



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds on
Friday, 22nd March, 2019 at 10.00 am

MEMBERSHIP

Councillors

P Grahame	J Bentley	P Harrand
K Ritchie (Chair)		M Harrison
A Scopes		J Taylor
P Truswell		
J Illingworth		
B Garner		

A G E N D A

Item No	Ward	Item Not Open		Page No
1			<p>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</p> <p>To consider any appeals in accordance with Procedure Rule 15.2 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded).</p> <p>(*In accordance with Procedure Rule 15.2, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)</p>	
2			<p>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</p> <p>1 To highlight reports or appendices which officers have identified as containing exempt information, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.</p> <p>2 To consider whether or not to accept the officers recommendation in respect of the above information.</p> <p>3 If so, to formally pass the following resolution:-</p> <p>RESOLVED – That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-</p>	

Item No	Ward	Item Not Open		Page No
3			<p>LATE ITEMS</p> <p>To identify items which have been admitted to the agenda by the Chair for consideration</p> <p>(The special circumstances shall be specified in the minutes)</p>	
4			<p>DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'</p> <p>To disclose or draw attention to any disclosable pecuniary interests for the purposes of Section 31 of the Localism Act 2011 and paragraphs 13-16 of the Members' Code of Conduct.</p>	
5			<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence (If any)</p>	
6			<p>MINUTES OF THE PREVIOUS MEETING</p> <p>To receive and approve the minutes of the previous meeting held on 28th January 2019.</p> <p>(Copy attached)</p>	1 - 12
7			<p>MATTERS ARISING FROM THE MINUTES</p> <p>To consider any matters arising from the minutes.</p>	
8			<p>ANNUAL INFORMATION GOVERNANCE REPORT</p> <p>To consider a report by the Director of Resources and Housing which presents the Annual Information Governance Report. The report informs Members of the steps being taken to maintain and improve Leeds City Council's information governance and seeks to provide assurance that the necessary monitoring practices and procedures are in place.</p> <p>(Report attached)</p>	13 - 30

Item No	Ward	Item Not Open		Page No
9			<p>APPLICATIONS PORTFOLIO PROGRAMME - UPDATE ON ACCESS PROJECT</p> <p>To consider a report by the Director of Resources and Housing which provides an update on the current position on Access databases and compliance to PSN.</p> <p>(Report attached)</p>	31 - 38
10			<p>ANNUAL BUSINESS CONTINUITY REPORT</p> <p>To consider a report by the Director of Resources and Housing which seeks to provide assurance of the adequacy of the business continuity management arrangements currently in place, in that they are fit for purpose, up to date, are routinely complied with, have been effectively communicated and are monitored.</p> <p>(Report attached)</p>	39 - 50
11			<p>PROCUREMENT ASSURANCE REPORT - 2018/19</p> <p>To consider a report of the Chief Officer Financial Services which presents the Annual Procurement Assurance Report 2018/19 for the City Council's procurement function.</p> <p>The report seeks to provide assurance that, overall, procurement systems are operating effectively and that there are no fundamental control weaknesses.</p> <p>(Report attached)</p>	51 - 110

Item No	Ward	Item Not Open		Page No
12			<p>ANNUAL ASSURANCE REPORT ON THE FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS AND COMPLIANCE WITH THE CHIEF FINANCE OFFICER PROTOCOL</p> <p>To consider a report by the Chief Officer Financial Services which seeks to provide assurance that the Council has in place appropriate systems and procedures to ensure that there is sound financial management and control across the Authority.</p> <p>(Report attached)</p>	111 - 142
13			<p>ANNUAL TREASURY MANAGEMENT GOVERNANCE REPORT</p> <p>To consider a report by the Chief Officer Financial Services which presents the Annual Treasury Management Governance Report and outlines the governance framework for the management of the Council's Treasury Management function.</p> <p>The report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2018.</p> <p>(Report attached)</p>	143 - 170
14			<p>GRANT THORNTON AUDIT PROGRESS REPORT</p> <p>To consider a report by the Chief Finance Officer which sets out details of Grant Thornton's progress in delivering the audit of the Council's accounts and value for money arrangements.</p> <p>The report from Grant Thornton highlights the progress made so far in their 2018/19 audit.</p> <p>(Report attached)</p>	171 - 194

Item No	Ward	Item Not Open		Page No
15			<p data-bbox="676 181 1171 215">INTERNAL AUDIT PLAN 2019-20</p> <p data-bbox="676 286 1406 394">To consider a report by the Chief Finance Officer which presents the proposed Internal Audit Plan for 2019-20 for review and approval.</p> <p data-bbox="676 432 1394 539">The report includes a summary of the basis for the plan which has been developed in consultation with senior management.</p> <p data-bbox="676 640 927 674">(Report attached)</p>	195 - 210
16			<p data-bbox="676 775 1394 842">INTERNAL AUDIT UPDATE REPORT JANUARY TO FEBRUARY 2019</p> <p data-bbox="676 920 1374 1099">To consider a report by the Chief Finance Officer which provides a summary of the Internal Audit activity for the period January to February 2019 and highlight the incidence of any significant control failings or weaknesses.</p> <p data-bbox="676 1200 927 1234">(Report attached)</p>	211 - 230
17			<p data-bbox="676 1402 1078 1435">ANNUAL REPORT 2018/19</p> <p data-bbox="676 1480 1406 1588">To consider a report by the City Solicitor which seeks the approval of Members to the Committee's Annual Report to Full Council.</p> <p data-bbox="676 1666 927 1700">(Report attached)</p>	231 - 242

Item No	Ward	Item Not Open		Page No
18			<p data-bbox="676 181 1358 248">INDEPENDENT MEMBER APPOINTMENT TO AUDIT COMMITTEES</p> <p data-bbox="676 293 1358 472">To consider a report by the City Solicitor which provides Members with an opportunity to further consider the CIPFA Best Practice guidance relating to the appointment of Independent Members to Audit committees.</p> <p data-bbox="676 551 927 584">(Report attached)</p>	243 - 248
19			<p data-bbox="676 651 1086 685">WORK PROGRAMME 2019</p> <p data-bbox="676 730 1358 831">To receive a report by the City Solicitor which notifies Members of the Committee's draft Work Programme for 2019.</p> <p data-bbox="676 909 927 943">(Report attached)</p>	249 - 256
20			<p data-bbox="676 1010 1230 1043">DATE AND TIME OF NEXT MEETING</p> <p data-bbox="676 1088 1374 1189">To note that the next meeting is proposed to take place on Tuesday, 25th June 2019 at 10.00am in the Civic Hall, Leeds.</p>	
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a)				
b)				

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Corporate Governance and Audit Committee

Monday, 28th January, 2019

PRESENT: Councillor K Ritchie in the Chair
Councillors J Bentley, P Harrand,
J Illingworth, P Grahame, M Harrison,
A Scopes, J Taylor, P Truswell and
B Garner

Attendee from Cardiff City Council

The Chair introduced and welcomed Ian Arundale, Audit Committee Chair and Chris Pyke, Head of Audit at Cardiff City Council who were in attendance to observe the proceedings of the Committee.

47 Appeals Against Refusal of Inspection of Documents

There were no appeals against the refusal of inspection of documents.

48 Exempt Information - Possible Exclusion of the Press and Public

There were no items identified where it was considered necessary to exclude the press or public from the meeting due to the confidential nature of the business to be considered.

49 Late Items

There were no late items of business identified.

50 Declaration of Disclosable Pecuniary and Other Interests'

There were no declarations of disclosable pecuniary interest made at the meeting.

51 Apologies for Absence

There were no apologies for absence.

52 Minutes of the Previous Meeting

RESOLVED – That the minutes of the previous meeting held on 23rd November 2018 were accepted as a true and correct record.

53 Matters Arising from the Minutes

The Head of Governance and Scrutiny Support reported that information requested by the Committee had been circulated to Members following the meeting in November 2018:

- Minute No. 37 resolution (iii) on page 3 and Minute No. 42 resolution (v) - The Chair wrote to the Director of Resources and Housing in relation to both matters and that the Director had raised the Committee's observations regarding Access Data base security and Internal Audit feedback at Corporate leadership team. A response from Mr Evans was circulated to all Members on the 22nd January.
- Minute No. 44 – Recommendations of this Committee in respect to Short Notice publication of officer key decisions were considered and accepted by General Purposes Committee with the corresponding agreement to changes to the Executive and Decision Making Procedure Rules being given at Full Council on the 16th January.

Agenda Item No.15 Audit Committees: Practical Guidance for Local Authorities and Police 2018 the complete document published by CIPFA (as this is charged for document CIPFA were not comfortable with the complete document appearing on our public agenda).

Agenda Item No.9 - Up-to-date password policy for the Council – It was noted that this had not yet been circulated; the Head of Information Governance undertook to provide this to all Members.

It was also reported that a link to a document recently published by the National Audit Office in relation to Local Authority Governance had also been circulated to all Members.

In commenting on the minutes, Members raised the following issues:

- Minute No. 38 - Customer Contact and Satisfaction – Members sought clarification about the increase in telephone waiting times.

In responding the Head of Governance Services and Scrutiny Support advised that Scrutiny Board was currently having an ongoing interest in this aspect of corporate performance. It was noted that the Environment, Housing and Communities Scrutiny Board were specifically looking at this matter, particularly the differential answering time for benefits calls when compared with other services, and that a report was due back to the Board in the near future. It was agreed that the Head of Governance and Scrutiny Support would arrange for Members of this Committee to receive a copy of that report when it becomes available.

54 Applications Portfolio Programme - Update on Access Project

The Director of Resources and Housing submitted a report which provided an update on the current position on Access databases and compliance to PSN.

Members noted the report followed an initial request from this Committee in July 2018 for further details and reassurances regarding the progress in dealing with legacy Access 2003 databases that had been highlighted as a significant risk to our continued PSN certification. At the meeting of the Committee in November, Members requested regular progress reports on resolving the Access 2003 vulnerabilities.

Members were informed that 83 responses had been received so far to the questionnaires sent out to service areas. This was an increase of 9 since the last report to Committee. Of those 83, 20 of the respondents had identified their database as business critical (criticality based on whether those services would stop without the use of the database). Of those 20, 12 have confirmed the Access database is the main operational system of that function; meaning 8 of them are supplementary.

It was reported that engagement had taken place separately with several services where they had significant numbers of databases, e.g. Highways and Transport, who have 87 databases. The project team continued to engage with all service areas to identify potential solutions to replace Access databases.

Members were informed that so far, the project had confirmed that 5 databases were due to be deleted once they've fully migrated over to a new solution and 12 were being delivered by another project or programme. The project were prioritising the 271 that don't currently have a new solution in the pipeline.

Members queried if the service had sufficient resources to deliver the project and would there be any problems recruiting new staff with the necessary skills within the required timescales.

Members were informed that sufficient resources were in place to deliver the project, there was also funding available to recruit more staff if the need arose.

The Chair asked if there had been any engagement with the Cabinet Office about the City Council's Plan and if so, had they made their views known.

Members were informed that no communication with the Cabinet Office had taken place but that this suggestion would now be progressed

Members queried if other Local Authorities had similar PSN compliance issues, could some comparisons with other Local Authorities be obtained.

It was confirmed that PSN compliance and comparisons with other Local Authorities would be included in the next update report to Committee.

Referring to the next update report the Chair requested if the information on progress could be presented as a directorate by directorate summary.

Officers confirmed that the next update report would include a directorate by directorate summary, as requested.

RESOLVED -

- (i) That the contents of the report be noted
- (ii) To note the assurances provided around the Council's approach to maintaining PSN compliance and where progress had been made
- (iii) That regular updates on progress continue to be brought to future meetings of this Committee.
- (iv) That engagement takes place with the Cabinet Office to seek an indication as to whether the City Council's plans for compliance are sufficient
- (v) To obtain comparisons with other Local Authorities about PSN compliance for inclusion in the next update report to Committee.
- (vi) That future update reports would include a directorate by directorate summary.

55 Information Management and Governance - Update on the Password Protocol for Network ID.

The Director of Resources and Housing submitted a report which provided an update on the arrangements in place regarding the LCC Network ID Password Protocol, whether it was up to date, fit for purpose, effectively communicated routinely complied with and monitored.

The report also sought to address the previous concerns raised by newly contracted auditors, Grant Thornton, in lieu of the upcoming audit on financial systems.

Members were informed that as from April 2018, Leeds City Council's password protocol improvements were now in-line with National Cyber Security Centre (NCSC) guidance. It was reported that the then external Auditors (KPMG) whilst carrying out an audit of financial statements found that, for two key financial systems (SAP(HR system) and FMS(Financial Management) and their associated infrastructure, the technical password policies were not fully aligned with Corporate Protocol.

Following the appointment of new External Auditors, Grant Thornton's dialogue had continued on this issue and in light of those discussions a further revision to the Password protocol has been made. This had resulted in the establishment of a minimal password length for access to secondary systems that could not meet the Single Sign-on requirement.

The Chair invited the external auditors to comment on the report.

In responding Mr Sethi, (representing the external auditors, Grant Thornton) said a specialist IT review was currently ongoing and it was intended the review would be completed by July.

RESOLVED

- (i) That the contents of the report be noted
- (ii) To note the assurances provided around the Council's approach to the controls about access to the LCC Network ID, the password protocol and the progress so far in implementing the protocol

56 KPMG Certification of Grants Report 2017/18

The Chief Finance Officer submitted a report which informed Members of the outcomes of the work of auditors in respect of the certification of grant claims in 2017/18

Members were informed that all grant claims and returns had been successfully completed and the final approved claims submitted to the relevant granting organisation.

Members noted that KPMG's audit work identified a number of minor errors in the Housing Benefit Subsidy claim which required qualification and amendment.

RESOLVED –

- (i) To receive KPMG's Certification of Grant Claims and Returns report
- (ii) To note the conclusion arising from their 2017/18 audit work

57 2018/19 Grant Thornton Audit Plan

The Chief Finance Officer submitted a report which informed Members of Grant Thornton's audit plan for the audit of the Council's accounts and value for money arrangements.

The report highlighted the risk based approach to the audit and the main risks the auditors had identified for 2018/19.

Gareth Mills, Engagement Lead, Grant Thornton attended the meeting and spoke on the key matters impacting on the audit which included:

- Significant risk
- Materiality
- Value for money arrangements
- Audit logistics
- Independence

Members were informed that an Audit Progress Report would be prepared for the meeting in March, with the final opinion being delivered towards the end of July.

Commenting on the value for money arrangements and in particular the reference on the Authority's arrangements and plans to mitigate any risks on Brexit, Members queried if there existed a basic Brexit checklist.

Members were informed there was no standard Brexit checklist. Brexit was a key value for money risk and an area for focus. It was understood that the Council already had in place a Members Cross Party Working Group together with various Officer Working Parties to monitor and plan for implications arising from Brexit. This was considered to be a reasonable course of action

Referring to the Members Cross Party Working Group, Members suggested that the Lead Officer who advised the Group be invited to attend a future meeting of this Committee.

The Head of Governance and Scrutiny Support suggested that a report on Brexit, seeking assurance that appropriate arrangements are in place to manage the impact of Brexit on City Council Services be scheduled for the next meeting in March, with the appropriate Lead Officer being invited to attend.

Members queried if Grant Thornton's treatment of materiality differed from that used by the Council's previous auditors and if so what impact that might have on the information presented to the Audit Committee?

In responding Mr Mills said that the materiality thresholds identified were similar to those used by KPMG in 2017/18. The planned materiality thresholds were based on the Council's expected gross expenditure and would be reviewed at the year-end audit for any necessary changes. Grant Thornton would report to the Committee on any unadjusted audit differences which were not clearly trivial.

On a related issue Mr Sethi informed Members that on 26th February 2019 Grant Thornton were running an event to explain how the external audit operates. An invitation to attend was extended to all Members of this Committee.

Reference was made to the recently published National Audit Office (NAO) report on local authority governance which commented that 30% of section 151 officers did not agree that sufficient time was allocated by External Auditors to Value for Money work.

In responding Mr Mills said that discussions with the Chief Finance Officer and the new external auditors had already taken place, as a consequence Grant Thornton were confident with their proposed Audit Plan. It was

suggested that the requirements for local authority auditors may require revisions in the area of value for money work in the future.

Referring to the coverage on Independence & Non-Audit Services, page 50 of the submitted plan, Members noted that Grant Thornton had provided advice on funding and associated financial modelling for redevelopment of Headingley Stadium, and asked whether, as the new external auditors to the authority, Grant Thornton considered there was any conflict of interest.

In responding Mr Sethi said that Grant Thornton's work on the Headingley Stadium had come to an end and as far as he was aware there were no other interests or ethical issues to be addressed.

The Chair thanked Mr Mills and Mr Sethi for their attendance and contributions.

RESOLVED –

- (i) To note the contents of the report
- (ii) To approve the nature and scope of the audit plan as presented by Grant Thornton
- (iii) To receive an Audit Progress Report at the next meeting
- (iv) That a report on Brexit and the implications that may impact on City Council Services be scheduled for the next meeting in March, with the appropriate Lead Officer being invited to attend

58 Internal Audit Update Report November to December 2018

The Chief Finance Officer submitted a report which provided a summary of the Internal Audit activity for the period November to December 2018 and to highlight any significant failings or weaknesses.

Commenting upon an earlier agenda item "Application Portfolio Programme – Update on Access Project" (Minute No. 54 referred) - The Head of Internal Audit confirmed that PSN certification had been scheduled into the audit plan.

Members noted that an audit had taken place in respect of the Leeds Carnival and Black Music Festival Event Management arrangements. The audit findings had been fed back to a number of key stakeholders with recommendations being taken forward with the relevant service areas.

Reference was made to Private Sector Legislation – Homes of Multiple Occupancy, Members noted weaknesses had been identified in the inspection process which had led to a limited opinion being given relating to the compliance with the controls for this objective.

If was the view of Members that the Chair, on behalf of the Committee, be requested to write to the appropriate Scrutiny Board and Executive Member responsible in order to draw the issue of weaknesses in the inspection process to their attention.

The Chair queried if sufficient resources were available to the Head of Internal Audit to provide an evidence based opinion to the Committee next year.

The Head of Internal Audit confirmed that there would be sufficient resources available to enable her to issue an evidenced based opinion and formulate a robust Internal Audit Plan for 2019/20.

In offering suggestions on the forthcoming Audit Plan for 2019/20 the Chair said PSN Certification had already been scheduled, but in addition could the following issues be incorporated in the Audit Plan:

- Highway's Contracts review
- Elected Members case work

The Head of Internal Audit confirmed the requested topics would be incorporated into the 2019/20 Audit Plan.

RESOLVED –

- (i) To receive the Internal Audit Update Report covering the period from November to December 2018 and note the work undertaken by Internal Audit during the period covered by the report.
- (ii) To note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.
- (iii) That the Chair, on behalf of the Committee, be requested to write to the appropriate Scrutiny Board and Executive Member responsible in order to draw the issue of weaknesses in the inspection process to their attention.
- (iv) That the issue of: Highway's Contracts review and Elected Members complaints be incorporated into the 2019/20 Audit Plan.

59 Review of the Anti Money Laundering and Anti Bribery Policies

The Chief Finance Officer submitted a report which informed Members of the revisions to the Anti Money Laundering and Anti Bribery Policy and provided Members with an opportunity to comment on the policies prior to the revised documents being published.

Appended to the report were copies of the following documents:

Draft minutes to be approved at the meeting
to be held on Friday, 22nd March, 2019

- Anti-Money Laundering Policy, Procedure and Reporting Arrangements (Appendix A)
- Anti-Bribery Policy (Appendix B)

Addressing the report the Principle Audit Manager explained that money laundering was the process by which criminals disguised the origins of property derived from illegal activity, by making the property seem to have come from a legitimate source. Bribery was an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

Members were informed that the updated policies set out the procedures which must be followed to enable the council to comply with its legal obligations in seeking to prevent or identify money laundering or bribery.

In considering the anti-money laundering policy Members queried the use of “satisfactory evidence of identity” and suggested the inclusion of example forms of identification that are appropriate.

Members were informed that example forms of identification that are appropriate would be included within the policy.

Commenting on the anti-bribery policy, one Member raised the issue of “future employment” and queried if there was any monitoring of officers leaving the Council to take up employment with an external company, having established a close working relationship with that organisation whilst in the employment of the City Council. He queried if there was there any type of restricted covenants in use?

In responding the Head of Governance and Scrutiny Support said the Annual Report on Employment Policies and Practices was due back to this Committee and June and the use of restricted covenants may be explored more at that time.

RESOLVED –

- (i) That the contents of the report by noted
- (ii) To include within the Anti-Money Laundering Policy example forms of identification which are acceptable
- (iii) That the use of restricted covenants be explored further in the Annual Report on Employment and Practice due back to this Committee in June
- (iv) To note that the Chief Officer (Financial Services) would take a delegated decision to approve the revised policies prior to publication

60 Letter to the Secretary of State from Northamptonshire County Council Commissioners

The Head of Governance and Scrutiny Support introduced a report which drew to the attention of Members the governance interventions currently taking place at Northamptonshire County Council.

The report explained that the independent inspection report was published on 15th March 2018, giving evidence that the council had failed in its best value duty. The inspector found that failures at the council were not due to a lack of funding, but a result of poor management, a lack of budgetary control and a culture which discouraged challenge.

Referring to the financial management for Leeds City Council the Head of Governance and Scrutiny Support made reference to two assurance reports received by Corporate Governance and Audit Committee in relation to Financial Management and Treasury Management and the monthly monitoring reports provided to Executive Board in respect to the budget. These processes provide a framework within which financial management risks are reported to Members.

The Head of Governance and Scrutiny Support said that in drawing this report to the attention of Members it enabled the Committee to gain an understanding of contemporary governance issues within the local government sector.

In offering comment Members highlighted the importance of both officers and councillors providing challenge and leadership to the authority and not become complacent in testing assurances that are provided.

RESOLVED – That the contents of the report by noted

61 Audit Committees: Practical Guidance for Local Authorities and Police 2018

The City Solicitor submitted a report which informed Members of the publication of the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on the function and operation of audit committees in local authorities in the UK and for police audit committees in England and Wales. The guidance also sets out CIPFA's views of the role and function of audit committees.

The Head of Governance Services and Scrutiny Support reported that since the last review undertaken by this Committee the scope of CIPFA's Position Statement for Local Authority Audit Committees had become more detailed. The current position statement was reproduced at Appendix 2 of the submitted together with a 'self-assessment' drafted by officers for the Committee's consideration

Members were informed that there were no significant areas of non-compliance identified in the core functions expected of audit committees or with the identified wider functions; where variances had been identified these are listed below:

- The absence of an Independent Person on the Committee.
- The preparation of an Annual Report of the Committee to Council.
- A Knowledge and Skills Framework

In discussing the potential for appointing an Independent Member, the Committee was grateful to Mr Ian Arundale, the visiting Independent Audit Committee Chair from Cardiff Council for his input to the Committee's deliberations.

Members did not reach a definitive view on whether or not to recommend making an appointment of an independent Member. Whilst Members accepted that an Independent Person may be able to contribute specialist knowledge and skills to the Committee, Members considered that the existing arrangements allowed for sufficient breadth of expertise, knowledge and independence to be brought to the business before the Committee. Members also recognised that an Independent Member was not elected and that therefore there was little formal accountability to the public for their role.

With regard to the preparation of an Annual Report of the Committee, Members were supportive of the proposal for a report to be presented to Full Council.

Commenting on the Knowledge and Skills Framework, Members noted that the proposed framework was not a pre-requisite for appointment to this Committee. It was suggested that annual training should be provided which delivers an "overview of change" and keeps Members up to date and with sufficient background knowledge and information to enable Members to fulfil the individual and collective roles on the Committee. The majority of Members were supportive of the suggestion of annual training.

The Head of Governance Services and Scrutiny Support offered to raise the subject of Independent Members with the Deputy Leader and then further report back to the committee.

RESOLVED

- (i) To note the recently published guidance from of the Chartered Institute of Public Finance and Accountancy's (CIPFA) on the function and operation of audit committees in local authorities in the UK (and for police audit committees in England and Wales).
- (ii) To support suggestions for the preparation of an Annual Report of the Committee to Council and to also support the introduction of appropriate Annual Training for Members of the Committee
- (iii) That a report on the appointment of Independent Members be brought back to a future meeting of the Committee.

62 Work Programme 2019

The Head of Governance and Scrutiny Support presented a report of the City Solicitor which set out the ongoing Work Programme for 2018/19.

Following discussion at today's meeting it was agreed that the following items be added to the Work Programme:

- Audit Progress Report from Grant Thornton (the external auditors) in March
- Brexit - A report seeking assurance that appropriate arrangements are in place to manage the impact of Brexit on City Council Services (March)
- Proposed dates for Corporate Governance and Audit Committee 2019/20 (March)
- The appointment of Independent Members - To receive a further report back seeking Members views on the appointment of Independent Members to the Committee

RESOLVED – That, with the inclusion of the above, approval be given to the draft work programme 2019 as set out in the Appendix of the submitted report.

63 Date and Time of Next Meeting

RESOLVED – To note that the next meeting will take place on Friday, 22nd March 2019 at 10.00am in the Civic Hall, Leeds.

**Report of Director of Resources and Housing
Report to Corporate Governance and Audit Committee**

Date: 22nd March 2019

Subject: Annual Information Governance Report

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. Considerable progress has been made this year to resolve security issues. The Council regained its PSN certificate in June 2018. Work is on-going to ensure compliance, working towards re-submission for 2019 certification
2. The council continues to handle and process requests for information compliant with appropriate legislation such as the General Data Protection Regulation / Data Protection Act and Freedom of Information Act. A central requests team is now in place responsible for handling all requests for information.
3. Freedom of Information response times fell below the Council's Key Performance Indicator (KPI) of 96% in the third quarter of 2018-2019. The Council's KPI is higher than the regulatory requirement of 90%, therefore no enforcement action will be taken against the Council.

Recommendations

Corporate Governance and Audit Committee is asked to consider the contents of this report and the assurance provided as to the Council's overall approach to information governance.

1. Purpose of this report

To provide Corporate Governance and Audit Committee with an annual report on the steps being taken to maintain and improve Leeds City Council's information governance in order to provide assurance for the annual governance statement.

2. Background information

- 2.1 Leeds City Council recognises the need to protect its information assets from both accidental and malicious loss and damage. Information Governance is taken very seriously by the council and this is evidenced by the on-going work to improve the management and security of our information as outlined in this report.
- 2.2 The report provides Committee Members with an update on the more strategic and cross-council activity on-going to provide assurance on our approach to information governance.

3. Main issues

3.1 Overall arrangements for Information Management and Governance (IM&G) Assurance

- 3.1.1 The Council, in line with recommended practice for public authorities in the UK, continues to provide demonstrable arrangements which ensure that information assurance is addressed along with other aspects of information governance.
- 3.1.2 The Director of Resources and Housing continues in the role of Senior Information Risk Officer (SIRO). The Head of Information Management and Governance meets monthly with the SIRO to keep him up to date and also has active support regarding high risk matters. The SIRO is supported by the Chief Digital and Information Officer who has delegated decision making powers for information governance. The Chief Digital and Information Officer chairs the Council's Information Management Board (IMB) which ensures good standard information management practice is embedded into business processes, and information standards and policy are fit for purpose and kept up to date. Decisions made by the Chief Digital and Information Officer at the Information Management Board are effectively communicated across each Directorate through the Information Management and Governance Team.
- 3.1.3 The Director for Adult Social Care and Public Health is the Council's Caldicott Guardian. This is a strategic role responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information sharing across Health and Social Care. Meetings are held with the Caldicott Guardian on a monthly basis to give updates on information sharing arrangements between health and social care partners, staff training and any high risk matters.
- 3.1.4 The Council's Head of Information Management is the Council's Data Protection Officer (DPO). The General Data Protection Regulations (GDPR) requires the council, as a public authority, to designate a Data Protection Officer. The main tasks of the DPO are: to inform and advise the council of its obligations under GDPR when processing personal data; to monitor compliance with the GDPR; to provide advice where requested, particularly, with regards to data protection impact assessments and other high risk processing activities; and to act as the contact point with the supervisory authority (the Information Commissioners Office (ICO)).

The Head of Information Management and Governance also oversees the effective underpinning of the Council's operations in the following areas:

- Cyber Assurance and Compliance
- Information Access and Compliance
- Records Management
- Change and Initiatives

3.1.5 Each of the Information Governance leads have developed work programmes, which are monitored and managed through the IM&G Management Team and in turn the Chief Digital and Information Officer.

3.2 Cyber Assurance and Compliance

3.2.1 The Public Services Network (PSN) was set up as an assured route for information sharing by central Government to facilitate shared services. It acts as a compliance regime that serves as both a commitment to a basic level of information security for connecting authorities and also a level of trust between Leeds City Council and other public services.

3.2.2 Following a period of re-prioritised work and commitment from all services, the Council achieved re-certification for PSN in July of 2018. The Council will retain this certification for twelve months with the resubmission due in June 2019. PSN accreditation was awarded in 2018 with the assurance that the Council will remove Access databases running on 2003 by December 2019. Corporate Governance and Audit Committee are monitoring the progress of this separately and is therefore not documented in this report.

3.2.5 Governance for IT Security and Information Assurance is now managed by the Information Security, Assurance and Compliance (ISAaC) group, which concentrates on technical information risk. This group meets six-weekly and addresses the programmes of work in place to improve compliance to the PSN standard, including the output from the IT Health Check (ITHC) and GDPR.

3.2.6 The ITHC in November 2018 highlighted a much smaller number of issues than previous years on a sample of the network. Due to the lower volumes of vulnerabilities the Digital and Information Service is now able to focus on assessing the root cause of issues. Improvements to process are being implemented operationally and the adoption of virtualised teams is supporting this work. This moves the maturity of the organisation forward, allowing more focus on resolving long-standing issues.

3.2.7 The windows server estate is being maintained above 90% (which comprises of the bulk of the estate) which is an acceptable level for the PSN regulators.

3.2.8 There are, however, pieces of work yet to complete, which will further strengthen the security posture of the technical environment:

- Some of our systems have a dependency on additional pieces of software. An example of this is Java. Not all elements of each version are secure. The

Digital and Information Service is working to bring all versions of Java to a compliant and secure state before June 2019

- Mobile Device Management – Upgrades to the majority of compatible mobile devices has been completed. A number of devices are too old to accept the upgraded controls. Replacements for these devices will be funded centrally and roll-out completed throughout 2019/2020 fiscal year.
- Network Segmentation / Authentication – The network access control product, which prevents unauthorised devices from getting on to the network, has been deployed within the Leeds City Council environment. It has to date scanned 98% of the estate and it is expected this work will complete in March 2019. Once all classification work is complete; systems can be set up to prevent unknown devices entering the network, thus ensuring only known and trusted devices are able to access Leeds City Council information. Phase two of the project will require network segmentation, which will provide a place for devices not meeting the agreed criteria to be brought into compliance before allowing them on the main network.
- External Supplier access management software (Bomgar) has been implemented to better control access from third parties to our on premise applications. This prevents unauthorised changes to the estate which had been identified as a weakness.
- Active Directory management remains a large piece of work in maintaining the role based access control structure, providing people with the correct rights and ability to see the correct information. Active Directory management software will be procured to assist in this ongoing task.
- The vulnerability management software, SureCloud, has allowed operational teams to monitor our own compliance prior to the externally assured IT Health Check. This means we are better prepared for the audit. The scanning capability will continue to be a useful tool in maintaining compliance.

3.2.9 Due to the re-prioritisation of workloads, the ISAaC group and new ways of working, Information Management and Governance remains hopeful that LCC will maintain the required standard for PSN compliance in July 2019.

3.3 Information Access and Compliance

GDPR and the DPA 2018

3.3.1 As from May last year, there is a new data protection framework in place which consists of the General Data Protection Regulation and the Data Protection Act 2018 (DPA 2018). The DPA 2018 replaces the Data Protection Act 1998 and supplements the GDPR. It has a number of functions including implementing the EU Law Enforcement Directive, which applies to processing of personal data for law enforcement purposes, and setting out the duties, functions and regulatory tools of the regulator, the Information Commissioner's Office. The new data protection framework builds upon the principles contained within the Data Protection Act 1998 with a greater emphasis on fairness, transparency, and accountability. It provides

the ICO with enhanced regulatory tools which include the power to impose fines on data controllers who infringe the GDPR of up to 20 million euros in some cases with other infringements resulting in a maximum fine of 10 million euros. This two tier fine system represents a significant increase from the previous DPA under which the maximum liability was £500,000.

- 3.3.2 A strategic working group was formed in August 2016 to scope out the work required for the Council to meet the compliance requirements set out in the GDPR and this working group became the Strategic Implementation Board (SIB), which reported into the Information Management Board from September 2017.
- 3.3.3 To help address the size and complexity of this work programme, a GDPR Implementation Team was established in August 2017 and this team was in place until January of this year. The team's key responsibilities were: 1) to project manage and co-ordinate all the activities, outputs, and interdependencies of the work streams (see below); 2) to work with work stream leads to develop the content for the GDPR Implementation Guide (see below) and to oversee the roll out of this guide; 3) to support the GDPR Service Leads (see below) with implementation; and 4) to ensure that the governance and reporting arrangements for a project of this size were adhered to.
- 3.3.4 The first stage of the Council's implementation strategy focused on scoping out 9 technical work streams initiated to define the objectives and outputs required to achieve compliance with the relevant articles in the GDPR and to ensure that appropriate policies, procedures and guidance were updated or created. The 9 technical work streams were as follows:
 - a. **Demonstrating compliance** - requirement for the Council to be able to demonstrate how it meets the principles contained within the GDPR.
 - b. **Security of processing** – requirement to implement appropriate technical and organisational measures to ensure a level of security appropriate to the risk.
 - c. **Security incident management** – requirement to notify the ICO of personal data breaches, without undue delay, and where feasible within 72 hours of becoming aware of it unless the breach is unlikely to result in risk to the data subject.
 - d. **Data Protection by design and default** – requirement to carry out data protection impact assessments (previously known as privacy impact assessments) whenever the Council is using new technologies, and the processing is likely to result in a high risk to the rights and freedoms of individuals.
 - e. **Contractual arrangements with data controllers / processors** – direct obligations on data processors for the first time and new requirements to be followed when using data processors.
 - f. **Individuals' rights** - key rights include the right of access (similar to the previous rules for subject access requests); the right to restrict processing; the right to object; the right to rectification; and the right to erasure / be forgotten.
 - g. **Lawfulness, fairness and transparency** – requirement to have a legal basis for processing personal data with the threshold to utilize consent being higher than the previous DPA; and to provide further information within privacy notices than was previously stipulated.

h. **Storage limitation**

- i. **Accuracy and data quality** – requirements around data minimisation and accuracy including ensuring that inaccurate data is erased or rectified without delay.

Each of these 9 technical work streams was led by a member of the IM&G Service.

3.3.5 Critical to the success of the implementation programme was the role of the GDPR Service Leads whose key responsibilities were to:

- a. support the GDPR implementation team by driving the GDPR agenda within service areas including the dissemination of key messages;
- b. ensure that existing processing arrangements and systems were GDPR compliant and, where required, make the necessary changes including the implementation of appropriate technical and organisational measures proportionate to the risks involved;
- c. assist with the embedding of new GDPR related policies and procedures across the council; and
- d. report progress on implementation against key milestones to the GDPR implementation team including the reporting of risks and issues as they emerge.

GDPR Service Leads were appointed across the Council.

3.3.6 The second stage of the Council's implementation strategy centred on the roll out of the implementation tools, created within the 9 technical work streams referred to above, to the business in the form of the GDPR Implementation Guide ("the Guide"). This Guide has been disseminated at regular intervals since February 2018 to the 58 GDPR Service Leads appointed across the authority. A total of 8 editions of the GDPR implementation Guide have been rolled out containing the following tools:

- a. Record of Processing Activities forms (for each of the Council's delegated functions);
- b. Briefing note on consent;
- c. Revised data protection policy;
- d. New information assurance policy;
- e. Review of privacy notices utilising the privacy notice generator tool to make such notices GDPR compliant;
- f. New procedures on managing and investigating security incidents including personal data breaches;
- g. New procedures for exercising individuals' rights
- h. New Data Protection Impact Assessment template and accompanying guidance;
- i. Review of the Council's corporate retention schedule;

- j. Communications for dissemination to raise awareness including posters and one minute guides (these are available to everyone via InSite. Elected Members have been provided with tailored guidance);
- k. Q&A style tool to assist officers dealing with requests from elected Members to disclose information;
- l. Guidance for managers on the procedures to follow when staff move or leave the authority;
- m. Review of DPA related content on Leeds.gov.uk;
- n. Revised contractual documentation including updated service specifications and new terms and conditions;
- o. Guidance on the use of bcc and cc in email;
- p. Briefing note on Law Enforcement processing;
- q. Questionnaire relating to the corporate Shared Network Drives project;
- r. Questionnaire relating to international transfers of personal data;
- s. Guidance note for staff regarding temporary storage of electronic records.

3.3.7 The third stage of the implementation strategy concerned the monitoring of compliance with the tasks contained within the GDPR Implementation Guide via the self-assurance tool provided. The Corporate Leadership Team was provided with regular updates as to the progress of the GDPR programme of work and monthly updates on the tasks contained within the Guide were provided to all members of Best Council Leadership Team and all Chief Officers. As at the time of writing this report, the completion rate stands at 09.5% and GDPR Service Leads are being supported to complete the outstanding tasks.

3.3.8 The Corporate Governance and Audit Committee on 16th March 2018, made the following recommendations to the Head of Information Management and Governance:

- Members queried if there was further training to be delivered around cyber resilience and also the requirements of GDPR.
- Members queried what the position was in respect of training for Members and Officers, the Committee were informed that a variety of training delivery methods were currently been considered including: face to face, web presentation and E-learning training packages.
- Members of the Committee were of the view that training should be mandatory for both Members and Officers and undertook to recommend to the Member Management Committee that training arrangements for cyber resilience and GDPR be established as compulsory for Members.”

The IM&G Service have since worked closely with Member Support to ensure that Members understand the new framework and the implications for their various roles. To support Members with this, the IM&G Service and Legal Services put together a suite of template documents for Members to utilise: a record of processing activities, a data protection policy, a privacy notice and an appropriate policy document. A paper asking Members to endorse this pack of documents was taken to Member Management Committee in June of last year and subsequently a

Members' GDPR working group was established comprising of Members from across the political parties and the GDPR implementation team. The working group met on several occasions and worked together to produce a number of documents that all Members can adopt and use as data controllers. There is also support to produce records management and retention guidance for Members, and to bring all the materials together into a central IG Resource Guide which will be released to Members in March 2019. The materials for Members will be kept up to date by the IM&G Service in line with any new requirements or guidance produced by the IM&G Service or the Information Commissioners Office.

- 3.3.9 The IM&G Service has also created an IG e-learning platform specifically for Members; created with input from Members, Legal Services and the group support offices. The Member Management Committee confirmed that this e-learning is mandatory for all Members on the 22nd November 2018. This training was released via PALs on 4th February 2019, with additional instruction on how to log into PALs. Communications have been developed and are currently waiting for ratification prior to circulation to all Members. Member Management Committee also agreed that Members would complete the training on each occasion they are re-elected to office, and whilst this can vary, would be no longer than every four years. Compliance would be monitored by the Whips.
- 3.3.10 The GDPR implementation project has now finished as the work contained within has transferred to business as usual although the role of the GDPR Service Leads will continue until all outstanding tasks contained within with the Guide have been completed.

Information Requests

- 3.3.11 Information legislation provides rights for citizens in relation to information held by the council. Under the Freedom of Information Act ("the FOIA") and the Environmental Information Regulations 2004 ("the EIRs"), citizens have a right to request information held by a public organisation, such as the council, and unless an exemption / exception applies the council is generally under a duty to provide this information within twenty working days of receiving a request. The GDPR provides individuals with a number of rights including the right of access; right to rectification; right to restrict processing; right to erasure and right to object. The Council must comply with requests exercising such rights within one month of receipt although there is provision to extend this by a further two months taking into account the complexity and number of the requests.
- 3.3.12 The need to be able to locate and retrieve information is essential both to enable the council to operate effectively and efficiently and to respond to information requests within the statutory timescales prescribed. The risk to the council of non-compliance with information legislation includes complaints / legal claims from individuals and potential regulatory action from the ICO. Forms of regulatory action available to the ICO in relation to the FOIA include the issuing of a range of notices (assessment, information, enforcement and decision); undertakings; monitoring compliance; and prosecution in relation to the criminal offences contained within the FOIA. Monitoring is an informal regulatory power which can be evoked by the ICO if it appears that less than 90% of requests are receiving a response within the statutory timeframe. The GDPR and the DPA 2018 provide the ICO with enhanced regulatory tools which include the issuing of notices (information, assessment, enforcement and penalty); the power to issue warnings, reprimands, compliance orders and processing bans; and to prosecute for the criminal offences contained within the legislation

3.3.13 Following a recent restructure of the IM&G Service, there is now a central requests team in place responsible for handling all requests for information made pursuant to the FOIA/EIRs and the GDPR. At the time of writing this report, this team is in its infancy as requests have gradually been transferred from the three IM&G Hubs to the central requests team. It is envisaged that the formation of this team will provide sufficient capacity to respond to the increase in individuals' rights engendered by the GDPR; drive efficiencies; and allow for consistency and harmonisation as to how information requests are handled.

3.3.14 The table below sets out the numbers of requests received and handled by the council for both the DPA 1998 (and GDPR post May 2018) and FOIA during 2016-17, 2017-18 and figures to date for 2018/19.

	2016/17	% compliance to statutory timescale	2017/18	% compliance to statutory timescale	2018/19 Note these figures include the new rights under GDPR	% compliance to statutory timescale
DPA / GDPR – subject access requests & new rights requests post May 2018	470	96.5 (Council KPI – 86%)	590	97 (Council KPI – 88%)	566 (to Nov 2018)	92 (Council KPI – 88%)
FOIA & EIRs requests	2137	97.5 (Council KPI – 95%)	2009	97.9 (Council KPI – 96%)	1660 (to Nov 2018)	93 (Council KPI – 96%)

3.3.15 The Council has its own KPIs for compliance with the statutory timescales which are included in the table above. As the table illustrates, the Council continues to perform well and is currently exceeding the KPIs for this financial year in relation to requests relating to the rights requests under GDPR.

3.3.16 It is acknowledged that the Council's performance for responding to FOIs / EIRs was, as at December 2018, slightly lower than the KPI threshold. The reasoning behind this is twofold: a 49% increase in the number of subject access requests received following the implementation of the GDPR / DPA 2018 and delays encountered with some services in sending through the information required to respond to the requests to the IM&G Service. It should be noted that the time frame for responding to subject access requests has also changed from 40 calendar days to one month. On average, responding to a social care related subject access request requires reviewing, and redacting where necessary, 844 pages. Notwithstanding this, the introduction of the central requests team will enable better use of resources within the IM&G service and provide more cover to help with peaks in requests and when officers are on annual leave. Furthermore, a 'one minute guide' is being prepared to send out to the business to remind officers of their statutory obligations when responding to a FOIA / EIR request.

3.3.17 Regarding the Access and Compliance professional strand of IM&G, the Committee can be fully assured that every effort has been taken to prepare for and implement

the new data protection framework and this work programme has been commended by CLT and the Council's SIRO. The introduction of a central requests team to handle all information requests should provide for greater resilience in handling the large numbers of information requests the Council receives and enable the process to be streamlined to generate efficiencies and provide greater harmonisation.

3.4 **Records Management**

- 3.4.1 The Council continues to make good progress against the phased project plan to implement the Information Asset Register (IAR) and raising awareness of the role of Information Asset Owners (IAO's) council wide.
- 3.4.2 As previously reported phase one of the plan is completed and all Directorates have identified their assets, nominated IAOs at a Head of Service level and this information is published on the IAR.
- 3.4.3 Work on phase two to embed the role of the Information Asset Owner is now progressing well, despite a shortage of Records Management resource for a period of 2018/19. The methodology for implementing the Information Asset Register and the role of the Information Asset Owners was approved by the Information Management Board and was subsequently launched at a themed CLT workshop opened by the Council's Senior Information Risk Officer (SIRO), Neil Evans late April 2018. This event also focused on the wider importance of records management and its importance to ensuring compliance with the General Data Protection Regulations (GDPR) and make people aware of their roles and responsibilities in relation to managing information.
- 3.4.4 Records Managers are now working with their respective directorate IAOs to help analyse their information assets and also identify associated risks which will feed into the council's wider risk management process. To date the Records Managers have worked with 25% of the 150 Asset Owners to identify their assets and commence subsequent analysis. The deadline for the completion of this work is December 2019 and progress is monitored by the Information Management Board.
- 3.4.5 The Records Management Team also continue to monitor their annual work plan and aspire to improve and ensure consistency of records management approaches across the whole organisation and maintain compliance with the Data Protection Act/GDPR. Work has been undertaken to prioritise this work to ensure high risk areas are conducted first.
- 3.4.6 Key priorities identified last year have all been progressing well as detailed below:
- a. **To ensure that all records are managed effectively as part of the Changing the Workplace (CtW) programme in line with designated methodologies;** All Information Audits were conducted for all services that have been or are subject to a CtW move to ascertain paper storage requirements and recommendations for future paper storage made. All phase 1 moves were successful.

