NNDR and opportunities created by the development of the Syndicated Property and Occupancy Database for use by Consortium members if they so wish
- Development of a `payment by results` solution based upon the results and outcomes of the projects that will allow the members of the Consortium to continue to benefit from the service beyond the end of the funding period should they so wish

Capacity GRID estimated that they have made investments in the development of these areas of over £2m in the last 2 years. Though it is difficult to quantify the value of the utilisation of the existing expertise, infrastructure and systems, Capacity GRID estimate that if we were to develop them from scratch to support the CTR Review Service, we would likely incur additional expenditure of in the region of £165,000. In addition, Capacity GRID will provide on-going developmental resources. It is our intention to develop a commercial service moving forward, but Capacity GRID will take the risk of this development cost which they estimate to be at least £100,000 of resources over the period of the funding.

Transactis

- Utilisation of the Transactis award winning DataHealth™ matching engine
- Leverage Transactis in-house IBM Analytics platform and knowledge to create bespoke CTS models and scoring
- Utilising extensive experience of public sector data quality, matching rules and patterns of fraud and error
- Governance of the project, including attendance at relevant meetings
- Utilising proven error and fraud business rules, process improvements and modelling
- Utilising pre-existing development and links and into over 25 third party data sources
- Access to and use of a secure hosting environment for all data

Transactis has undertaken significant investments within the last two years of over

£1m including:

- Enhancement of the operational performance of the DataHealth matching engine
- Upgrade to the IBM Analytics platform
- Provision of a secure hosting platform and maintenance of the ISO 9001, ISO 14001, and ISO 27001 accreditations essential for the responsible management and protection of client data

To provide these from scratch, the elements utilised to support CTR Review would require additional expenditure in the region of £150,000.

Estimated savings

Please use this box to identify the financial savings that will result from the funding. The savings identified below must be additional to those that would be realised through those counter fraud activities currently planned. Additional rows and columns can be added as necessary.

Description of financial saving	**Estimated financial saving (£)**				
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
CTR financial savings	3,951,856	2,470,601	2,470,601	2,470,601	2,470,601
Total financial savings	3,951,856	2,470,601	2,470,601	2,470,601	2,470,601

Please note: We have included in 2015/16, savings that will be delivered in 2014/15, which have been calculated at an authority level from the expected date of implementation.

Please use the box below to provide reasonable estimates of how the estimated financial savings have been calculated, including any evidence to support your estimates.

At the present time there are no nationally available figures for the level of fraud and error within the CTR caseload since it was only introduced in April 2013. Therefore, our estimates of savings have been drawn from a number of different sources.

The majority of LA's continue to administer CTR as a means tested benefit relying largely on the Default Regulations produced by DCLG which closely mirror the previous Council Tax Benefit (CTB) regulations. For its part, CTB operated in almost exactly the same way as HB with differences only in the level of the taper and elements relating to rental liability.

According to the Audit Commission's report "Protecting the Public Purse 2013", local government bodies detected fewer frauds in 2012/13 compared with the previous years. This included Council Tax Benefit (CTB) fraud which, coupled with Housing Benefit fraud, accounted for over two-thirds of the total fraud loss value in 2012/13, at £120 million, but accounted for only 44% of the total cases detected. While the Report by the Comptroller and Auditor General, into the DWP 2013-14 Annual Report and Accounts, confirms the figures relating to CTB fraud have been removed as its replacement CTR is obviously now the responsibility of DCLG rather than DWP. However, based on the latest figures available for HB, featured within that report, the estimated level of overpayments attributed to fraud and error has in fact risen from 5.3% in 2012/13 to 5.8% in 2013/14.

While, in some ways, a parallel may be drawn with CT*R* and CT*B* there is a further parallel which may be drawn with Council Tax discounts and exemptions since CTR is not a benefit but a reduction. The Audit Commission report highlights the fact that council tax discount fraud, together with tenancy fraud, is one of the highest areas of financial loss to local government with their research showing that between 4 and 6% of Council Tax Single Person Discounts are fraudulently claimed.

As LAs re-design CTR schemes to become less mean-tested and more akin to the range of other CTAX discounts and exemptions currently available, with arguably simpler rules and less robust validation at the gateway, the level of fraud and error within CTR could rise unless resources are invested to prevent this.

