



Kelham Hall
Kelham
Newark
Nottinghamshire
NG23 5QX

www.newark-sherwooddc.gov.uk

AUDIT & ACCOUNTS COMMITTEE

Date of Meeting: Wednesday 9 September 2015
Time: 10am
Venue: G21, Kelham Hall

Telephone: 01636 655882
Email: helen.bayne@nsdc.info
Your ref:
Our ref:

Tuesday 1 September 2015

To: All Members of the Audit & Accounts Committee

You are hereby requested to attend the above Meeting to be held at the time/place on the date mentioned above for the purpose of transacting the business on the Agenda as under.

A W Muter
Chief Executive

AGENDA
9 SEPTEMBER 2015

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1. Apologies for Absence	
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14. Date of Next Meeting- Wednesday, 4 November 2015 at 10am	

Any questions relating to the agenda items should be submitted to David Dickinson- Director-Resources, at least 24 hours prior to the meeting in order that a full response can be provided.

Distribution

Councillors: B. Crowe
Mrs R. Crowe
Mrs M. Dobson
P. Handley
Mrs S.M. Michael (C)
D. Staples

Officers: D. Dickinson
N. Lovely
A. Hunt (Audit Lincs)
Lucy Pledge (Audit Lincs)
John Sketchley (Audit Lincs)
John Cornett (KPMG)
Helen Bayne (x2)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room G21, Kelham Hall on Wednesday, 24th June 2015 at 10:00am.

PRESENT: Councillor Mrs S.M. Michael (Chairman)

Councillors: G.P. Handley (part) and D. Staples

ALSO IN ATTENDANCE: David Dickinson (Director – Resources (NSDC))
Nicola Pickavance (Asst. Business Manager- Financial Services NSDC)
Tara Beesley (Accountant (NSDC))
Graeme Black (CIPFA Trainee (NSDC))
Amanda Hunt (Principal Auditor (Audit Lincolnshire))
John Sketchley (Audit Manager (Audit Lincolnshire))

1. APOLOGIES FOR ABSENCE

Apologies for absence were submitted by Councillors Mrs R. Crowe, R.A. Crowe and Mrs M. Dobson.

2. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS AND AS TO THE PARTY WHIP

NOTED: that no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

3. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

None

4. MINUTES OF MEETING HELD ON 8TH APRIL 2015

Minute No. 64 – Responses to Questions Raised at a Previous Meeting

It was acknowledged that the information previously requested to be considered by the Leisure & Environment Committee as to the percentage of household waste sent for reuse, recycling or composting across all Nottinghamshire Councils was due to be presented to the September 2015 meeting of the Committee.

AGREED that the Minutes of the meeting held on 8th April 2015 be approved as a correct record and signed by the Chairman.

5. REMIT OF AUDIT & ACCOUNTS COMMITTEE

The Committee considered the report presented by the Director – Resources in relation to the remit of the Committee.

AGREED that the remit of the Committee be noted.

6. TREASURY MANAGEMENT OUTTURN REPORT 2014/2015

The Committee considered the report presented by a Council Accountant in relation to the review of the Annual Treasury Outturn report, full details of which would be presented to the Council meeting on 21st July 2015.

Contained within the report was information on the current economic background; local context; borrowing strategy; investment activity; and compliance with prudential indicators. Members were informed that the figure of £22.9m noted in paragraph 3.1 as the underlying resources available for investment was incorrect and should be £43.2m. It was confirmed that this had been amended in the report to be presented to Council in July.

Paragraph 5.5 of the report referred to the remaining monies to be recovered from the Council's investment in the Glitnir Bank. It stated that Deutsche Bank had offered to purchase Icelandic Krona from all affected Councils at a discounted rate. Once finalised the Council would have recovered 96.75% of its original investment. In response to whether a final decision had been taken on this matter, the Director – Resources advised that discussions had been held with Group Leaders prior to the May 2015 Elections to advise them that this was the most appropriate course of action for the Council in order for them to recover their outstanding investment. The Director also informed the Committee that it was anticipated that the Icelandic Government would introduce additional legislation to halt any further removal of monies from the country.

Members commented that they were concerned that Arlingclose had not made reference to the balance of payment position in their economic and interest rate forecast. Members also noted that the final two sentences of Appendix C did not appear to make sense. Officers advised that they would raise the issues with Arlingclose.

AGREED that, subject to the amendment of the figure contained in paragraph 3.1 of the report, the Treasury Outturn position for 2014/2015 be noted and referred to Council for consideration and approval.

7. UNDERLYING PENSION ASSUMPTIONS FOR 2014/2015 STATEMENT OF ACCOUNTS

The Committee considered the report presented by the Assistant Business Manager – Financial Services in relation to the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 – Employee Benefits) figures that are to be reported in the 2014/2015 Statement of Accounts. The report set out both the financial and demographic assumptions and the impact in financial statements.

AGREED that the assumptions used in the calculation of pension figures for 2014/2015 be noted and approved.

8. INTERNAL AUDIT PROGRESS REPORT

The Committee considered the report presented by the Principal Auditor from Audit Lincolnshire in relation to the latest Internal Audit Progress Report up to May 2015 which provided a summary of Internal Audit work undertaken during 2015/2016

against the agreed audit plan.

AGREED that the latest internal audit progress report be noted.