A series of further office moves have now been announced as part of the asset rationalisation programme which the Records Managers are now supporting;
 - b. **Ensure consistency in the management of employee records across the council to ensure compliance with the DPA principles;** Following a discovery project a project brief has been presented to the BCLT determining the scope of a "Managing Employee Records" project. A project sponsor has

also been nominated. The project is now awaiting a project manager to be assigned;

- c. Ensure that all scanning and digitisation provision by the scanning framework is effectively monitored, justified and co-ordinated;** The team have led on and co-ordinated further scanning and digitisation projects in 2018/19 all justified in terms of ensuring compliance with the GDPR, enabling asset release and generating efficiency savings using the council's approved scanning framework including the digitisation of the council's pension records.

There are a number of further scanning projects currently being progressed within the City and Communities area including bridges and Highways.

- d. To cleanse the data and reduce the storage on our existing network drives and mitigate the risk of breaching DPA principles; Discovery and cleanse;** A corporate project has been initiated and is ongoing to cleanse the council's network drives by 60%. Phase 1 will focus on the removal of non business related records and phase 2 due to commence in June 2019 will focus on business related items which have passed retention. It is intended that this project will help us understand the issues and complexities we have with managing our data and ensuring compliance.

- e. Improve Paper Records management to enable effective management, tracking movement and destruction of paper records owned by LCC and reduce unnecessary storage costs;** Over the summer period the Records Management team completed a second project that focused on improving the management of the paper records identified as 'high risk' as part of the Changing the Workplace (CtW) programme as well as data quality relating to "high risk" adults and children's service records. As a result thousands of paper records have again been sent for destruction or were organised for appropriate storage in line with the council's records management policy and the Data Protection Act.

- Adults, Children's and Health – 13,658 e records were checked and matched against physical records. As a result 6,913 records were identified for destruction and 6,094 records have the correct destruction date assigned.
- Middleton Technical Team – Emptying of H Block and Middleton to enable CTW move city centre. 1000 Highways reports scanned. 1430 cost reports reviewed for scanning, disposal and archive, 400 Geotechnical schemes to reviewed for scanning and archive, 5 x 4 draw filing cabinets of unknown mining records reviewed and disposed of.
- Middleton Planning Team – Sifted in excess of 20,000 planning applications in readiness for scanning to free up space at Barkston House;
- Markets – In readiness for the asset release of these offices, files scanned and prepared for archive including: 1.5 linear metres Contract out records to scan, label and store to Qube. 63 legal agreements to scan, catalogue / dispose and deliver to Legal. 11 archive boxes and 2 filing cabinets .5 linear meters to cross check, archive or dispose.
- HR – Over 200 boxes, containing 12,500 personal files were sorted and weeded to remove all unnecessary items. 30 boxes of schools leavers files were sorted and weeded and moved to Westland Road from Restore (off contract spend);

- Horsforth Housing Office – In readiness for asset release 3,000 cancelled applications were reviewed, 12 drawers of files scanned into line of business solution, 29 boxes of files archived and 130 boxes extracted from external storage provider and appropriately sorted;
- Property and Contracts - 14,500 electrical certificates stored in cabinets have been checked for data quality against the e record and prepared in readiness for scanning. Once scanned over 20 linear metres of storage space will be cleared;
- Commercial Asset Management – 15 linear metre of files stored at Navigation House were scanned to enable the team who have relocated to Merrion House access their records digitally.

Funding has also been approved to replace the various record management databases to enable a cohesive and compliant approach. The product is currently in development and a large scale data quality exercise is ongoing to cleanse the data held in the existing systems around file types and retention as well as conducting destructions on records which have passed retention that still remain in the system before any information is migrated.

f. Raise awareness of Records Management across the council to ensure staff are aware of their roles and responsibilities in relation to the management of information; Awareness raising amongst Information Asset Owners is incorporated into the Information Asset project. In addition to this work to raise awareness across the wider organisation remains ongoing. Training material was included in the latest version of the IG e learning package and the team are preparing a records management session for elected members late March 2019.

g. Development of the Council's Retention Schedule; The ongoing work to develop the Information Asset Register and role of Information Asset Owners includes the examination of retention periods. Historically the council's retention schedules have been published in PDF format on the Council's Intranet site. The presentation of retention schedules has been simplified this year and the new look retention schedules were launched in April 2018 and published on Insite. The review of the retention schedules is now in its final stages. The GDPR Service leads have been reviewing their entries which have been challenged by the Records Managers (78% response rate to date). Completed retention schedules are now being forwarded to Legal Services for approval.

3.4.7 The Records Management Plan was reviewed and updated in April 2018 and again December 2018 to reflect the changes in legislation and any organisational changes. Work has also been completed to prioritise the plan.

3.4.8 With regards to Records Management the Committee can be assured that the Information Management and Governance Team continue to provide a reasonable level of assurance that processes and procedures are in place and delivering data protection compliance in this regard. Plans are in place to ensure continuous improvement as documented.

3.5 Change and Initiatives

3.5.1 The Change and Initiatives Team are working to a programme of work that aspires to improve how and when information governance is implemented and embedded across Leeds City Council, through a series of initiatives, in collaboration with

services across the council and in collaboration with partners from across the wider local region. Last year's report informed Committee about a series of Information Governance frameworks developed to proactively deliver information compliance and governance into a range of programmes and projects. This includes ensuring that colleagues delivering the smart cities agenda have effective IG tools to ensure consideration is provided to internet of things devices not being intrusive when installed across the city. The team has worked closely with the Transgender Project to design appropriate IG checks are undertaken discreetly to ensure the council complies with the Gender Reassignment Act 2004. Subject to acquiring capital funding, a new information governance tool is to be developed to support assessing information governance compliance to business intelligence generated by use of the council's new Power BI tool. This is still in planning stage, but the anticipation is that such a tool will allow for a quick assessment to provide information compliance assurance around the manipulation and extraction of council data for intelligence purposes.

- 3.5.2 Members of the Change and Initiatives Team are leading on specific projects to ensure the council can share information with Health and other public authorities. NHS Digital launched a new Data Security and Protection Toolkit in 2018/19, which the council is obliged to complete and self-assess against in order for Adult Social Care and Public Health to be able to share and process Health data. This toolkit replaces the previous Information Governance Toolkit and a new process and storage system for presenting evidence has been designed and implemented. At the time of writing this report the council is on track to meet the submission deadline of 31st March 2019. Team members are also examining the implications of Part Five of the Digital Economy Act 2017, which was enacted to assist public authorities to make better use of their resources through information sharing that targets public services more effectively towards those who need them.
- 3.5.3 The Change and Initiatives Team are representing the council on a regional programme to rationalise and standardise an approach to information sharing across the Yorkshire and Humber region. The Information Sharing Gateway (ISG) is an online portal that brings together a number of stages that support effective information sharing. Leeds City Council together with North Yorkshire County Council are coordinating actions to enlist public authorities from local government; health; police and fire and rescue sectors, in order to bring about a standardised and simplified approach to information sharing across the region. Funding has been assured to the project through the Yorkshire and Humber Partnership Management Board to 30th November 2018, and discussions have begun with the Yorkshire and Humber LHCRE (Local Health and Care Record Exemplars) programme to secure funding into 2020. The Information Management and Governance Team within the council adopted use of the ISG in 2018 and this platform is being used throughout the council for its information sharing agreements. This platform provides the council's Senior Information Risk Owner with immediate assurances about the council's current information sharing activities, and records information sharing agreements in one single repository for auditing requirements.
- 3.5.4 Priority areas within the Change and Initiatives work plan also include:-
- a. Continued lead to provide information governance advice to the City's Personal Healthcare Record (HELM) pilot. The aim of the initiative is to enable citizens to hold and manage medical information about themselves, in a safe, secure and governed space. An initial pilot is trialling 15 volunteers to manage their own personal medical data, using data extractions from three of

the city's GP practices and success is being monitored ahead of expanding this further;

- b. The council has implemented a new guidance for providing assurance around the management of information arrangements of staff leaving the council and those staff moving across the council. A communications programme has been developed to ensure managers are aware of, and use the new guidance and monitoring of take-up will be undertaken during 2019;
- c. New IG e-Learning solution for councillors has been developed for use by the council's elected Members. The training solution has been designed to allow councillors to understand their responsibilities for processing personal data and to help them mitigate against the risk of an information incident;
- d. All council staff designated as computer users completed the mandatory IG e-Learning training in 2019. This provides the council with necessary assurances that its workforce has a basic understanding about individual responsibilities for processing its information assets. A start will be made on updating this training ready for rollout across staff in 2020;
- e. The development of a Discovery and Cleanse tool designed to identify and report on all information stored on the council's network shared drives (and with the ability to automatically cleanse some selected material) was completed at the end of 2018. Use of this tool is now being deployed in the council's Network Shared Drives Cleanse project, which aims to reduce the amount of files currently stored on shared drives by 60%. This will allow the council to demonstrate compliance with GDPR Principle Five on Storage Limitation.

3.5.5 In previous years this report has articulated the council's intention to implement the European Union INSPIRE directive. In the Summer of 2018, the council invited SOCITM to provide a consultative report into how it should provision future geo-spatial information initiatives. Consultants were asked to consider future implementation of INSPIRE data sets as part of the scope of this report. The conclusion in the report by SOCITM is that "INSPIRE is an initiative that is unlikely to be a priority after BREXIT and has been downplayed". The report concluded that "whilst INSPIRE has very laudable principles at its heart, the implementation rules on which it is based were drafted in the early 2000's and technology has moved on to such an extent that many aspects make very little sense today". "It is also unclear whether the INSPIRE initiative will survive our divorce from the European Union and certainly unlikely to be high priority for politicians over the next few years".

3.5.6 The report recommended that council efforts to publish more open data should prioritise supporting Data Mill North in preference to achieving INSPIRE compliance. This recommendation was endorsed by the council's Information Management Board.

3.5.7 The Change and Initiatives Team are providing information governance advice and support to the Applications Portfolio Programme set up to ensure council applications are compliant with GDPR and Data Protection legislation following work undertaken by the GDPR implementation Article 32 Working Group. The programme team will be in place for three years, and a dedicated IG resource is in place to provide technical information management advice and guidance to ensure all current and future council applications comply to the GDPR and Data Protection legislation.

- 3.5.8 Throughout 2018/19 the Change and Initiatives Team provided information governance support to other organisations bringing income into the Digital and Information Service. This included sales to other organisations of our IG e-Learning product; GDPR presentations to external organisations such as the city's schools, and classroom based training to West Yorkshire Joint Services.
- 3.5.9 The Change and Initiatives Team are committed and dedicated to the development of products and solutions to ensure the council remains compliant with information governance related legislation, standards and regulations, and to promote the expertise and experience of the Information Management and Governance service to partners and other organisations.

4. Corporate considerations

4.1 Consultation and engagement

Consultation on the development of strategies, policies, procedures and standards are extensively undertaken across a broad range of stakeholders including information management professionals, representatives from all Directorates via representatives of Information Management and Technology Teams and Information Management Board members.

4.2 Equality and diversity / cohesion and integration

There are no issues in relation to Equality and Diversity or Cohesion and Integration.

4.3 Council policies and best council plan

- 4.3.1 All IM&G programmes of work are working towards ensuring the Council meet statutory and regulatory requirements.
- 4.3.2 All Information Management and Governance related policies are currently being reviewed and a dedicated Policy Review Group has been established. As part of this review the group will be consulting with internal stakeholders and external peer checking.

4.4 Resources and value for money

There are no issues in relation to resources and value for money

4.5 Legal implications, access to information, and call-in

- 4.5.1 Delegated authority sits with the Director of Resources and Housing and Senior Information Risk Owner and has been sub-delegated to the Chief Information Officer under the heading "Knowledge and information management" in the Deputy Chief Executives Sub-Delegation Scheme.
- 4.5.2 There are no restrictions on access to information contained in this report.

4.6 Risk management

- 4.6.1 Non-compliance with PSN standards could leave the Council vulnerable to the following risks:
- The Head of the PSN could inform the Department of Works and Pensions of our non-compliance. Continued non-compliance could culminate in denial of access to Revenues and Benefits data.
 - The Head of PSN could inform the ICO, which could culminate in the revisiting of the audit conducted by the ICO in 2013 to ensure compliance against the Data Protection Act / GDPR.
 - The Head of PSN could inform the Deputy National Security advisor to the Prime Minister, who would in turn conduct an assessment based on the national risk profile.
 - The Head of PSN could instigate an external audit of all our security systems by the National Cyber Security Centre. The Council could end up under partial commissioner control.
 - Ultimately, the Head of PSN could instigate a complete 'switch off' from PSN services
- 4.6.2 PSN certification is relied upon as an assurance mechanism to support information sharing, where many of the requirements request that the council present a certificate prior to sharing, or evidence alternative, more time consuming, compliance work to be completed.
- 4.6.3 Without a PSN certificate, there is significant risk to the council's National reputation as a Digital Innovator.
- 4.6.4 The risk associated with not implementing GDPR / DPA18 compliant information governance policies, procedures and practice across the council leaves the organisation more susceptible to breaches of legislative, regulatory and contractual obligations, affecting the confidence of its citizens, partners, contractors and third parties when handling and storing information.
- 4.6.5 Further work is being undertaken in conjunction with the Corporate Risk Manager to embed the recording and reporting of information risk. The Information Asset Register project will generate information required and an automated dashboard will be produced to report risk assessments to the SIRO. This will provide the assurance required by the SIRO from the business and will allow risk mitigations to be prioritised.

5 Conclusions

- 5.1 The work of the previous year, reported to this Committee on 16th March 2018, has been continued.
- 5.2 The establishment of information governance practice and procedures outlined in this report provides a level of assurance to Committee that the range of information risk is managed both in its scope and through to service delivery. It allows the council to work with partner organisations, third parties and citizens in a clear, transparent, but safe and secure way. It helps to protect the council from enforcement action and mitigate the impact of cyber incidents aimed at attacking and/or bringing down council information systems.
- 5.3 Work continues to ensure PSN compliance and the Council will re-submit for certification in July 2019

- 5.4 The dip in performance of FOI at the end of 2018 has been managed and a central requests team to handle all information requests has been established to provide for greater resilience in handling the large numbers of information requests the Council receives.
- 5.5 The GDPR Implementation Project has formally closed. Work to ensure compliance with the Regulation has been embedded as business as usual in the IM&G service.

6 Recommendations

- 6.1 Corporate Governance and Audit Committee is asked to consider the contents of this report and the assurances provided as to the Council's overall approach to information governance.

7 Background documents¹

None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

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**Report of Director of Resources and Housing
Report to Corporate Governance and Audit Committee**

Date: 22nd March 2019

Subject: Applications Portfolio Programme – Update on Access project

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. The Public Services Network (PSN) was set up as an assured route for information sharing by central government, to facilitate shared services. It acts as a compliance regime that serves as both a commitment to a basic level of information security for connecting government departments and local authorities and also a level of trust between Leeds City Council and other public services.

2. Due to more stringent compliance controls brought in by the Cabinet Office in 2014 the Council has worked hard to ensure it meets PSN compliancy. The Cabinet Office contacted the Council through the Chief Executive in January 2017, to ensure that the Council brought itself into compliance as soon as possible. PSN accreditation was awarded in 2018 on the basis that good progress had been made and with the assurance we will remove Access databases running on 2003 by December 2019.

Recommendations

1. Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured that considerable effort is being undertaken to rectify the current situation with regards to the Council’s approach to maintaining PSN compliance and where progress has been made.

2. The project team recommends providing the Committee with another update paper on Access progress for the next meeting.

1. Purpose of this report

- 1.1 To provide Corporate Governance and Audit Committee with an update on the current position on Access databases and compliance to PSN.

2. Background information

- 2.1 The council relies heavily on a large number of 2003 Access Databases. This software is unsupported and carries a 'critical' score in the IT Health Check (ITHC). There are 288 live databases which need to be migrated to managed systems to ensure services are able to continue without disruption. A plan is in place for completion by end of December 2019 and if not, this could be an issue for PSN certification. Specifically, Access 2003 runtime is the issue for PSN certification, not 2010 as an example (so those Access databases are not currently in scope for the 2019 deadline).
- 2.2 A re-application for PSN certification was made to the Cabinet Office on the 30th September 2017. In November 2017, a mid-year IT Health Check was instigated in order to ratify the Council's position. The results of the ITHC showed a significant improvement.
- 2.3 A further re-application for PSN certification was made to the Cabinet Office at the end of May 2018 using the November 2017, mid-year IT Health Check. The residual 'Security Gaps' were detailed and signed off by Tom Riordan, Chief Executive. As detailed above, PSN accreditation was awarded in 2018 with the assurance we will remove Access databases running on 2003 by December 2019.

3. Main issues

- 3.1 PSN certification is relied upon as an assurance mechanism to support information sharing, where many of the requirements request that the council present a certificate prior to sharing, or evidence alternative, more time consuming, compliance work to be completed.
- 3.2 Since the re-application to the Cabinet Office in May 2018, the PSN Assurance Team have raised concerns regarding the timescales for the resolution of one specific issue; namely the resolution of 2003 Access databases.
- 3.3 Analysis of which databases are in use, by whom and their file paths has been identified and engagement with the service areas, users, application managers and business partners is ongoing to work together on an alternative solution where required. The project team are currently working with service areas to identify solutions that will replace 83 databases. The project team have engaged with all service areas to identify where new solutions are already in the pipeline to replace Access databases and are focussing on those that haven't, whilst still keeping a view of those that are due to be replaced; in case their timescales slip. So far, the project have confirmed that 19 databases can be deleted once they are delivered by another programme/project. This project will monitor progress of these in case the timescales slip and we need to bring them in scope.
- 3.4 The previous Committee meeting raised some queries which have been responded to, please see below for questions and answers.

- 3.4.1 **How other authorities have approached Access issues and how we compare** – We have not engaged with other authorities specifically about this project, but it has been an industry problem for some time. We know that some councils have tackled this issue before, but the scale of usage isn't the same as it is with Leeds. Leeds will be somewhat unique as well, as around the Office uplift and Windows 7 project, Leeds City Council took the stance that people could use Access as a line of business productivity tool and directorates used it with little oversight.
- 3.4.2 **On whether we are still creating new databases** – It is still possible to create additional databases, as we are unable to fully restrict access to Access without removing it altogether, thus risking staff being unable to maintain existing databases and complete their work. Databases have been made since the project commenced, but the majority are copies and backups of existing, known databases. The creation of new databases is being monitored and can be reported to Committee on request. Service desk and applications teams know we should not be creating any new ones at the request of users.
- 3.4.3 **Removal of databases – can they be restored** – Yes, we have 3 months. We can also archive to other areas of NetApp removing essentially all risk. For truly unknown databases we would recommend this, as not everything is used regularly enough for 3 months to catch it.
- 3.4.4 **Resourcing – do we have enough and can we increase if necessary** – We have enough technical staff to undertake the work required and recent issues around Power Business Intelligence team resource and Solution Architect sign off have been resolved. Existing staff can be repurposed to help with some of the tasks and we are able to bring in contractors if necessary.
- 3.5 Engagement with the Cabinet Office to gather their view on the remediation programme has not yet been undertaken. The meeting is arranged for Friday 15th March.
- 3.6 The planned approach is to focus on databases which are business critical and contain highly sensitive data and further below in this report is the current statistical breakdown by status of the databases in each directorate.

Gateways

Below is a table summary of the gateways to enable the project to successfully migrate a service away from Access and over to a new solution and the tasks that are involved at each gateway.

Description	Explanation	Summary Position Statement
Engaging with service	<ul style="list-style-type: none"> - Initial contact with service area/user of database - Requirements gathering – including core minimum requirements, reporting, data migration, retention. This can involve multiple meeting and workshops - Solution options considered against requirements by Solutions Architect or Principal Developer 	<ul style="list-style-type: none"> - Initial engagement with the service is nearing completion, with only 28 databases outstanding with unknown owners
Solution Identified	<ul style="list-style-type: none"> - Proposal of solution 	<ul style="list-style-type: none"> - The following solutions are

	including demo where necessary	been deployed as standard: Power BI (Business Intelligence) Corporate Case Management System SharePoint Excel - Where one of the 4 standard products is not a suitable replacement, alternative solutions are considered by the Solutions Architect
Solution Signed Off	- Sign off of new solution with designated lead/head of service	- Is considered on a case by case basis
In Development	- Requirements being developed into agreed solution, to include input from the service, i.e. checkpoints	- Approximately 8% complete
In User Acceptance Testing (UAT)	- In functionality testing - In user acceptance testing with end user	- As above
Delivered	- Solution delivered and in use by service area, support continuing during an agreed 'bedding in' period	- As above
Pending Deletion	- Databases which are being delivered by another project or programme and so can be deleted once migration to new solution is complete, e.g. Housing ICT solution	- As above
Deleted	- Access database deleted	- Approximately 2% complete

Directorate Breakdown

Below is a tabled breakdown of databases in use in each directorate. The Access software is the problem for PSN, once the project migrates the services away from Access and on to an alternative solution, the databases themselves are no longer a PSN issue (though will be deleted). The software ultimately needs removing once the service no longer has a dependency on the databases.

Directorate	Number of Databases
Adults & Health	2
Children & Families	9
City Development	107
Communities & Environment	44
Resources & Housing	98
Unknown*	28
	Total: 288

*Unknown are those we can see the usage for and have names of users to contact but we have yet to establish an owner, therefore confirm a directorate/service area. The project is currently analysing data of users to engage with them and establish an owner.

Adults & Health Directorate

Engaging with service	Solution Identified	Solution Signed Off	In Development	In UAT	Delivered	Pending Deletion	Deleted
0	0	0	0	0	0	2	0

Children & Families Directorate

Engaging with service	Solution Identified	Solution Signed Off	In Development	In UAT	Delivered	Pending Deletion	Deleted
2	6	0	0	0	0	1	0

City Development Directorate

Engaging with service	Solution Identified	Solution Signed Off	In Development	In UAT	Delivered	Pending Deletion	Deleted
107	0	0	0	0	0	0	0

**87 of these databases belong to Highways & Transport and Environmental Studies and a plan of approach is being devised with business partners for Highways for these ones. They are currently being split into 'reporting' and 'non-reporting' databases, as those which are for reporting purposes can potentially be grouped together for a reporting solution. Highways are also in the process of replacing their main line of business system, so the project team are looking at the dependencies on that for the database replacements.

Communities & Environment Directorate

Engaging with service	Solution Identified	Solution Signed Off	In Development	In UAT	Delivered	Pending Deletion	Deleted
37	5	0	1	0	0	0	0

Resources & Housing Directorate

Engaging with service	Solution Identified	Solution Signed Off	In Development	In UAT	Delivered	Pending Deletion	Deleted
78	2	0	0	0	0	18	2

It is not possible to provide timescales for each database against the gateways, as the databases are being worked on concurrently and each one is at a different stage or has different target dates. The position also changes very quickly as new information comes to light that cause dates to be changed.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Consultation has taken place across service areas, along with application managers and business partners to gather the information needed to assess the status of the databases. Regular communications and updates are planned in and provided to the key stakeholders.
- 4.1.2 Engagement with service areas takes place regularly and is planned in on an ongoing basis, to reassure them, provide updates and discuss potential solutions. We are consulting with the Information Management and Governance team where necessary.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 There are no issues in relation to Equality and Diversity or Cohesion and Integration.

4.3 Council policies and best council plan

- 4.3.1 The Access project falls under a large programme of work within DIS called the Application Portfolio Programme. This programme is set to look at all our applications within the council and to make sure we meet statutory and regulatory requirements and where possible reduce the overall cost to the Council via rationalisation. The Access replacements will take into account the other projects under the programme, e.g. GDPR and Cloud Security Principles to ensure we continue to remain compliant whatever the new solution.

4.4 Resources and value for money

- 4.4.1 The approach to resolve the Access 2003 databases is to remove or replace with suitable in-house solutions initially, thus saving time and money. Therefore internal resource is being utilised and value for money sought. Initial analysis shows that the majority of the databases can be replaced by in-house developed solutions, such as SharePoint lists or corporate case management solutions.
- 4.4.2 There are no issues in relation to resources and value for money

Legal implications, access to information, and call-in

- 4.4.3 Delegated authority sits with the Director of Resources and Housing and Senior Information Risk Owner and has been sub-delegated to the Chief Information Officer under the heading "Knowledge and information management" in the Director of Resources and Housing Sub-Delegation Scheme.
- 4.4.4 There are no restrictions on access to information contained in this report.

4.5 Risk management

Access Risks

Timescales

- 4.5.1 The project has concerns due to the lack of information being provided within timeframes that will potentially impact on timescales for delivery. This is due to a number of factors, including services being unclear about who manages or owns their databases (i.e. staff who built it have now left the council) and the level of information which is held. The project team are working with service areas to identify this information and will escalate any problem areas. Remediation has been agreed with CLT ensuring that where owners for databases cannot be identified within suitable timescales, the Digital and Information Service will manage the outcome of the database (either deleted or move to a compliant platform).
- 4.5.2 The amount of data held in the redundant databases and where it needs to go. Identifying what we need to keep and do not.
- 4.5.3 Dependencies on service areas to work with us in the timescales we need them to, e.g. providing information in a timely manner, being able to implement a new solution within timescales and working around their usual business workload. It's been identified by more than one service area that they have restrictions on when they can implement new solutions (e.g. financial reporting period) and timescales for new solutions in the pipeline to be delivered (e.g. Housing's new solution). Communication has been established with the other projects to ensure any slippage is communicated urgently. Following the correspondence from Councillor Ritchie to the Director of Resources and Housing asking for his assistance in bringing the issue of the Access 2003 remediation work to the attention of the Corporate Leadership Team (CLT) and to push progress within the directorates, the Director of Resources and Housing has acted positively and now receives monthly updates to ensure issues can be actively pursue.
- 4.5.4 Databases which are live and in use which the project are not aware of. Work has been done to identify the databases in use, but there is a small risk there are other databases in use which tools have not yet identified – meaning the number to work with could be bigger. The project has mitigated this as much as possible and without completely removing essential access to databases, it's not possible to fully restrict creation of new databases.

Resource

- 4.5.5 The amount of resource needed once the work progresses to deliver in the timescale needed with the correct skills, is a risk, if this cannot be provided. We have recently allocated additional resource to the Power BI reporting team for the database conversions and have agreed a way forward for identifying alternative solutions without the need to depend solely on a Solution Architect resource.

PSN Risks

- 4.5.6 Should action against the current PSN Remediation plan not be to the satisfaction of the PSN Authority, the Council will have to withstand a number of risks:

- The Head of PSN will inform the Information Commissioners Officer, which could culminate in the revisiting of the audit conducted by the ICO in 2013 to ensure compliance against the Data Protection Act.
- The Head of PSN will inform the Deputy National Security advisor to the Prime Minister, who would in turn conduct an assessment based on the national risk profile.
- The Head of PSN could instigate an external audit of all our security systems by the National Cyber Security Centre. The Council could end up under partial commissioner control.
- Ultimately, the Head of PSN could instigate a complete 'switch off' from PSN services.

5. Conclusions

- 5.1 The actions outlined in this report are being managed both in the project scope and through to service delivery and any risks such as timescales have been identified (as above) and we are working with service areas and teams within DIS to remove the databases within the timeline.

6. Recommendations

- 6.1 Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured that considerable effort is being undertaken to rectify the current situation with regards to the Council's approach to maintaining PSN compliance and where progress has been made.
- 6.2 The project team recommends providing the Committee with another update paper on Access progress for the next meeting.

7. Background documents¹

- 7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.



Report author: N STREET

Tel: 37 88671

Report of Director Resources & Housing

Report to Corporate Governance & Audit Committee

Date: 22nd March 2019

Subject: Annual Business Continuity Report

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Civil Contingencies Act 2004 made it a statutory duty of all Category 1 responders (which includes local authorities) to have in place Business Continuity Plans to be able to continue to deliver critical aspects of their day to day functions in the event of an emergency or disruptive incident. Category 1 responders are likely to be at the core of the response to most emergencies and along with Local Authorities includes Police, Fire & Rescue, NHS, Ambulance Service and Environment Agency etc.
2. The purpose of the annual report (published since 2013) is to provide the Corporate Governance & Audit Committee with assurances relating to the adequacy of business continuity management arrangements currently in place in the council.

Recommendations

3. The Committee to consider the assurances provided by this report and note that the business continuity arrangements are fit for purpose, up to date, are routinely complied with, have been effectively communicated and are monitored.

1 Purpose of this report

- 1.1 To provide assurance to the Corporate Governance & Audit Committee of the adequacy of the business continuity management arrangements currently in place.
- 1.2 To provide a forward look at some of the developments and initiatives planned and proposed to ensure that the council's business continuity arrangements continue to maintain pace with changes to risk and business continuity good practice guidance.
- 1.3 To provide assurance that Leeds City Council (LCC) is meeting the regulations and non-statutory arrangements of the Civil Contingencies Act 2004.
- 1.4 The scope of the report includes progress relating to:
 - Risk awareness & horizon scanning
 - Reviewing and maintaining Business Continuity Plans
 - Exercising & testing of Business Continuity Plans and arrangements
 - Directorate Resilience Groups
 - Supporting commissioned service providers
 - Provision of advice and assistance to business and voluntary sectors
 - Public awareness and warning and informing
 - Collaborative arrangements

2 Background information

- 2.1 The Civil Contingencies Act 2004 made it a statutory duty of all Category 1 responders (which includes local authorities) to have in place Business Continuity Plans. Business Continuity Plans are documented procedures that guide organisations to respond, recover, resume and restore the continuity of prioritised services and functions in the event of an emergency or disruptive incident.
- 2.2 Leeds City Council initiated a Business Continuity Programme to coincide with the publication of BS ISO 22301:2012 'Business Continuity Management Systems – Requirements'. The programme was successfully completed in September 2015 and transferred into the business as usual activities of the Resilience & Emergencies Team.
- 2.3 There are currently 79 Business Continuity Plans owned and maintained by services and functions across the 5 LCC directorates.

3 Main issues

3.1 Risk awareness and horizon scanning

- 3.1.1 Risk awareness and analysis is essential to inform both council and city resilience. Identification of the risks (threats and hazards) that could impact the performance of LCC's prioritised services and functions informs development of mitigating arrangements which includes Business Continuity Plans.
- 3.1.2 It is important to have robust risk awareness and horizon scanning arrangements to identify new risks as well as learning from past experiences which include activation of Business Continuity Plans and outcomes from exercising/testing and learning from incidents both locally and nationally.
- 3.1.3 A recently introduced channel for horizon scanning and sharing information is the establishment of the West Yorkshire Resilience Forum Business Continuity Sub Group. The group meets quarterly and links in with the long established Yorkshire & Humber Business Continuity Forum. Together, the two forums enable sharing of risk and business continuity expertise from across the wider region.
- 3.1.4 There is a 'top-down' approach in the UK for managing risks. At the top is the National Risk Assessment which provides the evidence base of all risks which the UK faces. The National Risk Assessment is published by the Cabinet Office and revised and republished every three years. The National Risk Assessment is used by the West Yorkshire Resilience Forum to identify the risks specific to West Yorkshire. The risks identified are included in the West Yorkshire Community Risk Register which is publicly accessible from the West Yorkshire Police Website. The 2018 Annual Business Continuity Report noted that the review of the West Yorkshire Community Risk Register was work in progress. The review was completed and the risk register republished in September 2018. The key risks facing West Yorkshire are being developed into an interactive e-Book from which the public can access further information and advice on risk mitigation by simply clicking on a link which can be embedded in partner websites and electronic documentation.

To view the e-Book on your mobile telephone or other device, click the following link: bit.ly/wyrisks2019

When launched, the ease of accessibility to the e-Book and information within aims to help communities to improve their preparedness and resilience.

- 3.1.5 The LCC Corporate Risk Register contains two risks which have business continuity implications, 'City Resilience – Risk of significant disruption in Leeds' and 'Council Resilience – Risk of significant disruption to Council services'. The recent review of both risks includes consideration re the uncertainty relating to the terms of the UK's departure from the EU with the risks referencing LCC's current planning and preparedness arrangements for the implications of a potential no-deal EU Exit (BREXIT). The Risk Register additionally has "Major ICT Failure" as a risk, with detailed quarterly reporting against it.
- 3.1.6 Planning for a potential no-deal EU-Exit is focussing on recovery rather than response (though there are likely to be 'spikes' along the Brexit 'journey' where an urgent response will be required to address issues arising).

A series of risk workshops have been facilitated (Infrastructure & Supplies, Economic Development, and Community Impact) to help identify potential risks. The output from each workshop informs development of the 'Strategic City Recovery Plan' which will be reported separately to the Corporate Governance & Audit Committee.

- 3.1.7 The Corporate Risks are fully reviewed on a quarterly basis to include commentary regarding progress and issues. A detailed 'Annual Corporate Risk Management Report' is produced by LCC's Intelligence & Policy Service for the Executive Board's consideration. Assurance on the council's risk management arrangements are provided annually to the Committee.
- 3.1.8 The 2018 Annual Business Continuity Report noted the 11 recommendations from the 'Independent Peer Challenge: London Local Government's Collective Resilience Arrangements'. Although the recommendations were London focussed, where applicable, the 11 recommendations provided a self-assessment opportunity for LCC to measure against. The outcome of the assessment evidenced that LCC has developed a good standard of council resilience and organisational response with the peer challenge providing some new insights highlighting the need for clarity, simplification and some strengthening of current LCC plans and arrangements. The actions considered applicable to LCC along with actions and recommendations from other reports such as Kerlake are included in and progressed through the 'LCC Organisational Resilience Improvement Plan'.

3.2 Reviewing and maintaining Business Continuity Plans.

- 3.2.1 Business continuity is well embedded within LCC with 79 services currently identified as being critical or prioritised, each having a Business Continuity Plan implemented. Although the figure is the same as that reported in the 2018 Annual Business Continuity Report, there has been changes at directorate level, due to some closely related plans being combined and the development of some new plans. For instance Children & Families has seen a reduction from 23 to 21 plans and Resources & Housing a reduction from 25 to 23, whilst Communities & Environment has increased in number from 12 to 16 maintaining the 79.
- 3.2.2 Services and functions identified as critical are those that if disrupted would have an impact on human welfare, security, the environment, finance, legal or reputation and would require recovery within a specified timescale (usually within 24 hours or less). Criticality is assessed through completion of a Business Impact Analysis.
- 3.2.3 Each Business Continuity Plan contains arrangements for loss of staff, loss of buildings and premises, loss of information communication and technology, and loss of key suppliers and supplies. However, the content of each plan will differ due to the nature of the service or function and its specific requirements. Each plan also contains a comprehensive key contact list.
- 3.2.4 As a minimum each plan is subject to an Annual Review, however plans should be reviewed and revised each time a change to the service occurs. Common changes triggering a review of Business Continuity Plans include change of work

premises (buildings and accommodation), changes to key contacts list due to staff movers and leavers or changes to suppliers etc.

3.2.5 Due to the implications of a no-deal EU-Exit, all owners of Business Continuity Plans have been requested to review their plans for any potential impacts. The request has resulted in a number of plans being revised in preparation to mitigate the potential impact of a no-deal exit, however as no-deal implications become clearer beyond 29 March the number of plans being revised is likely to increase.

3.2.6 Besides the annual review, learning from recent events and incidents both local and national is used to inform the continual development of Business Continuity Plans. The heavy snow fall which occurred last February/March had managers revisiting their severe weather arrangements and the Salisbury 'novichok' nerve agent attack last March had managers giving greater consideration to loss of access to premises for a prolonged period. The nationwide O2 outage on the 6th December 2018 affecting mobile data and voice calls, our Digital Information Service (DIS) stayed in contact with O2 throughout the day for updates and followed the Major Incident Management internal process to inform staff across the council.

3.3 Exercising & testing of Business Continuity Plans and arrangements.

3.3.1 The Committee, in response to the 2018 Annual Business Continuity Report raised interest relating to the type and frequency of exercising, particularly multi-agency exercising. It can be reported that the previous 12 months have seen an increase in exercising, both internal to LCC (directorate and service specific) and external multi-agency exercising with West Yorkshire Resilience Forum partners. Although the multi-agency exercises had a focus on emergency response, many of the scenarios progressed into recovery with business continuity implications. A flavour of some of the exercises are noted in the following paragraphs.

3.3.2 In the spirit of 'resilience is everyone's business', managers and officers owning LCC's Business Continuity Plans are responsible for exercising and testing their own plans and arrangements. However, the Resilience & Emergencies Team can offer support in developing and delivering scenario-based table top exercises. In February 2019, an offer was extended to all 79 critical services for support with exercising plans. The exercise scenarios can be generic or more specific to the service, or a mix of both if required. Early expressions of interest received to date show a positive response for support covering a range of critical services and functions.

3.3.3 The Leeds Fuel Plan was reviewed, revised and exercised in August 2018, which proved good timing with concerns re fuel disruption being identified as a potential issue should a no-deal EU-Exit occur. There are a series of Designated Fuel Stations located across Leeds from where vehicles issued with a temporary vehicle logo/permit can draw fuel. Work is ongoing to identify vehicles which support delivery of LCC's critical services to be issued with the permits.

3.3.4 In September 2018 the 'Leeds Outbreak Plan' was exercised (Exercise Bevan). The aim of the city-wide health and social care exercise was to test and validate the processes, arrangements, roles and responsibilities outlined within the plan.

The scenario was an outbreak of diphtheria. If a health outbreak occurred in Leeds there would be significant business continuity issues, particularly relating to loss of staff whether directly affected by the outbreak or absent from work whilst caring for dependents. There were a number of learning points identified which were used to inform final development and subsequent sign-off and approval of the plan.

- 3.3.5 Multi-agency exercising continues to be scheduled through the West Yorkshire Resilience Forum delivering at least one multi-agency 'gold' exercise per year. The exercises test plans at West Yorkshire level and provide an opportunity in a safe environment to challenge decision making of senior representatives from partner organisations. During 2018, two multi-agency 'gold' exercises were held. The first had a scenario based around a flu pandemic, and the second was a recovery scenario following a major terrorist incident in Leeds city centre.

Both exercises had business continuity scenarios to address. The latter exercise provided the opportunity for an LCC Director to chair and direct the Recovery Coordination Group through the recovery process.

- 3.3.6 A regional EU-Exit exercise was hosted by LCC (17.01.19) bringing together resilience forum representatives from North, South and West Yorkshire plus the Humber to play through a series of scenarios over three phases; prior to, during and post a no-deal exit. Those attending shared concerns with potential implications of a no-deal EU-Exit as well as progress with planning and preparation.

- 3.3.7 During 2019 three exercises/workshops have been scheduled for businesses in Leeds to test their own emergency and business continuity plans and arrangements. Exercise 'Hana Hana' is being delivered April, May and July using a terrorist attack scenario. Early take-up for attendance at the exercises is excellent.

3.4 Directorate Resilience Groups

- 3.4.1 Each directorate has a Directorate Resilience Group (DRG). Chaired by a Chief Officer, the DRGs have a wide remit including providing assurance to the director that business continuity plans and emergency planning arrangements are being developed and maintained in line with the changing risk landscape.

- 3.4.2 The DRG's have a responsibility to ensure that the critical services within their directorate have been identified and have developed, implemented and are maintaining Business Continuity Plans including timely completion of annual reviews.

- 3.4.3 All 5 DRG's are performing as required. No issues to report.

3.5 Supporting commissioned service providers

- 3.5.1 Since 2013, the Resilience & Emergencies Team have been completing assessments of commissioned service provider Business Continuity Plans for Adult Social Care. Mainly for providers of accommodation based services for people with learning or mental health disabilities.

The assessments are rated red, amber or green depending on the level of confidence achieved based on the assessment criteria. The assessment includes documented feedback including recommendations which, if implemented will result in an improved rating on subsequent assessments. Since 2013, a total of 91 assessments have been completed on 54 organisations.

- 3.5.2 Generic templates have been developed for external organisations to use. The templates include Business Impact Analysis and Business Continuity Plan and include guidance to aid completion. Completed versions of both templates (using a fictitious organisation) are also available to help users understand the type of content expected to be included in such documents.

3.6 Provision of advice and assistance to business and voluntary sector

- 3.6.1 The Civil Contingencies Act 2004 requires local authorities to provide advice and assistance to those undertaking commercial activities and voluntary organisations in relation to business continuity management.

- 3.6.2 The Leeds Alert system is key to the provision of warning and informing advice to businesses and is a proven tool for getting messages out quickly for any serious incident or emergency. A joint initiative between LCC and West Yorkshire Police, Leeds Alert currently has in the region of 1,400 persons registered from businesses in Leeds. The system is used to send messages (email or text) warning and informing of events or incidents that might impact the Leeds area and therefore day to day business operations. It is periodically refreshed and there are ongoing efforts to increase the number of sign ups.

Such events include notification of accidents, emergencies, demonstrations/protests which might cause congestion or road closures, forwarding Met Office Severe Weather Warnings and Environment Agency - Flood Alerts. The aim is for the person receiving the message to cascade the message within their business or organisation. The Leeds Alert register is refreshed periodically and there are ongoing efforts to expand its reach.

- 3.6.3 Those registered to receive Leeds Alert Messages are automatically invited to attend the twice yearly Leeds Alert Network Events. The events offer those present an opportunity to hear business continuity practitioners and professional speakers deliver a range of presentations relating to business continuity and other broader resilience topics.

The most recent Leeds Alert Event was held in December 2018 and included presentations on dealing with extreme weather, communication in a crisis, drug and alcohol misuse in Leeds, operation Servator and an update on the counter terrorism 'protect & prepare' campaign. Attendance was around 160 persons representing approx. 140 businesses and organisations in the Leeds area.

In addition to the two Leeds Alert Network Events, additional events focussing on specific topics are also held throughout the year. Additional events in 2018 have included counter terrorism and event safety management.

- 3.6.4 The Leeds Resilience Group continue to meet twice yearly and are attended by key officers within the council and from a range of partners.

The group continues to provide the opportunity for partners to receive information relating to developments, events and incidents and to share learning and challenges facing the organisations and encouraging closer working and collaboration. The membership continues to expand, with representatives from the Leeds Universities attending meetings in 2018. An EU-Exit focussed meeting has been scheduled for March.

- 3.6.5 The West Yorkshire Resilience Forum, Voluntary Organisations and Faith Sub Group continues to bring together expertise and experience from a diverse range of groups. Quarterly meetings continue to be an arena for the groups to understand each other's response capabilities and how they can work together to support a response to an emergency. The meetings are also an opportunity to cascade information out to the groups, for example the recent meeting (February) was an opportunity to share preparedness in the event of a no-deal EU-Exit.

3.7 Public awareness and warning and informing

- 3.7.1 The Civil Contingencies Act 2004 requires local authorities to advise the public of risks before and during an emergency. LCC have a number of arrangements in place to warn and inform the public:

- Registration to the Leeds Alert Twitter account @leedsemergency is open to the both businesses and the public and currently has in the region of 8000 followers. The account is used for the issue of warning and informing messages or to promote partner organisation campaigns.
- Other accounts which can be used during an emergency include:
 - @LeedsCC_News account which directs press and media to authentic statements and official announcements made by the lead authority or LCC relating to the emergency. This is also used as one of the key accounts (as it is monitored 24/7) to offer signposting to members of the public.
 - The @LeedsCC_Help account is used primarily for signposting to the public and responding to enquiries.
- The Resilience & Emergencies Team has a range of information and guidance published on the leeds.gov.uk website 'Preparing for Emergencies' pages. The pages include information on business continuity contained within the 'Planning for Emergencies' brochure. The pages were fully reviewed and revised during 2018.
- The Resilience & Emergencies Team will be continuing to support the Emergency Services Show held at West Yorkshire Fire & Rescue Service College at Birkinshaw held each July. The show attracts large numbers of families to this annual outdoor event. The Resilience & Emergencies Team take along the Emergency Coordination Vehicle as a focal point for the display with staff answering questions and handing out information leaflets to the public. The

2018 event attracted in the region of 5000 visitors throughout the course of the day.

- 3.7.2 During emergencies and incidents, there are tried and tested arrangements for liaison between the council's Communication & Marketing Team and Resilience & Emergencies Team regarding the provision of information to the public and media (3.7.1 above). This support extends to 24/7 out of hours coverage with both teams operating an on call rota.
- 3.7.3 For public information relating to planned sporting and cultural events, various departments in LCC working closely with the Event Safety Advisory Group provide advanced notification to residents and businesses advising them of any road closures, diversions, potential for delays and disruption in the locality and surrounding areas. This has worked effectively for events such as the Tour de Yorkshire and the World Triathlon. Letters to residents and businesses on and around the route have been issued in relation to this year's Triathlon event.