While we have used the sources outlined above, as a starting point to estimate the opportunity and projected savings from this project, we also believe that working with Transactis will noticeably increase the ability for fraud and error to be detected. This is based on a number of projects they have recently been involved in where they have succeeded in achieving a significant uplift in strike rates. The EFAC (Error & Fraud Adding Capacity) trial for HMRC related to two loss groups for Tax Credits (both involving similar attributes to CTR) and involved matching 25 datasets to cleanse and enhance client data, then developing and applying a risk model to prioritise cases to be worked. The results included increasing strike rates for the 2 loss groups from 11% and 32% (HMRC in house figures) to 62% and 64% respectively (EFAC results), increased productivity from being able to work an average of 8 cases per day to over 20 and more than doubled the amount of 'average losses prevented' in terms of yield from error & fraud (£2.5K to £5.5K). Also, once again by using a wide range of data sources, they were able to increase validation of grant applications for Big Lottery from 70% (as it was by using 1 CRA data) to over 90% (by using 12 data sources). This ultimately allowed more applicants to be verified at source and allowed internal resource to be focused on the smaller percentage of applicants that were either incorrect or potentially at risk of error and fraud.

In order to arrive at a reasonable savings calculation, we have gathered information from across the Consortium and have a made series of assumptions based on a combination of reported levels of fraud and error, which we have described above,

and our experience in both the Pendle pilot for CTR Reviews and other similar projects.

We have very detailed workings in terms of our projected savings down to case and individual Authority level, which we can make available to the Department if required. We are also more than happy to meet and discuss in detail our expenditure and savings calculations.

The high level working volumes for the basis of our calculations are show in the table below. These volumes and values represent the CTR caseload, projected spend, and average case level award for the Consortium Authorities. We have applied our estimated level of fraud and error of CTR of 5.8%, as described above to the total spend to calculate the assumed value of fraud and error in the Consortium caseload.

CTR Caseload	CTR Funding 2014/15	Assumed Value of Fraud and Error (5.8% of spend)	Average CTR Case Value
183,964	£136,293,450	£7,905,020	£740.87

We have assumed that approximately 30% of the total caseload will have some level of fraud and error. We have assumed that we will review 10% of the total caseload and focus on high and medium risks cases.

The high level summary of a full year calculations is shown below. We have been conservative in the average strike rate and yield. Our partners experience in similar projects would suggest that the average strike rates are 65%. We would expect the strike rates to increase over time as we refine the CTR rules and data modelling, based on results on reviews undertaken. We would however, expect the number of cases and potential case values to reduce over time as fraud and error is removed and cases are reviewed more regularly. We have assumed that these factors will balance each other out and that the net annual savings will therefore remain static over the 5 year term.

	High Risk Cases (30% of total cases reviewed)	Medium Risk Cases (70% of total cases reviewed)	Totals
Volume of cases to be reviewed (10%)	5,519	12,877	18,396
% of cases that are reviewed in which fraud and error will be identified (Strike Rate)	60%	30%	