3.8 Collaborative arrangements

- 3.8.1 The Civil Contingencies Act 2004 promotes collaborative working arrangements between Category 1 responders in order to fulfil the emergency planning and business continuity requirements of the Act.
- 3.8.2 The West Yorkshire Resilience Forum leads on and develops collaborative arrangements with the other West Yorkshire local authorities and partner organisations. The West Yorkshire Resilience Forum co-ordinates closer working and collaboration through 'strategic', 'management' and 'sub group' meetings, including since 2018 a Business Continuity Sub Group. There are links to the wider Yorkshire & Humberside Regional Business Continuity Forum.

The Leeds Resilience Group (3.6.4 above) fulfils arrangements at a local level.

- 3.8.3 The LCC 'Emergency Management Plan' drives collaboration both internally between LCC services, and also externally with partner organisations where a multi-agency response is required.

The LCC 'Emergency Management Plan' includes arrangements for a major emergency of any type including business continuity and was fully reviewed and revised post Storm Eva.

- 3.8.4 An emergency incident, whether internal or external, is likely to have business continuity implications. The Emergency Management Plan includes a section on 'Recovery' which is led by the Local Authority and is the process of restoring and rebuilding the business and/or community following an emergency.
- 3.8.5 Key elements of the LCC 'Emergency Management Plan' have been included in a 'mini-guide' which is issued to council staff most likely to be providing a response to an emergency and is designed to be carried on the person in a wallet or bag etc.

An event has recently been held to launch the 'mini-guide'. The event held in January 2019 was entitled 'Providing an effective response to and recovery from a major emergency in Leeds'. The event was attended by 94 managers and officers

from across all directorates and focussed on a range of subjects (including business continuity).

The aim of the event was to provide those attending with a greater understanding of what a response to a major emergency in Leeds would look like and concluded with an exercise.

3.8.6 Previous emergencies have identified a need for greater collaboration with councillors during the response and recovery phases of an emergency. Not in an operational responding role, but a leadership and communication role:-

- ensuring the council is meeting its obligations under the CCA 2004,
- providing a focal point for the local area during an emergency, and
- helping to increase community resilience and supporting communities' emergency responses through the period of recovery.

It has been proposed by colleagues in Governance & Scrutiny Support to hold a briefing event for Councillors. The event (date tbc though likely to be May) will focus on the Local Government Association publication 'A councillor's guide to civil emergencies'. Click on the link to view the guidance:

<https://www.local.gov.uk/councillors-guide-civil-emergencies>

4.0 Consultation and Engagement

4.1 There are no proposals contained within this report that have a significant impact on communities.

4.2 Internal. The services or functions assessed as prioritised activities and requiring development of Business Continuity Plans were identified and agreed by the Directorate Resilience Groups prior to any developmental work commencing. There has been a Scrutiny Working Group of Members looking at our plans for Resilience and Emergencies, with a report due at the next meeting.

4.3 External. LCC through the Resilience & Emergencies Team are fully engaged with the West Yorkshire Resilience Forum which through collaborative working helps LCC to meet the statutory obligations as set out in the Civil Contingencies Act 2004.

5.0 Equality and Diversity / Cohesion and Integration

5.1 The on-going development and maintenance of Business Continuity Plans and arrangements takes account of any potential impacts for staff and customers who may have general or specific requirements – in particular those characteristics protected by the Equalities Act 2012.

6.0 Council policies and the Best Council Plan

6.1 The LCC Business Continuity Policy sets out the business continuity requirements placed upon each directorate and their services.

6.2 Effective business continuity management contributes to the delivery of the outcomes and priorities set out in the Best Council Plan e.g. our 'Best City' strong economy and compassionate city ambitions by looking after vulnerable people in an emergency and a safe city encouraging investment; to our 'Best Council' efficient and enterprising ambition by maintaining critical services in the event of an incident.

7.0 Resources and value for money

7.1 There are no financial or resource implications arising from this report.

8.0 Legal Implications, Access to Information and Call In

8.1 The Civil Contingencies Act 2004 requires Category 1 responders (which includes local authorities) to maintain Business Continuity Plans and arrangements to ensure that they can continue to perform their key services and functions in the event of an emergency, so far as is reasonably practicable.

8.2 Many of the LCC services covered by Business Continuity Plans have a duty of care or a regulatory requirement to provide their service. This extends to maintaining services during an emergency or disruptive incident.

9.0 Risk Management

9.1 This report provides assurance on the arrangements within the council and partners across the city and region to manage business continuity risks. These arrangements are captured within the council's corporate risks on 'City Resilience' and 'Council Resilience' and reported quarterly to the Corporate Leadership Team and annually to the Executive Board.

9.2 In addition, the West Yorkshire Community Risk Register compiled and maintained by the West Yorkshire Resilience Forum, informs the development of emergency and business continuity plans and arrangements.

10.0 Conclusions

10.1 The information contained within this Annual Business Continuity Report aims to demonstrate to the Corporate Governance & Audit Committee that LCC continues to have arrangements that are up to date, fit for purpose, effectively communicated, routinely complied with and monitored and that the arrangements meet LCC's statutory duties as required by the Civil Contingencies Act 2004. This is being achieved by:

- Continued monitoring and identification of risks and development of measures to mitigate the risks should they occur.
- Continued review and revision of Business Continuity Plans for LCC's prioritised services and functions through the annual review cycle.
- Participation in exercising and training both internally and externally with partner agencies.

- Maintaining directorate engagement with and ownership of business continuity arrangements through the Directorate Resilience Groups.
- Providing guidance and support to commissioned service providers in relation to business continuity.
- Providing business continuity advice and assistance to businesses and the voluntary sector.
- Maintaining effective systems for public awareness and warning and informing.
- Development of new and enhanced existing collaborative working arrangements with partner organisations

11.0 Recommendations

11.1 The Committee to consider the assurances provided by this report and note that the business continuity arrangements are fit for purpose, up to date, are routinely complied with, have been effectively communicated and are monitored.

12.0 Background documents¹

12.1 None.

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

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Report of Chief Officer – Financial Services

Report to Corporate Governance and Audit Committee

Date: 22nd March 2018

Subject: Procurement Assurance Report – 2018/19

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

- Following a request by the Corporate Governance and Audit Committee, this report provides information and assurance on procurement policies and practices within the remit of the Council’s central procurement team – Procurement and Commercial Services (**PACS**).
- Each Directorate is accountable for the procurements that they need to secure the outcomes they are responsible for. PACS is accountable for provision of professional support to complex procurement activity. From the review, assessment and on-going monitoring carried out, the Chief Officer – Financial Services has reached the opinion that following the adoption of the updated procurement strategy (the **New Procurement Strategy**), procurement policies and practices will be up to date, fit for purpose, and effectively communicated.
- The New Procurement Strategy is being presented to Executive Board on 17th April 2019 with a recommendation for its adoption. The launch of the New Procurement Strategy will be accompanied by a refresh of the Council’s procurement documentation and the Contract Procedure Rules (**CPRs**).
- There has been one formal procurement challenge in the period to which this report relates. On-contract spend remains strong and there is general compliance with procurement policies. This is evidenced by the fact that off-contract/non-contract

spend and waivers of CPRs in order to directly award contracts have reduced marginally, compared to 2017/18. This represents the fourth year in a row that this figure has seen a reduction.

Recommendations

Members are:

- requested to consider and note the assurances provided in this report; and
- invited to provide comments that they may have on the draft New Procurement Strategy.

1 Purpose of this report

- 1.1 This is the annual report of the Chief Officer – Financial Services to the committee, concerning the Council’s procurement function.
- 1.2 Members are asked to consider the ongoing work to maintain effective procurement support tools and guidance, and note the assurance offered by the Chief Officer – Financial Services.

2 Background information

- 2.1 The Council procures a very wide range of goods, works and services, including front-line services and back-office support. The Council’s spend with third parties through procurement and commissioned activity remains close to £800m per annum.
- 2.2 CPRs form part of the Council’s Constitution and are required to be adopted by local government legislation. These are supported by a suite of procurement and guidance documents accessible by commissioners on InSite.
- 2.3 Each Directorate is accountable for the procurements that they need in order to secure the outcomes they are responsible for. Following the disbandment of the former Projects, Programmes and Procurement Unit, accountability for the Council’s procurement function transferred to the Chief Officer – Financial Services. Day-to-day responsibility for delivery of procurements sits with the Head of Commercial as head of service for the central Procurement and Commercial Services (**PACS**). PACS provides professional advice and support to complex procurement activity. Support provided by PACS includes procurement processes and compliance with procurement legislation, identifying and working with services to reduce off-contract spend, identify procurement savings, and provide general check and challenge.
- 2.4 The Council’s procurement strategy currently provides for a category management approach to procurement. It also advocates a whole lifecycle approach, defines clear roles and responsibilities, and provides a suite of documentation which can be tailored proportionately to the risks and value of procurement activity. Key areas of focus for the current procurement strategy are value for money and governance.
- 2.5 While value for money and good governance in procurement remain the cornerstones of the New Procurement Strategy, it recognises the need to compliment efficiency and effectiveness with a much greater focus on delivering maximum benefits locally from Council spending thereby helping the Council achieve its overall strategic objectives set down in the Best Council Plan.
- 2.6 This report reflects procurement activity during 2018/19.

3 New Procurement Strategy

- 3.1 The existing Council procurement strategy is heavily focused on value for money and governance of procurement processes. In respect of the former, it seeks to achieve efficiencies in the procurement process, in particular through a category management approach to procurement – i.e. by grouping our related purchasing

together, rather than individual services separately purchasing, we are able to take advantage of better intelligence of our buying needs and of what providers have to offer, and to support bulk buying where appropriate, in order to improve quality, savings and efficiency.

3.2 While clearly these remain essential aspects of procurement, and the Council relies on continuing procurement efficiencies to support the achievement of a balanced budget each year, it is equally clear that the procurement strategy must be further developed in order:

- to fully reflect the Council's best city ambitions of being "a strong economy and a compassionate city", and "an efficient and enterprising organisation"; and
- to keep pace with the National Procurement Strategy 2018 – taking account of significant current procurement related issues, such as social value (see paragraphs 4.9 to 4.12 for greater detail).

3.3 The following five priority areas have been identified in the New Procurement Strategy:

3.3.1 Value for money and efficiency. Seeking to ensure the Council gets maximum value from every pound that is spent through best value and innovative procurement practice; a consistent corporate approach to commissioning; a clearly identified savings strategy and the continued implementation of a category management approach to procurement.

3.3.2 Governance. Ensuring compliance with the Contract Procedure Rules, the Constitution and the Public Contracts Regulations 2015 in order to manage procurement risk and to comply with legal requirements. This includes matters relating to 'on-contract' expenditure and the use of waivers (see paragraph 3.3, below).

3.3.3 Social Value. Seeking to improve economic, social and environmental wellbeing from our contracts over and above the delivery of the services directly required at no extra cost.

3.3.4 Commercialisation. Seeking new ways to develop and create commercial opportunities through procurement and commissioning activities, not just by promoting revenue generation, but by looking at how we engage with, and influence, the marketplace and potential suppliers in order to drive innovation and develop new ideas around service delivery.

3.3.5 Strategic Suppliers. Effectively managing our strategic supplier relationships through continuous engagement with them and through effective management of all contracts from beginning to end in order to control costs, obtain the quality outcomes and performance levels set out in the contract and minimise the level of risk.

3.4 The New Procurement Strategy also identifies a number of "procurement enablers" which are the cross-cutting issues that we will need to address if we are to realise our ambitions. These enablers cover:

- 3.4.1 ensuring we develop talent by supporting staff to obtain professional qualifications and for apprenticeships;
- 3.4.2 exploiting digital technology such as electronic tendering, Procure 2 Pay systems, electronic invoicing and using technology to enhance our knowledge management by accessing paper and electronic sources to build comprehensive intelligence about contracts, markets and trends;
- 3.4.3 embracing an innovative approach across all Council procurements; and
- 3.4.4 embedding change in the organisation by ensuring that senior managers recognise the importance of procurement and contract management, and promote it as a way of leading and managing organisational change.
- 3.5 Finally, the New Procurement Strategy also provides for a number of KPIs in order to measure performance and progression over the next 5 years in relation to the five priority areas and development of the four procurement enablers.
- 3.6 A copy of the draft New Procurement Strategy is appended to this report at Appendix 1. Members of the committee are invited to provide comments that they may have on the draft New Procurement Strategy.

Contracts Procedure Rules

- 3.7 Section 135 of the Local Government Act 1972 requires local authorities to make standing orders for procurement activity, including securing competition and regulating tenders – the CPRs. The CPRs form part of the Council’s Constitution
- 3.8 CPRs are regularly updated to reflect changes in legislation and Council policy. They were previously updated in July 2018, with the major amendments as follows:
 - 3.8.1 References to the Chief Procurement Officer changed to the Chief Officer - Financial Services. The definition of Chief Officer - Financial Services is expanded to include “any Officer within Procurement and Commercial Services who carries out the functions of the Chief Officer - Financial Services under these CPRs”;
 - 3.8.2 The importance of following CPRs has been made clear and that a failure to comply with CPRs may result in disciplinary action;
 - 3.8.3 The CPR relating to “Exclusive Supplier” has been deleted as it was considered to be confusing being that there is a requirement to use “existing contractual arrangements” where in place;
 - 3.8.4 CPRs 7.1 and 8.2 amended such that officers need to consider whether the procurement would be of interest to local suppliers and/or third sector organisations and, if it would, at least 2 of the organisations invited to tender must be local suppliers and/or third sector organisations;
 - 3.8.5 The discretion to raise the threshold of £10K (for low-value procurements) to £25K on a case by case basis has been re-introduced at CPR 7.2;

- 3.8.6 CPRs 8.6 and 9.7 provide that all open opportunities under CPRs must be published on both Yortender and Contracts Finder. Further, at CPRs 7.4, 8.7 and 9.8 it has been made clear that all completed procurements must be registered on YORtender and Contracts Finder;
- 3.8.7 CPRs 7.3, 8.4 and 9.5 have been introduced so that where the relevant Chief Officer considers there is genuinely no competition such that only a particular organisation or provider can meet the Council's specific requirements (e.g. when commissioning a piece of art) a waiver of CPRs need not be obtained. However, the lack of competition must be formally evidenced and approved by the relevant Chief Officer before the contract is entered into;
- 3.8.8 CPR 10.2 has been extended to indicate that a waiver need not be sought where the Council is entering into a co-operation agreement with another public sector body in accordance with Regulation 12 of the Public Contracts Regulations 2015;
- 3.8.9 The EU Thresholds for procuring goods, works and services have been amended to reflect the current levels;
- 3.8.10 CPR 14.1.8 has been expanded to make it clear that tenders under £100K must be opened and receipted in such a way that the transparency and probity of the process cannot be called into question;
- 3.8.11 CPR 18.3 and a new Appendix 1 has been introduced to ensure compliance with the IR35 (tax) legislation; and
- 3.8.12 CPR 27.1 has been amended to make it clear that waivers of CPRs are only permitted in exceptional circumstances.
- 3.9 A further review of CPRs is currently in progress to coincide with the adoption of the New Procurement Strategy.

Procurement tools and documents

- 3.10 The key procurement delivery documents and tools are refreshed regularly to reflect legislation and Council policy.
- 3.11 Of particular significance is the ongoing development (in consultation with third sector representatives and the People's Commissioning Strategic Group) of a Social Value Framework which is a toolkit to support implementation within procurement activity of the Social Value Charter.
- 3.12 PACS are currently reviewing and updating the entire suite of procurement documentation to ensure they are user friendly for commissioners, to encourage bidder participation, to focus on innovation and opportunities, and to take account of feedback from officers during consultation on the New Procurement Strategy/CPRs (which indicated that the procurement toolkits on Insite, and in particular Category Management and Exit Plans were no longer fit for purpose, and as such, officers are either not using them effectively or not using them at all).

Communicating the Strategy and procurement policies

- 3.13 As well as providing online training and tutorials, each Category team within PACS works closely with commissioning staff within directorates to ensure compliance with CPRs and use of the correct documentation and governance processes.
- 3.14 In addition, following launch, the New Procurement Strategy and supporting tools will be available on InSite, within toolkits dedicated to procurement and category management which are updated when changes are made, and with key changes being further communicated on the InSite carousel.
- 3.15 A cross-council Procurement Practitioner Group meets on a monthly basis to share issues and best practice, and training sessions are organised for procurement staff and commissioners when new significant policy changes (such as the New Procurement Strategy) are implemented.
- 3.16 PACS also hosts the Council-wide Commissioners' Procurement Group, and has representatives on commissioning boards in service areas across the Council.

4 Procurement activity during 2018/19

- 4.1 PACS' resources are prioritised to supporting high value and/or complex (from a risk perspective) activity.
- 4.2 PACS also provides support in respect of lower value procurements by way of:
 - 4.2.1 an e-learning procurement training module for council staff through the Performance and Learning system which gives guidance and training for staff council-wide to comply with policy, governance and CPRs when ordering goods and services;
 - 4.2.2 Telephone support; and
 - 4.2.1 where non-standard terms and conditions are proposed, the requirement that these are vetted through the commercial team within PACS.

Regional Procurement

- 4.3 The Council meets other regional authorities through a Strategic Procurement Group (**SPG**) which meets every six weeks to share best practice, act as the voice of the region on national procurement issues, and promote collaboration opportunities. The Council administers the SPG and reports periodically to the Yorkshire and Humber Chief Executives Group.

Value for Money in Procurement

- 4.4 PACS have been actively involved in rolling out the Councils 'Faster Payment Service' whereby the Council would receive a discount in exchange for paying an invoice earlier than standard terms.
- 4.5 The tender documentation has been updated to highlight the Faster Payment Service to potential contractors and include the service in future contracts. In

addition, PACS has been working in conjunction with DIS and holding workshops for commissioners within service areas, explaining the service and advising them to engage with their suppliers to promote the Faster Payment Service. This is intended to achieve greater awareness of the scheme around the Council and also because the commissioners are in a better position to contact suppliers as they already have the relationship with them.

- 4.6 There has also been a significant amount of work from PACS to address barriers that prevent invoices being paid within 10 calendar days. This has involved working with directorates and challenging current processes to enable a faster turnaround on the invoice processing. This work is on-going especially within Children's and Families and Adults and Health.
- 4.7 PACS have also been supporting the Business Support Centre in the implementation of the 'No Purchase Order, No Payment' policy. Whereby invoices will not be paid unless they quote a valid order number. PACS have updated the terms and conditions within the tender documents to reflect this.

Social Value

- 4.8 Social Value from procurement is a key element of the Council's wider aspirations for inclusive growth in conjunction with local communities and businesses. Social Value outcomes are monitored by the Council around some key areas of activity, and the beneficial outcomes include the following:
 - 4.8.1 expenditure with local suppliers and SME's equated to 51.97% of total expenditure in 2018/19 (to end Feb), with associated employment and skills outputs from procurement activity and planning agreements;
 - 4.8.2 commissioning the projects on the Learning Places Programme through either the YORbuild framework or existing Leeds Local Education Partnership (LLEP) arrangements (while delivering the required number of school places for Leeds) has created over 2,300 new apprentice and employment positions for local people in Leeds up to June 2017, and ensured that the firms employed have recycled or reused 99% of waste generated during the construction process; and
 - 4.8.3 the Council is committed to the Unison Ethical Care Charter and has been working towards compliance with its principles in relation to externally commissioned home care services. Consequently, in relation to its externally commissioned home care services, the Council has committed to working towards the Rowntree Foundation Living Wage by increasing support to home care providers with a request to them to improve basic pay by injecting an additional c£1 million into these contracts. Additionally, the new home care fee included payment for travel time and travel costs, in accordance with the Charter.
- 4.9 The Council is also developing a collaborative and systematic approach to engaging with anchor institutions. Anchor institutions are those which make a significant contribution to the local economy through the services they provide, the large amount of money they spend and the number of local people they employ. We are promoting collective action on employment, low pay and social responsibility.

- 4.10 A key aspect of social value is improving opportunities for local SMEs. The YORscep supply chain engagement programme will post opportunities on the YORhub website which will be open to all sub-contractors registered, reduce onerous barriers such as lengthy pre-qualification processes, and improve visibility of projects. This in turn should result in even greater values of expenditure being spent locally as a consequence of local SME's working on large projects, and quality opportunities becoming available to local businesses and people.
- 4.11 Monitoring of wider social value outcomes is anticipated to increase as the Social Value Framework is adopted, and it is proposed that PACS should take a lead role in this regard.

Contractor Insolvency and Profit Warnings

- 4.12 The recent collapse of a number of high profile construction/facilities management companies in the UK has served to re-inforce the importance of good contracts and contract management practices but also the need for robust procurement on behalf of the Council, as good procurement will ultimately lead to good contracts.
- 4.13 To address this issue, PACS have produced a guidance and policy document for commissioners and contract managers within the Council relating to company financial health checks and profit warnings. The document highlights actions that can be undertaken prior to entering into a contract as well as during the contract period in order to provide reasonable mitigations against the risk of contractor insolvency. The document will be launched at the same time as the New Procurement Strategy, updated CPRs and procurement documentation. It will be referenced in the updated CPRs, and a copy of the guidance will be published on Insite.

YORtender procurement portal and data transparency

- 4.14 The Council (along with other Yorkshire and Humber regional authorities) has used YORtender as its procurement portal for the last 6 years, enabling electronic tendering for the vast majority of procured spend. The Council is responsible for the regional contract management for YORtender which, along with the on-going SPG programme management, generates £74k of external income for the Council.
- 4.15 PACS provide YORtender training and support across the Council with on-site training sessions, phone/email conversations and an on-line interactive tutorial.
- 4.16 YORtender also provides collaboration successes with other authorities in the region such as the White Rose Looked After Children framework.
- 4.17 CPRs require all spend over £10k to be registered through YORtender.
- 4.18 Under the Government's Transparency Code local authorities must publish details (including a unique reference, a description of the goods/services/works and dates for review) of every invitation to tender for contracts to provide goods and/or services with a value that exceeds £5,000. This requirement is complied with through publication through the YORtender portal for Spend of over £10,000 and by manual analysis of any spend exceeding £5,000 within FMS.

- 4.19 Local authorities must also publish details of any contract, commissioned activity, purchase order, framework agreement and any other legally enforceable agreement with a value that exceeds £5,000. The Council's Contracts Register published on Data Mill North fulfils this requirement along with a separate report for items below the threshold for publication on YORtender which also covers non and off-contract spend items.
- 4.20 The Council, in its role as SPG programme manager, is leading (on behalf of SPG) the joint procurement of a new and updated e-tendering system for the region alongside the North East Purchasing Organisation. The new system will replace YORtender when it expires on 31st December 2020.

Monitoring Contracts Procedure Rules

- 4.21 CPRs require Chief Officers to involve and/or consult with PACS for specified procurement activity, and also requires PACS to be informed of the following activity: waivers, extensions, variations of high value contracts, where the template procurement plan or contract management plan is not to be used, breaches of CPRs and where ISPs (internal service providers) are not used. Members should note that aside from monitoring of non and off contract spend and waiver activity, current resources do not permit additional significant monitoring of compliance, however the contract award process for contracts above £100k, internal audit reports and the ongoing training and support provided to directorates (see above) offer further assurance around compliance.
- 4.22 CPRs allow certain rules to be waived in circumstances where relevant Chief Officers consider a course of action to be justified, provided that the PACS is informed when waivers are approved by Chief Officers, and that such waiver decisions are published as Significant Operational Decisions. However, issues relating to the inappropriate use of waivers of CPRs have been the subject of scrutiny over many years.
- 4.23 PACS officers have recently adopted a more robust, automated process for capturing waivers from the decision register, which consequently allows officer resource to concentrate on seeking to understand the detail of each particular waiver, rather than finding and logging the information. This has improved the accuracy of the register of waivers.
- 4.24 PACS officers have also been focusing on the issue of waivers that have not also been registered on the Council's e-tendering system "YORtender". PACS has been assisting directorates in setting up these records and this has seen a rise from just 5% of waivers previously having been recorded on YORtender, to a current figure of 71%. This area of work provides a lot of information that has previously been missing, including supplier names, waiver periods and amounts. This also ensures that the Council is in line with its own policies and the Public Contract Regulations 2015 for the publication of public contract awards.

Recent analysis, utilising the more effective search tools referred to above, has identified 189 waivers of CPRs in the current financial year. This is an increase on recent previous years, however this is attributable to the improvements in terms of the adoption of the more robust, automated process for capturing waiver

information. Of these 189 waivers, only 38 were properly recorded as being related to timing and resource issues (i.e. there was insufficient time to procure the contract in accordance with CPRs), and of those 38, only 7 were above the key decision threshold. This indicates that the majority of waivers in the current year have either been raised in line with CPR requirements or (in some circumstances) were not necessary (e.g. where contract value is up to £25,000, a direct award is permissible without the need to waive CPRs).

- 4.25 In addition, the latest figure for “on-contract” spend for the 2018/19 is **96.6%** of orders are on contract or compliant with CPRs. This is a slight increase from the 96.3% reported last year, and is the fourth consecutive year that this figure has increased (see below).
- 4.26 The evidence therefore suggests that the CPR waiver regime is (for the most part) being utilised in an appropriate fashion. However, it is recognised that there is still room for improvement in respect of the waiver process – for example, with regard to record keeping, consultation with PACS before taking a decision to waive CPRs, clarity of rationale behind a waiver and officer understanding of the waiver process. In respect of trying to improve officer understanding of how waivers of CPRs should properly be utilised, information on the Council’s intranet (InSite) has been reviewed and amended to make the process of waivers easier to follow and clearer to understand, and a flow chart of the process has also been published. In addition, a single format of contract register linked to the YORtender system has been adopted which includes clear dates in relation to contract expiry and a series of early warnings as to key procurement and decision making dates.
- 4.27 Internal Audit has carried out a review of the use of waivers and key recommendations from this include:
- changing the process for issuing waivers under the CPRs to require final check and challenge by PACS officers **before** a waiver decision, to ensure integrity and the correct use, and for them to be centrally recorded;
 - a more robust template (tick-list) is to be included on the template waiver report in order to make the rationale for raising the particular waiver clear on the face of the waiver report;
 - full training to be provided to decision makers and those responsible for signing waivers; and
 - learning lessons from waivers to ensure continual improvement and strategic planning (to avoid future similar waivers).
- 4.28 These changes will strengthen the current procedure and allow a greater level of check and challenge, and present the opportunity for PACS to give advice and have visibility of the proposed waiver before the relevant decision is made. From the change in process there will also be greater detail in the reporting information gathered and the reason for the waiver being raised should be easier to identify.
- 4.29 Appropriate use of waivers of CPRs is identified as a KPI in the New Procurement Strategy as part of the commitment to good governance.

4.30 Monitoring of the use of waivers will continue, and will be reported to the Corporate Governance and Audit Committee and to R&H Scrutiny Board.

4.31 Internal Audit also carry out audit activity on a small number of specific procurements each year.

On/off contract spend

4.32 PACS continues to monitor off contract spend through FMS, actively collaborating with colleagues in the wider council including the Business Support Centre, Corporate Finance and directorates (via their feeder systems) in order to have visibility of non and off-contract spend.

4.33 PACS produces monthly and quarterly reports detailing non and off-contract spend. These reports are used to inform monthly meetings with PACS Category Managers and their meetings with directorate contacts. The activity has enabled off contract spend to remain at minimum levels compared to total spend this financial year.

4.34 The latest figure for on-contract spend to the end of February 2019 is **96.6%** of orders are on contract or compliant with CPR's. This is marginally better than the 2017/18 figure of **96.3%** and continues to compare extremely favourably to 2016/17 **95.7%** and 2015/16 **89.8%**.

4.35 It has been recognised generally within the Council that there is a need to provide FMS users, specifically those raising orders, with more training to improve compliance. The training now being rolled out focuses on contract compliance and how to raise an order. The PACS team are currently receiving a large volume of queries in the form of e-mails and telephone calls. The training is aiming to alleviate both directorate and PACS queries, increase awareness of CPR's and reduce the cost of producing a purchase order. To date PACS have delivered the training to over 400 officers. The benefits of this training has already been seen with an improvement to compliance and significant reduction in the amount of queries received and a reduced levels of non and off contract expenditure, in addition to greater communication within service areas.

4.36 PACS staff have undertaken an exercise to classify suppliers within FMS to easily identify whether they are Local or SME's. The benefit of this is that reporting around these classifications was a manual process and time consuming. The information now held on the system reduces reporting time and adds clarity to the system.

4.37 A new contract expenditure analysis is now distributed at directorate and service level so that expenditure by directorates with suppliers who do not hold a valid contract is visible and action can be identified and undertaken. This report gives an overview to Directorates whether expenditure is compliant with CPR's. Collaboration with Directorates using the report has been successful toward eliminating non-compliance and ensuring best value is achieved from council expenditure.

4.38 PACS has created an interactive tutorial providing a step-by-step guide to running low impact procurements (under £100k). This breaks the tender process into nine easy to follow steps. This has made it easier for Directorates to raise procurements

through YORtender. Telephone support is also currently available through PACS for this process. This has been rolled out to over 150 people within the Council.

- 4.39 PACS staff have been continuing to be actively focused on the orders raised for low value items (under £5k) as a previously reported action. PACS have been challenging expenditure where there is a known contract with a supplier that has not been used and also where CPR's have not been visibly followed, following this up with advice and guidance on the correct process to follow. This has significantly reduced the number of orders that are raised incorrectly.
- 4.40 On-contract compliance is also addressed in the New Procurement Strategy as part of the ongoing commitment to good governance in procurement (with related KPIs).

Challenges to procurement activity

- 4.41 There have been a number of requests for additional information in response to standstill letters however only one of those requests developed into formal proceedings to challenge the decision by the Council to award a contract in relation to the Leeds City ICT Goods Supply, Maintenance, Disposal and Services Framework. The challenge resulted in DIS abandoning the procurement exercise. A review of the service requirements etc. is currently underway. In the meantime DIS have entered into a number of individual contracts to ensure service continuity, with the intention of undertaking a new procurement exercise once the service requirement review is complete.

Brexit

- 4.42 This is being kept under review. The proposed new procurement regulations are, for the most part, the same as the existing rules (with appropriate amendments to take account of practical changes like utilising a UK-based online portal, rather than the EU tendering portal).
- 4.43 While letters have been issued to contractors querying potential implications of Brexit, very few have identified any specific issues at this time.

FOI requests

- 4.44 PACS receives and responds to a significant number of FOI requests, with 51 received in 2018/19 to date. Many of the requests relate to information available on Leeds Data Mill (see above).

5 Corporate Considerations

Consultation and Engagement

- 5.1 Review of the procurement strategy commenced with consultation with the corporate commissioning group, the people's commissioning group and the public health board. A "Masterclass" workshop has also been held with all commissioners and a draft of the New Procurement Strategy was taken to the December 2018 Executive Board. The New Procurement Strategy will be presented to R&H Scrutiny Board and then to Executive Board in April 2019 for final approval.

- 5.2 Reviews of procurement documentation also involve consultation with users in the services. The annual CPR review involves wider consultation involving commissioners, and the City Solicitor. Third sector representatives are periodically asked whether any barriers exist to small/third sector organisations, and any comments are fed into the document reviews. Third sector representatives and the People's Commissioning Strategic Group have also been consulted in respect of the Social Value Framework.

Equality and Diversity / Cohesion and Integration

- 5.3 There are no implications for this report. The procurement processes require consideration of equality matters and social value within procurement activity

Council policies and Best Council Plan

- 5.4 Effective procurement activity supports the Council's ambitions of a strong economy and a compassionate city, and the New Procurement Strategy is specifically drafted in response to the Best Council Plan. Individual procurements support most/all of the Council's priorities and breakthrough projects.

Resources and value for money

- 5.5 The systems and processes anticipated by the New Procurement Strategy (and the documented KPIs) represent an appropriate use of resources and are good value for money. Additionally the procurement activity supported enables both cashable and non-cashable savings to be made in the commissioning lifecycle.

Legal Implications, Access to Information and Call In

- 5.6 The arrangements put in place through the New Procurement Strategy, CPRs and procurement tools and documentation meet all legal requirements.

- 5.7 This report is not eligible for call-in

Risk Management

- 5.8 The systems and processes that form part of the Council's procurement framework are currently functioning well, and it is anticipated that they will be improved following the adoption of the New Procurement Strategy. One of the Resources and Housing Directorate risks relates to risk of procurement challenge. As set out above there has been one formal challenge to procurement activity in the year to date, and work is continuing to ensure the tender guidance is embedded through training and monitoring.

6 Conclusions

- 6.1 From the review, assessment and ongoing monitoring carried out, the Chief Officer – Financial Services considers that it is demonstrated that, overall, procurement systems are operating effectively and that there are no fundamental control weaknesses. This position will be improved by the adoption of the New Procurement Strategy, updating CPRs/procurement documentation and measuring/monitoring compliance via the KPIs. At the same time, it is recognised

that procurement assurance needs to be subject to regular review and assessment with the following actions already identified for 2019/20:

- Adoption of the New Procurement Strategy (including KPIs) and procurement documentation;
- Review of CPR's in line with changes in legislation and Council policy; and
- Training of relevant officers in respect of the same.

Compliance remains an issue in some areas, notably around justification in reports considering waivers, however the proposed process changes and amendments to CPRs are anticipated to be of benefit in this regard and will provide a much clearer picture of the actual number of, and justifications for, waivers of CPRs.

7 Recommendations

7.1 Members are:

7.1.1 requested to consider and note the assurances provided in this report; and

7.1.2 invited to provide comments that they may have on the draft New Procurement Strategy.

8 Background documents¹

8.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

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Leeds City Council Procurement Strategy

2019 to 2024

Foreword by Procurement & Commercial Services (PACS)

This strategy outlines our aims for 2019-2024, and shows how procurement will contribute towards achieving the priorities set down in the [Best Council Plan 2018-19 to 2020-21](#).

The council spent in excess of £800 million during 2017-18 on the procurement of its goods, works and services. It is our duty to ensure this money is spent in the most effective way and delivers value for money.

Procurement has driven the release of savings through efficient procurement in the council for many years. In 2018-2019, Procurement and Commercial Services continued to generate savings for the council and in the coming years we will see further targets being set for procurement savings.

As well as delivering efficient procurement, it is essential to deliver effective procurement – that is, procurements that comply with our internal governance and external legal obligations, minimising risk of challenge.

These two critical elements of procurement (efficiency and effectiveness) were recognised by the previous procurement strategy. While they remain cornerstones of the updated strategy, we also recognise that procurement has a significant role to play in helping the council deliver all of its priorities. By ensuring we achieve the desired outcomes from our all contracts, in accordance with our values, we will demonstrate that we are efficient and enterprising in our procurement activity, in order to support the council's ambition of a strong economy and a compassionate city for all.

Consequently, the 5 key areas for this procurement strategy are:

- **Value for money and efficiency.** We will: seek to ensure the council gets maximum value from every pound that is spent through best value and innovative procurement practice; adopt a consistent corporate approach to commissioning; adopt a clearly identified savings strategy; and continue a category management approach to procurement.
- **Governance.** We will ensure compliance with the Contract Procedure Rules, the council's Constitution and public procurement law (including the Public Contracts Regulations 2015) in order to manage procurement risk and to comply with legal requirements.
- **Social value.** We will seek to improve economic, social and environmental wellbeing from our contracts, over and above the delivery of the services directly required, at no extra cost.
- **Commercial opportunities:** We will seek new ways to develop and create commercial opportunities through procurement and commissioning activities, not just by promoting revenue generation, but by looking at how we engage with, and influence, the marketplace and potential suppliers in order to drive innovation and develop new ideas around service delivery.

- **Strategic supplier engagement and contract management:** We will manage our strategic supplier relationships through. continuous engagement with them. We will also ensure effective management of all contracts from beginning to end in order to control costs, obtain the quality outcomes and performance levels set out in the contract, and minimise the level of risk.

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1 Introduction

1.1 The council's previous procurement strategy focused on:

- Efficiency - improve outcomes and value for money from the goods, works and services that it buys; and
- Governance - ensuring the council has appropriate and proportionate controls, systems and standards to manage procurement risk and to comply with legal requirements.

1.2 Achieving this vision was achieved by focusing on category management and a whole lifecycle approach, with clear accountabilities, openness and transparency.

1.3 Category management is still considered the best approach as a starting point for procurement activity within the council. Category management allows procurement resources to focus on specific areas of spend which enables category managers to focus their time and conduct on in depth market analysis to fully leverage their procurement decisions on behalf of the whole organisation.

1.4 However, this focus on efficiency and good governance needs be complimented going forward with a much greater focus on delivering maximum benefits locally from council spending thereby helping the council achieve its overall strategic objectives set down in the [Best Council Plan 2018-19 to 2020-21](#).

1.5 This document sets out the council's procurement strategy for the next 5 years (2019-2024) and is centred on our findings using the [National Procurement Strategy for Local Government in England 2018 toolkit](#). Building on the previous strategy, it identifies 5 "key areas" of focus for this strategy. In addition, it identifies four "enablers" which are necessary if we are to achieve the ambitions identified in this strategy. Full details are set out in Appendix 2.

1.6 Over the life of this strategy it will be reviewed accordingly to review progress towards the stated goals and to consider key issues that may arise (e.g. Brexit) so comments, queries, or suggestions for improvement are welcome. Please send an email to PACS.Administration@leeds.gov.uk.

2 Background

- 2.1 The council currently spends approximately £800 million externally each year, across both revenue and capital. We use a variety of contracts, from simple purchase orders to long-term partnership agreements. Some contracts are with a single provider, others are frameworks or dynamic purchasing systems with multiple providers.
- 2.2 The council procures a very wide range of goods, works and services, including front-line services and back-office support. Examples include foster care, home care, homelessness support, energy, vehicles, seeds, catering products, building works, highways repairs and IT software.
- 2.3 As noted at paragraph 1.2, the council utilises a category management approach to procurement. A map of our ideal procurement categories is included at Appendix 1. Unfortunately, resource implications mean we are currently not able to concentrate on all categories as much as we would like, which may have an adverse impact on the council's ability to obtain value for money in terms of both costs and in respect of fully delivering the wider outcomes that could be achieved through increased social value. Our ambition over the life of this strategy is to fully resource to each of these categories – see section 6.
- 2.4 This strategy builds on the councils' achievements under its previous procurement strategy, a major part of which was focussed on making savings. Whilst we operate in a challenging environment, in which savings will always be a factor for consideration, we need a strategy which also focuses on achieving increased outcomes from our procurement activity, at no extra cost. By leveraging our procurement expenditure and engaging with suppliers we can help the council enhance our communities through increased social value.

3 Our approach

3.1 This strategy is not simply about continuing along the same path. It is about using procurement activity to help the council achieve its vision:

“...for Leeds to be the best city in the UK: one that is compassionate and caring with a strong economy, which tackles poverty and reduces inequalities. We want Leeds to be a city that is fair and sustainable, ambitious, creative and fun for all with a council that its residents can be proud of: the best council in the country”

and to help deliver the council’s strategic ambitions detailed in the [Best Council Plan 2018-19 to 2020-21](#), namely:

- **Inclusive growth:** We will use the procurement and commissioning process to embed the twelve big ideas set out in the [Leeds Inclusive Growth Strategy – 2018-2023](#).
- **Health & wellbeing:** We will use our contracting opportunities to support healthy, physically active lifestyles allowing more people to manage their own health conditions in the community and by enabling people with care and support needs to have choice and control.
- **Child-friendly city:** We will work with businesses and employers to encourage investment and provide opportunities to children and young people, developing their skills and education through improved careers advice, mentoring and work experience.
- **Safe, strong communities:** Through robust contract management we will ensure our contracts deliver quality services to end users and have built-in flexibility so that we can respond to changing local needs quickly and efficiently.
- **Housing:** The council has adopted an ambitious house building plan and is committed to delivering sustainable development through the future construction procurements we undertake.
- **21st century infrastructure:** We will work with colleagues to adopt a cost-effective approach to procurement in order to create an infrastructure ready to meet the city’s requirements in the 21st-century.
- **Culture:** We will contribute to growing the culture and creative sector through effective procurement in support of major events and attractions at various venues throughout the city.

3.2 In order to help the council achieve its vision and strategic ambitions we will concentrate on the five key areas identified and break them down into a

number of priority deliverables, against which we will measure progress and achievements.

3.3 The key areas for this procurement strategy are:

- **Value for money and efficiency.** We will: seek to ensure the council gets maximum value from every pound that is spent through best value and innovative procurement practice; adopt a consistent corporate approach to commissioning; adopt a clearly identified savings strategy; and continue a category management approach to procurement.
- **Governance.** We will ensure compliance with the Contract Procedure Rules, the council's Constitution and public procurement law (including the Public Contracts Regulations 2015) in order to manage procurement risk and to comply with legal requirements.
- **Social value.** We will seek to improve economic, social and environmental wellbeing from our contracts, over and above the delivery of the services directly required, and at no extra cost.
- **Commercial opportunities.** We will seek new ways to develop and create commercial opportunities through procurement and commissioning activities, not just by promoting revenue generation, but by looking at how we engage with, and influence, the marketplace and potential suppliers in order to drive innovation and develop new ideas around service delivery.
- **Strategic supplier engagement and contract management:** We will manage our strategic supplier relationships through continuous engagement with them. We will also ensure effective management of all contracts from beginning to end in order to control costs, obtain the quality outcomes and performance levels set out in the contract and minimise the level of risk.

3.4 The above are all areas where we believe procurement can make a major contribution. However, this will only be achieved:

- through strong leadership and best use of resources;
- by working closely with commissioners, budget holders, and suppliers; and
- through working in collaboration with our partners in the wider public sector and other stakeholders.

4 Our strategy – Key Areas

4.1 The starting point is to reiterate that we will continue to seek value for money and efficiency, and work with council colleagues to identify and achieve savings, from procurements. We will also continue to apply best practice in governance, and to improve compliance with internal governance processes and our legal obligations.

4.2 To facilitate this, we will continue to adopt a category management approach, where related purchasing is grouped together to take advantage of better intelligence of our buying needs and of what providers have to offer, and to support bulk buying where appropriate, in order to improve quality, savings and efficiency. In addition, we will continue to adopt a whole lifecycle approach, which starts from assessing needs and analysing options, through preparation and procurement, to mobilisation, contract management and exit, to ensure quality outcomes and value for money are achieved.

4.3 However, through our review of the council's procurement maturity described in section 5, we have recognised other key areas that we need to address in order to achieve the priorities set out in section 3.

4.4 Value for money and efficiency

- We will ensure the council gets maximum value from every pound that is spent through best value and innovative procurement practice; we will continue to apply a consistent approach to commissioning, and category management in procurement, thereby delivering savings for the council.
- To identify procurement savings we will be working closely with Corporate Finance, internal audit and service areas to create a realistic methodology and to define responsibilities for the tracking and recording of savings both in terms of value and social outcomes. This will be achieved through monitoring budgeted values against actual tendered contract values, monitoring contract expenditure and volumes, with contract managers routinely reporting on savings, including social value outcomes.

4.5 Governance

- We will comply with legal requirements through our Contract Procedure Rules, the council's Constitution and public procurement law (including the Public Contracts Regulations 2015). We will keep up to date with relevant legislative changes, procurement case law and other evidence of best practice. We will ensure that all council officers involved in procurement activity are aware of their obligations in this regard.

- In addition we will ensure compliance with the council's financial regulations, budgetary control mechanisms and officer schemes of delegation for the procurement of all goods, works and services. Further, we will continue to engage with members and senior managers by championing the impact of good procurement practices, developing and maintaining the council's Contracts Procedure Rules and together ensuring a professional and consistent approach through the continued development of good practice documents and toolkits.
- We will facilitate cross-council discussions relating to procurement through the Corporate Procurement Group, Procurement Practitioners Group, attendance at various board meetings and commissioning groups particularly in relation to sharing lessons learnt, best practice and innovations, and we will facilitate access to appropriate training. On a regional level we support programme management of, and participate in, the Strategic Procurement Group (SPG), which is attended by the Heads of Procurement from public bodies through the Yorkshire and Humber region, and which provides a forum and voice for regional procurement collaboration. Collectively the SPG feeds back into the National Advisory Group for Local Government Procurement, which in turn reports to the Local Government Association. Category Managers will also attend category sub-groups (such as Adults and Health) set up via the SPG
- We will ensure we have effective risk management processes in place. New legislation may provide additional challenges and most notably Brexit will require amendments to the Public Contracts Regulations 2015, but these are not expected to be radical. It is anticipated that the key challenges in this area over the coming few years will be managing supply chains and we will be looking at ways to deal with these going forward.

4.6 Social value

- We will seek to improve economic, social and environmental wellbeing from our contracts, over and above the delivery of the services directly required, and at no extra cost. Further, we will seek to explore how those activities can deliver the council's wider strategic outcomes.
- We will support the local economy by ensuring tendering opportunities are made more attractive such that local, small and medium sized enterprises and voluntary, community and faith organisations can bid for work either individually or as part of a consortium. We will also provide support to small and medium sized enterprises and voluntary, community and faith organisations,

including regular market engagement sessions, training and greater publication of tendering opportunities.

- We recognise that despite progress and achievements being made in relation to obtaining social value through procurement activity, the opportunity to achieve maximum social value is not being fully exploited. This is not due to a lack of effort or commitment, but it is a result of the lack of a clearly agreed responsibility for driving and coordinating our approach to social value across the council. Responsibility for pursuing the social value objectives is currently progressed as a result of the effort of individual colleagues and services across the council e.g. Employment and Skills Service. In order to achieve a consistent approach to social value across the council when procuring goods, works and services we have worked with colleagues in Communities and Environment to develop a Commissioners Social Value Toolkit. We will take the lead on coordinating and driving the council's approach to seeking to deliver social value, including:
 - further developing the Social Value Toolkit in order to improve the consistency and transparency of the council's requirements for 'added value' from its procurement activity; and
 - developing Social Value Guidelines for procurement/commissioning staff which will require consideration of the council's wider ambitions when undertaking all procurement and commissioning activity.

Such activity will compliment the council's commitments under the Social Value Charter.

4.7 Commercial opportunities

- As funding shrinks we understand the need to explore new ways to maximise income. In order to protect valuable frontline services and ensure positive outcomes for local communities we will work with directorates to take a more commercial approach in the activities we undertake by using our assets wisely, offering our services to others across the public and private sectors and selling our commodities to generate income.
- Whilst this procurement strategy concentrates on the priorities that are important to Leeds, the council is committed to operating in an environment where all opportunities for efficiencies and economies of scale are considered and, where applicable, applied. This may include the sharing of resources and/or commitment to specific joint

projects/contracts across Leeds and the wider Yorkshire and Humber region. In particular, we will continue to play an active role in SPG.

4.8 **Supplier relationships and contract management**

- We recognise that effective management of strategic supplier relationships can deliver a range of benefits. We will undertake pre-market engagement, develop existing supplier relationships and engage with suppliers in areas of deprivation within Leeds.
- We will analyse the data and intelligence collected to drive supplier performance and achieve improved outcomes for the public, added social value, reduced cost, reduced risk and innovation.
- Effective contract management is key to ensuring that council contracts deliver the outcomes required, and provide a quality service at the right cost and minimal risk. Failure to manage contracts properly may lead to inefficiencies, poor contractor performance or commercial failure which can seriously damage the council's reputation and its ability to deliver effective services and support to our communities. It is therefore essential to budget time and resources in this area and we will work with our commissioners to update the contract management toolkit to ensure it is fit for purpose, and provides the guidance and support required to effectively manage contracts.

5 Enablers

- 5.1 As noted elsewhere, the key areas of “Value for Money and Efficiency” and “Governance” have formed part of the council’s procurement strategy for several years. As such, work has been ongoing to recognise and deliver savings opportunities in respect of procurement. Similarly, the council has made great strides in adopting best-practice governance in respect of procurement, and this has supported the improvement in delivering spend which is “on contract” and reducing reliance on waivers of the council’s CPRs. As part of this strategy we will work with colleagues across the council to further improve in respect of these 2 key areas, and deliver the commitments at sections 4.4 and 4.5.
- 5.2 In order to understand areas where our procurement practices can be developed and enhanced we have worked through the themes and key areas set out in the [National Procurement Strategy for Local Government in England 2018 \(National Procurement Strategy\)](#) to identify the council’s current level of procurement maturity. Utilising the National Procurement Strategy toolkit has helped us to:
- a) identify a further three key areas of focus for our procurement strategy (“social value”, “commercial opportunities” and “Supplier relationships and contract management”); and
 - b) identify the level of maturity we believe the council can realistically achieve over the next five years in relation to these areas.
- 5.3 In determining the council’s baseline level of maturity in these three areas, the Local Government Association indicated that scoring should be done on the basis of the weakest level of attainment in the council rather than attempting to arrive at an average. In order to determine where the weakest level lies within the council, we consulted with commissioning/procurement staff across the council and the current maturity level has been set at the weakest level within the council. The results are attached at Appendix 2.
- 5.4 Using our findings at Appendix 2 as a baseline, we have identified the maturity levels we realistically believe we can achieve in these three new key areas by 2024.
- 5.5. We have also devised a number of KPI’s against which to measure our progress towards our goals in respect of all five key areas. These KPI’s are set out at Appendix 3.

5.6 Finally, we have adopted the “enablers” identified in the National Procurement Strategy which need to be addressed and developed in order to support the council’s achievement of these ambitions and KPIs:

- Developing talent – see section 6 (Procurement professionals);
- Exploiting Digital Technology;
- Enabling innovation;
- Embedding change.

5.7 As we did in respect of the three new key areas of this strategy, we have also utilised the National Procurement Strategy toolkit to identify our current maturity level as a council in relation to each of these “enablers”, along with how we can realistically improve over the next five years in our application of these “enablers”.

6 Procurement professionals

- 6.1 To deliver a world class procurement service requires appropriately skilled and experienced staff. We will continue to support the training and development of our staff to maintain and raise standards across the profession. This will include informal coaching and training, and more formal training and professional qualification through CIPS (the professional body) and QA (the council's training provider).
- 6.2 Procurement and commissioning staff across the council will also continue to share issues, lessons, best practice and innovations.
- 6.3 Each directorate remains accountable for the procurements and commissioned services that they need, to deliver the services and secure the outcomes that they are responsible for, including in some cases joint procurement with partners such as the health service and including in some cases procurement on behalf of other directorates, for example energy. The directorates own the preparation of the specification and the evaluation criteria, and take all decisions in relation to the procurement, in line with the governance procedures and decision-making rules laid down in the constitution. This includes the proportion of the budget to be allocated to the contract, the decision to commence a procurement, and which organisation to award the contract to. The directorate is then accountable for mobilising, managing, and exiting the contract.
- 6.4 We are accountable for providing a central source of expertise, advice and support and providing check and challenge as appropriate. At a more detailed level, it is imperative that directorates involve PACS at the earliest opportunity to ensure the most appropriate procurement route is identified and used. PACS will work with directorate colleagues via the established category teams, to ensure consistency of approach and advice. PACS will ensure that procurement staff have appropriate knowledge and experience in respect of the relevant category of spend. Each category team will include specialist staff with high levels of expertise who can provide support to directorates in developing strategic approaches and in delivering highly complex or sensitive procurements, in addition to staff who can support more straightforward procurements. As noted elsewhere, unfortunately, resource implications mean we are currently not able to concentrate on all categories as much as we would like, which may have an adverse impact on the council's ability to obtain value for money in terms of both costs and in respect of fully delivering the wider outcomes that could be achieved through increased social value. We aim to address this by creating new category manager posts, and providing procurement training/ apprenticeship opportunities (as identified at sections 6.1 and 6.2) in order to provide staff with opportunities for career development.

- 6.5 The category teams will have access to specialist in-house commercial expertise (legal, financial and technical), and support in using the online tendering system.
- 6.6 The procurement function will act as a central source of management information for the council with respect to the council's procurement activity and will report annually to the council's Corporate Governance and Audit Committee, providing information and assurance on procurement policies and practices within the remit of the Chief Officer Financial Service, including spend analysis. It will be responsible for maintaining the council's electronic tender system, and for publishing a register of contracts awarded and a calendar of the council's planned procurement activities.

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7 Implementation

- 7.1 The sections above describe the approach and proposed future shape of the council's procurement activity.
- 7.2 It is anticipated that it may take two to three years to:
- (a) achieve the maturity levels we have set ourselves at Appendix 2;
 - (b) ensure that the enablers set out at paragraph 3.4 above are embedded in day-to-day working practices, and achieve the further enabler maturity levels detailed at Appendix 2; and
 - (c) ensure the council as a whole has the capacity and capability to embed good procurement practice and be an exemplar council going forward offering assistance to other councils who may wish to improve their maturity levels.
- 7.3 We will monitor our progress in delivering this strategy and provide a review of the strategy, particularly of the KPIs set out at Appendix 3, in two years.
- 7.4 Independent audit and assurance will be sought to challenge and test on a sample basis both the system as a whole and compliance with it, in order to identify (and correct) any remaining weaknesses.
- 7.5 This procurement strategy will be reviewed annually by PACS in consultation with directorates, to ensure lessons learned and feedback from stakeholders continues to be captured. We will ensure the documents reflect any changes in legislation/case law developments, guidance and best practice, this will include any changes due to Brexit. The [National Procurement Strategy for Local Government in England 2018](#) is a "living strategy" such that redundant maturity indices can be removed and replaced by new indices that reflect new or changed priorities, and this strategy adopts the same approach.

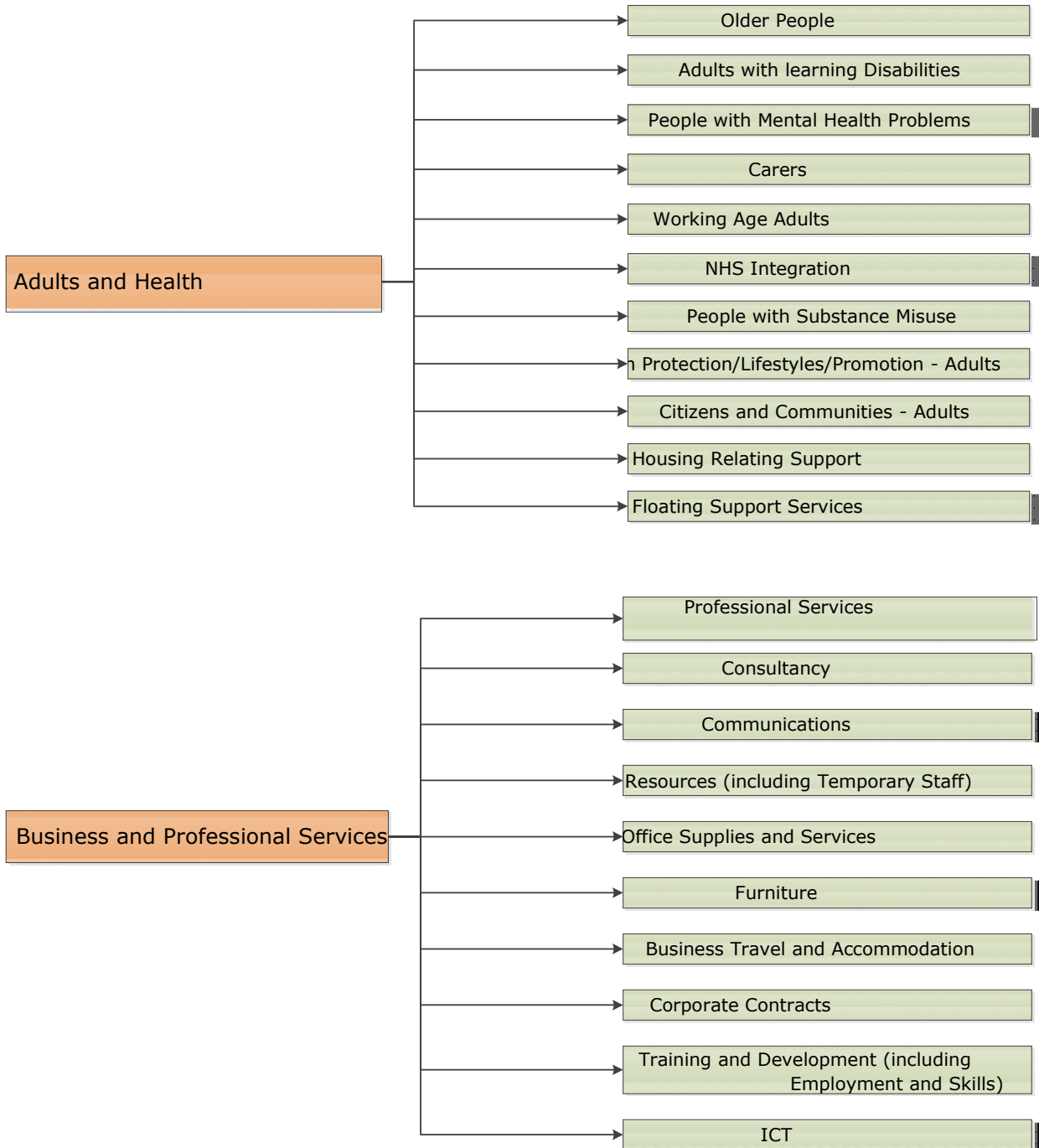
8 Contacting us

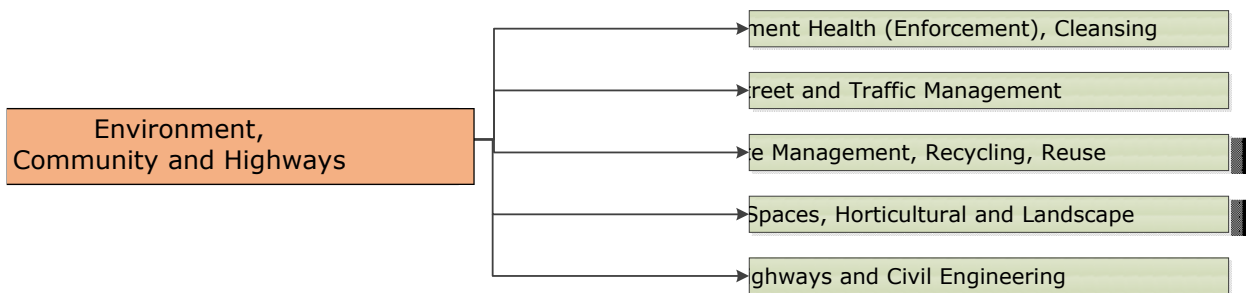
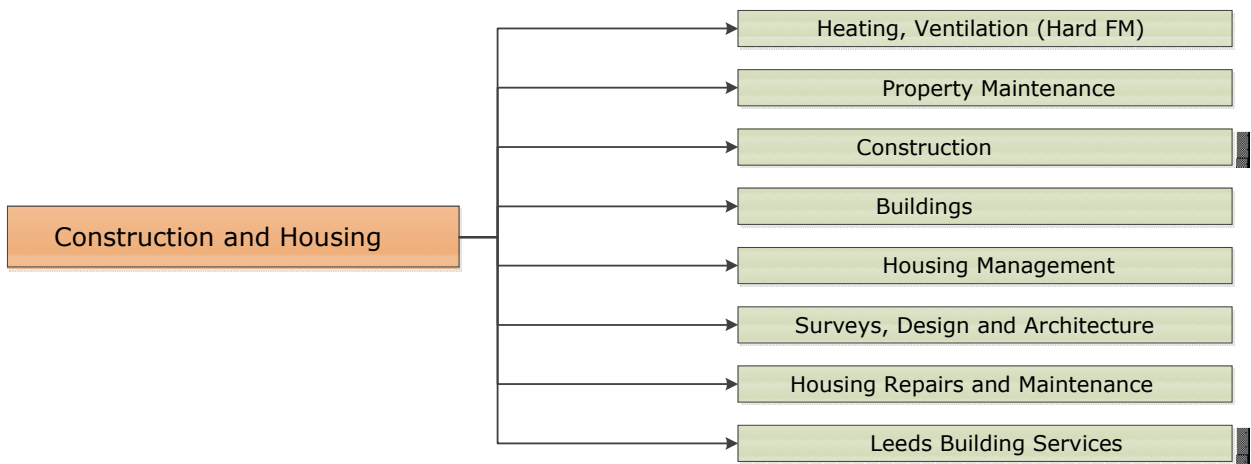
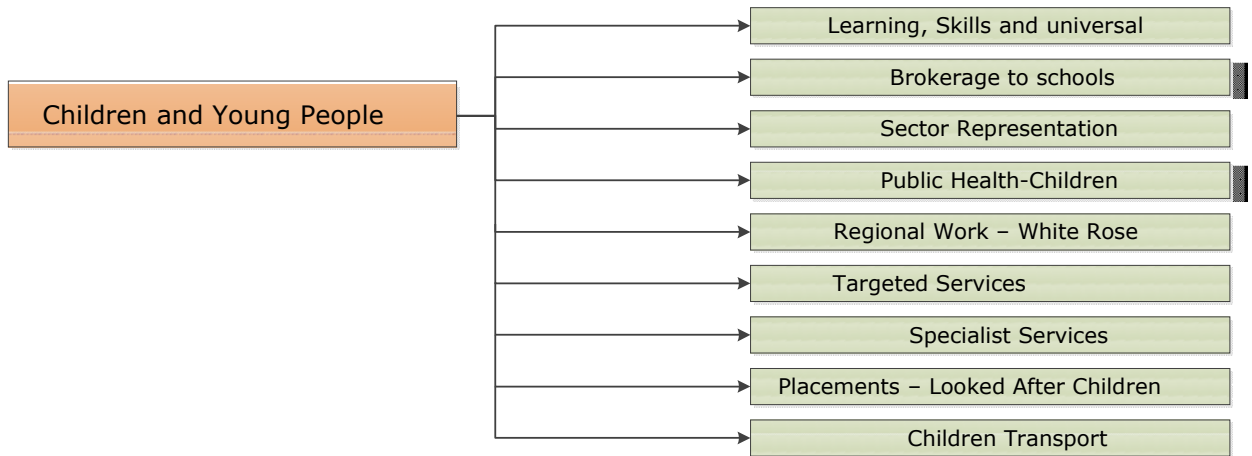
- 8.1 If you would like to read more about the council's procurement activity, please visit our web-site [www.leeds.gov.uk/business/working with us](http://www.leeds.gov.uk/business/working%20with%20us)
- 8.2 If you have any comments or queries, or suggestions for improvement, regarding procurement, please send an email to xxxx@leeds.gov.uk
- 8.3 If you would like to tender for council contracts, please register at https://www.yortender.co.uk/procontract/supplier.nsf/frm_home?openForm

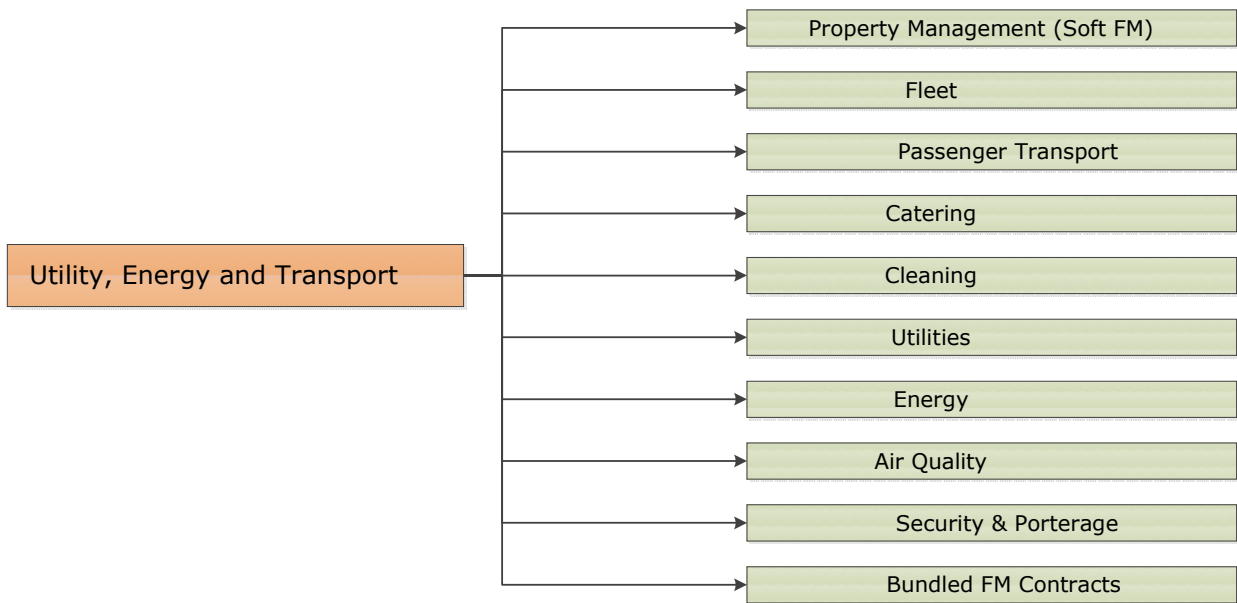
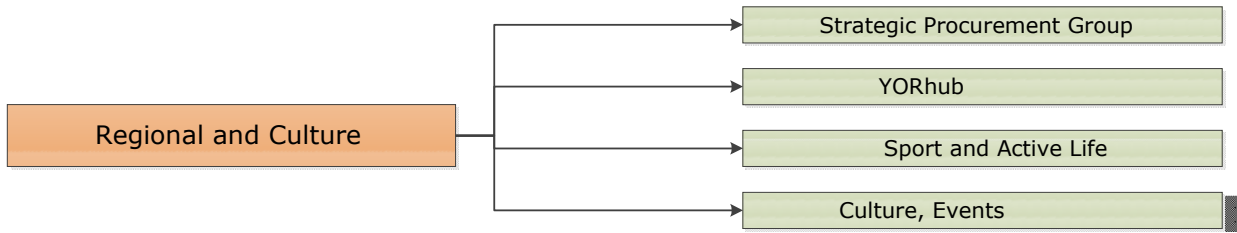
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Appendix 1

Whole Council Category Structure



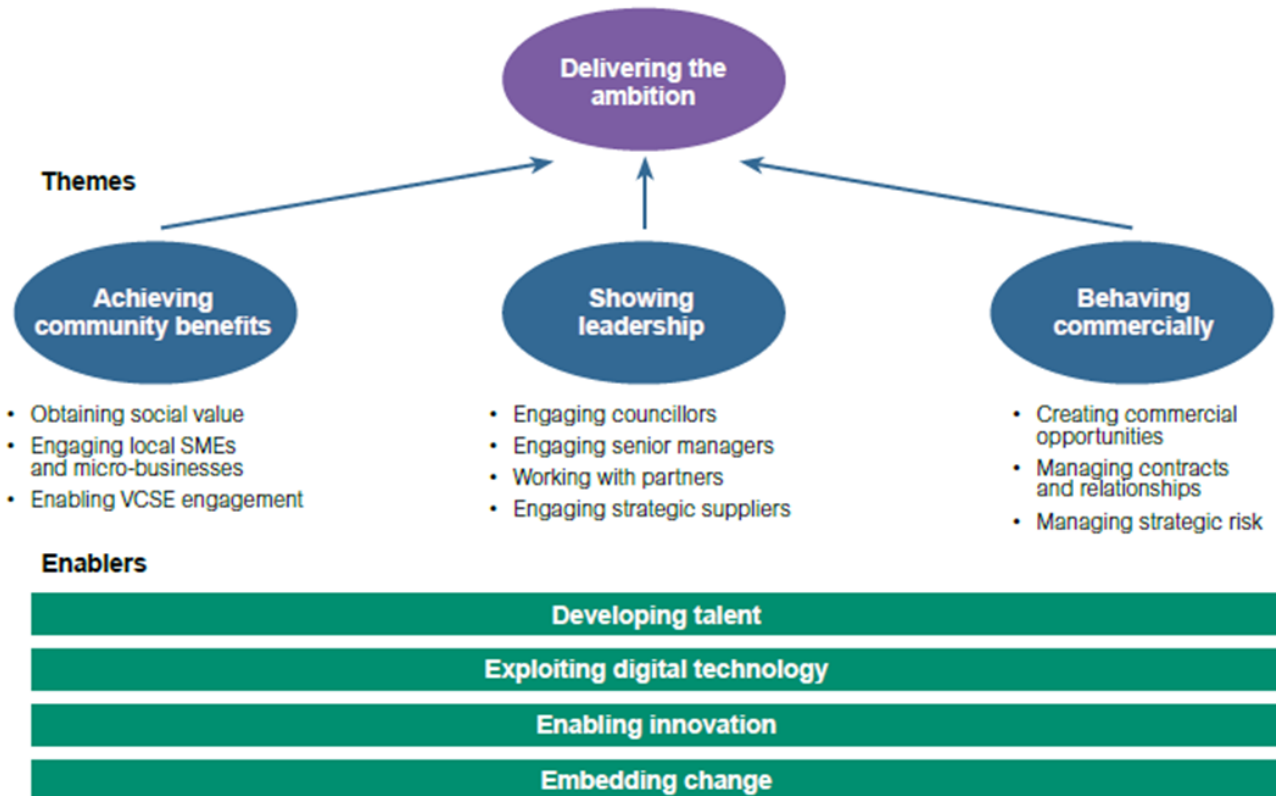




Appendix 2

The National Procurement Strategy for England 2018

The extracts below have been reproduced from the National Procurement Strategy for England 2018 with the kind permission of the Local Government Association.



Set out below are our current maturity levels in relation to the key areas above and the desired level we are seeking to achieve over the life of this procurement strategy.

1. Social Value

Key area: Social value					
Description:	<p>Social value refers to wider financial and non-financial impacts of programmes, organisations and interventions, including the wellbeing of individuals and communities, social capital and the environment. From a business perspective it may be summarised as the net social and environmental benefits (and value) generated by an organisation to society through its corporate and community activities reported either as financial or non-financial (or both) performance. Councils are encouraged to consider using national themes, outputs and measures (TOMs) in their procurement activity, as the basis of measuring social value: https://socialvalueportal.com/national-toms</p>				
Help:	<p>What it is: Social value is about improving economic, social and environmental wellbeing from public sector contracts over and above the delivery of the services directly required at no extra cost. Used properly, additional social value can be beneficial to both suppliers and councils and represent a joint effort to exploit maximum value from procurement.</p> <p>Why it is important: Experience from procurements let by Councils that have fully included social value requirements has shown that a minimum +20 per cent social value 'additionality' can be obtained on contract value by way of direct community benefits.</p>				
High level principle/ specific behaviour:	<p>Minimum</p> <p>Compliant. Doing just enough to meet the conditions of The Act.</p>	<p>Developing</p> <p>Compliant but only proactively seeking social value in a few key contracts only.</p>	<p>Mature (Current Level)</p> <p>Taking a proactive approach to integrating social value into procurement and commissioning.</p>	<p>Leader</p> <p>Social value embedded into corporate strategy and have comprehensive frameworks for management and delivery.</p>	<p>Innovator (Ambition)</p> <p>Social value is a core operational metric, integrated into all directorates/ departments and activities with regular reporting against targets.</p>

Key area: Engaging local small medium enterprises (SMEs) and micro-businesses

Description	<p>The usual definition of SMEs used in the public sector is any business with fewer than 250 employees and turnover of less than £50 million. There were 5.2 million SMEs in the UK in 2014, which was over 99 per cent of all business. Micro-businesses are business with 0-9 employees and turnover of under £2 million. For the purposes of this document the term 'SME' shall refer to both SME and micro-businesses.</p>				
Help:	<p>What it is: SMEs are non-subsiary, independent firms.</p> <p>Why it is important: SMEs play a major role in creating jobs and generating income for those on low incomes; they help foster economic growth, social stability, are a source of innovation and contribute to the development of a dynamic private sector. With the potential localisation of business rates, it will be even more important for local authorities to encourage the establishment and growth of SMEs in their areas.</p>				
High level principle/ specific behaviour:	<p>Minimum</p> <p>Council does not see any benefits to be gained from SME engagement.</p>	<p>Developing</p> <p>SME organisations are engaged in a few key contracts only.</p>	<p>Mature (Current Level)</p> <p>Taking a proactive approach to integrating SME organisations into procurement and commissioning.</p>	<p>Leader (Ambition)</p> <p>SME engagement is embedded into corporate strategy.</p>	<p>Innovator</p> <p>SME engagement is a core operational way of doing business, integrated into all directorates/ departments and activities with regular reporting against targets.</p>

Key area: Enabling voluntary, community and social enterprise (VCSE) engagement

Description	<p>VCSE refers to organisations that include small local community and voluntary groups, registered charities both large and small, foundations, trusts and a growing number of social enterprises and co-operatives. These are often also referred to as third sector organisations or civil society organisations.</p>				
Help:	<p>What it is: The VCSE sector is diverse in size, scope, staffing and funding of organisations. It provides a broad range of services to many different client groups. However, VCSE sector organisations share common characteristics in the social, environmental or cultural objectives they pursue, their independence from government, and the reinvestment of surpluses for those objectives.</p> <p>Why it is important: VCSE organisations can play a critical and integral role in health and social care, including as providers of services; advocates; and representing the voice of service users, patients and carers.</p>				
High level principle/ specific behaviour:	<p>Minimum</p> <p>Organisation does not see any benefits to be gained from VCSE engagement.</p>	<p>Developing (Current Level)</p> <p>VCSE organisations are engaged in a few key contracts only.</p>	<p>Mature (Ambition)</p> <p>Taking a proactive approach to integrating VCSE organisations into procurement and commissioning.</p>	<p>Leader</p> <p>VCSE engagement is embedded into corporate strategy.</p>	<p>Innovator</p> <p>VCSE engagement is a core operational way of doing business, integrated into all directorates/ departments and activities with regular reporting against targets.</p>

2. Behaving commercially

Key area: Creating commercial opportunities (including income generation)					
Description:	<p>Creating commercial opportunities refers to how an organisation promotes revenue generation and value creation through the way it plans its major third party acquisitions (works, services and goods); reviews its business options (make or buy); engages with, and influences, markets and potential suppliers; seeks to support and encourage innovation; and promotes the development of new ideas and solutions to service delivery.</p> <p>Commercialisation is a broad subject and this key area is confined to how procurement teams should contribute to its successful delivery.</p>				
Help:	<p>What it is: There are many ways in which commercial opportunities can be created through the strategic management of the commercial cycle and the services and assets delivered through the contracts it creates. Commercialisation is a broad and important subject to the sector. This key area is confined to how procurement teams should contribute to helping identify and create commercial opportunities.</p> <p>Why it is important: As grants from central government are reduced, organisations are required to look at other means of reducing funding deficits. Commercial opportunities can be created in many different ways, from conventional means such as increasing returns on assets to the way it engages with its development partners and third party contractors.</p>				
High level principle/ specific behaviour:	<p>Minimum</p> <p>Focused on business as usual and compliance.</p>	<p>Developing (Current Level)</p> <p>Some high value/ high profile acquisitions examined for creating commercial opportunities.</p>	<p>Mature</p> <p>Clear understanding of the ways in which new revenue generation opportunities can be created across the commercial cycle.</p> <p>End-to-end policies and processes promoting this approach in place across the organisation.</p>	<p>Leader (Ambition)</p> <p>Revenue generation and potential wealth creation is a standard part of all contract review meetings.</p> <p>Procurement staff are encouraged to enhance commercial skills and demonstrate commercial behaviours</p>	<p>Innovator</p> <p>Organisations work collectively to identify and exploit new commercial opportunities through market shaping and shared working with development partners</p> <p>Organisations see staff innovation and knowledge/ information utilisation as a commercial opportunity.</p>

3. Supplier relationships and contract management

Key area: Managing contracts and relationships					
Description:	<p>Contracts and relationship management refers to the effective management and control of all contracts from their planned inception until their completion by the appointed contractor(s). It covers the supporting policies, procedures and systems needed to undertake it, together with broader issues from the identification and minimisation of risk, successful and timely delivery of outcomes and performance, effective control of cost and variations, and the maintenance of clear communications and operational relationships with contractors.</p>				
Help:	<p>What it is: Contract and relationship management is the process by which all contracts and variations are managed effectively to control costs, secure the quality and timeliness of agreed outcomes and performance levels, and minimise the occurrence of risks.</p> <p>Why it is important: Research by the International Association for Contract and Commercial Management (IACCM) shows that contracts exceed their expected costs by 9.4 per cent on average over their lifetime. Poor contractor performance or commercial failure can seriously damage a council's reputation and its ability to deliver effective services and support to local communities.</p>				
High level principle/ specific behaviour:	<p>Minimum</p> <p>Compliance driven. Reactive approach to contract and relationship management.</p>	<p>Developing (Current Level)</p> <p>Identified the need to change and improve. Basic policies, procedures and systems in place.</p>	<p>Mature</p> <p>All basic policies, procedures and systems in place to support contract and relationship management across the organisation and used in all departments.</p>	<p>Leader (Ambition)</p> <p>Well-developed policies, procedures and systems in place to support contract and relationship management. Used to drive forward planning, cost control and contractor performance.</p>	<p>Innovator</p> <p>Contract and relationship management recognised by the leadership team as being essential to driving ongoing improvement and better service outcomes. Systems, procedures and staff delivering consistently high results.</p>

Key area: Working with partners

Description:	<p>Working with partners refers to a ‘one team’ approach to the design and implementation of solutions for public services which spans council departments and organisations.</p>				
Help:	<p>What it is: The council works as a single team to design and implement solutions for public services and commissioners/budget holders, and commercial and procurement advisers work together as part of that team.</p> <p>Why it is important: A team approach makes best use of limited resources and can lead to innovative solutions and better results. The team approach should characterise how council departments work together and how the council works with other councils, health, fire, police, housing, VCSEs and other partners.</p>				
High level principle/ specific behaviour:	<p>Minimum</p> <p>There are teams but they work in isolation from commercial and procurement advisers.</p>	<p>Developing</p> <p>Council acknowledges the business case for a cross council approach to design and implementation of solutions and is seeking to encourage this.</p>	<p>Mature (Current Level)</p> <p>Designing and implementing solutions as a single team in high value/ high risk projects.</p>	<p>Leader (Ambition)</p> <p>Designing and implementing solutions as a single team is the council’s normal way of working (policy).</p>	<p>Innovator</p> <p>Designing and implementing solutions as a combined authority or as a group of councils/ with health, fire, police, housing, VCSEs and other partners.</p>

Key area: Engaging strategic suppliers					
Description:	Engaging strategic suppliers refers to the process of identifying strategic suppliers and engaging with them to improve performance, reduce cost, mitigate risk and harness innovation.				
Help:	<p>What it is: The council takes a strategic approach to the management of relationships with the most important suppliers (otherwise known as Strategic Supplier Relationship Management). This activity should be carried out cross department and is most effective when done cross organisation.</p> <p>Why it is important: Effective management of strategic supplier relationships can deliver a range of benefits, including improved outcomes for the public, added social value, reduced cost, reduced risk and innovation.</p>				
High level principle/ specific behaviour:	Minimum Firefighting. Ad hoc engagement with important suppliers usually when there is a problem to be resolved.	Developing (Current Level) Acknowledges business case for improved strategic supplier management and is piloting engagement.	Mature Delivering programme of engagement with strategic suppliers at council level.	Leader (Ambition) Playing a leading role in a programme of engagement with strategic suppliers at combined authority/ group of councils level.	Innovator Playing a leading role in programme of engagement with strategic suppliers at regional/ national level.

Enablers

Below we highlight where we believe we currently are as a council in relation to each of the “enablers” identified, along with what we realistically believe we can achieve over the next five years in our application of these “enablers”.

Developing talent

Minimum	Developing	Mature (Current Level)	Leader (Ambition)	Innovator
Recruits staff with appropriate experience/ professional qualifications (eg CIPS).	Recruits staff with appropriate experience/ professional qualifications and responds to ad hoc requests for training and development.	Service plan includes support for staff to obtain professional qualifications and for apprenticeships.	Planned approach to talent development in relation to future procurement and contract management workload including: <ul style="list-style-type: none"> • Contracts pipeline • Resourcing plan • Competency framework • Remuneration strategy • Comprehensive training and development plan including provision for development of staff not currently in procurement or contract management roles • Secondments to and from the private sector and VCSE sector. 	Planned talent development (as for Leader) but at combined authority/group of councils level.

Exploiting digital technology

Minimum (Current Level)	Developing (Ambition)	Mature	Leader	Innovator
<p>Basic purchase ordering functionality for some products and/or services using finance and/or operational systems.</p> <p>Limited procurement and contract management information available via static sources.</p>	<p>Use of an integrated Procure to Pay (P2P) system in conjunction with online ordering for all services/products. May include some human intervention and paper trails.</p> <p>Some procurement and contract management Information available online to all stakeholders with appropriate search and filtering.</p> <p>Use of electronic tendering and quotations system for some tenders/quotes (either as a dedicated system or tender box rental).</p>	<p>Use of an integrated Procure to Pay (P2P) system in conjunction with online ordering for all services/products fully automated and paperless, with human intervention being restricted to exceptions only.</p> <p>Comprehensive procurement and contract management information available online to all stakeholders with appropriate search and filtering.</p> <p>Use of electronic tendering and quotations system for all tenders/quotes (either as a dedicated system or tender box rental).</p> <p>Access and interaction to all of the above possible from any electronic mobile device.</p>	<ul style="list-style-type: none"> • Access to a Procure to Pay (P2P) system via secure mobile application, promoting a self-service approach for suppliers. (Access should include online viewing of payment records/status and the ability to auto convert orders to invoices). • Technology used to forward plan all strategic acquisitions and to underpin sourcing and procurement decision-making. • Performance monitoring and communications underpinned by dashboards and diagnostics. 	<p>Mobile applications designed for supplier and contractor interactions including future opportunity alerts, contract management, contractor performance ratings and procurement satisfaction levels.</p> <p>Shared systems and information with delivery partners (including voluntary sector/local businesses) and other councils and citizens.</p> <p>Knowledge management, accessing paper and electronic sources to build comprehensive intelligence about contracts, markets and trends.</p>

Enabling innovation

Minimum	Developing (Current Level)	Mature (Ambition)	Leader	Innovator
Ability to capture and harness procurement innovation in organisation non-existent.	Innovation only considered in a few contracts where technology is involved.	Outcomes based on procurement and market making are the 'standard' way of doing things. Innovative procurement approaches are not just applied to technology but to established services.	<ul style="list-style-type: none"> Innovation in procurement and contract management is mainstreamed. Procurement techniques such as innovation partnerships, pre-commercial procurements used regularly. 	<p>All contracts reviewed to identify new service delivery and income generation models.</p> <p>Procurement challenges and innovative potential solutions shared across councils and regions.</p>

Embedding change

Minimum	Developing	Mature (Current Level)	Leader (Ambition)	Innovator
Success depends on individuals, no organisational engagement.	New approaches and ideas applied in isolated procurement processes.	Procurement change comprehensively applied across multiple projects and departments.	<ul style="list-style-type: none"> Senior leaders recognise the importance of procurement and contract management, and promote as a way of leading and managing organisational change. 	<p>Procurement and contract management are key drivers of organisational change and are embedded at all levels in the organisation.</p> <p>Lessons learned shared with other organisations at regional and national level.</p>

Appendix 3 KPIs

The KPI's below will be used to measure our progress toward the level of ambition set out in this strategy. These will be assessed in 2021 and 2024 as follows:

- Where the KPI includes a value, by comparison of actual results against target; and
- Where the KPI does not include a value, by utilising the National Procurement Strategy toolkit to assess (with input from procurement and commissioning officers across the Council) the Council's maturity level.

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
Key Area	Value for Money and Efficiency	Baseline	Target 2020-2021	Target 2022-2024
1	Delivery of budget savings through procurement.	Figures for 19/20 to be agreed with Finance	Figures for future years to be agreed with Finance on an annual basis	Figures for future years to be agreed with Finance on an annual basis
2	Development of innovative procurement practices.	Innovation considered in some projects e.g. technology.	Innovative procurement approaches are not just applied to technology but to established services.	Outcomes based on procurement and market making are the 'standard' way of doing things.
3	Extend the Category Management Approach to cover all categories of spend including collaborative spend with the Yorkshire and Humber Region.	Currently have 6 Category managers in post to cover 7 categories.	To develop the regional category further and have 7 category managers in post.	Ongoing.
Key Area	Governance	Baseline	Target 2020-2021	Target 2022-2024
4	Procurements are undertaken legally (including in accordance with changes in legislation/case law e.g. Brexit), consistently and within the CPRs	Procurement Practice Notices issued by Government on a regular basis identifying impacts of legislative changes on the procurement process. CPRs are reviewed annually; training,	The impacts of new legislation is reviewed and procurement processes updated accordingly. Procurement refresher training is provided and attended by all procurement officers on a regular basis. The number of waivers reduced year on year from	Ongoing

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
		masterclasses and guidance is provided. Waivers of CPRs are routinely monitored and reported to Scrutiny Board/audit and governance committee.	the baseline figure of 189 in 18/19. On-contract spend to increase year on year from the baseline figure of 96.6% in 18/19.	
5	To develop an e-learning tool for compliance with CPRs.	E-learning tool in development by Children's Services. Should be finalised by the end of financial year 2018/19.	Roll out to all staff across the Council.	Ongoing.
6	Review of tender documentation and procurement toolkits.	Standard tender/toolkit documents in place and being used across the council.	All tender documents and procurement toolkits reviewed to ensure they reflect up-to-date procurement practices.	Ongoing.
7	External events (e.g. Brexit)	Keeping abreast with central government briefings and taking appropriate action, as and when required.	Thorough understanding of the possible impact on all high value/risk contracts. Contingency plans in place in the event of contract failure.	Ongoing
8	Fraud and financial loss	Basic systems, controls and reporting is in place to ensure compliance and minimise potential for financial loss from both internal and external sources.	Well defined systems to be in place targeting both financial loss and fraud. Audit teams working closely with all departments to make this a priority.	Active deployment and use of analytical software.
Key Area	Obtaining Social Value	Baseline	Target 2020-2021	Target 2022 - 2024
9	Policy and scope.	A process and policy is in place to identify which contracts should include social value.	We will further develop, roll out and embed our Social Value Framework to ensure social value is always considered as part of the procurement/commissioning process.	Ongoing

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
			<p>Using the Social Value Framework will provide justification for a relevant, proportional and considered threshold over which social value should be included in the evaluation criteria (5% to 10% weighting where relevant).</p> <p>We will establish the baseline figure as to the number of procurement exercises which have included social value criteria at end 19/20 and then increase this sum year on year</p>	
10	Councillor or cabinet board/authority member given responsibility for reporting leading on social value.	We have a Lead Member who has responsibility for leading on social value.	Individual named officer(s) within PACS given responsibility for reporting to Lead Member and Scrutiny Board, and managing and delivering social value across procurement and commissioning. Relevant officers are provided with social value training.	Relevant officers are provided with social value training and resources to implement social value strategy.
11	Market engagement and Contract Management	We currently work closely with the business community on various projects and representatives from third sector organisations are invited to attend the People's Commissioning Group every quarter. Where relevant, specific, targeted social value action plans are agreed at the commissioning/ procurement stage, are bound into the	<p>Through the Anchors Initiative we will seek to build capacity and shape the market with the business community and the community and voluntary sector providers.</p> <p>We will continue to work proactively to support third sector suppliers and their understanding of social value. Performance reviews will be undertaken and regular feedback obtained. Action will be taken to ensure continuous improvements to social value implementation and delivery.</p>	<p>We will hold regular 'meet the buyer' events to build capacity AND to get feedback.</p> <p>We will produce case studies and examples of innovation to illustrate the different levels/actions we have achieved. Meetings will be regularly held with contractors to discuss delivery of social value.</p>

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
		contract and performance against those targets are monitored Where relevant, specific		
12	Governance and accountability	Social value is recognised as a core principle of the council's procurement strategy. All relevant procurement documentation is available on Insite.	We will continue to ensure Lead Member for social value has direct oversight of social value performance. We will embed social value into commissioning and procurement practice, tools, resources and processes with a ratified policy and toolkit that are published.	We will ensure that social value implementation is underpinned by an overarching action plan. Social value will be measured and reported on regularly
	Local SMEs, micro-business and VCSE engagement	Baseline	Target 2020-2021	Target 2022 - 2024
13	Policy and scope.	Commissioners have started to communicate what local needs are and the desired market outcomes.	Commissioners have informed SMEs, micro-businesses and VCSE organisations what local needs there are and the desired market outcomes.	SMEs, micro-businesses and VCSE organisations are encouraged to collaborate with larger organisations to respond to local need.
14	Facilitating good relationships with SMEs , micro-businesses and VCSE organisations	Relationships between SMEs, micro-businesses, VCSE organisations and other providers are not facilitated. It is not considered to be an area where intervention is needed or appropriate. As a result of this, there is an absence of consortia and networking in the locality.	There is acknowledgment for the convening role that commissioners can have and what the benefit of facilitated relationships between SMEs etc and other providers could bring. They have started to make some efforts to bring these parties together. The value of spend with local suppliers and SMEs to increase year on year from the baseline figure of [51.97%] in 18/19.	Ongoing Ongoing

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
Key Area	Commercial opportunities	Baseline	Target 2020-2021	Target 2022-2024
15	Forward planning	<p>Forward planning is undertaken in some areas and/or for some acquisition types.</p> <p>Opportunities to create new revenue streams is sometimes investigated in some departments and for some expenditure categories.</p>	<p>Forward planning is always undertaken across the organisation for all strategic contracts.</p> <p>Procurement encouraged to contribute ideas for revenue generation in the forward planning process.</p>	<p>Opportunities to create new revenue streams is considered by all departments and for all relevant expenditure categories.</p>
16	Tendering	<p>Tendering is seen as a commercial process by the organisation.</p> <p>Standard tender documentation is drafted to encourage bidder participation and is focused on innovation and opportunities.</p> <p>Procurement is seen as an integral contributor to the planning phase</p>	<p>We will ensure that tendering opportunities are focused on innovation and opportunities, and carried out in conjunction with development partners to maximise market attractiveness.</p>	Ongoing
17	Performance reporting	<p>Performance reporting is undertaken and includes commercial and social benefits achieved, as well as savings across the whole organisation.</p> <p>PACS produce summary reports for chief officers and elected</p>	<p>We will report performance on commercial and social benefits achieved included in a performance dashboard.</p> <p>We will provide an annual report covering achievements and aspirations which will be published on our website.</p>	<p>We will ensure that the PACS becomes an integral part of performance reporting and is viewed by the leadership as contributing to commercialism.</p>

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
		Members on a annual basis.		
18	Post contract review	<p>Post contract reviews are undertaken by most directorates and/or identified categories of expenditure.</p> <p>Such reviews are seen as being an integral part of improving outcomes and identifying commercial opportunities.</p>	<p>Post contract reviews will be undertaken as part of council policy.</p> <p>We will develop well-defined published criteria for undertaking post contract reviews including the identification of commercial opportunities.</p> <p>PACS will support the post contract review process.</p>	Ongoing
Key Area	Supplier relationships and contract management	Baseline	Target 2020-2021	Target 2022-2024
19	Data collection and analysis	We have partial data and intelligence on our strategic suppliers.	<p>We will routinely collect and analyse data and intelligence on supplier performance, cost, financial status, added social value and risk.</p> <p>Our strategic suppliers will be identified according to agreed criteria.</p>	<p>We will ensure visibility of strategic supplier supply chains.</p> <p>We will share data and intelligence on performance, cost, financial status, added social value and risk with our regional partners.</p> <p>We will contribute to analysis of data and identification of strategic suppliers at combined authority/ group of councils level.</p>
20	Engagement of existing strategic suppliers	<p>Specific officers are responsible for monitoring and engaging with strategic suppliers.</p> <p>Supply chain risk assessments are carried out in</p>	<p>We will work with the combined authority/ group of councils and take a lead role for strategic supplier monitoring and engagement within the region.</p> <p>We will lead delivery of a programme of engagement</p>	<p>We will undertake a joint risk assessment with the combined authority/ group of councils.</p> <p>We will develop a shared toolkit for</p>

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
		relation to key contracts. Contingency planning is undertaken where a significant risk is identified.	with one or more shared strategic suppliers.	engaging with strategic suppliers. We will Coordinate improvement/cost reduction planning and contingency planning at combined authority/ group of councils level.
21	Early engagement with future strategic suppliers	Our future needs are signalled to the market using a variety of channels including publication of pipeline information and engagement events. We engage early with bidders on significant projects through market consultation/testing and seek to encourage innovative solutions.	We will work with the combined authority/ group of councils and take a lead role for market engagement. We will take the lead in early engagement for any joint projects we undertake.	Ongoing.
22	Information storage and accessibility	We have contracts registers at Category Management level, with access possible at directorate level, mainly viewing and searching capability. Data held is not always complete, or is out of date, but efforts are being made to increase data quality.	We will aim to have a contracts register that is dynamic and provided through a purpose- built solution (in- house/ external C and RM software/hosted service). The contracts register will be fully visible to the whole council with read/ write/edit and search capabilities for all contract owners and managers. We will have complete data sets for all major third party spend.	We will have a contracts register that is dynamic and fully accessible to all who need to use it. Information will always be as up-to-date as possible with comprehensive, complete and accurate records on all contracts. The contracts register will contain action/renewal alerting capabilities for contract owners and managers and

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
				in-built Learning Management capability.
23	Supplier financial distress	We have a structured approach to early engagement of suppliers in financial difficulties	We will include supplier financial distress clauses in all contracts for goods, works and services. We will provide guidance to commissioners and contract managers on managing suppliers in financial distress.	Ongoing.
24	Savings and benefits delivery	A formal policy is in place for capturing savings and accruing benefits from contracts but this is not uniformly implemented.	Savings captured from contracts and benefits-realisation will be applied uniformly across the council and reported to chief officers on a regular basis.	All contracts will be regularly reviewed to monitor actual versus planned spend. Opportunities for savings from specification and performance reviews will be assessed on an ongoing basis. All benefits/savings claimed in agreed business cases and/or promised by contractors will be managed and accrued to the council by effective contract management.
25	Recognition and cultural acceptance	There is recognition by the organisation of contract and relationship management in directorates. Job roles are designated as contract manager and/or contain specific contract and management	Contract and relationship management will be recognised as being essential to overall contract performance. The council will have a policy of creating specific job roles designated as contract and relationship managers and/or contain contract and relationship management	Regular briefings and meetings will be held to brief all staff involved in contract and relationship management on commercial, developments, new initiatives and professional development.