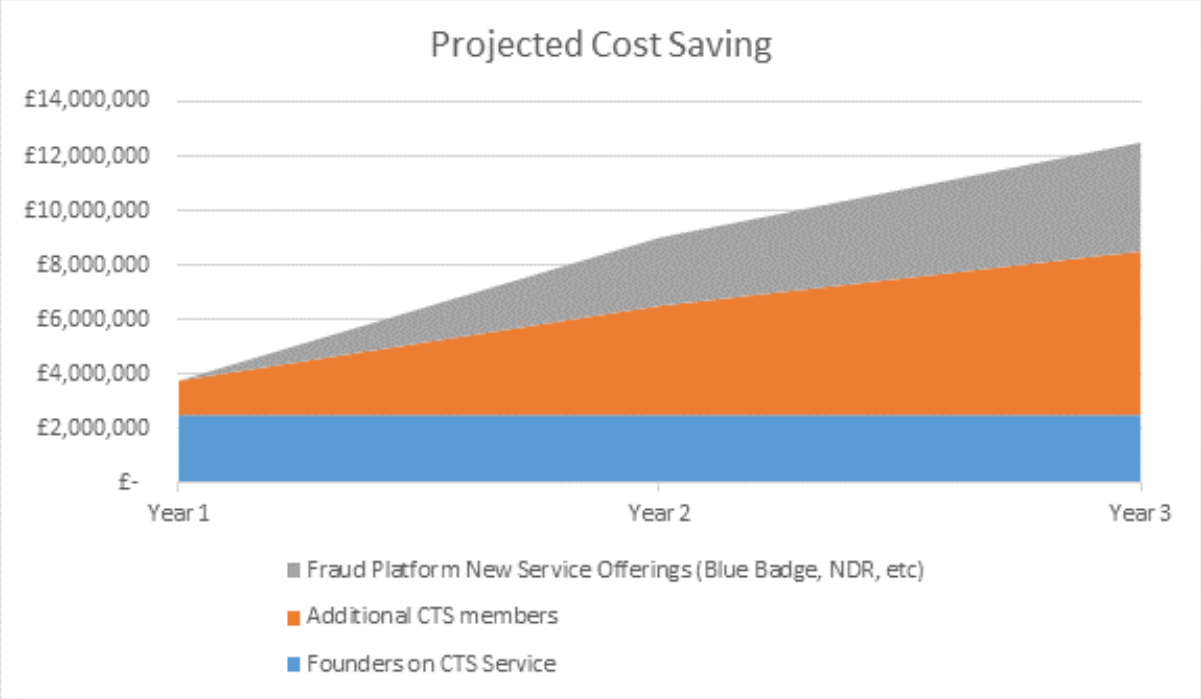
Number of cases in which fraud and error will be identified	3,311	3,863	7,174
% of average CTR Case Value that will be removed due to fraud and error (Yield)	60%	35%	
Average value of fraud and error which will be identified (case level)	£444	£259	
Total Value of fraud and error identified	£1,470,084	£1,000,517	£2,470,601

We have assumed that all 13 of the Consortium Authorities will be live and fully operational by February 2014, with implementation commencing in November 2013. The values in the table above represent one full year. In the Estimated Financial Savings Table we have also included savings that will be delivered in 2014/15, which have been calculated at an authority level from the expected date of implementation.

For clarity, we have only factored in savings associated with CTR reductions. We have not accounted for additional savings in respect of other CTAX discount and exemptions or reductions in Housing Benefit. These savings are in addition to the savings described in this section.

Potential Future Savings beyond the Consortium

We have described in this application our intention to offer this service moving forward to Authorities outside the Consortium. We are projecting that we will have an additional 20 Authorities using the service by the end of the first 12 month period. The graph below shows out projected savings (using the same rationale as that for the Consortium) assuming the addition of both new Authorities on the CTR Review Service and the development of new service offerings, within three years of service implementation.



Wider benefits

If this proposal seeks to achieve wider benefits, for example reducing the social costs that result from types of fraudulent activity, these should be documented and quantified as far as possible.

The primary focus of this project will be to reduce fraud and error in CTR expenditure and ensure that those who are receiving CTR are receiving only that to which they are entitled. There will be however, wider benefits to the project, which we have highlighted below:

Impact on CTR Schemes and CT Collection

The Authority Consortium members will likely see an increase in revenue generated through the collection of Council Tax in addition to the reduction in CTR expenditure. While CTR schemes cannot be altered mid-year, the savings made and data collected will enable us to make more informed decisions about future schemes. We expect that the project will provide data and information for example, on areas of schemes which are prone to abuse thus leading to changes to safeguard against fraud and error. The financial design of the schemes may also change as money saved is recycled, allowing for more generous awards to be made to those legally

entitled and those who are particularly vulnerable. This has an overarching benefit in terms of the Authority's aims regarding anti-poverty.

Digital by Default

Where Authority members have an Electronic Communications Order in place, the review process may be undertaken electronically. This will further re-enforce the "digital by default" environment which will ultimately help Authorities make future savings and support them in their channel migration activities.

National Review Service and New Fraud and Error Areas

We have explained our ambitions throughout this application to develop the solution beyond that for which we seek funding support. The solution is being developed on a self-funding basis meaning that the Consortium members and other Authorities will continue to benefit from the service way beyond the funding period. We are confident the service will deliver significant savings on an on-going basis, not only in relation to CTR but other discounts, exemptions and services, including for example, NNDR, blue badges and social care assessments.

Capacity Grid's confidence is demonstrated by their commitment to continue to develop the service, not only for Consortium members, but for potentially all UK Authorities, on an entirely payment-by-results basis. We are also keen to further engage with those Authorities from within the Devolved Administrations. Though we recognise that the financial savings may not directly impact the individual Authorities in the same way as those in England, there is without doubt a saving to be achieved at devolved Government level.

Impact on Housing Benefit

Our project will deliver significant savings in relation to CTR. We fully understand that the funding is not aimed at benefits fraud and so we have not described in any detail the financial impact on Housing Benefit in terms of the business case. We firmly believe however, that the wider impact on Housing Benefit cannot be ignored. The vast majority of Local Authorities administer Housing Benefit and CTR within a single function. There are a number of reasons for this including:

- The technologies in place do not easily allow for the two areas to be handled separately. Different rules can be applied to CTR and HB but these are generally parameter based and the data and information collected for each are handled and stored as a single `claim`.
- A single application process has been in place for many years, with a customer providing relevant information only once
- Many CTR schemes have yet to move towards a much more simplified approach, often because the financial impact cannot be fully quantified which opens Authorities to significant risk

This means, that in the short term, when we review a CTR award, we will also be reviewing that individual customers housing benefit entitlement at the same time. Not only will this generate significant reductions in expenditure for the DWP, but will ensure that cases transferring to Universal Credit are more accurate.

Using the same rationale as we have applied to calculate the CTR savings, we estimate the level of fraud and error that we will identify in the HB Caseload of the Consortium Authorities to be over **£20m** during the funding period, as summarised in the table below:

HB Only Fraud and Error	
Annual Value Identified for Consortium Members	**£ 15,488,500**
Return (as % of level of fraud and error in system)	**33.9%**
Funding Period Return – Nov 2014 to Mar 2016	**£ 20,153,101**

Wider use of the Property and Occupancy Database

The development of the Syndicated Property and Occupancy Database will, in of itself, become an asset. Having 13 Authorities in the Consortium will build a data rich environment including the aggregation of 'best in class' data on up to date income, residence, household composition, assets, expenditure, contactability and identity. The more Authorities that sign up the service, the richer this data becomes. This can be used not only across other areas of Local Government as we've described, but could be utilised across Central Government with clear advantages for departments such as the DWP or HMRC. We appreciate that data matching already exists, with initiatives such as the Housing Benefit Matching Service (HMBS) and National Fraud Initiative (NFI), but our solution will use enriched data matching and analytics, on a more frequent and regular basis that we believe would add additional value. In addition, drawing on their knowledge gained in other sectors (e.g. retail) the approach adopted by Transactis will enable members to potentially reduce costs and provide a better service with increased efficiencies through the utilisation of predictive strategies on process and communication.

Research

As CTR is an area which is not currently subject to data matching and active fraud/error detection we would also undertake to provide a research paper into any trends we find within the cases we examine. This will naturally be part of our continuous improvement programme to refine the data matching but we would propose to go beyond this and provide a research paper identifying any links to other, non CTR related fraud and local effects. This would also supplement the regulator progress reports and be provided at the project conclusion.

Section E: Sustainability

Please provide evidence (up to 250 words) of how the funding requested will result in financial savings, and any wider benefits, beyond the funding period.

We firmly believe that this project is sustainable well beyond the funding period. As we have described, it is our intention that the solution be self-funding for:

- New Authorities joining the CTR Review Service
- Consortium Authorities beyond the funding period
- All Authorities for new areas of fraud and error

The creation of a cross-authority, syndicated Property and Occupancy Database enables this sustainability by:

- Regularly processing award files to determine continued entitlement
- Enabling analysis of cross authority data to identify and create additional counter-fraud solutions in other area such as NNDR, blue badges, financial assessments, grant assessments and housing.

The funding and investment will be maximised by the provision of these future services on a payment-by results basis with no joining fee, upfront investments or on-going costs for Authorities. Any payment for services will be on the basis of a commission on the actual savings or reduction in losses generated. Whilst many Authorities believe that they should be undertaking proactive reviews in these areas, the reality is that they are unable to secure resources to deliver the work with the financial pressures that they face. Even though it is likely even a limited amount of activity would generate some yield for an individual Authority they are not in a financial position to take the risk of failure. Capacity GRID and Transactis will instead take this risk with Authorities only paying for services on a commission basis beyond the funding period.

Section F: Innovation

Please provide an assessment (up to 250 words) on the level of innovation in the proposal and how this approach could be transferred to other local authorities and partnerships.