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
		activity in their content description in some directorates.	activity in their content description. Performance will be reviewed with job holders in their annual appraisals.	
26	Skills and knowledge	Staff have access to general contract management training given as a one-off exercise rather than an ongoing skills enhancement programme.	Contract and relationship management will be acknowledged as a core competency across the council. Briefings on contract and relationship management will form a part of all induction and management programmes. Refresher programmes will be available to all staff involved in contract and relationship management.	Contract and Relationship Management will be a core competency across the council. Staff will be invited to undergo advanced/ specialist training where contract management accounts for more than 20 per cent of their job role.
27	Supply chain and contractor failure	We are aware of the risks and issues involved and attempting to identify where this may occur.	Effective policies will be implemented in collaboration with relevant contractors.	Ongoing
	Enablers	Baseline	Target 2020-2021	Target 2022 -2024
28	Developing Talent	The PACS service plan includes support for staff to obtain professional qualifications and for apprenticeships.	We will have a planned approach to talent development in relation to future procurement and contract management workload including: <ul style="list-style-type: none"> • Contracts pipeline • Resourcing plan • Competency framework • Remuneration strategy • Comprehensive training and development plan including provision for development of staff not currently in procurement or contract management roles. 	We will seek to arrange secondments to and from the private sector and VCSE sector.
29	Exploiting Digital Technology	We currently have basic purchase ordering functionality for	We will make use of an integrated Procure to Pay (P2P) system in conjunction with online ordering for all	Technology will be used to forward plan all strategic acquisitions and

	Performance Level	Baseline	Target 2020 - 2021	Target 2022 - 2024
		<p>some products and/or services using finance and/or operational systems.</p> <p>There is limited procurement and contract management information available via static sources.</p> <p>We use an electronic tendering and quotations system for some tenders/ quotes.</p>	<p>services/ products. However, this may include some human intervention and paper trails.</p> <p>Some procurement and contract management Information will be available online to all stakeholders with appropriate search and filtering functions available.</p> <p>Access and interaction to the electronic tendering system, P2P system and contract management information will be possible from any electronic mobile device.</p>	<p>will underpin sourcing and procurement decision- making.</p> <p>Performance monitoring and communications will be underpinned by dashboards and diagnostics.</p>
30	Enabling Innovation	Innovation is only considered in a few contracts where technology is involved.	Outcomes will be based on procurement and establishing a market where there isn't one will be our 'standard' way of doing things.	Innovative procurement approaches will not just be applied to technology but to all established services.
31	Embedding Change	Procurement practices are comprehensively applied across multiple projects and directorates.	The importance of procurement and contract management will be recognised by all senior managers, and will be promoted as a way of leading and managing organisational change.	<p>Procurement and contract management will be key drivers of organisational change and will be embedded at all levels in the organisation.</p> <p>Lessons learned will be shared with other organisations at both regional and national level.</p>

APPENDIX 4

Glossary

Buying – placing orders under relevant contracts, use of purchasing cards and purchase-to-pay systems, receipting, making payments and associated transactions. This is also sometimes called Purchasing.

Category Management – best practice approach to managing and organising Procurement spend and resources; a structured framework of activities designed to deliver better Procurement outcomes through a holistic approach which focuses on the interrelated needs of buyers and suppliers; managing buying activity by grouping together related Goods, Works and Services across the council and mapping them onto the Provider market, to improve quality, savings and efficiency across the council as a whole.

Commissioning – the entire cycle of assessing the needs of people in a local area, designing and putting into place Goods, Works and Services to meet those needs, and monitoring and evaluating the outcomes. In a commissioning approach, the council seeks to secure the best outcomes for local communities by making use of all available resources, whether the resources are provided in-house, externally or through various forms of partnership. This activity continues throughout the Whole Lifecycle.

Contract Management – the tasks and activities which seek to ensure we receive what we have contracted to receive, at the price we contracted to receive it, taking account of agreed change and continuous improvement. Activity is focused from prior to the contract starting through to contract expiry and de-commissioning. It includes supplier relationship management and also ensures that we meet our obligations under the contract.

Goods – things that we buy, such as pens and paper, or plants and seeds, or fruit and vegetables.

Procurement – the tasks and decisions which secure an external Provider to provide what we want, at a price that we can afford. Activity is focused on the period from prior to advertising a tender to signing the contract. It includes both competitive tenders and circumstances where we negotiate with a single supplier.

Provider – any organisation that provides Goods, Works or Services to the council or on behalf of the council.

Purchasing – placing orders under relevant contracts, use of purchase-to-pay cards and systems, receipting, making payment, and associated transactions.

Services – services that we buy include specialist support for vulnerable children and adults, and also repairs and maintenance services, financial advice, designs and surveys for new building works.

SME or Small and Medium Enterprises – firms that employ 9 or fewer staff (micro), and firms that employ 50 or fewer staff (small), and firms that employ 250 or fewer staff (medium).

Social Value – the additional economic, social and environmental benefits that a contract achieves.

Value for Money or VfM – buying the right thing at the right price, taking account of price, quality, outcomes and whole life costs; the combination of whole-life costs and benefits to meet the customer's requirement; the relationship between economy, efficiency and effectiveness.

Whole lifecycle – the whole cycle of assessing needs, analysing options, preparation, Procurement, mobilisation, Contract Management and exit.

Works – construction works that we buy, including construction of new buildings, or extensions, and also creation and improvements to roads and bridges and open spaces.

Report of the Chief Officer Financial Services

Report to Corporate Governance and Audit Committee

Date: 22nd March 2019

Subject: Annual assurance report on the financial management and control arrangements and compliance with the Chief Finance Officer Protocol

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. The Chief Finance Officer's protocol, which constitutes Section 5k of the Council's constitution, requires that the Chief Finance Officer will report to the Corporate Governance and Audit Committee annually whether the arrangements set out in the protocol have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year.
2. Recognising the significant financial challenges facing the Council, and in the context of a number of high profile authorities running into financial difficulties, most noticeably Northamptonshire County Council who issued Section 114 notices in 2018, it is critical that the Council has in place sound arrangements for financial planning and management.
3. The Council has established an effective financial control environment and specifically robust arrangements for strategic financial planning combined with effective financial management and control.
4. The Council also has a sound framework for reviewing and challenging financial performance, has realistic plans in place to make the necessary savings in the 2019/2020 financial year, and is taking the appropriate steps to deliver them. Directorates have contingency plans in place to help to manage unforeseen variations against the budget.

5. The financial management and control framework is subject to a number of independent assessments, including the Council's Internal Audit function which has reviewed and given substantial assurance that there are robust controls in place to support the central co-ordination of the setting and monitoring of the Council's budget.
6. The financial management and control framework is continually being assessed and reviewed to ensure that it remains fit for purpose. This will continue and any issues and developments will be reported back to this Committee.

Recommendation

7. Members of the Corporate Governance and Audit committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning.

1. Purpose of this report

- 1.1 The overall purpose of this report is to provide assurance to this committee that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities. In doing so the report sets out the current arrangements for complying with the requirements of the Chief Finance Officer's protocol that are set out in Section 5k of Council's constitution.
- 1.2 Given the financial challenges facing the Council both currently and in the medium-term, it is essential that we continue to ensure that we have in place appropriate arrangements around financial performance, strategic financial planning, financial governance and financial control. This report outlines;
 - The key systems, controls and procedures,
 - New developments and improvements which have been put in place,
 - New developments in the near future
 - New risks and any issues arising.
- 1.3 The report aims to give members assurance that the financial control and financial governance arrangements in place are fit for purpose, up to date and embedded across the organisation.

2. Background information

- 2.1 This is the eighth year of reporting to this Committee on the financial planning and management arrangements of the Council. Previous reports have outlined the following arrangements;
 - a) Overarching controls;
 - The strategic role within the council of the Responsible Financial Officer;
 - Professionally qualified and accountable staff;
 - Financial regulations;
 - Monitoring of the integrity of financial systems;

- A statutory code of practice for treasury management arrangements.

b) Main financial processes;

- Budget preparation and setting.
- In-year budget monitoring and management.
- Closure of accounts and reporting.

2.2 Reports to this Committee over a number of years have provided a detailed assessment of these arrangements, along with appropriate assurances that they are fit for purpose and embedded. As in previous reports, rather than just report the main financial processes and arrangements, this report seeks to highlight any new developments or risks that have emerged over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A.

2.3 The financial procedures and controls are part of the overall financial control environment and form a fundamental part of the assurances received by this Committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2015.

2.4 The Chief Finance Officer's protocol, which constitutes Section 5k of the Council's constitution, requires that the Chief Finance Officer will report to the Corporate Governance and Audit Committee annually whether the arrangements set out in the protocol have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year. The protocol provides some general information on how the Chief Finance Officer's statutory requirements will be discharged. A copy of the Chief Finance Officer's protocol is appended as Appendix B.

3. Main issues

3.1 Chief Financial Officer & Section 151 Officer

3.1.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements. The role of Chief Financial Officer and the statutory Section 151 officer within Leeds City Council is being fulfilled by the Chief Officer (Financial Services).

3.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) sets out the role of the Chief Financial Officer in local government in its Statement which was last updated in February 2016. This Statement sets how the requirements of legislation and professional standards should be fulfilled by Chief Financial Officers in the carrying out of their role.

3.1.2 In its Statement, CIPFA asserts that the Chief Financial Officer in a local authority;

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest,

- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy,
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- to deliver these responsibilities the Chief Financial Officer must lead and direct a finance function that is resourced to be fit for purpose and must also be professionally qualified and suitably experienced.

3.1.3 The governance requirements in the Statement are that the Chief Financial Officer should be professionally qualified, report directly to the Chief Executive and be a member of the leadership team, with a status at least equivalent to other members. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly in the Annual Governance Statement, together with an explanation as to how these different arrangements deliver the same impact.

3.1.4 As referenced in paragraph 3.1.1 the Council's designated statutory Section 151 officer currently holds the position of Chief Officer (Financial Services). In undertaking this statutory Section 151 function, and recognising that Chief Officer (Financial Services) reports to the Director of Resources & Housing, it is necessary in this governance statement to explain how these arrangements fulfil the statutory Section 151 officer role.

3.1.5 To this end, the Chief Officer (Financial Services);

- Will be a member of the Council's Leadership Team and have advance notice of all agendas and reports;
- Will attend meetings of the Council's Executive Board and have advance notice of all meetings, agenda and reports and the right to attend and speak;
- Will have advance notice, (including receiving agendas, minutes, reports and related papers) of all relevant meetings of the Authority (including meetings at which officer delegated decisions are taken) at which a binding decision may be made (including a failure to take a decision where one should have been taken);
- Will have the right to attend (including the right to be heard) any meeting of the Authority (including meetings at which officer delegated decisions are taken) before any binding decision is taken (including a failure to take a decision where one should have been taken);
- Will report directly to the Chief Executive in terms of their the statutory Section 151 responsibilities;

- Will have sufficient resources to enable them to address any matters concerning their Section 151 functions;
- Will appoint a deputy and keep them briefed on any relevant issues that they may be required to deal with in the absence of the Section 151 officer;
- Will meet regularly with the Head of Paid Service and the Monitoring Officer to consider and recommend action in connection with corporate governance issues and other matters of concern regarding any legal, ethical standards, probity, propriety, procedural or other constitutional issues that are likely to (or do) arise;
- Will report annually to the Corporate Governance and Audit committee regarding whether the arrangements are satisfactory and have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year.

3.1.6 These arrangements contribute towards satisfying the requirements of the Chief Finance Officer protocol which forms part of the Council's constitution.

3.2 Strategic Financial Planning.

3.2.1 It is clear that the current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions. The Council continues to make every effort possible to protect the front line delivery of services, and whilst we have been able to successfully respond to the financial challenge so far, it is clear that the position is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without changes in the way the Council operates. The report to Council in February 2019 'Best Council Plan 2019/20 – 2020/21' explains how this will be done: that, while continuing its programme of efficiencies, the Council needs to work differently, to keep evolving and innovating in terms of *what* it does and *how* it does it, exploring different service models and greater integration with other organisations and skilling up staff to grow their commercial and business acumen.

3.2.2 The final local government finance settlement was announced on the 29th January 2019. Through the settlement, government re-confirmed the Council's Settlement Funding Assessment for 2019/20 and the North and West Yorkshire's successful bid to pilot 75% business rate retention. However there remains uncertainty after 2019/20 which is the final year of the current multi-year funding settlement. Specifically the implications of the Government's future spending plans from 2020/21 onwards remains unclear, the implications of implementing 75% business rate retention nationally have yet to be finalised by Government, the outcome of the Government's own Fair Funding review won't be known until the autumn of 2019 and the future funding of adult social care awaits the publication of the Green Paper.

3.2.3 The 2019/20 budget was approved by Full Council on the 27th February 2019. The headlines from the 2019/20 budget proposals, when compared to the 2018/19 budget, are as follows:

- An increase in the Council's net revenue budget of £5.8m to £516.7m;
- No revenue support grant from government: authorities piloting 75% business rates retention will forego revenue support grant and the value of the grant foregone is taken into account in setting the new business rates baseline as was the case when piloting 100% retention in 2018/2019.
- An increase in business rates income of £5.9m after this baseline adjustment;
- A budgeted contribution of £4.5m to the Council's general reserve;
- A reduction in the settlement funding assessment of £15.2m (7.7%);
- An increase in the general Council Tax of 2.99% together with a further 1% in respect of the Adult Social Care precept and an increase in the Council Tax base, generating an additional £15.1m of local funding;
- A combination of reduced funding and cost pressures means that the Council will need to deliver £22.6m of savings by March 2020 and;
- A net increase in staffing of 3 full time equivalent posts.

3.2.4 The Council has a proven and comprehensive approach to the development of its medium-term financial strategy, its annual budget setting and the identification of saving plans. The 2019/20 to 2021/22 Medium Term Financial Strategy was agreed by Executive Board in July 2018 and work is already underway to update this strategy in preparation for a report to the Executive Board in July 2019.

3.3 Financial Health Performance.

3.3.1 Budget management and monitoring is a continuous process which operates at a number of levels throughout the Council. Although Directors are ultimately responsible for the delivery of their Directorate budget, operationally these responsibilities are devolved down to budget holders across the various services. The Council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability within service decision-making. Every budget has a named accountable budget holder, supported by a finance officer, who is responsible for managing, monitoring and forecasting income and expenditure against the approved budget.

3.3.2 Financial monitoring across the Council is facilitated by the Council's Financial Management Systems (FMS). On a monthly basis budget holders, taking a risk-based approach, review their spend and commitments against the approved budgets and project their year-end position. There are also instances where spending is controlled on systems other than the Council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS. Ensuring the integrity of the accounts is as important to our budget monitoring processes as it is to the accounts, and this is a key role of the Corporate Financial Integrity Forum which includes senior finance staff and is chaired by the Head of Finance (Financial Management).

- 3.3.3 Financial monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. To reinforce this risk-based approach, specific support and reporting around the achievement of the key budget actions plans is in place in 2019/20.
- 3.3.4 As part of in-year budget management and monitoring, year-end projections for income and expenditure are submitted to the Chief Officer Financial Services, and the Corporate Leadership Team, and are also reviewed and challenged by the Corporate Finance Performance Group. In addition, budget monitoring reports are presented monthly to Directorate leadership teams, individual executive members, Executive Board and respective Scrutiny Committees.
- 3.3.5 In line with the Council's financial regulations and value of 'Spending Money Wisely', it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved budgets or to identify other sources of funding such as areas of under spend. All Directorates are required to have an agreed contingency plan in place before the beginning of each financial year.
- 3.3.6 Within the year, any decision to amend the approved budget has to be undertaken within the virement rules which, as part of the budget and policy framework, are agreed annually by Full Council as part of the annual budget setting process.

3.4 Capital Programme Controls and Monitoring

- 3.4.1 The Council recognises a number of pressures and development schemes that bring economic and wider benefits that have implications for the level of debt. The Council will look to manage these pressures and limit the impact on debt costs by ensuring where possible that new schemes are fully funded (either by external resources or departmental prudential borrowing), or are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision).
- 3.4.2 A revised approach to ensuring that new capital schemes are prioritised and injected at two points in the year has been implemented. This strategy does however allow for spend to save schemes or those of an immediate health and safety nature to be injected throughout the year. Proposals for new capital schemes must follow a rigorous business case process to demonstrate investment is aligned to capital objectives, meets the needs of the public, will deliver best value, and identifies the necessary resources. The proposal involves submission of bids for review by the Council's Strategic Investment Board before CLT, cabinet and member engagement and consideration takes place
- 3.4.2 One of the main risks in developing and managing the capital programme is that insufficient resources are available to fund the programme. A number of measures are in place to ensure that this risk can be managed effectively:

- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into;
- Monthly monitoring of overall capital expenditure and resources forecasts alongside actual contractual commitments;
- The capital programme includes a central contingency to cater for any unforeseen circumstances. In addition individual programmes and schemes contain a risk provision for unexpected circumstances;
- Monthly updates of capital receipt forecasts prepared, using a risk based approach, by the Director of City Development;
- Quarterly monitoring of the Council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained
- Compliance with Financial Procedure rules, Financial Regulations and Contract Procedure Rules to ensure the Council's position is protected.

3.4.3 The forecast of borrowing costs resulting from capital expenditure are budgeted for within the revenue budget. In the year following capital expenditure, as well as budgeting for interest costs, the revenue budget must make provision for the minimum revenue provision on borrowings which is accounted for over the life of the asset. Forecasts for the debt budget are dependent upon the interest rate assumptions, the likely level of capital spend and the Council's cash balances. The affordability of new borrowing and existing borrowing is reported on a monthly basis as part of the financial health reporting to the Executive Board, with specific treasury strategy reports presented to the Executive Board at least three times a year.

3.5 Financial Control Arrangements.

3.5.1 External Audit provide independent assurance on the Council's accounts and accounting practice as well as the arrangements to ensure value for money and the controls around the key financial systems. The 2017/18 KPMG's Annual Audit Letter received at this Committee on the 23rd November 2018 concluded that Leeds City Council had "made proper arrangements to secure economy, efficiency and effectiveness in its use of resources". In respect of financial resilience KPMG concluded in the same Annual Audit letter that the "Authority has adequate arrangements in place regarding the management of its financial risks and potential impact on resource deployment".

3.5.2 It is important that this Committee is informed of the key assurances provided and that these processes are still fit for purpose and are being complied with. Members should therefore note the following assurances;

- The Council has tried and trusted arrangements for treasury management which complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code. At the same time as this report this Committee will also be receiving separate Treasury Management Governance Report which reports on the robustness of these arrangements.
- In response to the government's deficit reduction plans and subsequent cuts in the grants which we receive from government, the Council has delivered

significant reductions in expenditure and increases in income with a further £22.6m of savings assumed in the 2019/20 budget. Establishing robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes are effective. Grant Thornton, who are now the Council's external auditors having replaced KPMG, will provide in respect of the 2018/19 accounts the independent assurance that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Grant Thornton have already commenced upon the process of providing this independent assurance.

- Internal Audit continues to provide assurance to members that all of the key core financial systems and processes are robust and are operating effectively. The financial management and control framework is subject to a number of independent assessments which include annual reviews of the major financial systems undertaken by the Council's Internal Audit function. Internal Audit has provided a substantial assurance opinion, which is the highest level, for each of the major financial system audits completed year to date. This includes the audit of Financial Management Central Controls which provides independent assurance that there are robust controls in place to support the central co-ordination of the setting and monitoring of the Council's budget.
- The Corporate Financial Integrity Forum, which meets each month and is chaired by the Head of Finance (Financial Management), has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts. The overall purpose is to help ensure the financial stewardship of the Authority by monitoring;
 - The regular review and reconciliation of financial systems to the financial ledger.
 - The regular review and reconciliation of balance sheet accounts.
 - The requirement to have effective systems and procedures in place to facilitate the posting of financial data to the ledger.
 - That there are up to date bank mandates for all bank accounts to which LCC officers are signatories and that bank statements are regularly received and reconciled.
 - Reviewing any other area of financial control or financial governance risk, including partnerships and other joint working arrangements.
 - Areas of concern affecting financial integrity are investigated and reported on.

3.6 Key issues and developments for 2019/20 and future challenges and improvements;

- 3.6.1 In December 2018 the Government notified the Council that the North and West Yorkshire Business Rates Pool bid to pilot 75% business rates retention had been successful. This pilot scheme is for one year only and allows the North and West Yorkshire Pool to retain all additional growth in business rates above the business rate baselines determined by Government and associated Section 31 grants. For the North and West Yorkshire pilot this additional income is estimated to be in the region of £29m with the Pool retaining £6m to continue to support and enable regional economic growth. The other £23m will be allocated to the member authorities themselves to improve financial stability within their organisations. Of the 50% allocated to member authorities, half will be based on each authority's actual additional growth and half will be redistributed by population. For Leeds this additional business rates income as a result of the Pilot is estimated to be £7.97m
- 3.6.2 On December 2018 the Government issued their consultation document in respect of the planned introduction of 75% business rate retention nationally from 2020/21. Whilst the proposals include options to mitigate volatility in income from business rates, the plans to devolve business rates need to be managed carefully as they are a volatile source of income that can vary according to valuations, appeals and how the national and local economy is performing with local authorities ill-equipped to absorb short-term risks and economic shocks.
- 3.6.3 In December 2018 the Government issued a further Fair Funding Review consultation document on proposals to simplify the assessment of local authorities' relative needs. It also considered the type of adjustment that will need to be made to an authority's relative needs assessment to take account of the relative resources available to them and principles for the design of transitional arrangements. The current funding baselines for local authorities are based on an assessment of relative needs and resources introduced over ten years ago and on data which has not been refreshed since the introduction of the 50% business rates retention system in 2013/14. Even under a scheme of 100% business rate retention, there will still be a need for a mechanism whereby resources are re-allocated between local authorities to reflect relative needs and resources. The key risk is the impact that the review will have upon the level of resources available to Leeds and the Government themselves recognise that "introducing a new needs and resources formula could result in significant changes to the funding baselines of some local authorities." The outcome of this consultation won't be known until the autumn of 2019, and alongside a similar timescale for the publication of the Government's future spending proposals, contributes towards a period of uncertainty with regard to the Council's financial projections from April 2020 onwards.
- 3.6.4 2019/20 is the second transitional year of the national funding formula for schools. During this transitional period local authorities will be allocated an amount based on the new national funding formula but they will still decide on a local formula for allocating this to schools. Local authorities will also continue to determine a local formula in 2020/21, a year longer than previously thought. The schools funding formula for 2019/20 has now been approved following consultation with all schools and the Schools Forum. In line with the majority view, some funding will be transferred from schools to provide additional funding for pupils with high needs, in order to address to ongoing pressures in this area. After taking account of this

transfer and the views from the consultation, the 2019/20 funding formula will move as close as possible to the national funding formula. In addition work continues to be carried out to assess the financial impact and risk to the Council should maintained schools become academies.

- 3.6.5 In addition, new CIPFA codes and government guidance require a local authority to produce a Capital and Investment strategy. The capital element of the strategy sets out the principles that underpin the Council's 3 capital programme and as such how it supports the corporate priorities and objectives. The strategy sets the framework for all aspects of the Council's capital expenditure and investment decisions. It supports strategic planning, asset management and robust option appraisal. The investment strategy covers the council's approach to non-treasury investment decisions. Treasury investment decisions are already contained within the Treasury Management Policy Statement that is presented as part of the annual Treasury Management report. The Capital and Investment strategy was approved in February as an appendix to the Capital Programme report. It also included elsewhere on this agenda as an appendix to the annual Treasury Management Governance Report.
- 3.6.6 Financial management systems - the current Financial Management System (FMS) is an in-house developed and managed Oracle-based system. The system is an excellent ledger system, but the general feel of the system is not modern and not user-friendly and there are specific gaps in the system's capabilities, for example procurement/purchasing. It is also anticipated that further economies and efficiencies could be realised through a review of our Financial Management System and following a soft market exercise that was undertaken at the end of 2018 to review what other Financial Management Systems can offer, the decision has been taken to undertake an option appraisal and subsequently develop a business case to determine whether to keep and develop FMS or commence a procurement exercise to replace FMS.
- 3.6.7 Financial Management System (FMS) – the integrity of the data within the Council's core FMS is very much dependent on the data and information from a multiple of source feeder systems, for example SAP for employee costs, Mosaic Framework- for foster carer payments and CIS for Adult Social Care payments, Qube for property rental income, etc. In 2019/20 the work programme for the Corporate Financial Integrity Forum will include seeking specific assurances as to the integrity of the source data that feeds into the core FMS, and in particular the new Civica system which is being introduced during the year for housing management functions.
- 3.6.8 Supporting the Best Council Plan – the 2019/20 budget recognises the Council's ambition to be the best city by being a strong economy and a compassionate city as well as achieving it best City priorities. Financial Services have a key role to play in this around supporting the Council to realise its ambitions. As well as ensuring that resources are aligned in the budget to support these priorities, specific support is being provided in respect of the priorities such as the Clean Air Zone and Housing Growth.

- 3.6.9 Financial Services review – as part of the ongoing Council-wide review of support services Financial Services have a budget savings plan target of £0.3m with a commensurate reduction in staffing posts by March 2020. Given the reductions that have already been achieved to date, and the scale of the challenge going forward, the finance function will continue to review the way that it operates and realise the benefits of being geographically based together in the Civic Hall which has facilitated increased effectiveness, economy and efficiency of the function.
- 3.6.10 In 2018 a number of high profile local authorities ran into significant financial difficulties. Most noticeable of these was Northamptonshire County Council whose Section 151 officer first issued a Section 114 notice in February 2018 as in his opinion the Council was at risk of not being able to balance its budget. A subsequent MHCLG Best Value inspection of the Council identified a number of key weaknesses that had ultimately led to the issue of the first Section 114 notice. As a result of this all local authorities are under increased scrutiny to demonstrate that they have appropriate governance arrangements in place to manage their financial affairs. This report forms part of that re-assurance to members with regards to the Council's financial management and control arrangements.
- 3.6.11 In response to a number of high profile authorities reporting financial difficulties CIPFA (Chartered Institute of Public Finance and Accountancy) have brought forward proposals for the creation of what is termed a financial resilience index for local government. Utilising historic figures this index will measure the resilience of individual authorities to continue to deliver annual savings and manage significant financial shocks while still pursuing ambitious goals for their local communities. These proposals will be publicly launched in the autumn of 2019 and that reference will have to be made to the index in robustness statements (section 25 of the LGA 2003) which Section 151 officers are required to make as a part of the annual budget setting process. It would appear that CIPFA are looking to bring this in for the 2020/21 budget and it will reinforce the new CIPFA Financial Management Code which is to become operational in advance of 2020/21.
- 3.6.12 Implementation of the code will complement the Council's Statutory Financial Officer's statement, which is required under the 2003 Local Government Act, on the adequacy of on the adequacy of reserves as a part of the annual budget setting process. It is also good practice for the Authority to have a policy on the level of its general reserve and to ensure that it is monitored and maintained.

4.1 Consultation and Engagement

- 4.1.1 Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2019/20 report to Full Council on the 27th February 2019. This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 A specific equality impact assessment of the budget at a strategic level was undertaken and was reported to Full Council on the 27th February 2019 as part of

the Revenue Budget and Council Tax 2019/20 report. This report has no direct equality and diversity/cohesion issues.

4.3 Council policies and Best Council Plan

4.3.1 The 2019/20 – 2020/21 Best Council Plan's ambitions, outcomes and priorities underpin the 2019/20 budget and have been used to ensure that the Council's financial resources are directed towards its policies and priorities and, conversely, that these policies and priorities themselves are affordable. Spending money wisely is one of the core Council's values, with the priority being for Directorates and services to keep within their budgets. Ensuring that the Council has appropriate financial management systems and procedures in place is clearly a key aspect and as such this report does provide some assurances, albeit not comprehensive, assurance that money is being spent wisely.

4.3.2 The terms of reference of the Corporate Governance & Audit Committee require the Committee to consider the adequacy of the Council's policies and practices to ensure compliance with statutory guidance and the adequacy of the Council's corporate governance arrangements.

4.4 Resources and value for money

4.4.1 This report deals with the Council's overall financial control environment and specific arrangements for ensuring effective financial management and control and is aimed at providing assurance to members as to their fitness for purpose.

4.5 Legal implications, access to information and call in

4.5.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer have responsibility for those arrangements. The Accounts and Audit Regulations 2015 came into force on the 1st April 2015 and set out the responsibility for internal control, the published accounts and audit.

4.5.2 This report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

4.6.1 An analysis of the key budget risks is maintained and subject to monthly review. Any significant and new risks are contained in the budget monitoring reports submitted to meetings of the Executive Board, together with any identified slippage on budget savings plans.

4.6.2 The Council's external auditors provide a risk assessment on the Council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.

5. Conclusions

- 5.1 The Responsible Financial Officer has established an effective overall financial control environment framework for financial planning and exercises effective financial management and control which, in his opinion, discharge both his statutory responsibilities and are consistent with the Chief Financial Officer protocol which forms part of the Council's constitution.
- 5.2 The framework of control and developments outlined in this report are fit for purpose, up to date, embedded and are regularly complied with.
- 5.3 Members can also take assurance from a number of rigorous reviews and assessments undertaken, including;
- Internal Audit provide annual assurances on the major financial systems and controls.
 - Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget continues to meet the council's priorities and objectives. In addition, Corporate Governance & Audit Committee approves the Council's accounts.
 - Officer review of the financial strategy, annual budget and in-year budget management and monitoring processes through the Financial Strategy Group, Finance Performance Group, Directorate leadership teams and the Corporate Leadership Team.
 - Officer review of the adequacy of the control arrangements through the corporate Financial Integrity Forum.
 - External Audit evaluated the Council's key financial systems as part of their audit work in respect of the 2017/18 accounts and will do so again as part of the 2018/19 audit. They also provide an opinion in respect of the Council's financial resilience.
- 5.4 Whilst the above arrangements should provide members with substantial assurance that the Council does have in place appropriate systems and procedures to deliver sound financial management and planning, it is important that this is kept continually under review and improved upon where appropriate.

6. Recommendations

- 6.1 Members of the Corporate Governance and Audit committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning.

7. Background documents¹

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing

7.1 None

exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

Appendix A

1. Overarching financial control environment

1.1 In order that the Council's statutory Chief Financial Officer can discharge his duties a number of overarching arrangements and controls are in place as part of an effective financial control environment;

1.1.1 **Chief Financial Officer** - The Chief Officer Financial Services, in the role of the Council's Chief Financial Officer, undertakes a strategic role and has established appropriate arrangements to discharge his responsibilities in line with CIPFA's recommended practice.

1.1.2 **Professionally qualified and accountable staff** - financial management across the council, both corporately and directorate-based is delivered by colleagues who are managerially responsible to the Chief Officer Financial Services. Many of the staff within the Financial Management service are professionally qualified accountants with many years of experience, and are themselves personally and professionally responsible for their actions and advice. This is reinforced through the council's performance and appraisal scheme which incorporates identifying key skills for finance staff, programmes of training, development and continuing professional development and peer review forums to ensure integrity as to the accounts and budget management and monitoring processes.

1.1.3 **Capital and treasury management arrangements** – The approach to setting the capital programme has been revised with the aim of ensuring that capital spending decisions and affordability are considered at the same time that the revenue budget is set for the following year. Directorates submit their scheme spending intentions for the next three years and are challenged and reviewed by the Council's strategic Investment Board. Proposals for new capital schemes must be accompanied by robust business cases and ensure that they are aligned to the Best Council Plan objectives. Only those priority and deliverable schemes are put forward for inclusion within the capital programme. The framework seeks to ensure that schemes that have a revenue implication are only injected in February and November. However schemes of an essential health and safety nature or those where the debt cost is supported by a revenue stream or costs savings can be injected at any point in the year.

1.1.4 The capital programme continues to be closely monitored with Directorates and progress on schemes reported on a monthly basis. Quarterly updates are presented to the Executive Board. The cost and affordability of the borrowing required to fund the capital programme continues to be managed within the debt budget. The affordability of new borrowing and existing borrowing is reported on a monthly basis as part of the financial health reporting to the Executive Board, with specific treasury strategy reports presented to the Executive Board at least three times a year. A further report to ensure compliance with the prudential code, treasury management code of practice

and internal audit compliance is presented to Corporate Governance and Audit Committee on an annual basis.

1.1.5 The Council has also produce a Capital and Investment strategy that is annexed to the Capital programme update report. The capital strategy element sets out the principles that support the Council's 3 year capital programme and as such how it supports corporate priorities and objectives. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provisions of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.1.6 The investment strategy element considers three broad areas:

- treasury management – covered in the Treasury management strategy document annexed to the annual treasury strategy report;
- other financial investments such as loans and equity investment which are made to achieve service objectives; and
- non-financial investments such as property.

1.1.7 **Financial Regulations** - The council has a number of overarching Financial Regulations contained within the Council's constitution. Each regulation is supported by a series of toolkits to provide supporting guidance.

1.1.8 **Integrity of the accounts** - The integrity of all the financial data is of fundamental importance in ensuring financial information is both timely and accurate in order to correctly inform decision making. This is a key role of the corporate Integrity Forum which includes senior finance staff and is chaired by the Head of Finance – Financial Management. The forum reviews all key financial control accounts such as cash and tax; the validity of all feeder systems into the financial ledger; along with such things as system access rights and coding structures.

2. Main financial processes

2.1 The above arrangements are intrinsic to all aspect of the overall financial control environment but are perhaps best illustrated in practice through the annual financial cycle which covers;

- Financial planning and budget preparation and setting.
- In-year budget management and monitoring.
- Closure of accounts and year-end reporting.

2.1.1 Financial planning and budget setting

2.1.1.1 Local authorities are under a statutory duty to set a balanced budget each year. Whilst at a basic level this can simply be seen as an annual exercise, given the financial challenges facing local authorities this needs to be set within a context

of a medium term financial strategy. Since 2016/17, the first year covered by the 2015 Spending Review, the Council has delivered significant reductions in expenditure and increases in income and the 2019/20 approved budget requires the realisation of a further £22.6m of savings.

- 2.1.1.2 The Council's Medium-Term Financial Strategy provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget but it does recognise the Council's ambitions, policies and priorities, sets out the main financial challenges facing the Council and provides a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy was last presented to the Executive Board in July 2018 and will be updated and reported to the Executive Board in July 2019 to reflect the 2019/20 local government finance settlement and the Council's 2019/20 budget.
- 2.1.1.3 Within the context of the financial strategy, as well as being a financial expression of the Council's policies and priorities, the annual budget is also a means of controlling spending to the available resources and re-enforcing financial accountability and responsibility.
- 2.1.1.4 The annual budget process is led by the Chief Officer Financial Services and involves a wide range of officers and members across the council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves a range of assumptions including the level of core government support as reflected through the Settlement Funding Assessment (SFA), other specific funding, council tax base, the determination of the level of business rates receivable, the level of inflation, demand and demography trends, interest rates, levels of income and fees & charges as well as new or developing spending pressures. This part of the process is led by corporate finance staff, but will involve financial and non-financial staff based in directorates and service areas. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.
- 2.1.1.5 At the same time Directorates start to prepare detailed estimates for the forthcoming year although ultimately the totality of these estimates need to be consistent with the overall resources envelope that is available to the Council.
- 2.1.1.6 The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the Council's ambitions, policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio members at appropriate points in the process.
- 2.1.1.7 The Council's constitution determines that initial budget proposals are submitted to scrutiny eight weeks prior to the council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December and January meetings of the respective Scrutiny Boards.

- 2.1.1.8 Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just process planning but also engagement with elected members and senior management.
- 2.1.1.9 In many ways the budget is an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a list of key budget risks which attempts to identify and assess the risks built into the budget. It is important to appreciate that the time frame of the list of budget risks is a single budget year. The list of key budget risks not only assists in assessing the robustness of the budget but also acts as a means of assessing the adequacy of the general reserve in that it provides an assessment of what may go wrong in-year.
- 2.1.1.10 Reaching a view of the robustness of the budget and the adequacy of the general reserve not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial management and control.

2.1.2 In-year Budget Management and Monitoring

- 2.1.2.1 Budget management and monitoring is a continuous process which operates at a variety of levels throughout the Council. Although Directors are ultimately responsible for the delivery of their Directorate budget, operationally these responsibilities are devolved down to budget holders within the Council. In line with the budget holder accountability framework, every budget has a named budget holder who is responsible for managing and monitoring income and expenditure against the approved budget.
- 2.1.2.2 In advance of the financial year, and after the revenue budget for the forthcoming year has been approved, Directorates are requested to produce budget action plans for their services which detail what action is required to deliver the approved budget e.g. staffing restructure or a delegated decision to implement price increases; when the action is required to be completed by and; who is responsible for delivering the action required. In addition through taking a risk based approach to their respective budgets, Directorates are requested to identify contingency arrangements that could be implemented to address any variations from budgeted assumptions that will result in an overspend. The outcome of this exercise also informs how much is required in the Council's general reserve to provide for risks.2.1.2.2 Financial and budget monitoring in the Council is facilitated by the Council's financial management system (FMS). The system holds information as to the approved budgets, actual spend and income, commitments and year-end projections. On a monthly basis budget holders review spend to date, against the approved budget and against profiled budgets. In addition, budget holders are also required to predict their end of year position which is done with the assistance of directorate-based finance staff – this clearly does involve a degree of judgement. In practice some budgets are more difficult to manage and forecast than others. There are also instances where

spending is controlled on systems other than the Council's main FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS.

- 2.1.2.3 Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections of budget monitoring officers and budget holders are aggregated upwards to be reviewed by budget holders, Chief Officers and Directors. The year-end projections for each Directorate are submitted to corporate finance and are reviewed and challenged each month by the Council's Finance Performance Group (FPG). This group is primarily made up of Heads of Finance and is chaired by the Head of Finance (Financial Management). The year-end projections are then reported monthly to the Council's Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such monthly reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed. Monitoring performance reports on the capital programme, capital receipts, council tax and business rate collection, and treasury/debt activities are considered during the year by the Executive Board.
- 2.1.2.4 In line with the Council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. All Directorates have agreed contingency plans identified to the value of the key risks identified in the budgets. In-year, any decision to amend budgets is undertaken within the virement rules agreed annually by Full Council as part of the budget-setting process. All such decisions are recorded as part of the delegated decision making process.
- 2.1.2.5 It is also important to appreciate that both External and Internal Audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.1.3 Closure of accounts

- 2.1.3.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board, in June each year. This report compares the budget to the final outturn for each directorate and provides an explanation as to the reason for any variation, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.
- 2.1.3.2 Alongside the budget monitoring process, significant accounting decisions are referred to the strategic accounting team within corporate finance to ensure compliance with applicable accounting standards. The Council's external

auditors, Grant Thornton, are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.

- 2.1.3.3 All changes to accounting practice are assessed and, where applicable, implemented by officers in corporate finance. All finance officers and relevant directorate officers are informed of the implications of any changes. The application of appropriate accounting practice is assessed by the council's external auditors and reported back to members of this Committee.
- 2.1.3.4 Staff in corporate finance oversee the closedown process and the Chief Officer Financial Services will review both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The Council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the council's financial position and that they comply with proper accounting practice.
- 2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

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**CHIEF FINANCE OFFICER
PROTOCOL**

CHIEF FINANCIAL OFFICER PROTOCOL

1.0 INTRODUCTION TO STATUTORY RESPONSIBILITIES

- 1.1 The Chief Finance Officer is a statutory appointment pursuant to section 151 of the Local Government Act 1972. This Protocol provides some general information on how those statutory requirements will be discharged.
- 1.2 The role of the Chief Finance Officer rests with the Chief Officer Financial Services.
- 1.3 A summary list of the Chief Finance Officer's statutory responsibilities appears in the Annex A attached. The Chartered Institute of Public Finance and Accountancy (CIPFA) has also issued a Statement on the role of the Chief Finance Officer and the key responsibilities are outlined at Annex B. The Chief Finance Officer's ability to discharge these duties and responsibilities will depend, to a large extent, on members and officers:-
- (a) complying with the law;
 - (b) complying with any relevant Codes of Conduct or codes or protocols issued from time to time;
 - (c) making lawful and proportionate decisions; and
 - (d) generally, not taking action that would bring the Council, their offices or professions into disrepute.
- 1.4 The Chief Finance Officer is not merely a servant of the authority, but also holds a fiduciary responsibility to the local taxpayers.

2.0 WORKING ARRANGEMENTS

- 2.1 CIPFA have set out five principles that define core activities and behaviours that belong to the role of the Chief Finance Officer
- i) The Chief Finance Officer should be a key member of the Leadership Team, helping the organisation to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.
 - ii) The Chief Finance Officer must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the organisation's financial strategy

- iii) The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- iv) To deliver these responsibilities the Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose; and
- v) The Chief Finance Officer must be professionally qualified and suitably experienced.