Our project is highly innovative and we are specifically developing the solution to be transferable to other Authorities without the requirement for additional funding. Our proposal is innovative and transferable for the following reasons:

- A unique partnership across a broad cross section of LAs (size, geography and type) and highly experienced private sector specialists

- Applying Transactis' capabilities to CTR by utilising, in-house data, open-source and 3rd party data to leverage intelligent matching that greatly exceeds results achievable through generic platforms whilst reducing false positives.
- Utilisation of sophisticated analytic models to provide a risk score to target cases that have a high fraud/error potential, using outcomes to continually improve effectiveness.
- Utilisation of a national grid of experienced professionals through the virtual Capacity GRID network developed and maintained by Liberata to ensure effective and efficient delivery of the CTR review service.
- Application of bespoke customer communications, informed by the confidence in the data, with digital communication being one option utilising customer segmentation.
- Creation of a unique cross-authority, syndicated Property and Occupancy Database
- A fully scalable, sustainable and self-funding service that will be made available to Authorities across the UK on a gain share basis.
- Development of additional counter-fraud solutions in other area such as NNDR, blue badges, financial assessments, grant assessments and housing for Authorities who wish to participate
- The Consortium will become a member of the Counter Fraud Centre (CCFC), the UK's national centre of excellence on counter fraud, to facilitate the sharing of good practice

Section G: Procurement Strategy

Where applicable, please outline any procurement strategy including evidence of compliance with European Procurement Rules as relevant.

The lead Authority, Pendle BC has an existing contract with Liberata which covers the services within this project.

In addition, Consortium members will sign a Letter of Intent, which though not legally binding, describes their commitment to the Consortium and the solution described within this document. We can provide a copy of the Letter of Intent if required.

Section H: Other Information

Please use this section to provide any additional information that you think the assessors may require to evaluate your bid. Please limit your comments to no more than 250 words (Arial font, size 12).

The primary outcome of the proposal is to significantly reduce the level of fraud and error in CTR.

We have already invested in the development of a pilot, which we will continue to work throughout the decision making period. The early results are encouraging though unfortunately we do not yet have sufficient data to provide as part of this application. We can provide additional information if required and should be in a position to provide early results for some cases in the next 4 weeks. The pilot will mean that we will already have a strong indication of the appropriate reference datasets, matching rules, output and associated processes that we will apply should our funding application be successful, meaning that we will be in a position to mobilise quickly.

Transactis create, host and maintain a Single Citizen View containing 2.5bn records for HMRC. Multiple HMRC datasets are matched against 20+ additional sources, validating movers against credit and transactional information. As a Consortium, we intend to seek approval from HMRC to utilise this dataset and would also recommend sharing this with central government departments. We have already started discussions with HMRC data guardians and using an agreed process we have officially requested the approval of HMRC data in writing. This would fit with existing plans regarding RTI and the recommendation made by the National Audit Office to allow greater use of this data source.

Section I: Approval

Approval: Bid approved and signed off by Section 151 officer (or authorised person in other public sector partners) for each partner to the bid.

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Organisation	Click here to enter text.
Date Approved	Click here to enter text.

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Disclaimer
There shall be no expectation of grant until authorities have been formally notified in writing by the department. All the Applicant's costs and charges incurred as a result of making this application shall be for the applicant's account and cannot be claimed as part of the project.

The Data Protection Act: Freedom of Information Act 2000

The Department for Communities and Local Government undertakes to use its best endeavours to hold confidential any information provided in any application form submitted, subject to our contracting obligations under law, including the Freedom of Information Act 2000. If you consider that any of the information submitted in the application form should not be disclosed because of its sensitivity then this should be stated with the reason for considering it sensitive. The department will then consult with you in considering any request received under the Freedom of Information Act 2000 before replying to such a request.

Applicants should be aware that the following conditions will also apply to all bid applications:

- We may use your information for the purposes of research and statistical analysis and may share anonymised information with other government departments, agencies or third parties for research and statistical analysis and reporting purposes.
- Our policies and procedures in relation to the application and evaluation of grants are subject to audit and review by both internal and external auditors. Your information may be subject to such audit and review.
- We propose to include light touch monitoring by the department utilising publicly available information. We would encourage applicants to regularly publicise progress on their websites and disseminate good practice.
- The department will publish summaries of all successful bids.

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Agenda Item 10

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 January 2015

Report Title: Chief Auditor's Summary & Audit Risk Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of the recent audit findings of the Housing Benefit and Council Tax Reduction, Debtors, Non-Domestic Rates and New Pensions Scheme audits.

Recommendation(s)

1. **That the Audit Committee accepts the report**

Reasons for Recommendations

To monitor levels of control within the organisation.

Audit Committee 21 January 2015

Housing Benefit and Council Tax Reduction summary report

Background Information

This review was undertaken as part of the 2014/2015 agreed audit plan. The Housing Benefit service processes over £53 million each year for rent allowances and a further £11 million for council tax reduction to over 13,000 claimants in the Borough. The service plays a vital role in the economy of the Borough; therefore it is imperative that the service is carried out effectively, efficiently and economically.

This aspect of the Council's activities was last audited in 2011. The Service was then graded as B: Satisfactory and a number of minor improvement recommendations were made.

We believe that there is a very positive management attitude towards continual improvement of the efficiency and quality of service and commend management for the progress that has been made.

Overall Audit Assessment: A – Good.

Most controls are in place and are working. Some minor improvements are possible to ensure statutory compliance, best practice and efficiency.

Key Findings

The audit found that the service is carried out effectively and efficiently. Accuracy is a vital aspect of the work and it was confirmed that the accuracy rate for the period June – November 2014 was 90.2%. This is a complex area and the errors classified may not affect the final benefit that is made, for example, categorisation error.

External Audit concluded in their Audit of Housing Benefit Subsidy Claim – year ended 31 March 2014 that the draft claim amounted to over £53 million was amended to reduce the Council's entitlement to subsidy by only £270.

The service is currently up to date and within the performance target times for processing new claims.

Overpayments are normally created by changes of circumstances, a claimant vacating the property and delaying to advise the Council or a fraudulent claim being discovered. If the overpayment is owed by a person no longer in receipt of housing benefit in Hastings an invoice will be raised. The value of these debts outstanding as at 19th August 2014 was £1,145,361. If the invoice is not paid the debt will be passed to the bailiffs and/or legal action taken. The audit found that overpayments where invoices are raised are being closely monitored and actively pursued.

If the claimant is still in receipt of Housing Benefit within the Borough the debt is classified as 'in benefit' and a weekly deduction in the amount of benefit paid is automatically taken to recover the debt outstanding. The total value of "in benefit"

overpayments as at 19th August 2014 included in the overpayments report was £1,038,463. The audit found the value of 'in benefit' on the report was not correct; the report included overpayment balances on old dormant accounts that had been cleared/written off many years ago. It is recommended that all the 'in benefit' overpayments cases are reviewed to ensure the correct balance is recorded and the overpayments are being appropriately monitored and recovered

In December 2013 the floor in Aquila House where Housing Benefit used to be located was flooded and the service was successfully transferred to offices in the Town Hall with no adverse effect to the general public. This has proven the Council has the capabilities to withstand major disruption. However, the Council has a total disaster recovery plan strategy that is required to be tested every 2 years. It is understood that this testing is a year overdue and is being delayed until server replacement for the NORTHGATE system is installed which should lead to better resilience.

Currently although data back-up is completed daily only a weekly back up of data is kept off site. This would mean in the event of a catastrophic disaster up to 5 days data may need to be re-input.

For the past 4 years the Government has indicated the intention to introduce Universal Credit which will be a single benefit payment to all claimants which will include the payment for housing accommodation (excluding Council Tax Reduction). Effectively the calculation and administration of the payment for housing costs (currently Housing Benefit) will revert back to the Department for Work and Pensions (DWP). The timing of the transfer over to Universal Credit has been repeatedly postponed and only recently there has been a decision that the DWP will take over new claims for single claimants in April 2015.

As part of the move towards Universal Credit administered by the government the DWP has decided to set up a Single Fraud Investigation Service (SFIS). All current fraud officers working in the Council were transferred over to the DWP on 1st November 2014. As indicated in the previous paragraph the processing of housing benefit will continue to be administered by this Council until Universal Credit is fully implemented. All housing benefit fraud investigations are now done by DWP staff. Arrangements have been agreed with Rother District Council to provide a single point of contact service for SFIS.

Where any potential fraud includes Housing Benefit, any Council Tax Reduction will also be pursued. However potential fraud which only relates to Council Tax Reduction (owner occupiers) is still investigated by this Council. Hastings Borough Council was part of a successful bid for an East Sussex wide 'Fraud Hub' and should be able to draw on that for investigation of Council Tax Reduction fraud cases.