2.2 Having excellent working relations with members and officers will assist in the discharge of the statutory responsibilities by the Chief Finance Officer. Equally, a speedy flow of relevant information and access to debate (particularly at the **early stages** of any decision-making by the council) will assist in fulfilling those responsibilities. Members and officers must, therefore, work with the Chief Finance Officer (and his/her staff) to discharge the council's statutory and discretionary responsibilities.

2.3 The Chief Finance Officer must be a qualified member of a specified accountancy body and is vested with the statutory responsibilities for maintaining finance administration and stewardship including the responsible finance officer duties and with strategic and corporate roles. CIPFA asserts that the Chief Finance Officer in a public service organisation should be a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest. Whilst the Chief Officer Financial Services is not a member of the corporate leadership team in Leeds the following arrangements and understandings between the Chief Finance Officer, members and directors are designed to ensure the effective discharge of the council's business and functions. The Chief Finance Officer will:-

2.3.1 Resources

- (a) report to the Council, as necessary on the staff, accommodation and resources s/he requires to discharge his/her statutory functions;
- (b) have sufficient resources to enable him/her to address any matters concerning his/her Chief Finance Officer functions;
- (c) appoint a deputy and keep him/her briefed on any relevant issues that s/he may be required to deal with in the absence of the Chief Finance Officer. Appoint an appropriate external adviser in cases where the Chief Finance Officer is precluded from offering advice and the deputy is unable to advise.

2.3.2 Access to information/meetings

- (a) be alerted by members and officers to any issue(s) that may become of concern to the council, including in particular, issues around financial management, accounts and audit regulations, proposed expenditure or proposed actions which might lead to a loss or deficit;

- (b) have advance notice (including receiving agendas, minutes, reports and related papers) of all relevant meetings and delegated decision making of the council at which a decision may be made (including a failure to take a decision where one should have been taken);
- (c) have the right to attend any meeting of the council (including the right to be heard and report to the Executive Board) before any decision is taken (including a failure to take a decision where one should have been taken);
- (d) in carrying out any investigation(s) and exercising any fiduciary duties have unqualified access to any information held by the council and to any officer who can assist in the discharge of his functions;
- (d) have advance notice of meetings of the Corporate Leadership Team, including agendas and reports and have the right to attend and speak on all matters which have financial implications;

2.3.3 Relationships

- (a) A reciprocal responsibility to ensure the other statutory officers (Head of Paid Service and the Monitoring Officer) are kept up-to-date with relevant information regarding any financial management, accounts and audit regulations, proposed expenditure or proposed actions which might lead to a loss or deficit;
- (b) meet regularly with the Head of Paid Service and the Monitoring Officer to consider and recommend action in connection with corporate governance issues and other matters of concern regarding any financial management, accounts and audit regulations, proposed expenditure or proposed actions which might lead to a loss or deficit;
- (c) develop effective working liaison and relationship with the external auditor (including having the authority, on behalf of the council, to complain to the same, refer any breaches to the same or give and receive any relevant information, whether confidential or otherwise, through appropriate protocols, if necessary);
- (d) in consultation, as necessary, with the Leader, the Executive Board and the external auditor, defer the making of a formal report under sections 114, 115 and 116 of the Local Government and Finance Act 1988 where another investigative body is involved;

3.0 **MEMBER AND OFFICER RESPONSIBILITIES**

To ensure the effective and efficient discharge of the arrangements set out in paragraph 2 above, members and officers will report any breaches of statutory duty or council policies or procedures and ultra vires or constitutional concerns to the Chief Finance Officer, as soon as practicable.

4.0 ADVICE

The Chief Finance Officer is also available for members and officers to consult on any issues of the council's financial powers, possible unlawful payments, or general advice on the financial arrangements.

The Chief Finance Officer or deputy will record details of any advice given.

5.0 MONITORING THE PROTOCOL

Annually, the Chief Finance Officer will report to the Corporate Governance and Audit Committee regarding whether the arrangements set out in this protocol have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year.

6.0 SANCTIONS FOR BREACH OF PROTOCOL

Complaints of a breach of this protocol by an officer will be referred to the relevant Director and/or the Chief Executive for appropriate action to be considered, including disciplinary investigation.

Annex A

SUMMARY OF CHIEF FINANCE OFFICER STATUTORY FUNCTIONS

Description		Source
1	That the Treasurer is not merely a servant of the Council but holds a fiduciary relationship to the local taxpayers.	Case law - Attorney General -v- De Winton (1906).
2	To make arrangements for the proper administration of their Finance affairs. Legal opinion taken states that the term "administration" means responsibility for managing the totality of the Finance affairs of a local Council in all of its dealings.	Section 151 of the Local Government Act 1972
3	The Officer appointed as the responsible Chief Finance Officer must, be a Member of a specified accountancy body. The statutory role must be performed by an "Officer" of the Council.	Section 113 of the Local Government Finance Act 1988
4	In consultation with the Monitoring Officer and Head of Paid Service, reporting to all members and the external auditor if there is, or is likely to be, unlawful expenditure or an unbalanced budget.	Section 114 Local Government Finance Act 1988
5	Advising whether particular decisions are likely to be contrary to the policy framework or budget of the council.	Local Government Act 2000
6	Maintain an adequate and effective system of internal audit for accounting records and control systems.	Accounts and Audit Regulations 2015
7	Reporting to Council on both the robustness of the budget estimates and the adequacy of financial reserves, and ensuring compliance with the prudential capital regime.	Local Government Act 2003

Annex B

In its Statement CIPFA sets out the five principles that define the core activities and behaviours that belong to the role of the Chief Finance Officer in public service organisations. The core responsibilities against each of these principles are set out below.

(a) **Principle 1 - contributing to Corporate Management and Leadership**

- Contributing to the effective leadership of the authority, maintaining focus on its purpose and vision through rigorous analysis and challenge.
- Contributing to the effective corporate management of the authority, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework
corporate decision making arrangements.
- Contributing to the development of public service partnership to deliver objectives.
- Leading or promoting change programmes within the authority.
- Leading development of a medium-term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.

(b) **Principle 2 - responsibility for financial strategy and influencing decision making**

Responsibility for financial strategy:

- Agreeing the financial framework and planning delivery against the defined strategic and operational criteria.
- Maintaining a long-term financial strategy to underpin the authority's financial viability within the agreed performance framework.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Evaluating the financial implications of alternative delivery models.
- Appraising and advising on commercial opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver business priorities.
- Developing an approach for the delivery of collaborative services within a structured framework.
- Leading on asset and balance sheet management to allow the authority to maximise its effective use of resources.
- Co-ordinating the planning and budgeting processes.
- Involvement in strategic assets management.

Influencing decision making:

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.

- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support councillors' strategy development.
- Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/budget.
- Ensuring that advice is provided to the scrutiny function in considering the funding plan/budget.
- Ensuring that the authority's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.
- Financial information for decision makers
- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.
- Monitoring the service impact of 3rd party contacts on the delivery of organisational objectives.
- Monitoring the longer-term financial impact of 3rd party contracts.

(c) **Principle 3 – Financial Management, value for money, safeguarding public money and assurance & scrutiny.**

Promotion of financial management:

- Assessing the authority's financial management style and the improvements needed to ensure it aligns with the authority's strategic direction.
- Actively promoting financial literacy throughout the authority.
- Actively promote good financial management throughout all partnerships and alternative delivery models.
- Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of officers for financial management, including delegated authority/powers.
- Ensure effective monitoring of partnerships through monitoring and access to information.

Value for money:

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function or being clear on the reasons for alternative selection.
- Advising on the financial thresholds for 'key' decisions where there is a requirement to do so.

- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long-term commercial contract value.

Safeguarding public money;

- Applying strong internal controls in all areas of financial management, risk management and asset control.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.¹⁴
- Ensuring that delegated financial authorities are respected.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Overseeing of capital projects and post completion reviews.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensuring the effective management of cash flows, borrowings and investments of the authority's own funds or the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.
- Implementing appropriate measures to prevent and detect fraud and corruption.
- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.
- Be alert to potential conflicts of interest and ensure the authority has access to appropriate independent advice.

Assurance and scrutiny;

- Reporting performance of both the authority and its partnerships to the board and other parties as required.
- Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy, service plans, targets and performance is accurate, clear, relevant, robust and objective.
- Supporting and advising the audit committee and relevant scrutiny groups.
- Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.

- Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.
- Certifying the annual statement of accounts.
- Ensuring that arrangements are in place so that other accounts and grant claims (including those where the authority is the accountable body for community led projects) meet the requirements of the law and of other partner organisations and meet the relevant terms and conditions of schemes
- Liaising with the external auditor.

(d) Principle 4 - Lead and direct a finance function that is resourced to be fit for purpose.

- Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Managing partnership delivery.
- Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Ensuring that finance staff, managers and the leadership team are equipped with the financial competencies and expertise needed to manage the business both currently and in the future whether directly or indirectly employed.
- Ensuring that the head of profession role for all finance staff in the authority is properly discharged.
- Acting as the final arbiter on application of professional standards.



Report of Chief Officer Financial Services

Report to Corporate Governance and Audit Committee

Date: 22nd March 2019

Subject: Annual Treasury Management Governance Report

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. This annual report provides assurance that the Treasury Management (TM) function is operating within its governance framework.
2. TM fully complies with the current CIPFA Code of Practice, the Prudential Code and the revised guidance notes for practitioners issued in 2013.
3. Since the last update all borrowings and investments undertaken have been in accordance with the approved governance framework.
4. TM operates within the governance framework and also uses additional market intelligence and information gathered from a variety of sources. These sources have been integral to protecting the authority from undue risk in the financial and money markets.
5. Internal Audit has provided substantial assurance on the control environment and compliance in their 2017/18 audit report.
6. Updates to the CIPFA codes and Department for Communities and Local Government (DCLG) guidance on Investments and Minimum Revenue Provision (MRP) occurred in December 2017 and January 2018. These updates were fully adopted for the financial year 2018/19 onwards as detailed in the report to Executive Board on 14th February 2019.

Recommendations

7. Note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2011 and revised CIPFA guidance notes issued in 2013. All borrowing and investments undertaken have been compliant with the governance framework.

7.1 Note also that Treasury Management has ensured that it will fully comply with the updated CIPFA Code of Practice 2017 and the MHCLG investment and MRP Guidance for the financial year 2018/19 onwards.

1. Purpose of this report

1.1 This annual report outlines the governance framework for the management of the Council's TM function. This report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2018.

2 Background information

2.1 The operation of the TM function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011 in particular: The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators.

- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

2.2 TM is responsible for managing the Housing Revenue Account and General Fund long term debt which is in the region of £2.09bn and investments that currently stand at around £46m. It also manages the cash flow requirements of the Council.

3 Main issues

3.1 The role of the Corporate Governance and Audit Committee is to ensure that TM is adhering to and operating within its governance framework, as shown in Appendix A.

3.2 During the year TM had continued to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, Prudential Code (2011) and its guidance notes (2013). As such a strategy report was presented to Executive Board in February 2017 together with an update in November 2017. A further outturn report for the previous financial year was presented in June 2018. For the Year 2018/19 a strategy report was presented to Executive Board in February 2018 together with an update in November 2018.

3.3 During the year all borrowings and investments undertaken have been in accordance with the approved governance framework and are in line with the Treasury Management Policies and Practices.

3.4 In recent years the treasury strategy has taken advantage of the low short-term interest rates to fund its long term borrowing requirement. The Council's balance sheet strength has also been used to defray long term borrowing and avoid the risk associated with external Treasury Management investments.

- 3.5 The 2019 February Executive Board update report has highlighted that the current borrowing strategy continues to fund the borrowing requirement of the capital programme from short dated loans and internal cash balances. In November 2017 the Monetary Policy Committee (MPC) increased the bank rate for the first time in 8 years reversing the last cut made in August 2016. A further increase of 0.25% to 0.75% was made in August 2018 and further increases are expected going forward but expectations are that these increases will be introduced slowly and steadily. The strategy of deferring long term borrowing will increase the amount of debt that the Council is funding from short term loans and its balance sheet to a forecast £648m by 31/03/2019. This exposure is considered manageable given historical capital programme slippage, the strength of the Council's balance sheet and the market for supplying short term funds remaining strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile.
- 3.6 The Council's current long term debt of £1.714bn has an average maturity of just over 39 years if all debts run to maturity. Approximately 13% of the Council's long term fixed debt has options for repayment which are the LOBO's excluding Barclays loans which are now fixed. In the unlikely event that all these options were exercised at the next option date then the average maturity of long term debt would be lowered to just under 33 years. This compares favourably with the average maturity of the UK's government debt portfolio of just over 15 years. The existing profile of the Council's debt provides considerable certainty of funding costs with 62% or £1,298m of its total debt maturing in periods greater than 10 years.
- 3.7 The Lenders Option Borrowers Option loans (LOBO's) that many Local Authorities issued up to 2007/08 have been used successfully over the last 20 years to reduce the Councils interest costs in comparison to Public Works Loan Board (PWLB) funding available at the time. These loans also introduced short to medium term re-financing risk at a time when the average maturity of the Councils debt portfolio was becoming very long. In essence the standard LOBO's that the Council has issued are long dated loans, which after an initial fixed period, contain an option whereby the lender only can vary the rate of interest on the loan, but only at specific intervals. These periods are every 3, 5 or 6 years depending on the specific loan. If the lender exercises the option the Council then has the option to accept the change or to repay the loan without any penalty cost and repay the principal in full. No options have been exercised since 2008 and in the current economic climate these loans are essentially fixed.
- 3.8 After the end of the year the Council, like many others received a challenge to its Statement of Accounts for 2016/17 on the basis that "the decision to sign up to so many (46) LOBO loans was unreasonable and irrational". This has been resolved by the external auditor who resolved that the challenge was not sustainable and that the Council had acted reasonably.
- 3.9 The Council has £215m of LOBO loans with Barclays of which £110m are the subject of a class action initiated by a total of 7 Councils. These LOBOs contained clauses that referenced London Inter Bank Overnight Rate (LIBOR) at a time when Barclays were subsequently convicted and fined for fraudulently fixing LIBOR. This is an ongoing action and further details will be reported as appropriate as the action progresses.
- 3.10 The Council's total external borrowing Capital Financing Requirement CFR i.e. the amount required to fund previous and current capital expenditure is circa £2.2bn and its assets are valued at £5.4bn as at 31 March 2018. The setting and

monitoring of the capital programme seeks to ensure that we invest and maintain our assets whilst supporting the best council plan priorities. Treasury Management strategy determines the revenue affordability of the programme.

- 3.11 To mitigate against the exposure to rising interest rates the Council continues to explore forward funding options which will give the Council the ability to lock in future funding at near current rates.
- 3.12 TM continues to review key aspects of the framework including prudential indicators to ensure that they continue to be fit for purpose and provide the right evidence that TM is operating within acceptable levels of risk. The strategy updates to Executive Board include an update on prudential indicators. TM is complying with all of CIPFA's prudential indicators as shown at Appendix B which was reported to Executive Board on 14th February 2019.
- 3.13 The operation of TM within its governance framework is also complemented by additional market intelligence and information gathered from a variety of sources. These tools involve:
- The use of real time market information on the financial and money markets in the UK, Europe, US and other major economies;
 - Discussions with market participants and brokers;
 - Use of treasury advisors to test market views;
 - Networking and sharing of information with Core Cities and West Yorkshire districts;
 - Attending market seminars providing technical and economic updates;
 - Daily market updates from financial institutions and brokers;
 - Thorough review of new financial products and how they fit within the governance structure; and
 - Undertaking continuing professional development and ensuring that appropriate training is undertaken.
- 3.14 Furthermore TM undertakes to respond to all treasury management consultations and influence the national governance framework, through attendance at regular core city meetings.
- 3.15 Internal Audit has completed its annual review of the TM function for the year 2017/18 which is the most recent audit review. This involved a risk based system audit of TM to evaluate and validate key systems controls.

Treasury Management & Bankline 2017/18

Key controls for a sample of investments, loans and interest payments for 2017/18 were reviewed. The Internal Audit report issued 10th May 2018 provided the highest level of assurance for the control environment and compliance with the control environment.

- 3.16 CIPFA and the Department for Communities and Local Government issued revised codes and guidance in December 2017 and January 2018 on the following areas related to Treasury Management:-
- The Prudential Code - for Capital Finance in Local Authorities 2017 (CIPFA)
 - Treasury Management in the Public Services - Code of Practice 2017 (CIPFA)

- Local Authorities Investment Guidance 2018 (DCLG)
- Minimum Revenue Provision Guidance 2017(DCLG) – adopted annuity method0

These codes and guidance have been fully adopted by the Council for the financial year 2018/19 in the strategy report submitted to Executive Board on 14th February 2019. These were not adopted for the start of the year 2018/19 due to the timing of their issuance and the codes accepted that implementation for the year 2018/19 during the year was acceptable. The following changes have been implemented as part of the change to the codes and guidance:-

- Requirement to determine a Capital Strategy and is included as an appendix to the Capital report and is attached at Appendix C.
- Prudential Indicators 1 and 2 have been expanded to show the financing costs for both General Fund and HRA as a percentage of the net revenue stream for external borrowing costs only and for borrowing cost and other long term liabilities (PFI and Finance leases)
- Gross debt and Capital Financing requirement has been changed from Net debt.
- Estimate of the Incremental Impact of new capital investment on General Fund has been removed this was formerly Appendix B Prudential Indicator 3
- Estimate of the Incremental Impact of new capital investment on Housing revenue Account has been removed this was formerly Appendix B Prudential Indicator 4
- The requirement to formally adopt the Prudential Code has been removed as it is implicit that all local authorities will comply and abide by the code. This was formerly Prudential Indicator 13.
- Prudential Indicator 14 in Appendix B, the upper limit for fixed interest rate exposures is no longer an explicit indicator under the guidance notes for practitioners however this is being retained.
- Prudential indicator 15 in Appendix B, the upper limit for Variable interest rate exposure fixed rate exposures is no longer an explicit indicator under the guidance notes for practitioners however this is being retained.
- Prudential indicator 18 in Appendix B, net debt as a percentage of gross debt is no longer an explicit indicator under the guidance notes for practitioners however this is being retained.
- New requirement to create and maintain a register of all counterparties with whom we have elected up to Professional status with under the Markets in Financial Instruments Directive II (MIFIDII). This is now included within the Treasury Management Policy Statement (TMPS)
- New requirement to report on all non-treasury management investments, loans, guarantees as well as commercial investment activity. This is included in the Capital and Investment strategy as an appendix to the Capital report and is attached at Appendix C.
- The MHCLG Guidance has been expanded and enhanced to cover the commercialism agenda and to bring non treasury management investments within the reporting envelope. It separates investments into :-
 - Specified Investments (mainly TM Investments)
 - Loans
 - Non Specified Investments
 - Non-financial investments
- MHCLG guidance also brings a new concept of proportionality in relation to income generated from commercial investments compared to a local authority's wider financial base.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 There has been no consultation in relation to this report

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not have any direct equality and diversity/cohesion and integration issues.

4.3 Council policies and Best Council Plan

4.3.1 The execution of the Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.

4.4 Resources and value for money

4.4.1 The execution of the Treasury Strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 7th February 2018 and 14th February 2019.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The legislative framework which governs TM is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury Management Code of Practice, the prudential code 2011 and revised guidance notes issued in 2013 as revised.

4.5.2 There are no legal or access to information issues arising from this report.

4.6 Risk Management

4.6.1 As set out in the Treasury Management Policy Statement, TM activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.

4.6.2 By complying with and adopting the CIPFA Treasury Management Code of Practice, Prudential Code and guidance notes, assurance is given that arrangements are in place to manage risks effectively.

5 Conclusions

5.1 This report confirms that the treasury management governance framework is up to date and fit for purpose, that the Council is operating within its governance framework and as such is complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2017/18 Internal Audit report gave TM substantial assurance on both control and compliance. It also confirms that the strategy is being monitored and reported back to Executive Board and full Council as appropriate.

6 Recommendations

6.2 Note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2011 and revised

CIPFA guidance notes issued in 2013. All borrowing and investments undertaken have been compliant with the governance framework.

6.3 Note also that Treasury Management has ensured that it fully complies with the updated CIPFA Code of Practice 2017 and the MHCLG investment and MRP Guidance for the financial year 2018/19 onwards.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
↓ DELEGATIONS TO OFFICERS			
DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED	
Officer delegation scheme (Executive Functions)	Chief Officer Financial Services	Making arrangements for the proper administration of the authority's financial affairs	
Executive Functions Specific Delegations Page 24 (d) Treasury Management	To Chief Officer Financial Services	The provision of financial services, including treasury management (encompassing the making of payments and borrowing of loans)	
Miscellaneous Functions - Financial Regulation 20: Treasury Management Page 32	Function delegated to Chief Officer (Financial Services)	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements	

↓ OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK

POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Off. Financial Services Head of Finance - Technical Senior Treasury Manager Assistant Finance Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code Guidance Notes	Head of Finance - Technical Senior Treasury Manager Assistant Finance Manager	Ensure compliance and that any changes are reflected in the operating framework.

Leeds City Council - Prudential Indicators 2017/18 - 2019/20

No.	PRUDENTIAL INDICATOR	2017/18	2018/19	2019/20
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
1	Ratio of Financing Costs to Net Revenue Stream General Fund - Excluding DSG (Note a)	10.19%	12.73%	11.70%
2	HRA	11.01%	11.07%	11.28%
Impact of Unsupported Borrowing on Council Tax & Housing Rents				
3	increase in council tax B7(band D, per annum) (Note b)	£ . P 10.97	£ . P 40.77	£ . P 63.06
4	increase in housing rent per week	0.00	0.01	0.20
5	Net Borrowing and the capital financing requirement (Note c)	OK	OK	OK
Estimate of total capital expenditure				
6	Non HRA	288,778	237,573	203,200
7	HRA	85,927	86,583	131,170
	TOTAL	374,705	324,156	334,370
Capital Financing Requirement (as at 31 March)				
8	Non HRA	£'000 2,030,097	£'000 2,109,480	£'000 2,184,901
9	HRA	815,077	811,611	832,844
	TOTAL	2,845,174	2,921,091	3,017,745
9a	Limit of HRA Indebtedness as implemented under self financing	721,327	721,327	721,327

No.	PRUDENTIAL INDICATOR	2017/18	2018/19	2019/20
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS				
		£'000	£'000	£'000
10	Authorised limit for external debt borrowing other long term liabilities TOTAL	2,450,000 740,000 3,190,000	2,450,000 720,000 3,170,000	2,500,000 690,000 3,190,000
11	Operational boundary borrowing other long term liabilities TOTAL	2,200,000 720,000 2,920,000	2,300,000 700,000 3,000,000	2,350,000 670,000 3,020,000
14	Upper limit for fixed interest rate exposure expressed as either:- Net principal re fixed rate borrowing / investments OR:- Net interest re fixed rate borrowing / investments	115%	115%	115%
15	Upper limit for variable rate exposure expressed as either:- Net principal re variable rate borrowing / investments OR:- Net interest re variable rate borrowing / investments	40%	40%	40%
17	Upper limit for total principal sums invested for over 364 days (per maturity date)	150,000	150,000	150,000
18	Net Debt as a percentage of Gross debt	99.4%	99.4%	99.5%

16	Maturity structure of fixed rate borrowing as at 31/03/2018	Lower Limit	Cumulative Upper Limit	Projected 31/03/2018
	under 12 months	0%	15%	2.76%
	12 months and within 24 months	0%	20%	5.43%
	24 months and within 5 years	0%	35%	11.52%
	5 years and within 10 years	0%	40%	5.06%
	10 years and within 20 years			1.67%
	20 years and within 30 years	25%	90%	0.00%
	30 years and within 40 years			41.21%
	40 years and within 50 years			24.02%
	50 years and above			8.33%
				100%

Notes.

- a The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.
- b The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.
- c In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.
- d Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- e Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, and the revised code in February 2010, 2012 and 2017

Capital and Investment Strategy

1. Introduction and Requirements

- 1.1 This report sets out the Council's Capital and Investment strategy. From 2018/19 there are new requirements for local authorities to have both a Capital Strategy and an Investment Strategy, with the option to produce one strategy document covering both of these areas. The council has opted to produce an overall Capital and Investment Strategy, given that there is a significant overlap between the two areas.
- 1.2 The requirement for a Capital Strategy is included in the revised Prudential Code for Capital Finance in Local Authorities 2017. The Prudential Code was developed by CIPFA (Chartered Institute of public Finance and Accountancy) as a professional Code to support Councils in taking their decisions. Councils are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local government Act 2003.
- 1.3 In financing capital expenditure Councils also have to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
- 1.4 The capital strategy sets out the principles that support the Councils 3 year capital programme and as such how it supports corporate priorities and objectives.
- 1.5 The requirement for councils to publish an annual Investment Strategy is included in the latest edition of the government's Statutory Guidance on Local Government Investments.

2. Objectives

- 2.1 The Capital Strategy sets the framework for all aspects of the Council's capital expenditure and capital investment decisions. It will support: strategic planning, asset management and proper option appraisal.
- 2.2 The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 2.3 The keys aims of the strategy are to:
- To ensure that decisions are made within the framework, CIPFA codes and statutory legislation;
 - Prioritise and deploy capital resources in line with corporate priorities;
 - Support service plans;
 - Address major infrastructure investment;
 - Support the review of the Council's estate and provide investment to ensure that it is fit for purpose;
 - Enable investment on a spend to save basis;
 - Create sustainable income streams through capital investment;
 - Support the revenue budget and assist in the delivery of budget decisions;
 - Support economic growth and outcomes; and
 - Attract investment in the City through third party, grants or private matched funding.

2.4 Capital investment decisions should be undertaken with regard to:

- Service objectives;
- Proper stewardship of assets;
- Value for money – through option appraisal;
- Prudence and sustainability;
- Affordability; and
- Practicality – achievability of the forward plan.

2.5 The Investment Strategy brings together information on all of the council's investment activities, covering its Treasury Management investments, other service related loans and investments and non-financial investment activity such as the acquisition of investment properties.

2.6 The aim of the strategy is to enhance transparency and accountability by presenting a clear picture of all of the council's investment activity, including the contribution made by investments to the council's objectives, the decision-making process for entering into investments, the exposure to risk, and the risk management arrangements in place.

3. Governance of the Capital Programme

3.1 The 3 year capital programme is established in February of each year together with the Treasury Management strategy and the revenue budget. Quarterly capital update reports are provided to Executive Board.

3.2 The affordability of the capital programme is considered within the Treasury Management report and the funding requirements are set within the revenue budget planning process and with the framework of the medium term financial strategy.

3.3 The Council has a process to ensure that effective decision making takes place that includes:

Democratic decision-making and political approval:

- The Council set the corporate priorities;
- The Council approves the Capital programme, the Treasury Management Strategy and the revenue budget together;
- The Council has an approved scheme of delegation to effect and support efficient decision making (See Annex XX);
- The scheme of delegation enables Executive Board to approve subsequent scheme injections and authority to spend and changes to the capital programme;
- Directors and the Council Chief Officer Financial Services also have delegated powers to inject and provide authority to spend on schemes;
- All schemes progress subject to the Council's constitution, scheme of consultation, financial regulations and procurement requirements;
- The Chief Officer Financial services will report on the affordability and sustainability and risk of capital investment decisions;
- Audit and Governance provide scrutiny on the treasury management framework; and

- The Chief Officer – Financial Service provide assurance on the sustainability and affordability of the Councils financial affairs

Officer Groups:

- Officers, through the Council's Asset Management Board (AMB), Strategic Investment Board (SIB) and Corporate Leadership Team (CLT) are able to influence any investment decision before political approval is sought at Cabinet and Executive Board;
- SIB has the overall responsibility for the strategic development of the capital programme.
- Directorate management teams consider the scheme business cases before submission to SIB and CLT
- Directorate teams manage the monthly forecast spend of their schemes
- Specific project boards are represented by appropriate skilled officers from within the Council and with external specialist engagement as appropriate;
- Monthly reporting of the capital programme to Directorates and the Council's Financial Reporting Group (FRG).
- Monthly reporting of the updated projection of treasury management cost of debt covering the reporting MTFP period is made to the FRG

4. Project Initiation

- 4.1 In previous years capital schemes could be injected at any point through the year with the cost of additional borrowing managed within treasury management. The strategy adopted for 2019/20 onwards has sought to ensure that the revenue impact of capital investment decisions are taken at the same time that the revenue budget is set for the following year.
- 4.2 Directorates now submit their capital programme proposals in advance of the new financial year. Scheme proposals must be underpinned by a clear business case with robust costings and projections of income, where appropriate, that will stand up to scrutiny. The Business case and report must be prepared in accordance with corporate guidelines.
- 4.3 These submissions are ranked in terms of:
- Priority 1 - essential health and safety, protecting revenue budgets and business critical/corporate priority;
 - Priority 2 - departmental priority; and
 - Priority 3 - further business case development required
- 4.4 In addition to the prioritisation of individual proposals and programmes the whole programme will be assessed for:
- Achievability – Does the Council have the resources and technical expertise to deliver within the timescales?
 - Prudence & Affordability – To ensure that the revenue cost of debt remains affordable within the Medium Term Financial Plan;
 - Non-monetary benefits – Social well-being, health and environmental benefits; and
 - Impact upon the Council's 5% partial VAT calculation.
- 4.5 These new investment programmes are appraised in conjunction with a review of the priorities within the existing programme. This process allows for check and challenge

with peer review of scheme proposals before the overall affordability of the programme is considered. This review is overseen by the Council Strategic Investment Board, a report that receives themed investment proposals throughout the year.

- 4.6 In the appraisals of schemes the Council will make use of internal officer experience together with support as required from external professional advisors to ensure that investment decisions are robust and will stand up to subsequent scrutiny.

5. Project Monitoring

- 5.1 Where appropriate project boards are established comprising suitably experienced and qualified staff with relevant expertise to assist decision making. Board representation would normally consist of: the project sponsor, programme managers, finance, legal, property, support staff and if appropriate HR, communication and external specialist expertise.
- 5.2 Monitoring of individual schemes and programmes takes place on a monthly basis with financial status reports of actual spend against forecast reports prepared and reported to Directorates. A monthly summary position is taken to the Council's Financial Performance Group.
- 5.3 Quarterly monitoring reports are taken to the Council's Executive Board. These highlight actuals spend against forecast, progress on schemes, injections, deletions and the impact on future years.
- 5.4 As required by the CIPFA code of practice on Treasury Management the Council reports on the strategy for the forthcoming year before the start of the year (usually in February to Executive board and full Council. Additionally a half year update report is submitted to Executive board in November during the year with a final report on the previous year being submitted in June/July following the close of the financial year.

6. Capital and Capital Investment Priorities

- 6.1 The Council has a significant estate to maintain but is also undertaking and facilitating large scale infrastructure development that will underpin the Council's best plan objectives. It remains focused on delivering these ambitions but recognises the financial pressures that the Council is facing. The Council will continue to seek to secure funding for the major infrastructure needs of the city.
- 6.2 The Council's capital investment objectives are centred on the Council's best plan ambition to be a strong economy and a compassionate City. The priorities cover:
- Addressing housing inequalities;
 - Health and wellbeing;
 - Creating 21st century infrastructure;
 - Creating a child friendly city;
 - Having safe and strong communities;
 - Ensuring inclusive growth; and
 - Increasing the Cultural offer.

Housing

- 6.3 Significant investment in the Council's housing estate ensuring that it meets decency standards, fire safety compliance, improving health and affordable warmth, low carbon and energy efficiency including a District heating network

programme, improvements to the environment through reduced carbon emissions and supporting more people to live safely in their own homes.

6.4 New capital investment proposals will be prioritised according to the following, with works that contribute to legislative requirements, the health, safety or wellbeing of residents taking precedence over others:

- Top priority – legislative requirements, health, safety and wellbeing (e.g. fire safety, asbestos, DDA, heating and insulation, lifts, aids and adaptations etc.);
- High priority – structural works and key building components (e.g. structural remedials, concrete repairs, roofs, chimneys, pointing, damp proof courses, windows and doors etc.).
- Medium Priority – internal works and non-key building components (e.g. kitchens, bathrooms, internal communal areas in blocks etc.).
- Low priority – environmental and estate improvements (e.g. garages, fencing, paths etc.)

6.5 The Council is targeting council housing growth funding from within the overall programme to support the delivery of extra care housing. In addition the empty homes programme continues to bring empty homes back into use and is delivering Council owned extra care apartments with the intention that this investment acts as catalyst to promote the wider development of extra care across the city.

Health and Wellbeing

6.6 Demographic factors form a key element of the strategic context; people are living longer and with a higher level of needs. As a result of these increased demands the way care is delivered needs to change and there is a move towards more people being supported to live at home. There is a changing focus from providing help to helping people help themselves. In terms of capital investment needs the main issues are:

- Investment in opportunities for vulnerable adults to access universally provided services;
- Investment in changing analogue telecare to digital, equipment and adaptations to support people living at home; and
- Investment in appropriate technology and business systems to enable the personalisation and direct access by people to health and social care support leading to improved outcomes including adaptation to homes and assisted living initiatives.

6.7 In contrast there will be a significant reduction in directly provided residential and day care provision in response to reducing demands for these services. This move could release assets for disposal but there is also a need to ensure that the remaining facilities, required for more specialised and re-abling services, are fit for purpose. Initiatives include Health centre redevelopment and dementia intensive therapy unit.

6.8 Work continues with colleagues from the Health sector the city to bring forward schemes designed to fulfil requirements and £25m has been set aside to further develop initiatives at the local level.

Creating 21st century infrastructure

6.9 **Public Realm Strategy** - Engaging and quality public realm is critical to the continued success and robustness of the city centre; creating a welcoming city which has the wow factor.

- 6.10 **HS2/Southbank** – The Council is taking a lead with partners in delivering HS2 and Southbank infrastructure. The aim is to double the size of the city Centre.
- 6.11 **Major highways and bridge** works including LTP and developer contributions to address backlog maintenance on district roads/streets. The Leeds Public Transport Investment programme comprises a package of public transport improvements that, taken together, will deliver a major step change in the quality and effectiveness of our transport network. In addition the Council has made good progress in bringing forward the package of transport measures that will be essential to support the development of the East Leeds Extension strategic growth area. Central to these is the East Leeds Orbital Route.
- 6.12 **Essential Information and Technology Infrastructure** – There are a number of major essential IT investments and associated programmes of work that are required over the next few years. These include upgrades to Windows 10, continuing the rollout of the new collaboration and telephony, replacement of hundreds of old PC's and laptops, investment in a range of cyber security measures, refresh and future proofing our server and storage estate and provide services across the city, upgrade, replace or consolidate applications to be compliant with external Public Service Network (PSN) and General Data Protection Regulations (GDPR).
- 6.13 **Full Fibre Network Bids** – Commitment to full fibre connectivity to all schools, council flats and CCTV point from which fibre providers will expand their networks into localities. Depending on the outcome of the bid a more detailed report will come to Executive Board relating to the implementation of the scheme.
- 6.14 Major projects include enhancing flood alleviation resilience continuing to build a cycling network, establishing a **District Heating Network**, creating a compressed Natural Gas Station and the conversion of the Council's fleet to the latest emission standards including Conversion of Refuse collection vehicles to compressed gas. The Council is also introducing a congestion zone and will provide support to licenced taxis to convert to greener vehicles.

Children's Services

- 6.15 Demographic change also places a significant pressure on Children's Services in the need to provide additional primary school places to meet the demand resulting from rising birth rates. The focus is now moving the provision of secondary places. There is a significant funding gap that the Council will look to the government to fund but provide shortfall solutions through the use of CIL, provision of free schools and borrowing. In addition there are significant backlog maintenance requirements within the estate that will use **Capital Maintenance and Devolved Formula Capital** plus local resources.

Communities

- 6.16 The next phase of Community Hubs will allow the continued roll out of the Community Hubs with fully integrated services across the city including, asset rationalisation, co-location of housing back offices, essential backlog maintenance and new ICT infrastructure and equipment to enable new ways of working over the next 3 years.

- 6.17 The Local Centres Programme (LCP) through engagement with ward members, local businesses and communities create viable local centres that are accessible, safe, resilient and fit for the 21st century. The town heritage initiative will provide further investment key heritage assets in the City.

Growth

- 6.18 There are a number of initiatives aimed at supporting business growth in the city. These include: the Digital Business Incubator (Leeds Tech Hub) - The Leeds Tech Hub Fund was introduced as a catalyst for growth and expansion in the city's fast-growing digital sector; Workspace Development and Investment Fund - This fund is designed to support providers of affordable specialist space to small start-up business particularly in the creative and manufacturing sectors that have found difficulty in finding premises as the Leeds property market continues to boom; and Innovation District - This collaboration with Leeds Teaching Hospitals NHS Trust and the University of Leeds seeks to develop a Leeds Innovation District to the north of the city centre. Initial work has scoped out potential development sites. This fund will contribute to public realm and early stage development activities.

Culture

- 6.19 The Council will continue to support the Channel 4's relocation to Leeds and work with the creative and digital sectors and other to provide to expand the film and televisions talent and expertise within the region.
- 6.20 The Council continues to expand the cultural offer within the city and is providing together with the Arts Council and the Leeds Playhouse significant investment in the redevelopment of the Leeds Playhouse.

Other initiatives

- 6.21 There are a number of other significant initiatives that are based upon sustainable business plans:
- Rationalisation of the Council's estate;
 - Reduction in backlog property maintenance;
 - Measures to maintain income and reduce costs through spend to save business cases;
 - Investment in sporting facilities;
 - Invest in heritage assets on a sustainable basis; and
 - Invest in initiatives that support the revenue budget

7. Capital Programme Priority and Corporate Links

- 7.1 The capital programme links into wider processes and plans across the Council and should not stand alone. In setting, monitoring and reviewing individual schemes/programmes and the overall capital programme consideration should be given to:
- Council best plan;
 - Asset management plan;
 - Medium term financial strategy;
 - Treasury management strategy including prudential indicators; and
 - Internal and External audit.

8. Revenue implications

8.1 The revenue implication of capital investment should be considered alongside revenue budgets. Capital investment decisions should consider:

- The costs of borrowing (interest and Minimum revenue provision);
- Future whole life asset planning including capital (future capital maintenance requirements and revenue implications (running costs and maintenance costs));
- Realisation of cashable and non-cashable benefits; and
- Impact upon the economy and the generation or support of Council tax and business rates.
- Proportionality

9. Funding Strategy

9.1 A range of options are available for the Council to fund its capital expenditure requirements. This capital investment must be in line with the CPFA Prudential Code for Capital Finance in Local Authorities. The level of borrowing that the Council undertakes must be within the code and its management is covered with in the Treasury management strategy.

9.2 The Council will seek to maximise external funding sources before it undertakes borrowing, whilst ensuring that borrowing remains affordable and within the medium term financial strategy.

9.3 The main sources of funding available are:

- Government grants;
- Match funding;
- City region funding including the LEP;
- European funding;
- Developer funding through CIL, S106 and S278 contributions;
- Private sector funding;
- Capital receipts; subject to funding repayment of existing debt, PFI liabilities etc.;
- Generation of income streams or the avoidance of costs through robust business case that pay for the costs of borrowing;
- Corporate borrowing where the funding is a bottom line revenue cost;
- Lease finance; and
- Revenue funding.

9.4 In addition the Council may also choose to grant fund capital expenditure to third parties or provide loans – covered in the investment strategy.

10. Risks

10.1 The risks associated with this strategy should be considered in the context of the Councils risk and governance reporting framework and the methods for monitoring and escalation.

11. Knowledge and Skills

11.1 The Capital and treasury management function is managed by a number of experienced and qualified staff. They all follow a continuous professional

development plan that forms part of the Council's appraisal process. The section is headed up by a CIPFA qualified accountant and reports to the S151 Officer who is also a CIPFA qualified accountant.

- 11.2 Individual capital schemes are undertaken by professional qualified staff in appropriate disciplines. External support and advice is also sought through a framework contract as and when required.
- 11.3 Members are consulted in early stages of project development and provide approval of schemes at Executive Board and full Council when the capital programme is set. Members are provided with training on treasury and capital management.

12. Investment Strategy

- 12.1 The Council's investment activities cover three broad areas – treasury management investments, other financial investments such as loans and equity investments which are made to achieve service objectives, and non-financial investments such as in property.

12.2 Treasury management investments

- 12.2.1 The council makes investments on an ongoing basis as required for the purposes of efficient treasury management. The scale of these investments, the investment policy and the risk management approach are all covered in the Treasury Management Strategy which is published alongside this document.

12.3 Contributions made by non treasury financial investments

- 12.3.1 The statutory guidance requires councils to identify and disclose the range of contributions which its existing non treasury management investments make to its objectives.
- 12.3.2 The following table outlines the contributions made to service objectives made by the non treasury financial investments which the council held at 31st January 2019.

Investment	Investment Category	Value at 31st March 2018 £k	Cost of Acquisition £k	Nature of contribution made	Valuation Basis
Shareholding in Merrion House LLP	Equity	37,000	29,198	Efficient procurement of accommodation	Fair value
Leeds City Region Revolving Investment Fund LP	Equity	4,579	4,579	Promotion of economic development	Cost less provision
Loan to Leeds City Credit Union	Loan	1,190	1,190	Financial inclusion	Cost less provision
Assisted Homebuy Scheme (equity loans)	Loan	1,007	861	Access to affordable housing	Fair value
Equity loans to householders	Loan	360	360	Various including health and wellbeing, and low carbon.	Cost less provision
Council house mortgages	Loan	259	259	Access to affordable housing	Cost less provision
Loans to housing associations	Loan	176	176	Access to affordable housing	Cost less provision
Loans to Leeds Community Ventures Ltd	Loan	130	130	Efficient procurement of accommodation	Cost less provision
		44,701	36,753		

- 12.3.3 The table also identifies those loans and investments which are held at fair value and those which are held at cost less any appropriate provision for non-payment. It should be noted that the values shown are as at 31st March 2018 and that a change in accounting standards will require a change from 31st March 2019 in the method of evaluation of provisions for non-payment of loans to an "expected credit loss" basis. It

is not anticipated that there will be any significant changes to carrying values as a result of this.

12.4 **Investment priorities, decision making and risks for non-treasury financial investments**

12.4.1 As regards their treasury management investment policies, councils are required to prioritise security and liquidity, and to only consider the yield that can be obtained within appropriate levels of security and liquidity. However different priorities apply when considering non treasury investments. The council will only enter into financial investments which are outside of its treasury management activities where it is seeking to achieve a service objective. This means that the requirements to prioritise security and liquidity which would apply to treasury management investments do not carry the same level of weight in considering such investments. Further, whilst the council's non treasury financial investments do in some cases generate a return, any such yield is incidental to the reasons for entering into these loans and investments.

12.4.2 Prior to making loans or other financial investments, the council carries out a thorough financial evaluation and due diligence of the risk against the return, including the intended service outcome. In addition to expected cash flows, this will take into account any borrowing costs arising and, where investments fall within the definition of capital expenditure and are funded by borrowing, the requirement to fully fund the investment via the Minimum Revenue Provision over an appropriate number of years. A business case should be produced, to cover :

- Which Council objectives are being supported;
- Financial business case including sensitivity;
- Financial due diligence;
- Legal Powers for the acquisition and legal due diligence;
- State Aid implications;
- Tax treatment;
- Type and value of security
- Procurement issues;
- Know your customer;
- Political, environmental and social factors; and
- Accounting treatment.

12.4.3 Where necessary and dependent on the value of the proposed investment, external advice will be sought by officers before entering into financial investments.

12.4.4 Where possible, the council obtains appropriate security such as a legal charge on property before making loans. It should be noted that a number of these investments are funded by grants or other third party contributions, and thus carry no risk of loss to the council as a result of entering into them.

12.4.5 Of the £44.7m of current financial investments shown in the table in 12.3.2 above, £38.6m (86.4%) are either secured on property or relate to an underlying property asset.

12.4.6 As regards liquidity, the council does not set any maximum policy limit for the duration of such investments, with each being judged on a case-by-case basis. Indeed, equity loans to homeowners, which are partly funded by grants and other contributions, have no set maturity date. When making non-financial loans and

investments the council does so with the understanding that it will not be able to prematurely access the funds which have been committed to these investments.

- 12.4.7 All decisions to enter into non treasury financial investments are taken within the council's overall delegated decision framework, with the added requirement included in Financial Regulations for the decision maker to consult with the Chief Finance Officer before entering into such a contract. The requirement to consult the Chief Finance Officer ensures that the available knowledge and expertise within the council for assessing such contracts is applied to each such decision.
- 12.4.8 Under the new requirements for investment strategies, the council is required to set a limit on the total value of non-treasury management loans which it is willing to make. The council proposes to set this limit for 2019/20 at £40m. From the table at 12.3.2 it can be seen that the total value of such loans made at 31st January 2019 is £2.9m. This limit does not relate to financial investments other than loans.
- 12.4.9 Once loans and financial investments have been made, the relevant service will be responsible for ongoing monitoring and for ensuring that amounts due to the council are recovered.