Management Response

We agree with the recommendations and have an action plan in place to monitor implementation of the recommendations.

Debtors summary report to Audit Committee

Audit Conclusion

Overall Audit Assessment: A – Good
Controls are in place and work effectively. There are no significant audit concerns.

Key Findings

The Debtors system is administered effectively and efficiently.

The recommendations from the previous audit were addressed by management.

All debt is reviewed on a monthly basis by the Revenues and Benefits Service Manager and on a quarterly basis by the Director of Corporate Resources, the Head of Finance and a Senior Lawyer. This provides further assurance that the system is operating efficiently and effectively

There were areas identified where efficiency could be increased by implementing automatic processes within AGRESSO.

Management Response

We agree with the report.

Non-Domestic Rates summary report

Audit conclusion

Overall Audit Assessment: A - Good.

Controls are in place and work effectively. There are no significant audit concerns. There are no high recommendations made.

The processes in the valuation, billing and collection of business rates has not changed, however, from 1st April 2013 the government introduced the business rate retention scheme. This new funding regime that has been introduced meant local authorities effectively will retain a proportion of any additional business rate income or conversely experience a reduction in income if the business rate base falls. The implications of the new funding basis have been fully recognised and revised provisions were included in the Council's accounts for 2013/2014.

The Council has also invested in an analytical tool to estimate the impact of outstanding proposals and monitor changes to relevant valuation schemes and address the impact on hereditaments in the area. In addition the Council has recently agreed to enter into a pooling arrangement with all the Councils in East Sussex to ensure a maximum of the business rate receipts are retained within East Sussex.

These 2 new initiatives will ensure that the Council can effectively manage the collection of business rates and remain the maximum amount within East Sussex.

Key Findings

The Non-Domestic Rating system is administered effectively and efficiently.

The Council has fully recognised the implications of the new Business rate retention scheme. The Council, in conjunction with all the other local authorities in East Sussex, has purchased a software system developed to assist in preparing a sound and prudent estimate of business rate income. It is considered work needs to be done to fully understand this forecasting tool to provide a detailed picture of the potential impact of valuation changes in the borough.

In 2012 the handling of Non Domestic Rate enquiries and telephone calls was passed from the Revenues Service to the new Community Contact Centre.

Hereditaments with both domestic and non-domestic elements within the same premises are included in both the Council Tax and Non Domestic Rate databases. These properties are known as composite hereditaments (also commonly known as 'composite properties'). A reconciliation of the composite hereditaments contained in the two databases should be completed to confirm Council Tax/Non Domestic Rate payers are correctly charged.

Management Response

We agree the findings and have put in place an action plan to address the recommendations made.

Local Government Pension Scheme (LGPS) 2014 summary report

Background Information

The Local Government Pension Scheme (LGPS) has been reformed with key changes taking effect from 1 April 2014. 435 staff and 40 members (32 elected representative and 8 co-opted) are paid through the Midland iTrent Payroll.

Details of all of the changes can be found at the LGPS website: http://lgps2014.org/ .

One of the key changes has been that new elected members and co-opted members can no longer join the LGPS and that membership for those who were already members on 1 April 2014, ceases on the date of their next re-election.

In respect of staff, the main changes can be summarised as:
50/50 option: To ease the financial burden, staff may elect to pay just 50% of their normal pension contribution and will receive 50% of their pension benefit. Death in service and permanent ill health benefit remains the same as if they were paying a full contribution.

Overtime and additional hours are now pensionable.

An audit was carried out to ascertain the adequacy of internal controls for ensuring that the council pays the correct pension contribution and to evaluate the additional costs of the new LGPS Scheme 2014.

Auto-enrolment has been deferred until 2017.

Audit Conclusion

Overall Audit Assessment: A – Good.
Controls are in place and work effectively. There are no significant audit concerns. There are no recommendations made.

Key Findings

Hastings Borough Council pays Midland iTrent for a premium level service that ensures the payroll system accurately processes payments in accordance with legislative changes.

The Members and staff pension deductions following the introduction of the new scheme were found to be accurate.

The increased pension costs to the council as a result of additional hours and overtime is £10,198. The level of employer contribution for 2014/2015 is 1.2% less than requested in 2013/2014.

Management Response

We agree with the report.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

Background Information

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Officer to Contact

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