12.5 Commercial Property Investment Strategy

12.5.1 The Council's holds a mixed property portfolio spread across the following headings:

- Operational assets that are need to operate front line and back office functions;
- Investment portfolio that provide an income stream to the Council, which is split into the
 - i) Prime Investment Portfolio comprising high yielding investment properties such as office blocks, the Arena, large modern industrial units and multi storey car parks,
 - ii) Commercially let properties including a portfolio of small industrial estates, offices, shops and pubs,
 - iii) Community assets such a sports clubs and community groups,
 - iv) Economic Development properties held for supporting innovation and job creation.
 - v) investment properties that have been earmarked to raise Capital Receipts,
 - vi) agricultural land and property held for long term strategic expansion of the city or protection of the countryside
 - vii) miscellaneous properties which include substations and other statutory utilities on Council land;
- Regeneration and growth – assets that are acquired to enable transformation of areas, provide confidence to the market where particular projects have stalled and generate growth;
- Heritage assets – that's are of historic importance to the city; and
- Community assets - that are held to support initiatives across the public and third sectors to the benefit of local communities.

12.5.2 The Council has held a number of investments assets that have generated an income stream. These assets cover commercial property and a small industrial portfolio as set out above and together with various other rights for example covenants, access rights and mineral rights.

- 12.5.3 On 21 October 2015 Executive Board considered a report from the Chief Executive entitled 'Strong Economy, Compassionate City' which was a response to the White Paper motion passed at July 2015 Council on sharing economic success in the city. The report advised how the Council had played a pivotal role in the economic recovery of Leeds having intervened proactively to kick-start development and regeneration projects, support businesses to grow and invest, and to help people to work. The Council had used its powers for land assembly at the Trinity and Victoria Gate schemes; brought forward its land at Sovereign Street; constructed the First Direct Arena; and pump primed the delivery of manufacturing and logistics space in the Leeds Enterprise Zone, amongst a few. The ambition for Leeds to have a strong economy and to be a compassionate city has now embedded in the Best Council Plan, with a council priority being to support economic growth and access to economic opportunities.
- 12.5.4 One of the main aims of the Council is to bring about economic regeneration in Leeds. The Council has been involved in bringing forward the development of buildings at a time when the market was stalling and their acquisition will further the Council's involvement and financial benefits. With the Council's ambition to become the best city in the UK, with an economy that is both prosperous and sustainable, further acquisitions offer the opportunity to further boost the performance of the Council's property investment portfolio with substantial rental income.
- 12.5.5 The Council will ensure that there is a proactive maintenance strategy in place to preserve the income that investment assets generate.
- 12.5.6 At the present time this strategy paper concentrates on the purchase of new assets. It is envisaged that a disinvestment strategy will be added at a later date to set the strategy for the sale / release of non performing low quality assets that the Council do not wish to retain.
- 12.5.7 In the longer term it is envisaged that the Council will put in place an active Asset Management strategy where none performing assets are either "engineered" to perform or traded out of the portfolio and replaced with others.
- 12.5.8 The Council will put in place a strategy to manage and make the best use of historic assets that will be retained by the Council. This is part of the Council's desire to have a managed efficient estate.
- 12.5.9 The opportunistic disposal of properties may also be considered to capitalise on market movements and situations where the return available is above market value such as special purchaser and marriage value situations. In addition certain acquisitions may be held on a short/medium term basis where a resale in the next few years might enable the Council to obtain an enhanced value before the asset value might start to fall e.g. to sell the investment before the remaining lease term becomes unattractive to the market.
- 12.5.10 Once the portfolio is in place it is recommended that the Investment Management Strategy is reviewed on a quarterly basis, and if required it will be amended to reflect changing Council priorities or changes to market conditions.
- 12.5.11 In addition the Property Manager or external Property Adviser will on a day to day basis be actively monitoring market conditions and the management strategy adopted will be adjusted to reflect changes in the market. The monitoring of market conditions is seen as essential if the Council is to capitalise on opportunities thrown up by changes in the commercial property sector. Further an important part of the long term strategy as the portfolio matures will be to look at portfolio weighting to ensure that the Council is not under or overexposed to one or more sectors of the market. To do this a summary of the value of the properties and the income

generated will be produced. This data will also be provided in a pie chart format for easy identification of holdings and returns in the various commercial property sectors.

- 12.5.12 The Council will use borrowing to fund property acquisitions. Borrowing will be sourced as outlined in the Treasury Management Strategy but could include the Public Works Loan Board. The rental income generated must as a minimum provide a surplus over and above the costs of borrowing.

12.5.13 Investment Criteria

When looking at investment properties the Council will have regard, in order, for security liquidity and then yield. The Council should consider the following factors as part of the selection criteria:

- **Covenant Strength** – A full financial appraisal of the ability of the tenant(s) to continue to pay rent to service the Council's debt obligations will be undertaken. This may in some cases require external independent advice. Only tenants of good financial standing will be considered.
- **Unexpired terms:** For let properties the Council must consider the unexpired length of the lease and break clause to determine the risk to future income assumptions. In addition the Council will consider the costs of a tenant vacating in future income assumptions.
- **Guide Price:** In order to avoid over exposure to large lot sizes and to avoid the purchase of low price and therefore low return investments that are uneconomical to manage it is recommended that the Council invest in properties within a value range of £5 to £65 million.
- **Target Yield Range:** The target return should as a minimum be higher than the cost of borrowing but also be in excess of returns that could be received on bank deposits. However appropriate adjustments for risk and growth should be factored in. An appropriate Yield minimum is currently 4% the present time under the current low interest rates. Lower initial yields should of course be considered for investments offering asset management or redevelopment opportunities or long term guaranteed rental growth i.e. linked to annual RPI or CPI increases which will give higher returns in the long term.
- **Risk:** concurrent with the rate of return the risk of the acquisition/tenant strengths and lease conditions should be evaluated.
- **Location:** Based upon knowledge of the local area and the regeneration requirement only properties in the geographical area of the Council's jurisdiction will be considered.
- **Market Sector:** Investments across all sectors will be considered. Particular emphasis should be placed upon investments that complement regeneration or job creation in the Council area which may involve the Council entering into Joint Venture arrangements.
- **Capital Growth:** The property should afford revenue and /or capital growth. Where at all possible properties selected should offer opportunities by asset management, change of use, reconfiguration or redevelopment to enable Leeds to produce future returns that will increase in real terms above inflation.

- Tenant Line up: In order to minimise the risk of tenant failure and property voids single occupancy properties should be avoided unless covenant strength is exceptional (institutional single covenants or strong local firms e.g. banks or local legal firms) and there is a significant unexpired term. In terms of multi-occupied properties preference should be given to investments with a variety of uses / trades but ensure the number of tenants is managed to covenant strength.
- Vacant Properties: In certain circumstances such properties should be considered particularly if they adjoin existing Council holdings, or offer opportunities by asset management, change of use, reconfiguration or redevelopment. Vacant properties will also be considered where they are in areas of strong growth and investment activity such as the Aire Valley where it is anticipated there will be interest from occupiers and therefore good prospects of letting. The advantage of such properties is that they can be usually purchased at a discount to the market and are a way of adding value by letting to strong covenants. Such properties will also provide inward investment opportunities for the City as ready-made sites for new occupiers.
- Property Condition: for let acquisitions the age and condition must be sufficiently factored into the price to ensure that the Council is in a position to let or sell the property in the future and that appropriate surveys are undertaken prior to the purchase of the property. The Council should also consider the costs of refurbishment/demolition in the acquisition value.
- Market Sector: the Council should ensure that it has a balanced portfolio mix spread across the commercial property sector.
- Prime / Edge of Prime High Street Retail Uses: It is essential that any retail investments considered should meet the strict tenant covenant strength test. With the rise of internet shopping this has become a high risk of tenant failure sector. Care should be taken to avoid over exposure (say over 50% of uses) of the investment to any single use category. In particular Class A2 retail (banking and professional services) with break clauses or short unexpired lease terms should be avoided as there is a growing trend for banking and financial services companies to pull away from the high street.
- Car Parks: Consideration should be given to the acquisition of car parks as these provide a strong and guaranteed rental growth. Further in the case of lease expiry, or restructuring or tenant failures there is the opportunity for the Council to gain full control and take over the operation of the car park.
- Development Opportunities Adjoining / Abutting Existing Council Holdings: Opportunities where the Council has an interest in a site or owns adjoining land should be considered.
- Lease Re-gearing, Unlocking of Marriage Value and Purchase of Freehold opportunities: It is possible to unlock latent value or create new value and income by the extinguishment variation or extension of long leasehold terms such an example would be the restructuring of the lease on the offices at Merrion House. The other example is the redevelopment of the George Street shops whereby the existing rental is cannibalised to enhance the future of the site and obtain an increased asset value. Consideration should also be given to buying in the freehold of council leased in properties where prudential loan repayments are lower than contractual rental payments.

- Maintenance Programme: The revenue and capital implications of maintenance the assets should be considered and reflected in budget assumptions and an adequate budget is set aside to cover future maintenance that is not recoverable through a service charge and potential future refurbishment costs..

Property Criteria that should be avoided.

When appraising potential investments the following property types / situations should be avoided.

- Leasehold: Due to management issues relating to superior landlords plus diminishing returns such investments should be avoided unless there is a significant lease term remaining normally in excess of 100 years or the opportunity to renegotiate the lease term as part of the acquisition.
- Speculative Development sites: Commercial development is a high risk / high return industry and given the need for an immediate income return on investment it is not recommended that the Council invest in this area unless adequate pre lets are in place unless there is a good regeneration criteria linked to the purchase of such an asset.
- High Risk Complex Joint Ventures: Such opportunities can present good returns by sharing the risk with others. Such opportunities should be considered carefully and considered in the context of their regenerative benefits in the longer term.
- MEES Compliance: From the 1 April 2018 under the energy efficiency requirements of the MEES compliance all commercial properties offered to let must have a minimum EPC rating of “E” or above. Therefore any properties not meeting this criteria should be avoided unless the seller undertakes the necessary enhancement works to make the property MEES compliant.
- Shopping Centres: Such investments require intensive management and frequently impose future cash calls for refurbishment etc. upon their owners. In addition, Leeds has a very comprehensive retail offer at present and investment in to this market is likely to exceed the funds available. The sector is likely to be competitive with other investors such as commercial property companies and funds therefore entry costs could be high with yields lower. Therefore investment in this sector is not recommended. It should be noted that other Local Authorities have acquired retail shopping centres but these tend to be acquired either to support the town centre or the regeneration of an area of the city.
- Retail Parks: In a similar fashion to shopping centres such investments carry intensive management obligations and the frequent need to put extra investment into the asset. The retail market has been adversely affected by the way people buy goods and through online purchases of goods and the viability of such retail sites have to be very carefully assessed. The DIY sector is also being hit by the rise in “trade park” operators such as Screwfix who can operate from such parks at rents nearer industrial rates than those higher rents seen at retail parks.

12.6 Commercial Property Investment Activity to date

12.6.1 As at 31st January 2019 the council has acquired a number of investment properties. The total acquisition cost of these properties was £78.6m, and the carrying value at the most recent valuation was £83.9m. The fair value of these assets will be revalued as part of the 2018/19 closedown process and any resulting reduction in fair value below the level of capital invested would be reported to full council as required by the statutory guidance on investments, along with mitigating actions proposed. The following table provides details of individual asset values:

Asset	Purchase Price/ Build Cost £	Stamp Duty & Other Fees £	Total Cost £	Latest Valuation £
Harper Street Car Park	10,025,000	503,600	10,528,600	12,000,000
Sovereign Square (offices)	43,993,350	1,262,750	45,256,100	50,000,000
Thorpe Park (offices)	7,020,000	530,900	7,550,900	7,020,000
Logic Leeds (industrial unit)	6,250,000	444,500	6,694,500	6,400,000
Apex View (offices)	8,003,323	524,715	8,528,038	8,437,018
Total	75,291,673	3,266,465	78,558,138	83,857,018

12.6.2 In addition to making a financial return, all of the above investment properties were acquired with a view to stimulating economic development in the city, and the Harper Street Car Park makes a further contribution in providing a parking service to residents and visitors.

12.6.3 The following table identifies the projected net yield from these assets for 2018/19 :

Asset	2018/19 Estimated Outturn				
	Annual Prudential Borrowing Charge £	Gross Income £	Net Income £	Yield %	Return on Investment %
Harper Street Car Park	510,000	(664,085)	(154,085)	6.31	1.46
Sovereign Square (offices)	1,401,000	(1,923,000)	(522,000)	4.25	1.15
Thorpe Park (offices)	234,000	(418,238)	(184,238)	5.54	2.44
Logic Leeds (industrial unit)	207,000	(452,704)	(245,704)	6.76	3.67
Apex View (offices)	331,000	(572,000)	(241,000)	6.71	2.83
Total	2,683,000	(4,030,027)	(1,347,027)	5.13	1.71

12.6.4 An assessment of current values against acquisition values shows that for some assets there has been a small loss in capital values. However the assets were acquired with the aim of medium to long term income generation, rather than with the aim of generating a capital return via a disposal in the short term. As regards liquidity, the council took into account the inherently illiquid nature of property assets in its business cases for the acquisition of these investments, and does not anticipate being forced to dispose of them under disadvantageous market conditions. This view is based on the soundness of the council's overall financial governance arrangements,

which minimise the risk of any unexpected need to realise funds from the properties. However, the council will continue to monitor the property market to ensure that it identifies any opportunities which do arise to generate a capital gain from the disposal of the assets.

12.7 **Proportionality**

- 12.7.1 The statutory guidance on investment strategies requires the council to disclose the extent to which it is dependent on profit generating investment activity as a source of income to balance its budget.
- 12.7.2 The council's income from non treasury financial investments is negligible in the context of its overall income, and therefore the potential for failure to generate the expected level of investment income presents no risk to the council's overall financial standing.
- 12.7.3 Similarly, the council is not dependent on the generation of income from its investment property assets to any great extent, and thus the potential for a reduction in the income generated from them does not represent a significant risk to its overall financial standing.

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Report of **the Chief Finance Officer**

Report to **Corporate Governance and Audit Committee**

Date: **22nd March 2019**

Subject: **Grant Thornton Audit Progress Report**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. Grant Thornton have provided the attached report, which outlines the progress they have made to date in delivering their 2018/19 audit.

Recommendations

2. Members of the Corporate Governance and Audit Committee are asked to receive and note the audit progress report presented by Grant Thornton.

1 Purpose of this report

- 1.1 To inform members of Grant Thornton's progress in delivering the audit of the Council's accounts and value for money arrangements. The attached report from Grant Thornton highlights the progress made so far in their 2018/19 audit.

2 Background information

- 2.2 Grant Thornton's statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice. As the Council's external auditors, Grant Thornton are required to satisfy themselves that the Council's accounts comply with statutory requirements and that they have been compiled according to proper practices. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

3 Main issues

- 3.1 Grant Thornton's audit has two key objectives, to give an opinion on the council's financial statements (including confirming whether the annual governance statement is consistent with their understanding), and to review and report on the council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Their audit plan which was presented to the January meeting of the Committee set out their approach to this work and the planned timing of their reporting to the council during the year.
- 3.2 Grant Thornton have carried out interim audit work during February, and are due to undertake further work in late March. The attached report presents an update on the work which they have carried out so far, outlining the areas covered and the conclusions reached.
- 3.3 The report also identifies some current issues in the field of local authority audit and governance which may be of interest to the committee.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The audit progress report does not raise any issues requiring consultation or engagement with the public, ward members or Councillors.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This report does not raise any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

- 4.3.1 Under the Committee's terms of reference members are required to receive reports from the Council's external auditors.

4.4 Resources and value for money

4.4.1 The audit progress report outlines the areas which Grant Thornton have considered to date in assessing whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 As this is a factual report provided by the external auditors none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 The report identifies any findings so far in relation to the key risks which Grant Thornton have identified in their audit plan.

5 Conclusions

5.1 Grant Thornton have provided the Council with an update report outlining the progress made so far in their 2018/19 audit.

6 Recommendations

6.1 Members of the Corporate Governance and Audit Committee are asked to receive and note the audit progress report presented by Grant Thornton.

7 Background documents¹

7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

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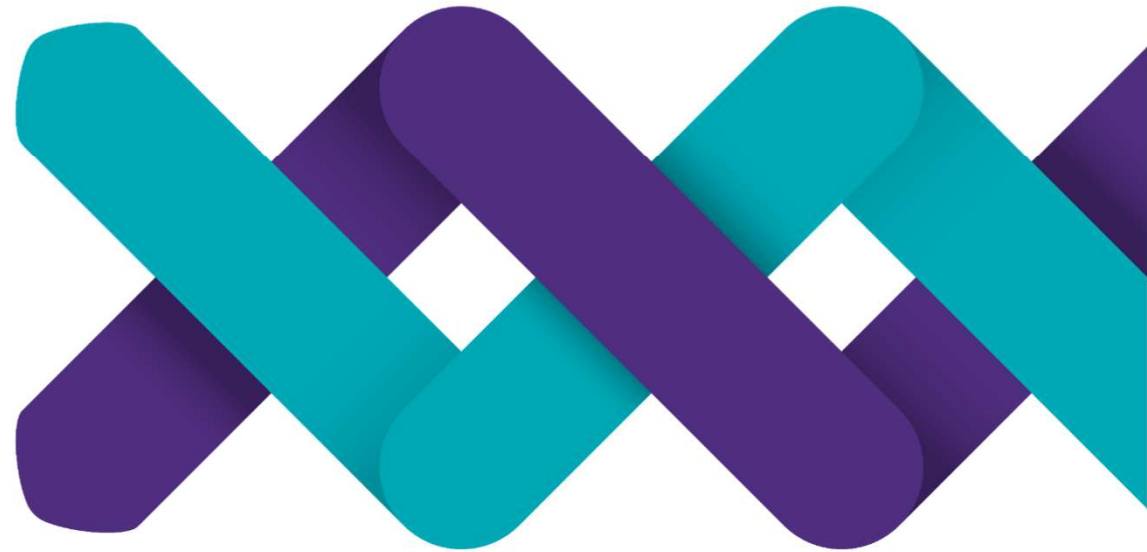
Audit Progress Report and Sector Update

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Leeds City Council

Year ending 31 March 2019

6 March 2019



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Introduction



Gareth Mills

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This paper provides the Corporate Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



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Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Gareth or Perminder.

Progress as at 1 March 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed Audit Plan which was presented to the January Corporate Governance and Audit Committee. The Audit Plan sets out our proposed approach to the audit of the Council's 2018/19 financial statements.

Our interim audit visit commenced in February and we have a further visit planned during March 2019. Our interim fieldwork visit includes:

- Reviewing the Council's control environment
- Documenting our understanding of key financial systems
- Reviewing Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing.

The work completed and findings from our interim audit visit in February 2019 are set out on pages 6 and 7. We will provide a further update following our planned audit visit in March to the next Corporate Governance and Audit Committee.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2018. The final accounts audit is due to begin on the 3 June with findings reported to you in the Audit Findings Report by the deadline of 31 July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan presented to the Corporate Governance and Audit Committee in January 2019.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We continue to meet with the Chief Executive, Chief Officer (Financial Services) and other senior officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for officers and members in addition to publications to support the Council. Key finance staff attended our annual accounts workshop on 5 February, and more recently, a number of members from the Corporate Governance and Audit Committee attended a workshop on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018-19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018-19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts Audit Plan to the Corporate Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete. This was presented to the Corporate Governance and Audit Committee on 28 January 2019.
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March & June 2019	Our findings to date are set out on pages 6 and 7.
Audit Findings (ISA260) Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Results of Interim Audit Work

The findings of our interim audit work completed to date, and the impact of our findings on the accounts audit approach, are summarised in the table below:

Audit area	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices. 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>Our information systems specialists have commenced work on a high level review of the general IT control environment, as part of the overall review of the internal controls system. This work remains on-going and we will report our findings in the next Audit Committee Progress Report.</p>	<p>We will report the results of our review of the general IT control environment to the next Corporate Governance and Audit Committee.</p>

Audit area	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. This includes PPE revaluations and PFI. In addition, we have held discussions with members of staff to obtain an understanding of the business processes and controls for other significant areas of the financial statements including PPE (across all elements of PPE), investment properties, heritage assets, treasury, cash and cash equivalents, collection fund revenues, HRA rental revenues, grant revenues (capital and revenue), other material revenue streams, housing benefit expenditure and payroll.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We are currently reviewing the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. Our work remains on-going and we will report our findings in the next Audit Committee Progress Report.</p> <p>To date we have selected a sample for testing "unusual" journal entries. We have time scheduled onsite during March to complete the testing of these journals.</p>	We will report the results of our review of the Council's journal entry policies and procedures as well as the testing undertaken at the next Corporate Governance and Audit Committee.
Early substantive testing	<p>As part of our initial interim audit visit in February 2019, we selected samples for testing to month 9 (December 2018) including operating expenditure and revenues. During our second visit in March, we will complete our substantive testing in these areas as well as review:</p> <ul style="list-style-type: none"> - payroll analytical review - starters and leavers testing - grant income - depreciation testing - existence and rights and obligations of Property, Plant and Equipment - existence and rights and obligations of heritage assets. 	No issues have been identified to date from our work on selecting samples. We will report the results of testing undertaken to the next Corporate Governance and Audit Committee.

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 182

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:



Public Sector



Local
government

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

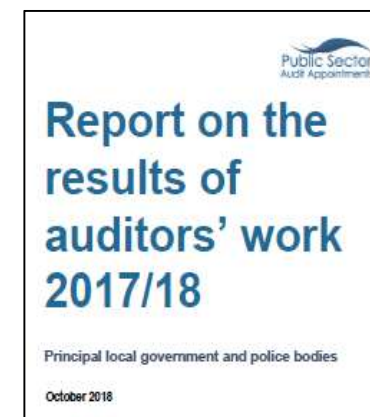
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

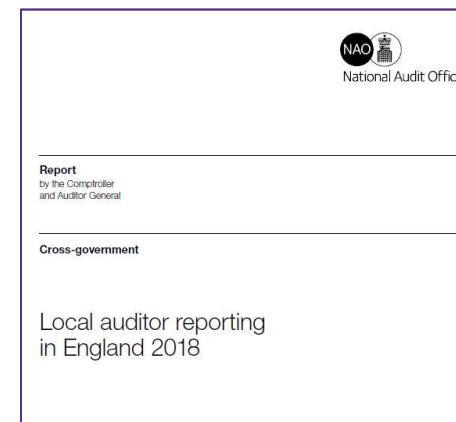
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report

Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

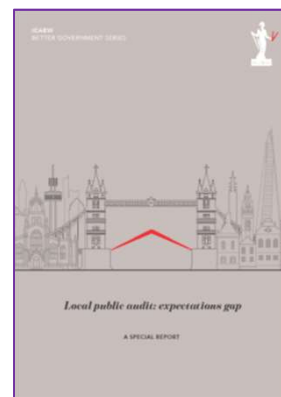
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are your authority's plans for Brexit?



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

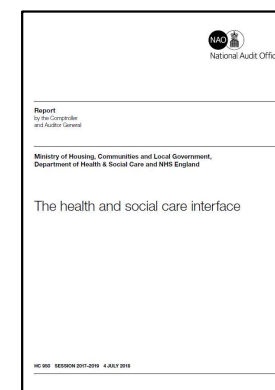
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface

Challenge question:

Has the Corporate Governance and Audit Committee considered the 16 challenges to joint working and what can be done to mitigate these?



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

1. Ethics and philosophy: What is meant by care? Should the state love?

2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'Care'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

To find out more or get involved:

- Join the conversation at #acaringssociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system

Challenge question:

How is your authority engaging in the debate about the future of social care?



Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



Report author: Sonya McDonald
Tel: 88693

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 22 March 2019

Subject: Internal Audit Plan 2019-20

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council’s corporate governance arrangements.
2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The standards also refer to the need for a risk-based plan to take into account the requirement to produce an annual internal audit opinion which includes input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
3. The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the Council’s arrangements relating to internal audit requirements and specifically, reviewing and approving the risk-based plan and any additional significant work.
4. This report provides Members with the proposed Internal Audit Plan for 2019-20.

Recommendations

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2019-20.

1 Purpose of this report

- 1.1 The purpose of this report is to present the proposed Internal Audit Plan for 2019-20 to the Corporate Governance and Audit Committee for review and approval. This report also includes a summary of the basis for the plan. The plan has been developed in consultation with senior management.

2 Background information

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) set out the standards for internal audit and apply to all public sector internal audit service providers. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
- 2.3 The Chief Officer (Financial Services), as the Council's Section 151 Officer, is responsible under the Local Government Act 1972 for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of Internal Audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.

3 Main issues

3.1 Background

- 3.1.1 Internal audit contributes to Leeds City Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the Council's objectives
- 3.1.2 Internal audit also supports the Chief Officer (Financial Services) in discharging his statutory duties. The following are two key pieces of legislation that internal audit supports the Chief Officer (Financial Services) to comply with:
- Section 151 of the Local Government Act 1972. The Chief Officer (Financial Services), as the Council's Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of internal audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.
 - The Accounts and Audit Regulations 2015. The regulations state that 'A relevant authority must undertake an effective internal audit to evaluate the

effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

- 3.1.3 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the ‘Board’. Within Leeds City Council, the Corporate Governance and Audit Committee fulfils the key duties of the Board laid out in the PSIAS. This report sets out the proposed plan for 2019-20.

3.2 The Planning Process

- 3.2.1 The PSIAS require that the Head of Internal Audit *‘must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’* The standards state that the risk-based plan should take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight).

- 3.2.2 In line with the general reduction in financial services across the Council, the proposed plan for 2019/20 does represent a further reduction in the level of internal audit resources, and by implication the level of audit coverage. Whilst at this stage, the plan is considered to be sufficient to enable the Head of Audit to provide appropriate assurances in support of the statutory finance officer’s role, nevertheless, this will need to be monitored going forward. There will continue to be a need for greater reliance to be placed on management controls within the internal control framework and for a potentially higher level of risk to be accepted. Directorate Leadership Teams must have appropriate arrangements in place to ensure that they have assurance on key risk areas and that the risk management process supports and enables the delivery of objectives. Internal audit resource will need to be focused on the most significant risk areas and on the robustness of financial control.

- 3.2.3 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach using the following sources:

- the Council’s risk management processes and the corporate and directorate risk registers;
- the results of previous internal audit work and our ongoing assessment of the auditable entities within the authority;
- planned work deferred from 2018-19;
- awareness of relevant local and national issues;
- consultation with Corporate Governance and Audit Committee, the Council’s Section 151 Officer, the Monitoring Officer, the Corporate Leadership Team and other senior management and colleagues from across the organisation; and

- regular dialogue with the core cities and authorities within South and West Yorkshire helps to ensure that we are aware of emerging risks within other Councils so that they can be considered during audit planning.

3.2.4 The outputs from the planning process have been prioritised to produce a plan that balances the following:

- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
- the time required for anti-fraud and corruption activity
- the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
- the need to retain a contingency element to remain responsive to emerging risks. This will be used to respond to emerging risks that may result from Brexit and to respond to any assurance requirements that the new Section 151 Officer may have when she starts in the role from April 2019; and
- the resource and skill mix available to undertake the work.

3.3 Resources

3.3.1 There are 16.14 FTEs in the Internal Audit team (19.46 FTEs for 2018/19). The number of days allocated in the plan to specifically provide the Head of Internal Audit with the evidence for the opinion on the control environment is 2122 days (2,586 days for 2018/19). The level of resources required to provide internal audit services to external clients is 127 days (177 days for 2018/19). The total Internal Audit Plan for 2019/20 is therefore 2249 days (2018/19 - 2,763 days).

3.3.2 Productive audit days were reduced by 469 during 2018/19 due to a number of staffing changes. We are currently in the process of recruiting two audit trainees and this will result in the number of days due to be delivered by the end of the 2018/19 financial year being almost equivalent to the audit days planned for 2019/20.

3.3.3 The reduction in resources has obvious consequences on the level of coverage that we can achieve. We will continue to develop our use of modern audit techniques to ensure that we deliver the audit coverage as efficiently and effectively as possible. In my opinion, the resources that are currently available are sufficient to perform the work necessary to deliver the annual internal audit opinion and report that is used by the organisation to inform its governance statement. Sufficient time has also been set aside for the management, development and training of team members, and to support their health and wellbeing.

3.4 Internal Audit Plan 2019/20

3.4.1 Appendix A provides a breakdown of the individual audits that are proposed for inclusion within the audit plan for 2019/20. The work is grouped at directorate level or functional area to align with risk registers and accountabilities. An overview of the assurance that each audit aims to achieve is provided together with an estimate of the audit resource that will be required to complete the review.

- 3.4.2 The plan is designed to be responsive in nature and all efforts will be made to maximise coverage to provide an effective internal audit service that focuses on those key issues facing the organisation throughout the year.
- 3.4.3 At the Corporate Governance and Audit meeting in January 2019, Members discussed the following for inclusion into the Audit Plan 2019/20:
- PSN Certification – this has been incorporated into the ICT and Information Governance section of the Plan and is entitled ‘Access Database Project’
 - Highways Contracts Review – this audit has been incorporated within the Procurement – Contract Management section of the 2018/19 Audit Plan and is currently underway.
 - Members Casework – this area has been incorporated within the scope of the 2018/19 Customer Satisfaction audit that is currently ongoing.
- 3.4.4 Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.
- 3.4.5 Table 1: Comparison with Internal Audit Plan 2018/19

Assurance Block	Days in 2019/20 Plan	Days in 2018/19 Plan	% Change
Anti-Fraud and Corruption	290	318	-9%
Grants / Head of Audit Assurances	107	85	+26%
Data analytics	100	150	-33%
ICT and Information Governance	150	205	-27%
Key Financial Systems	364	433	-16%
Procurement	175	220	-20%
Directorate risks	735	945	-22%
Schools	50	50	-
Follow up and General Contingency	151	180	-16%
Total Assurance Days	2122	2586	-18%
Other			
External Contracts	127	177	
Total Other	127	177	
Total Days	2249	2763	

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 The Terms of Reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements (including matters such as internal control and risk management.) They also require the Committee to consider the Council's arrangements relating to internal audit requirements including reviewing and approving the risk-based plan and any additional significant work.

4.3.2 The Council's Financial Regulations require that an effective internal audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

4.4 Resources and value for money

4.4.1 In relation to resources and value for money, the internal audit work plan includes a number reviews and initiatives in line with the Council's value of spending money wisely. These will be included in the regular update reports to the Committee.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates that the efficiency and effectiveness of the section is continually improving.

4.5 Legal Implications, Access to Information and Call In

4.5.1 None.

4.6 Risk Management

4.6.1 The Internal Audit Plan will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

4.6.2 The risks relating to the achievement of the Internal Audit Plan will be managed through ongoing monitoring of performance and resource levels. This information will continue to be reported to the Committee.

5 Conclusions

5.1 The proposed Internal Audit Plan for 2019-20 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and

effectiveness of the organisation's framework of governance, risk management and control.

- 5.2 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective internal audit service that focuses on those key risks facing the organisation throughout the year.
- 5.3 Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

6 Recommendations

- 6.1 The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2019-20.

7 Background documents

- 7.1 None

Appendix A: Proposed Internal Audit Plan for 2019/20

Audit Area	Overview of Assurance	Audit Days
Anti-Fraud and Corruption		
Whistleblowing Hotline and Reactive Work	Risk assessment and investigation of allegations and referrals.	150
Anti-Fraud and Corruption Proactive Work	Risk-based work to prevent and detect fraud.	125
Anti-Fraud and Corruption Policy Update	Update of anti-fraud and corruption policies.	15
		290
Grants and Head of Audit Assurances		
Local Transport Capital Block Funding	Independent examination of accounts and / or assurance that the grant claim has been spent in accordance with the grant determination.	9
West Yorkshire Plus Transport Fund		5
Cycle City Ambition Grant		5
Pot Holes Grant		5
National Productivity Investment Funds		11
Leeds Public Transport Investment Programme		5
Additional Highways Maintenance Grant		5
Bus Subsidy Ring Fenced Grant		2
West Yorkshire Combined Authority Treasury Management Assurance		2
Families First Earned Autonomy		20
Disabled Facilities Grant		5

Audit Area	Overview of Assurance	Audit Days
Childhood Obesity Grant		3
Schools Central Financial Controls		15
Grants to be confirmed		15
		107
Data Analytics		
Data Analytics	Evaluation of control effectiveness across key systems on a routine basis, highlighting and reviewing high risk events or transactions	100
		100
ICT and Information Governance		
Privileged User Access	To ensure that there are appropriate procedures in place to manage privileged user accounts.	25
Access Database Project	To provide assurance that the Council is aware of all access databases that require action and that there are appropriate plans in place to ensure that the deadline for PSN compliance is met.	20
Community Cloud	To provide assurance that the Community Cloud project is being managed to deliver its intended outcomes.	20
Application Portfolio Programme	To review how non-compliant systems are identified and the mechanisms in place to move these towards compliance.	25
Information Asset Registers	To provide assurance that the Council is aware of all data that it holds so that it can be managed and secured in line with legislation.	25
Information Governance Policy Reviews	To provide support to the business in the development of the new Information Governance Policies.	10

Audit Area	Overview of Assurance	Audit Days
ICT Projects	Time reserved to provide internal audit support for ICT related projects.	10
Business Applications	Individual reviews of a sample of key computer applications, including system access and administration, input, processing and output controls.	15
		150
Key Financial Systems		
Benefits Reconciliations	A review of the reconciliation processes between Orchard, Academy and FMS for Housing Benefit and Council Tax Support.	9
Benefits: Assessment and Payments	To gain assurance over the processes and performance within the Benefits Assessment Unit, including ensuring that Housing Benefit and Council Tax Support payments are accurately processed and paid.	27
Council Tax	To gain assurance over the Council Tax processes for billing, income collection, recovery action, refunds and write offs.	27
Business Rates	To gain assurance over the business rates processes for billing, income collection, recovery action, refunds and write offs.	40
Capital Programme Central Controls	To gain assurance that expenditure in the capital programme is appropriately approved, controlled and monitored and that the accounting system provides accurate and timely information.	18
Financial Management Central Controls	To provide assurance over the central budget setting and budget monitoring arrangements.	9
Treasury Management and Bankline	To provide assurance that treasury management transactions are authorised, correct, appropriately recorded and reported, and are in line with relevant strategies and guidelines.	23
Housing Rents	To gain assurance over the housing rents processes for charging, income collection, amendments and write offs.	19
Sundry Income Central Controls	To provide assurance over the central management of income collection for sundry	18

Audit Area	Overview of Assurance	Audit Days
	charges raised within the Council, including recovery procedures and write offs.	
Sundry Income Directorate Reviews	To provide assurance that all income is identified and requests for sundry income accounts are promptly and accurately raised for a sample of service areas.	20
Income Management System	To provide assurance over the systems that ensure all sources of income have been identified and accurately processed through the Income Management System.	13
Payroll Central Controls	To provide assurance over the integrity of central payroll functions, including the accuracy of payments made and the authorisation and processing of new starters and leavers.	50
FMS Creditor Purchase and Payment; Central and Directorate Processes	A review of the system through which orders are raised and payments are made to suppliers for goods and services.	40
Central Purchasing Card Controls	To provide assurance over the central purchasing card functions performed by the Central Payment Services Purchasing Card Management Unit.	9
Bank Reconciliation and Cash Book	The audit assesses the accuracy and timeliness of the reconciliations performed on the cashbook and the authority's main accounts.	22
Total Repairs	To provide assurance that there are adequate systems in place to ensure that payments made through the Total Repairs system are made to the correct creditor for goods / services which have been provided to the Council and that the payments are accurately recorded within the Council's accounting system.	20
		364
Procurement		
Contract Management	Individual reviews of contract management arrangements on a sample of contracts to gain assurance that they are being managed to deliver their intended outcomes, incorporating a review of contract extensions and open book review where necessary.	100
Procurement Category Actions	To review the effectiveness of the Category Management process in supporting the delivery of strategic procurement objectives.	30

Audit Area	Overview of Assurance	Audit Days
Social Value	To review the arrangements in place to ensure that social value outcomes are appropriately considered and delivered through procurement.	30
Waivers of Contract Procedure Rules (CPRs) Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2019 meeting.	15
		175
Directorate Risks - Adult Social Care and Health		
Customer Information System (CIS) Payments	To provide assurance that payments are only made in relation to people with an assessed need, have been correctly processed and are net of any client contribution. The review will also provide assurance on the adequacy of controls for identifying changes in circumstances. The review will cover all payments made through CIS for Residential and Nursing Care, Direct Payments and Homecare payments	25
Payments to Providers of Homecare Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	10
Deprivation of Liberties Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the March 2018 meeting.	10
Strength Based Approach to Social Care	To provide assurance that there are controls in place to ensure the Council complies with legislative requirements.	20
Short Break Service	To review the new process to ensure that service users are receiving the right tier of support, it has been properly authorised, providers have been paid and that the outcomes are managed / monitored.	20
Third Sector / Not for Profit Organisations	To review the arrangements in place to gain assurance that third sector / not for profit groups are delivering their agreed services and objectives.	25

Audit Area	Overview of Assurance	Audit Days
Income Recovery	To provide support to the directorate's Income Recovery Project to gain assurance that all income due is identified and there are appropriate processes in place to ensure that it is billed and collected.	20
Unannounced Visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service users monies.	10
		140
Directorate Risks - Children and Families		
In-house Fostering, Special Guardianship and Leaving Care Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	25
Cluster Model and Area Inclusion Partnerships (AIP)	A review of the arrangements in place to ensure that funding is spent effectively on intervention and inclusion, in support of the intended outcomes of the Cluster Model and AIPs.	25
School Attainment	To provide assurance that there are mechanisms in place to monitor school attainment for all children and that appropriate action is taken where issues are identified.	25
Personal Education Plans	To ensure that there are quality personal education plans in place that are clear and consistent, provide purposeful targets and are subject to regular review.	25
Budget Pressures	To gain assurance over the processes in place to manage the budget pressures within the directorate.	25
Programme of Unannounced Visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies	10
		135
Directorate Risks - Housing		
Housing Disrepair Follow-up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the November 2018	10

Audit Area	Overview of Assurance	Audit Days
	meeting.	
Leeds Building Services Information Governance (Records Management) Follow-up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the June 2018 meeting.	10
Private Sector Regulation (Houses of Multiple Occupancy) Follow-up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2019 meeting	10
Fire Safety	To provide assurance over the controls in place to mitigate the risk of fire in Council properties.	25
Lettings Enforcement follow-up and new system review	The review will follow up on the recommendations which remain outstanding since the September 2018 follow-up review. Additional work will also be undertaken on the implementation of the new system and the roll out of the revised lettings policy.	25
Leeds Building Services Assurances	Time set aside to provide assurance that key risks relating to Leeds Building Services are appropriately managed. Outline of specific assurance to be confirmed. To include gaining assurance that the recommendations made across previous audits are being tracked and implemented.	40
Universal Credit	This review assesses the arrangements that have been put in place to support tenants moving to Universal Credit	25
Gas Servicing	To provide assurance over the controls in place to mitigate the health and safety risks of gas fault incidents in Council properties, including the arrangements in place to ensure works identified through the gas servicing process are undertaken.	25
Estate Management	To provide assurance that there are adequate arrangements in place to manage estates to the required standard and that best practice is shared across areas.	25
BITMO Assurance	To provide support to Housing Partnerships in the management of the BITMO Assurance Framework	20
Council Housing Growth	To review the procurement strategy and provide assurance over the achievement of intended outcomes.	20

Audit Area	Overview of Assurance	Audit Days
Housing Leeds In-Year Follow Up Work and Contingency	To undertake follow up work as required during the year and respond to emerging risks within Housing Leeds.	15
		250
Other Directorate Risks		
Delivery of the Medium Term Financial Strategy	Review of the arrangements in place to achieve the expected outcomes set out within the Medium Term Financial Strategy.	50
Partnership Risk Management	To review the central arrangements in place for managing risk with partners.	25
Application of HR Policies	To gain assurance that a sample of HR policies are consistently and properly applied across the authority.	20
Civic Enterprise Leeds	Time set aside to provide assurance that key risks relating to Civic Enterprise Leeds are appropriately managed. Outline of specific assurance to be confirmed.	20
Community Cohesion / Locality Working	To review the governance arrangements in place to identify and address the barriers to community cohesion in the city.	25
Funding from the Communities and Environment directorate to the third sector	To review the arrangements in place to gain assurance that third sector / not for profit groups are delivering their agreed services and objectives.	20
Strategic Investment Fund Acquisitions	To review the directorate's approach to, and governance of the Strategic Investment Fund. The audit will aim to provide assurance that there are appropriate controls over the acquisitions and management and that strategic investment fund plans are adequately scrutinised, approved and align with Council plans and wider best practice.	25
Flood Alleviation Scheme	To review the operational readiness of the Flood Alleviation Scheme	20
Income Review - Room Hire Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	5
		210

Audit Area	Overview of Assurance	Audit Days
Schools		
Schools Audits	Individual audits of LCC maintained schools undertaken on a risk basis and audits of year end school voluntary fund accounts.	50
		50
Follow Up and General Contingency		
Follow Up and General Contingency	Time set aside for new emerging risks, unplanned work and to complete individual follow up audits of areas that have been given a low assurance audit opinion arising during the year.	151
		151
Total Assurance Days		2122



Report author: Sonya McDonald
Tel: 88693

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 22 March 2019

Subject: Internal Audit Update Report January to February 2019

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council’s corporate governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. This report provides a summary of the Internal Audit activity for the period from January to February 2019 and highlights the incidence of any significant control failings or weaknesses.

2. Members will recall that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that Members should receive regular reports about the use of the Council’s surveillance powers under the Regulation of Investigatory Powers Act 2000 (RIPA). The Head of Service (Legal) has provided this information within this report.

Recommendations

3. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from January to February 2019 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

4. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the Council's surveillance powers under RIPA.

1 Purpose of this report

- 1.1 The purpose of this report is to provide a summary of the Internal Audit activity for the period January to February 2019 and highlight the incidence of any significant control failings or weaknesses.

2 Background information

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements, including matters such as internal control and risk management. The reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

- 2.2 The reports issued by Internal Audit are directed by the Internal Audit Annual Plan. This has been developed in line with the Public Sector Internal Audit Standards (PSIAS) and has been reviewed and approved by the Committee.

- 2.3 The Corporate Governance and Audit Committee considers the Council's arrangements relating to internal audit requirements, including monitoring the performance of Internal Audit.

- 2.4 This update report provides a summary of the Internal Audit activity for the period from January to February 2019.

- 2.5 This update report also provides information from the Head of Service (Legal) about the recent use of the Council's surveillance powers under RIPA, as recommended by the Office of Surveillance Commissioners.

3 Main issues

3.1 Audit Reports Issued

- 3.1.1 The title of the audit reports issued during the reporting period and level of assurance provided for each review is detailed in table 1. Depending on the type of audit review undertaken, an assurance opinion may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion provides assurance on the extent to which the controls are being complied with. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level); good; acceptable; limited and no assurance.
- 3.1.2 Organisational impact is reported as either: major, moderate or minor. Any reports issued with a major organisational impact will be reported to the Corporate Leadership Team along with the relevant directorate's agreed action plan.

Table 1: Summary of Reports Issued January to February 2019

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Key Financial Systems			
Business Rates	Substantial	N/A	Minor
Sundry Income Central Controls	Substantial	Substantial	Minor
Bank Reconciliation and Cashbook	Substantial	Substantial	Minor
Resources and Housing			
Leeds Building Services – Tools and Equipment Follow Up	Acceptable	N/A	Minor
Belle Isle Tenant Management Organisation – Universal Credit Preparation	Good	N/A	Minor
Procurement and Contracts			
Waivers of Contract Procedure Rules	Memo issued		
ICT and Information Governance			
Password Configuration	Good	N/A	Minor
Schools			
Primary School Follow Up	Good	N/A	N/A
Primary School Follow Up	Good	N/A	N/A
Follow Up			
Unannounced Establishment Visit Follow Up	N/A	Good	Minor
Children and Families			
Payments for Special Education Needs Placements	Acceptable	Acceptable	Moderate
Decision Making	Acceptable	Good	Moderate

3.2 Summary of Audit Activity and Key Issues

- 3.2.1 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have finalised 12 audit reviews (excluding data analytics, work for external clients and fraud and irregularity work) and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.
- 3.2.2 Following the audit of Waivers of Contract Procedure Rules (CPRs) that we reported to the Committee in January this year, we carried out a further review of a specific waiver decision that had been taken within a service area. In this instance, the cumulative volume of expenditure incurred against a decision taken to waive CPRs for specialist or time critical low value purchases had led us to undertake some additional audit work. Having carried out further analysis, we were not satisfied that all of the expenditure was being incurred in accordance with the terms set out within the waiver decision. Primarily, control can be strengthened by building in a greater level of monitoring and challenge within the service itself. We have also recommended that the service identifies and defines key parameters, such as a timeframe or upper limit of cumulative expenditure, outside of which the decision should be subject to review to establish whether it is proving to be effective at delivering best value for money. Our findings and recommendations have been reported in a memo to the relevant Director and Chief Officer. We will be following up on progress within the waivers audit that has been incorporated within the 2019/20 audit plan.

Limited or No Assurance Opinions

- 3.2.3 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a 'major' organisational impact and no audits have resulted in a limited or no assurance opinion.

Follow Up Reviews

- 3.2.4 Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. Our audit reports include an assurance opinion for each objective reviewed within the audited area. Follow up audits are undertaken for those areas where a specific objective within the review resulted in limited or no assurance in addition to those where the limited or no assurance opinion was provided for the review overall.
- 3.2.5 We have finalised four follow up reviews during the reporting period:

Leeds Building Services – Tools and Equipment Follow Up

- 3.2.6 We have previously reported that limited assurance was provided in relation to compliance with Financial Regulations for the custody and security of tools and equipment within Leeds Building Services. We have carried out a follow up review and found that the service has implemented a single inventory list which will help to ensure the location and custody of tools and equipment is compliant with Financial Regulations and reduces the risk of loss and misappropriation. Progress is being made against the other audit recommendations raised, but

there is still work to be completed. As a reflection of the positive direction of travel we have provided an improved assurance opinion.

Unannounced Establishment Visit Follow Up

- 3.2.7 We reported to the Committee at the meeting in June 2018 that one of the referrals received by Internal Audit related to high levels of expenditure being incurred at one of the Council's establishments. Our investigation resulted in a referral to the police due to potential fraudulent activity in relation to the use of petty cash at the establishment. We reported to the Committee at the meeting in November 2018 that the police issued a conditional caution to the former member of staff and the former member of staff was ordered to pay a sum towards the Council's costs, which has subsequently been received. We can now report that we have completed a follow up review at the establishment and are able to provide assurance that the key recommendations made during our investigation have been implemented. The follow up review found that significant improvements were evident at the establishment and this resulted in a good assurance opinion being provided for compliance with the control environment.

Primary School Follow Ups

- 3.2.8 At the Corporate Governance and Audit Committee meeting in June 2018, we reported limited assurance for the financial management arrangements at two primary schools. One of the reviews resulted in a limited assurance opinion overall and the other received a limited assurance opinion for part of the audit coverage. This was due to improvements being required in relation to the receipt and banking of income and the operation of the school voluntary fund at both schools. We have now completed follow up reviews at both schools and have confirmed that the key recommendations made in the original audits have been implemented. A good assurance opinion has been provided for both schools to reflect the improvement that was evident in their control environment.

Counter Fraud and Corruption

- 3.2.9 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and proactive approaches to the Council's zero tolerance to fraud and corruption.

Proactive Anti-Fraud Work

- 3.2.10 As part of our proactive anti-fraud work, we take part in the National Fraud Initiative (NFI). The NFI is an exercise conducted by the Cabinet Office every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Where a match is found it may indicate that there is an inconsistency which requires further investigation to determine whether fraud or error has occurred, or if there is another explanation for the match. The matches are sent to the relevant Council for review and we received over 16,500 data matches from the Cabinet Office at the end of January 2019. Relevant teams within the Council (for example, Internal Audit, Benefits, Blue Badge and Adult Social Care) are currently working through the matches on a risk basis. To date,

£7,500 of benefit overpayments has been identified and is in the process of being recovered.

- 3.2.11 We have also participated in a voluntary pilot exercise on Business Rates data matching. This exercise led to the cancellation of small business rates relief for 6 businesses, resulting in approximately £31,500 of income due to the authority on an annual basis.
- 3.2.12 The draft Anti-Money Laundering and Anti-Bribery policies were presented to Members at the meeting in January 2019. The policies have now been updated to reflect Members' comments and the Chief Officer (Financial Services) has approved the revised policies prior to publication.

Reactive Anti-Fraud Work

- 3.2.13 During the reporting period we have received 5 potential irregularity referrals. Of these, 2 were classified under the remit of the Whistleblowing or Raising Concerns policies. All reported irregularities were risk assessed by Internal Audit and are either being investigated by ourselves, the relevant directorate or HR colleagues, as appropriate.
- 3.2.14 During the reporting period 5 referrals have been closed. There are 10 referrals that are currently open and being investigated.

Regulation of Investigatory Powers Act 2000

- 3.2.15 Members will recall that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that Members should receive regular reports about the use of the Council's surveillance powers under RIPA.
- 3.2.16 The Head of Service (Legal) has confirmed that there have been no applications for directed surveillance or covert human intelligence source (CHIS) authorisations, since the June 2018 meeting. In addition, there has been no use of the powers to obtain communications data, over the same period.

Internal Audit Performance

- 3.2.17 We actively monitor our performance in a number of areas and encourage feedback. A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are presented as an average of the scores received for each question.
- 3.2.18 The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff.
- 3.2.19 For the period from 1 April 2018 to 28 February 2019, 33 Customer Satisfaction Questionnaires were received. A summary of the scores is presented in table 2.

Table 2: Results from Customer Satisfaction Questionnaires for the period 1 April to 28 February 2019

Question	Average Score (out of 5)
Sufficient notice was given	4.72
Level of consultation on scope	4.68
Auditor's understanding of systems	4.36
Audit was undertaken efficiently	4.66
Level of consultation during the audit	4.67
Audit carried out professionally and objectively	4.85
Accuracy of draft report	4.48
Opportunity to comment on audit findings	4.76
Clarity and conciseness of final report	4.61
Prompt issue of final report	4.33
Audit recommendations will improve control	4.40
The audit was constructive and added value	4.55
Overall Average Score	4.59

- 3.2.20 As reported previously, overall resources for 2018/19 are less than was anticipated when the audit plan was set. We are actively managing resources to direct these towards the areas of highest risk to ensure that an evidence-based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2.21 Table 3 below provides an indication of progress against the Internal Audit Plan and demonstrates that we are on track to deliver the coverage necessary to provide the Head of Internal Audit Report and Opinion at the Corporate Governance and Audit Committee meeting in July 2019. The number of audits completed at this point in the year (63) is comparable against the number of audits completed at the same point last year (58) and reflects well on the Internal Audit team given the reduction in resources. The number of audits planned and delivered during the year will increase as the blocks of time allocated for areas of work (such as contract reviews and schools) are broken down to specific audit assignments and to address emerging issues through the use of contingency time. The table does not include fraud and irregularity work or advice issued to managers arising from adhoc requests for audit support.

Table 3: Audit Plan Progress

Number of individual audit assignments	Planned	In progress	Completed
Audit Plan 2018/19 and brought forward jobs from 2017/18	8	23	52
Follow up audits	5	8	11

3.2.22 The Internal Audit Plan for 2018/19 was approved by the Committee at the meeting in March 2018. A summarised version of the Audit Plan and the progress against each review is appended to this report. For completed audits, the Corporate Governance and Audit Committee meeting that considered the relevant Internal Audit Update Report has been referenced. 'Planned' audits are those that are anticipated to be completed for inclusion within the Head of Internal Audit Report and Opinion that will be presented to the Committee at the meeting in July 2019. Given the reduction in Internal Audit resources referenced above, not all audits that were included in the Internal Audit Plan for 2018/19 will be completed by then. The outstanding audits have either been included within next year's audit plan or considered for future audit coverage as a result of our ongoing risk assessment.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee. The Internal Audit Plan has links with the Council's strategic objectives and has close links with the Council's value of spending money wisely.

4.4 Resources and value for money

4.4.1 The Internal Audit Plan includes a number of reviews that evaluate the effectiveness of financial governance, risk management and internal control arrangements that contribute towards the Council's value of spending money wisely.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

4.5 Legal Implications, Access to Information and Call In

4.5.1 None.

4.6 Risk Management

4.6.1 The Internal Audit Plan has been and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

4.6.2 The risks relating to the achievement of the Internal Audit Plan are managed through ongoing monitoring of performance and resource levels. This information is reported to the Committee.

5 Conclusions

5.1 There are no issues identified by Internal Audit in the January to February 2019 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

6 Recommendations

6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from January to February 2019 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

6.2 The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the Council's surveillance powers under RIPA.

7 Background documents

7.1 None.

Appendix A – Status of Planned Audits from the 2018/19 Audit Plan and Follow Up Reviews

Audit Area	Overview of Assurance	Status / CGAC Meeting
Grants and Head of Audit Assurances		
Grants and Head of Audit Assurances arising during the year	Independent examination of accounts and / or assurance that the grant claim has been spent in accordance with the grant determination.	Reported November 2018, January 2019 and ongoing
ICT and Information Governance		
General Data Protection Regulation (GDPR)	To gain assurance that appropriate arrangements are in place to manage the risks associated with the new legal framework for data protection.	Reported November 2018 and ongoing
Acceptable Use Proactive Monitoring Framework	With reference to the Corporate Governance and Audit Committee meeting in September 2017, the audit will review the framework in place to monitor the use of LCC ICT equipment in line with the Council's Acceptable Use Policy and test a sample of LCC owned devices.	Reported November 2018
ICT Projects - Benefits Realisation Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	In progress
Password Configuration	Deferred from 2017/18 pending the implementation of a new Council Password Policy. The audit will gain assurance that the new Password Protocol and the technical controls in place to ensure adherence to it is appropriate and in line with best practice issued by the National Cyber Security Centre.	Reported March 2019
ICT Projects	Time reserved to provide internal audit support for ICT related projects.	Reported November 2018
Externally Hosted Software	To provide assurance that there are adequate contractual arrangements in place where software is hosted by an external supplier.	Reported January 2019

Audit Area	Overview of Assurance	Status / CGAC Meeting
Essential Services Programme	To provide assurance over the processes in place to develop and monitor the essential services programme.	In progress
Management of the Cyber Incident Risk	To review how the Cyber Incident risk is being managed, including the effectiveness of the controls in place, back up processes and the assurance reporting arrangements.	Planned
Business Applications	Individual reviews of a sample of key computer applications, including system access and administration, input, processing and output controls. (Business Application coverage is included with the scope of the Key Financial Systems)	Reported January 2019 and March 2019.
Leeds Building Services – Information Governance (Records Management) Follow Up	To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting.	Included in 2019/20 audit plan
Key Financial Systems		
Benefits Reconciliations	A review of the reconciliation processes between Orchard, Academy and FMS for Housing Benefit and Council Tax Support.	In progress
Benefits: Assessment and Payments	To gain assurance over the processes and performance within the Benefits Assessment Unit, including ensuring that Housing Benefit and Council Tax Support payments are accurately processed and paid.	In progress
Council Tax	To gain assurance over the Council Tax processes for billing, income collection, recovery action, refunds and write offs.	In progress
Business Rates	To gain assurance over the business rates processes for billing, income collection, recovery action, refunds and write offs.	Reported March 2019
Capital Programme Central Controls	To gain assurance that expenditure in the capital programme is appropriately approved, controlled and monitored and that the accounting system provides accurate and timely information.	Reported November 2018 and in progress
Financial Management Central Controls	To provide assurance over the central budget setting and budget monitoring arrangements.	Reported November 2018

Audit Area	Overview of Assurance	Status / CGAC Meeting
Treasury Management and Bankline	To provide assurance that treasury management transactions are authorised, correct, appropriately recorded and reported, and are in line with relevant strategies and guidelines.	Planned
Housing Rents	To gain assurance over the housing rents processes for charging, income collection, amendments and write offs.	In progress
Sundry Income Central Controls	To provide assurance over the central management of income collection for sundry charges raised within the Council, including recovery procedures and write offs.	Reported March 2019
Sundry Income Directorate Reviews	To provide assurance that all income is identified and requests for sundry income accounts are promptly and accurately raised for a sample of service areas.	Reported November 2018
Income Management System	To provide assurance over the systems that ensure all sources of income have been identified and accurately processed through the Income Management System.	Reported January 2019
Payroll Central Controls	To provide assurance over the integrity of central payroll functions, including the accuracy of payments made and the authorisation and processing of new starters and leavers.	In progress
FMS Creditor Purchase and Payment; Central and Directorate Processes	A review of the system through which orders are raised and payments are made to suppliers for goods and services.	In progress
Central Purchasing Card Controls	To provide assurance over the central purchasing card functions performed by the Central Payment Services Purchasing Card Management Unit.	In progress
Bank Reconciliation and Cash Book	The audit assesses the accuracy and timeliness of the reconciliations performed on the cashbook and the authority's main accounts.	In progress
Total Repairs	To provide assurance that there are adequate systems in place to ensure that payments made through the Total Repairs system are made to the correct creditor for goods / services which have been provided to the Council and that the payments are accurately recorded within the Council's accounting system.	In progress
Procurement and Contracts		
Contract Specification and Management Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the June 2017 meeting.	Reported November 2018

Audit Area	Overview of Assurance	Status / CGAC Meeting
Non and Off Contract Spend Follow Up	To review the root causes for non and off contract expenditure and the processes for identifying and addressing non-compliant spend.	In progress
Leeds Building Services Subcontractors Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the September 2017 meeting.	Reported November 2018
Contract Review: Electricity Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	In progress
Procurement Maturity Review	This audit will review organisational procurement arrangements against best practice, including the assessment and management of contracting risk.	To be considered for future audit coverage
Contract Management	Individual reviews of contract management arrangements on a sample of contracts to gain assurance that they are being managed to deliver their intended outcomes, incorporating open book review where necessary.	Reported November 2018 and January 2019
Procurement Category Actions	To review the effectiveness of the Category Management process in supporting the delivery of strategic procurement objectives.	Included in 2019/20 audit plan
Waivers of Contract Procedure Rules (CPRs)	To review the governance arrangements in place for the approval and management of waivers of CPRs.	Reported January 2019
Contract Review: Joint Venture Follow Up	To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting	In progress
Contract Specification and Management Follow Up	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	Included in 2019/20 audit plan
Tendering System Controls Follow Up	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	Planned

Audit Area	Overview of Assurance	Status / CGAC Meeting
Waivers of Contract Procedure Rules Follow Up	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the January 2019 meeting.	Included in 2019/20 audit plan
Adult Social Care and Health		
Payments to Providers of Homecare Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	Included in 2019/20 audit plan
Deprivation of Liberties Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the March 2018 meeting.	Included in 2019/20 audit plan
Customer Information System (CIS) Payments	To provide assurance over the accuracy and legitimacy of direct payments and residential and nursing care payments made through CIS.	In progress
Learning Disabilities Pooled Budget	To provide assurance over the governance arrangements in place for the pooled budget.	Reported January 2019
Mental Capacity Act	A review of the controls in place that ensure the Council is compliant with the requirements of the Mental Capacity Act.	In progress
Safeguarding Clients Personal Assets	To provide assurance that there are appropriate arrangements in place to safeguard the assets of the service user where the authority acts as a Deputy or Receiver.	Reported November 2018
Unannounced Visits	Individual establishment visits to provide assurance on cash handing arrangements, including the safeguarding of service users monies.	Planned
Income Review - Telecare	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	In progress
Children and Families		
In-House Fostering, Special	To review progress in implementing the recommendations made in the previous audit,	Reported

Audit Area	Overview of Assurance	Status / CGAC Meeting
Guardianship Orders and Leaving Care Payments Follow Up	reported to the Corporate Governance and Audit Committee at the June 2017 meeting.	November 2018
Direct Payments Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the June 2017 meeting.	Reported January 2019
Governance Arrangements (Decision Making)	To review the directorate's governance arrangements around decision making, reporting and assurance.	Reported March 2019
OfSTED Inspections	To gain assurance that there are effective arrangements in place for self-evaluation and ensuring that any recommendations arising from OfSTED inspections are monitored and implemented.	To be considered for future audit coverage
Children Looked After Services	To gain assurance that there are effective arrangements in place to manage and monitor the safe reduction of the numbers of children looked after.	Planned
Payments to Providers of Residential Care and Independent Fostering Agencies	To provide assurance over the efficiency and effectiveness of financial controls.	Planned
Cluster Model and Area Inclusion Partnerships (AIP)	A review of the arrangements in place to ensure that funding is spent effectively on intervention and inclusion, in support of the intended outcomes of the Cluster Model and AIPs.	To be considered for future audit coverage
Unannounced Visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies.	Reported November 2018
In-House Fostering, Special Guardianship Orders and Leaving Care Payments Follow Up	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	Included in 2019/20 audit plan
Schools		
Schools Audits	Individual audits of LCC maintained schools undertaken on a risk basis and audits of year end school voluntary fund accounts.	Reported November 2018 and January

Audit Area	Overview of Assurance	Status / CGAC Meeting
		2019
Primary School Follow Ups	To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting.	Reported March 2019
Resources and Housing		
Leeds Building Services Tools and Equipment Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the September 2016 meeting.	Reported March 2019
Leeds Building Services Stores Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the April 2017 meeting.	Reported November 2018
Lettings Enforcement Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	In progress
Belle Isle Tenant Management Organisation (BITMO) Assurance	Time set aside to provide assurance that the BITMO is managing the key risks that have been delegated under the Modular Management Agreement. Outline of specific assurance to be confirmed.	Reported November 2018 and March 2019
Annual Home Visits	A review of the Annual Home Visit process to ensure that outcomes from the visits are actioned and monitored appropriately.	In progress
Leeds Building Services Assurances	Time set aside to provide assurance that key risks relating to Leeds Building Services are appropriately managed. Outline of specific assurance to be confirmed.	Reported November 2018 and March 2019
Fire Safety	To provide assurance over the controls in place to mitigate the risk of fire in Council properties.	In progress
Electrical Inspections	To provide assurance over the controls in place to mitigate the health and safety risks of electrical fault incidents in Council properties.	In progress
Homelessness and Temporary Accommodation	A review of the arrangements in place for preventing and managing homelessness in the city.	Reported January 2019

Audit Area	Overview of Assurance	Status / CGAC Meeting
Private Sector Regulation	A review of the processes in place for ensuring that Homes of Multiple Occupancy are licenced and inspected as appropriate.	Reported January 2019
Responsive Repairs	A review of the responsive repairs contract, focussing on charging, quality and performance monitoring.	In progress
Financial Management Maturity Review	A review of organisational financial management arrangements against best practice.	To be considered for future audit coverage
Apprentice Levy	A review of the arrangements in place to ensure that the Apprentice Levy is utilised effectively.	Reported November 2018
Right to Buy	A review of the processes in place to assess and manage Right to Buy applications.	In progress
Performance	Time set aside to provide assurance over performance reporting. Outline of specific assurance to be confirmed.	Incorporated within scope of relevant audit coverage
Civic Enterprise Leeds – Income Collection	To provide assurance that all external income is identified and collected.	In progress
LCC Vehicle Fleet Clean Air Zone Standards	Time set aside to support the directorate in ensuring that appropriate plans are in place to mitigate environmental risks relating to LCC's vehicle fleet.	Planned
Application of HR Policies	To gain assurance that a sample of HR policies are consistently and properly applied across the authority.	In progress
Financial Due Diligence	A review of the arrangements in place to ensure that due diligence is consistently and appropriately applied before entering into an agreement or financial transaction with another party.	In progress
Passenger Transport	A value for money review of the in-house provision by the internal fleet and the external provision through the use of taxis and private hire vehicles.	To be considered for future audit coverage

Audit Area	Overview of Assurance	Status / CGAC Meeting
Invest to Save – Benefits Realisation	To review how the benefits realisation process has been implemented for a sample of Invest to Save projects.	Planned
IR 35 Legislation Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the June 2018 meeting	In progress
Leeds Building Services – Out of Hours (Lifts) Follow Up	To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting	Reported November 2018
Housing Disrepair Follow Up	To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting	Included in 2019/20 audit plan
Private Sector Legislation – Homes of Multiple Occupancy Follow Up	To review progress in implementing the recommendations made in the previous audit as reported to the Corporate Governance and Audit Committee at the January 2019 meeting.	Planned
Communities and Environment		
Parking Services	To review the systems in place for issuing parking permits and parking tickets, collecting income and managing appeals.	In progress
Child Poverty	A review of the arrangements in place to tackle child poverty across the city.	To be considered for future audit coverage
Recycling Strategy	To provide assurance that the Council's recycling strategy is being effectively implemented.	To be considered for future audit coverage
Customer Satisfaction	A review of the processes that support continual improvement in respect of the customer experience.	In progress
Unannounced visits	Individual establishment visits to provide assurance over cash handling arrangements.	Planned
City Development		

Audit Area	Overview of Assurance	Status / CGAC Meeting
Community Infrastructure Levy Follow Up	To review progress in implementing the recommendations made in respect of Community Infrastructure Levy made in the previous audit, reported to the Corporate Governance and Audit Committee at the September 2017 meeting.	In progress
Income collection	To provide assurance that all external income is identified and collected.	Reported November 2018
External Advertising Income – Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the June 2018 meeting.	Planned
Commercial Rents – Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	Planned
Income Review - Room Hire Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	Included in 2019/20 audit plan
Income Review – Leeds International Beer Festival Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	Planned



Report author: A Hodson

Tel: (0113) 37 88660

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 22nd March 2019

Subject: Annual Report

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

1 Purpose of this report

- 1.1 The Purpose of this report is seek the approval of Members to the Committee's Annual Report to Full Council.

2 Background information

- 2.1 Members will recall that at the meeting of the committee in January 2019 a review was undertaken of the Committee's working arrangements against best practice published by the Chartered Institute of Public Finance and Accountancy. This identified that Audit Committees should produce an annual public report to demonstrate how the committee has discharged its responsibilities.
- 2.2 Members resolved to ask the Head of Governance and Scrutiny Support to prepare an Annual Report on the committee's behalf and for this to be presented at Full Council.

3 Main issues

- 3.1 Members are requested to consider the draft annual report reflecting the work of the committee in the 2018/19 Municipal year attached at Appendix 1 and determine whether any additional commentary is required.
- 3.2 Members are also asked to note that given committee and ordinary full Council meeting cycles the Annual report will be received as a late item to the March 2019 full Council meeting.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report consults Members views on the content of the annual report of the committee.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

4.3 Council Policies and best council plan

4.3.1 The annual report demonstrates a balanced consideration of reports and assurances during the year that has enabled the committee to reach evidence based opinions on the council's governance arrangements.

4.4 Resources and Value for Money

4.4.1 It is in the best interests of the Council to have sound control arrangements in place to ensure effective use of resources, these should be regularly reviewed and monitored as such the work programme directly contributes to this.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report is not an executive function and is not subject to call in.

4.6 Risk Management

4.6.1 By way of this annual report the Committee is able to demonstrate assured that effective controls are in place for the management of risk at the Council.

4.6.2 The work programme that has been adopted and is reported on in this report has been based on a risk based approach to the significant governance arrangements of the Council.

5 Conclusions

5.1 This is the first Annual Report of the Committee for a number of years and is for consideration by Full Council.

6 Recommendations

6.1 Members are requested to consider and approve the draft Annual Report at Appendix 1 and refer the report for full Council for consideration.



Draft
Annual Report to Full Council

Corporate Governance and
Audit Committee

2018/19

Annual Report of the Corporate Governance and Audit Committee 2018/19

Foreword by Councillor Kevin Ritchie - Chair

This is the first time in a number of years that the committee has produced an Annual report and I am delighted the committee has resolved to do so again.

The report summarises the contribution the Committee has made during the Municipal Year to the achievement of good governance and internal control within the Council.

All Members of the committee bring an independent and open mind to business of the committee and I am indebted to them for the contributions they have made.

We have:

- Overseen the production of the Annual Governance Statement;
- Reviewed and approved the Council's statutory accounts
- Ensured that assurance reports have been reviewed in detail on the key aspects of the Council's internal control arrangements including:
 - Risk management
 - Performance and business continuity management,
 - Employment policies and practices and officer conduct,
 - Financial management (including arrangements for Treasury management),
 - Customer access and complaints handling;
 - The openness and transparency of our decision making arrangements.

There have been other benefits from our work including;

- Demonstrable improvements in the our decision making arrangements;
- A clean external audit opinion on the council's Statement of Accounts, confirming their accuracy and completeness against shorter reporting timescales
- Confirmation (by external audit) that the council has in place the arrangements required to achieve its objectives and deliver its services economically, effectively and efficiently
- Public Service Network re-certification and continued challenge to address areas of needing further improvement.
- A review of our compliance with the Chartered Institute for Public Finance and Accountancy Best Practice for Audit Committees.
- Sharing Best Practice with other local authorities.
- Oversight of the transition to working with new External Auditors appointed through Public Sector Audit Appointments.

1. INTRODUCTION

This annual report on the work of the Council's Corporate Governance and Audit Committee demonstrates:

- How the Corporate Governance and Audit Committee has fulfilled its terms of reference;
- The extent to which arrangements comply with national guidance relating to audit committees;
- How the Corporate Governance and Audit Committee has contributed to strengthening risk management, internal control and governance arrangements.

2. TERMS OF REFERENCE

The Terms of Reference for the Audit Committee are reviewed each year to ensure they represent current regulations and best practice as outlined within guidance for audit committees from the Chartered Institute of Public Finance and Accountability.

The core functions of the Audit Committee are to:

- Consider the Council's arrangements relating to the Accounts;
- Consider the Council's arrangements relating to external audit requirements ;
- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance;
- Review the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management);
- Consider the Council's arrangements relating to internal audit requirements.

3. COMMITTEE INFORMATION

Audit Committee Membership

Ten elected members serve on the committee:

- Councillor Kevin Ritchie (Chair)
- Councillor Jonathan Bentley
- Councillor Ben Garner
- Councillor Pauleen Grahame
- Councillor Peter Harrand
- Councillor Mark Harrison
- Councillor John Illingworth
- Councillor Andrew Scopes
- Councillor Jonathon Taylor
- Councillor Paul Truswell

The committee has considered the CIPFA recommended practice of having a co-opted Independent Member appointed to the committee (see below).

Audit Committee Meetings

The Committee has met on five occasions during the year with meeting dates structured around the regular receipt of annual assurance reports, external and Internal audit reporting cycles and the statutory requirements around the production of the Accounts and Annual Governance Statement.

This frequency of meetings ensures the Committee can fulfil its responsibilities in an efficient and effective way and we have benchmarked this against the CIPFA recommended practice (minimum of 4 meetings per year) and arrangements in other local authorities (where the average is around 6 meetings per annum).

The July meeting of the Committee is particularly important, both the Statement of Accounts and agreement of the Annual Governance Statement take place.

4. COMMITTEE BUSINESS

A list of the reports considered by the Corporate Governance and Audit Committee can be found in **Appendix A**. The main outcomes of the Committee's work in relation to its core functions can be summarised as follows:

Internal Audit

The Committee:

- Received and considered the Head of Internal Audit's opinion on the Council's internal control environment.
- Received and considered information on the performance and effectiveness of the Internal Audit Team.
- Received and considered regular reports from the Head of Internal Audit on the Internal Audit Team's progress in delivering the planned work and summaries of reports issued. The reports also provided monitoring information on the implementation of agreed audit recommendations. Members specifically considered the following limited assurance issues raised by the Head of Internal Audit during the year:
 - IR 35 Legislation
 - Leeds Building Services – Out of Hours (Lifts) and Information Governance (Records Management).
 - Financial management arrangements at two primary schools
 - Income reviews that have focussed on the controls in place to identify and raise income due across specific service areas, including external advertising income
 - The proactive activity to prevent potential housing disrepair issues becoming claims
 - Tendering System Controls
 - Waivers of Contract Procedure Rules
 - Inspection activity in respect of Homes of Multiple Occupancy

- Received and considered follow up reports on previous audits from previous years where low assurance opinion was highlighted.
- Continued to provide support to the Internal Audit Team to ensure management was responsive to recommendations made and agreed.
- Agreed the Internal Audit Annual Plan for 2019/20.
- Explored arrangements for securing independent assurance of Internal Audit's work and compliance with the Public Sector Internal Audit Standards.
- Reviewed the Anti Bribery and Anti Money Laundering Policies.

The committee has been particularly pleased to learn that Directors are willing to proactively seek Internal Audit's view, particularly where there are known governance challenges. This we feel is a good indicator of the Open, Honest and Trusted values that the Council has adopted.

External Audit

The Committee:

- Considered arrangements for the transition from KMPG to our new External Auditors Grant Thornton.
- Received and considered the External Audit Plan.
- Received and considered reports on the External Auditor's progress against the agreed plan.
- Continued to provide support to the External Auditors to ensure management was responsive to recommendations made and agreed.
- Received and considered the External Auditor's Certification of Grants Report 2017/18.

Internal Control

The Committee has:

- Received and approved the Annual Report of the Audit Committee.
- Overseen the production of and recommended the adoption of the Annual Governance Statement.
- Received and considered annual Assurance reports in relation to:
 - Financial Management arrangements
 - Treasury Management
 - Procurement
 - Risk management
 - Business Continuity
 - Customer Contact and Satisfaction
 - Decision Making (including surveillance conducted by the Council under the Regulation of Investigatory Powers Act 2000)
 - Information Governance
 - HR Policies and Practice

In addition the committee has undertaken separate pieces of work to;

- Receive and respond to a referral from Children and Families Scrutiny Board concerning a gap in the Council's Executive and Decision Making Procedure rules;
- Follow up and receive additional assurances around the Children and Families Directorate's arrangements for decision making administration;
- Provide assurance and visibility on governance arrangements to manage, maintain and make best use of council buildings including buildings with Listed status
- The Commissioner's intervention in Northamptonshire County Council and any lessons learned;
- The management of risks associated with Brexit.

The Accounts

The Committee has:

- Received reports on the Statement of Accounts;
- Approved the Statement of Accounts.
- Received and considered reports from the External Auditor on the Statement of Accounts.

Compliance with Best Practice

The committee undertook a self-assessment of the Committee's compliance with current best practice. This assessment was against a checklist from the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance "Audit Committees – Practical Guidance for Local Authorities and Police 2018 Edition."

There are no significant areas of non-compliance identified in the core functions expected of audit committees or with the identified wider functions, however some variances were identified as set out in bold text below:

The absence of an Independent Person on the Committee. We have considered the merits of co-opting an Independent Person to the committee. The Leader of Council, Deputy Leader/Executive Member for Resources and Sustainability and the Leader of the Opposition have been consulted and are broadly in favour of an Independent Member appointment. With the benefit of the further evaluation the merits for progressing such an appointment be considered by the General Purposes Committee in advance of the Annual Council meeting

The preparation of an Annual Report of the Committee to Council. This was not something that was in place. Whilst the Committee's role in approving the Annual Governance Statement does result in the Annual Governance Statement being provided to all Members, Members were of the opinion that producing this Annual Report to Full Council would add considerable value to demonstrating the importance of the Council's Governance arrangements.

Knowledge and Skills Framework - Members bring with them a range of knowledge and skills from their working life and elected representative role to the work of the committee. Further training was provided to the Committee on the Accounts and further training will be provided to Members as necessary.

Reports	Jun 2018	July 2018	Nov 2018	Jan 2019	Mar 2019
Annual Decision Making Assurance Report					
Estate Governance					
Annual Assurance Report on Employment Policies and Procedures and Employee Conduct					
Joint Risk and Performance Management Assurance Report					
Internal Audit Update Report					
Annual Governance Statement					
Statement of Accounts					
Work Programme					
Corporate Performance Management Report					
Council Password Policy					
PSN Certification (including progress on Access database remediation)					
External Audit ICT Audit Findings					
Internal Audit Annual Report and Opinion					
External Audit ISA 260 Report to those Charged with Governance					
Customer Contact and Satisfaction Annual Assurance Report					
External Audit Annual Letter and Update on issues Arising					
Introduction to New External Auditors					
Children and Families Decision Administration					
Referral from Children and Families Scrutiny Board - Short Notice Decisions					
External Audit – Certification of Grants Report 2017/18					
Leeds City Council Password Policy					
External Audit Plan					
Review of Anti Money Laundering and Anti Bribery Policies					
Letter to the Secretary of State from Northamptonshire County Council Commissioners					
Audit Committees: CIPFA Practical Guidance for Audit Committees					
Internal Audit Plan					
Annual Business Continuity Report					
Impact of Brexit on Council Services					

Reports	Jun 2018	July 2018	Nov 2018	Jan 2019	Mar 2019
Annual Assurance Report on Procurement, Policies and Practices					
Annual Financial Management Assurance Report (Incorporating Capital)					
Annual Treasury Management Assurance Report					
External Audit Interim Audit Report					
Information Governance Annual Assurance Report					

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Report author: A Hodson

Tel: (0113) 37 88660

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 22nd March 2019

Subject: Independent Member appointment to Audit Committees

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

1 Purpose of this report

1.1 The Purpose of this report is to enable Members of the committee to further consider the CIPFA Best Practice guidance relating to the appointment of Independent Members to Audit committees.

2 Background information

2.1 Members will recall at the meeting in January 2019 that a self-assessment exercise highlighted a variance in Leeds' practice against the Chartered Institute for Public Finance and Accountancy guidance for Audit Committee in Local Government, specifically the appointment of Independent Members to the Committee.

2.2 Officers were requested to provide a further assessment of the role of Independent Co-optees on Local Government Audit Committees and provide a further report to committee.

2.3 The guidance requirement and the summary presented to Members in January is reproduced at Table 1 on the following page.

Table 1 Extract from CIPFA Audit Committee Guidance and Leeds City Council Position

CIPFA Audit Committee Position Statement	Leeds City Council Position
<p>The committee should:</p>	<p>Officer Commentary</p>
<p>in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation</p>	<ul style="list-style-type: none"> ▪ The committee is established by full council. ▪ The committee is not a Scrutiny Committee. ▪ Article 9.2.1 precludes the following from being members of the Corporate Governance and Audit Committee: <ul style="list-style-type: none"> ○ Members of the Executive; ○ Political Group Leaders from the three largest groups; and ○ Whips from the three largest groups. ▪ The committee does not include an independent member this is because it is appointed by the Council under S102(1)(a) LGA 1972 to discharge functions of the Council. As such, the Council fixes the number of members and their terms of office - S102(2) LGA 1972. With one of the functions of the committee being to regulate and control of the Council's finance, under S102(3) as co-opted members are not permitted on this committee the arrangements at Leeds City Council are at variance with the CIPFA position statement.

3 Main issues

- 3.1 In January Members resolved to look again in detail at the question of an Independent Member appointment with the benefit of further background information.
- 3.2 Members will note that one of the functions of the Corporate Governance and Audit Committee is to regulate and control of the Council's finance, under S102(3) of the Local Government Act 1972. Co-opted members are not permitted to be members on committees that perform these functions and this is the basis for Leeds City Council's practice being at variance with the CIPFA position statement.
- 3.3 CIPFA do acknowledge these limitations recommending that Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members.
- 3.4 Their view is that where an audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee (including any co-opted members) should be able to vote on those recommendations. However where a council has delegated decisions to the committee, for example the adoption of the financial statements, then independent members will not be able to vote on those matters for decision.

- 3.5 CIPFA also acknowledge that there are no statutory requirements that determine that local authorities such as Leeds City Council must appoint Independent co-opted Members – CIPFA do though highlight that such appointments are a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees.
- 3.6 CIPFA's view is that the injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:
- to bring additional knowledge and expertise to the committee;
 - to reinforce the political neutrality and independence of the committee;
 - to maintain continuity of committee membership where membership is affected by the electoral cycle.
- 3.7 CIPFA do though acknowledge that are potential pitfalls to the use of independent members which should also be borne in mind:
- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
 - lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
 - effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.
- 3.8 The National Audit Office (NAO) recent publication: Local authority governance reported that their focus groups of internal and external auditors had stressed the benefits to audit committee effectiveness of having independent committee members. The same report identified (from the NAO's review of local authority websites) that 33% of local authority audit committees have an independent member.
- 3.9 The NAO has recommended that government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of Independent Members.
- 3.10 A review of Core City and West Yorkshire authorities has identified that a number of authorities have made arrangements for Independent Member appointments. Five out of the ten core city authorities have Independent Members appointed as co-optees. In two of these 5 authorities an Independent Members is appointed as Chair.
- 3.11 Approaches to payment of allowances to those co-opted Independent Members varies with one authority paying a daily rate (variable between the Chair and other co-opted Members), whilst others paid a fixed annual allowance (between £577 & £900 per annum).

3.12 By way of comparison, at Leeds City Council payments are made to statutory co-optees of Scrutiny Boards – these payments (to 5 co-optees) are £601 per annum each. Should there be a wish to pursue the appointment of a Co-opted Member the rate of any allowance would need to be considered by a specially convened meeting of the Independent Remuneration Panel and be approved by full Council.

3.13 Only one West Yorkshire authority (Wakefield) has appointed an Independent Member and in this case no allowance payment is made.

Table 2 Summary of Audit Committee Appointment of Independent Members

Authority		number		Co-opted Member Allowance	
		Members	Co-opted/ Members*	Per Member	Total Cost Per Annum
Core City Group	Birmingham	8	0	n/a	n/a
	Bristol	10	2	£577	£1,144
	Cardiff	11	3	£250 per day Chair £198 per day Co-opted member	£4,170
	Glasgow	15	0	n/a	n/a
	Leeds	10	0	n/a	n/a
	Liverpool	14	0	n/a	n/a
	Manchester	8	2	£901	£1,802
	Newcastle	9	4	Chair £4,388, Co-opted member £878	£7,022
	Nottingham	9	0	n/a	n/a
	Sheffield	10	3	£730	£2190
West Yorkshire	Bradford	9	0	n/a	n/a
	Calderdale	6	0	n/a	n/a
	Kirklees	9	0	n/a	n/a
	Wakefield	9	1	no allowances paid	0

***Bold** number indicates where Chair is drawn from Independent Co-opted Members

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 The Leader of Council, Deputy Leader/Executive Member for Resources and Sustainability and the Leader of the Opposition have been consulted on this matter and are broadly in favour of an Independent Member appointment to the Committee.

4.1.2 They have requested that, with the benefit of the further evaluation of this matter by Corporate Governance and Audit Committee, the merits for progressing such an appointment be considered by the General Purposes Committee in advance of the Annual Council meeting.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

4.3 Council Policies and best council plan

4.3.1 The work programme provides a balanced number of reports and assurances upon which the committee can assess the adequacy of the council's corporate governance arrangements.

4.4 Resources and Value for Money

4.4.1 There are no specific issues arising from this report.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report is not an executive function and is not subject to call in.

4.6 Risk Management

4.6.1 There are no specific risk management issues arising from this report.

5 Conclusions

5.1 At present there are no statutory requirements on the authority to appoint an Independent Person to an audit committee. The National Audit Office has recommended that further work be done by government with local authorities and other stakeholders examine how the use of Independent Members on audit committees can be increased.

5.2 Guidance from the CIPFA notes both positive and cautionary reasons for such appointments and decisions of this nature need to take account of each local authority's own circumstances.

5.3 Members are requested to consider the additional background information provided and note the intention of General Purposes Committee to consider this matter prior to the Annual Council Meeting.

6 Recommendations

6.1 Members are requested to review and note the additional background information provided and refer any observations to the General Purposes Committee for consideration.

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Report author: A Hodson

Tel: (0113) 37 88660

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 22nd March 2019

Subject: Draft Work Programme

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

1 Purpose of this report

1.1 The Purpose of this report is to notify Members of the Committee's draft work programme for the forthcoming Municipal Year. The draft work programme is attached at Appendix 1.

2 Background information

2.1 The work programme provides information about the future items for the Corporate Governance and Audit Committee agenda, when items will be presented and which officer will be responsible for the item.

3 Main issues

3.1 Members are requested to consider the draft work programme attached at Appendix 1 and determine whether any additional items need to be added to the work programme.

3.2 Members are asked to consider and note the provisional dates for meetings of the Committee in the Municipal Year; these have been set out in such a way as to enable the Committee to fulfil its functions and responsibilities in a reasonable and proportionate way.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report seeks Members views on the content of the work programme of the Committee, so that it might meet the responsibilities set out in the committee's terms of reference.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

4.3 Council Policies and best council plan

4.3.1 The work programme provides a balanced number of reports and assurances upon which the committee can assess the adequacy of the council's corporate governance arrangements.

4.4 Resources and Value for Money

4.4.1 It is in the best interests of the Council to have sound control arrangements in place to ensure effective use of resources, these should be regularly reviewed and monitored as such the work programme directly contributes to this.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report is not an executive function and is not subject to call in.

4.6 Risk Management

4.6.1 By the Committee being assured that effective controls are in place throughout the Council the work programme promotes the management of risk at the Council.

4.6.2 The work programme adopts a risk based approach to the significant governance arrangements of the Council.

5 Conclusions

5.1 The work programme of the Committee should be reviewed regularly and be updated appropriately in line with the risks currently facing the Council.

6 Recommendations

6.1 Members are requested to consider the draft work programme and provisional dates at Appendix 1 and determine whether any additional items need to be added to the work programme.

**CORPORATE GOVERNANCE AND AUDIT COMMITTEE
DRAFT WORK PROGRAMME**

25th June 2019		
Annual Decision Making Assurance Report	To receive an annual assurance report on the Council's decision making governance arrangements.	Andy Hodson Head of Governance and Scrutiny Support
Application Portfolio Programme and PSN Certification	To receive an update on progress in addressing Access database issues and the preparedness for PSN Certification.	Louise Whitworth Head of Information Governance
Internal Audit Update report	To receive the Internal Audit update report	Sonya McDonald Head of Audit
Annual Risk Management Report	To receive an annual assurance report on the Council's Risk Management arrangements.	Coral Main Head of Business Planning & Risk
Annual Report on employment policies and practices	To receive an annual assurance report on the Council's employment policies and practices arrangements.	Helen Fallows Senior HR Business Partner
Publication of Draft Statement of Accounts	To note the draft Statement of Accounts	Victoria Bradshaw Chief Officer (Financial Services)
The Draft Annual Governance Statement	To note and comment upon the draft Annual Governance Statement published with the draft Accounts	Andy Hodson Head of Governance and Scrutiny Support

26th July 2019

Internal Audit Report and Opinion	To receive the annual Internal Audit report and opinion	Sonya McDonald Head of Audit
External Audit Report and ISA 260 Report	To receive the annual report from the External Auditor to those charged with governance.	Victoria Bradshaw Chief Officer (Financial Services)
Final Draft Annual Governance Statement	To approve the final draft Annual Governance Statement	Andy Hodson Head of Governance and Scrutiny Support
Approval of the Leeds City Council Accounts	To approve the accounts	Victoria Bradshaw Chief Officer (Financial Services)

22nd November 2019

Annual Audit Letter 2018/19	To receive the Annual Audit letter from the External Auditor	Victoria Bradshaw Chief Officer (Financial Services)
Applications Portfolio Programme	To receive an update on the Access 2003 project	Louise Whitworth Head of Information Management and Governance
Customer Contact and Satisfaction Annual Report	To receive the annual assurance report concerning customer contact and satisfaction	Lee Hemsworth Chief Officer (Customer Access)
Internal Audit Update Report	To receive an update report on Internal Audit's work.	Sonya McDonald Head of Audit
Treasury Management Annual Report	To receive the annually Treasury Management Report providing assurance on the processes used by the department	Victoria Bradshaw Chief Officer (Financial Services)

27th January 2020		
Certification of Grant Claims and Returns	To receive a report from the External Auditor certifying grants and returns.	Victoria Bradshaw Chief Officer (Financial Services)
Applications Portfolio Programme	To receive an update on the outcome of the Access 2003 project	Louise Whitworth Head of Information Management and Governance
External Audit Plan	To receive a report from the External Auditor presenting the external audit plan for 2020/21	Victoria Bradshaw Chief Officer (Financial Services)
Customer Contact and Satisfaction Annual Report	To receive the annual assurance report concerning customer contact and satisfaction	Lee Hemsworth Chief Officer (Customer Access)
Annual Business Continuity Report	To receive the annual assurance report concerning the Council's Business Continuity arrangements.	Mariana Pexton (Chief Officer Strategy and Improvement)
Internal Audit Update Report	To receive an update report on Internal Audit's work.	Sonya McDonald Head of Audit

16 th March 2020			
Internal Audit Plan	To receive a report seeking views on the Internal Audit Plan for 2018/19	Sonya McDonald Head of Audit	
Internal Audit Update Report	To receive an update report on Internal Audit's work.	Sonya McDonald Head of Audit	
Annual Assurance Report on the Procurement, Policies and Practices	To receive the annual assurance report concerning Procurement, Policies and Practices	Victoria Bradshaw Chief Officer (Financial Services)	
Annual Management (Incorporating 2016/17)	Financial Report (Capital)	To receive the annual assurance report concerning Financial Planning and Management Arrangements at the Council	Victoria Bradshaw Chief Officer (Financial Services))
Treasury Management Annual Report	To receive the annually Treasury Management Report providing assurance on the processes used by the department	Victoria Bradshaw Chief Officer (Financial Services)	
Information Governance Annual Report	To receive an annual Assurance report on the Council's Information Governance arrangements.	Louise Whitworth, Head of Information Management and Governance	
Draft Annual Report of the Committee	To receive and approve a draft annual report from the committee for presentation by the Chair at Full Council	Andy Hodson Head of Governance and Scrutiny Support	

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