9. ANNUAL INTERNAL AUDIT REPORT

The Committee considered the report presented by the Audit Manager from Audit Lincolnshire in relation to the Annual Internal Audit Report for 2014/2015. It was noted that the purpose of the report was to provide a summary of work undertaken during 2014/2015 to support the Annual Governance Statement by providing an opinion on the organisation's governance, risk management and internal control environment. Included within the Audit Report were: opinion on the overall adequacy and effectiveness of the organisation's governance, risk and internal control environment; disclosure of any qualifications to that opinion; summary of audit work undertaken; issues, if any, that are particularly relevant to the Annual Governance Statement; and commentary on compliance with standards.

Members were advised of an error in the report in Scope of Work, paragraph 18. The percentage of implemented recommendations was incorrect and should be amended to read 86%.

Members noted that the performance from previous years had improved.

In relation to the commentary on empty homes, Members queried whether monies had been returned to the HCA due to the Council being unable to identify sufficient empty homes to bring back into use. Officers advised that they would make enquiries and forward the information to Members.

Members commented that the current arrangements in relation to parking income failing to comply with Financial Procedure Rules was concerning. In response, they were advised that discussions had been held with ICT who had requested that Audit Lincolnshire check that the Council were properly compliant with procedure rules.

In relation to the delivery of the internal audit plan 2014/2015 and the period taken to complete audit within 2 months from fieldwork being scored at 59%, it was noted that this was below the target of 80%. Officers advised that procedures were to be reviewed and a more meaningful narrative report would be provided in future. It was acknowledged that the process undertaken was complex and that additional wording should be added to read "Period taken to complete audit within 2 months from fieldwork to draft report".

AGREED that:

- (a) the Annual Internal Audit Report 2014/2015 be noted; and
- (b) information be forwarded to Members as to whether any monies were repaid to HCA due to insufficient empty homes being available to be brought back into use.

Councillor G.P. Handley entered the meeting at this point.

10. PROPOSED TRAINING SESSION AND KNOWLEDGE & SKILLS AUDIT FOR MEMBERS OF THE AUDIT & ACCOUNTS COMMITTEE

The Committee considered the report presented by the CIPFA Trainee in relation to a proposed training session and skills questionnaire for Members of the Committee.

Members agreed that the training was important and that it would be beneficial for Members to undertake this again.

AGREED that:

(a) the date of the training session to be:

Tuesday, 25th August 2015 at 9.30am

(b) if available, Members be supplied with their previous Skills Questionnaire responses prior to completing the form for the current year.

11. WORK PLAN

AGREED that, subject to the amendment of the date of the 6th April 2016 meeting to 27th April 2016, the Work Plan be noted.

12. DATE OF NEXT MEETING

NOTED that the date of the next meeting was Wednesday, 9th September 2015 at 10:00 hours.

The meeting closed at 10.55pm

Chairman

EXTERNAL AUDITORS' ANNUAL GOVERNANCE REPORT

1.0 Purpose of Report

1.1 To present the External Auditors Annual Governance Report, this is attached at Appendix A.

2.0 Background Information

2.1 The external auditor issues an Annual Governance Report in compliance with the International Standards on Auditing. The significant findings from the audit are reported in the Annual Governance Report, together with the action taken in respect of these findings. The report then gives the auditor's opinion on the Statement of Accounts and the Value for Money conclusion.

3.0 Statement of Accounts

3.1 The Council's Statement of Accounts for 2014/15 is considered elsewhere on this agenda. At the time of writing this report, the external audit of the accounts is substantially complete.

3.2 The report confirms that the external auditor has issued an unqualified opinion of the 2014/15 Statement of Accounts.

3.3 The report asks the Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements included in the report;
- approve the letter of representation on behalf of the Council (Appendix 2).

4.0 Value for Money

4.1 The Annual Governance Report includes the external auditor's conclusion on whether the Council has satisfactory corporate arrangements in place for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money conclusion. The auditor considers whether the Council has proper arrangements for

- Securing financial resilience
- Challenging how it secures economy, efficiency and effectiveness

4.2 For each theme, the external auditor is satisfied that the Value for Money criterion has been met.

5.0 RECOMMENDATIONS that:-

- (a) **the Committee receives the External Auditors Annual Governance Report for 2014/15;**

- (b) the Committee notes the adjustments to the financial statements set out on page 4 of the report; and**
- (c) the letter of representation signed by the Director – Resources, be approved.**

Background Papers

Nil.

For further information please contact David Dickinson, Director of Resources on Ext 5300.

David Dickinson
Director - Resources



cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Newark and Sherwood District Council

September 2015

The contacts at KPMG in connection with this report are:

John Cornett

Engagement Lead
KPMG LLP (UK)

Tel: 0116 256 6064

john.cornett@kpmg.co.uk

Helen Brookes

Manager
KPMG LLP (UK)

Tel: 07919 228632

helen.brookes@kpmg.co.uk

Sundeep Gill

Assistant Manager
KPMG LLP (UK)

Tel: 07798 572337

sundeep.gill@kpmg.co.uk

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and
- our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Newark and Sherwood District Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- The work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in April 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July/August 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit identified a number of presentational and disclosure adjustments which were amended by the Authority. We also identified a number of errors in the compilation of the property, plant and equipment (PPE) notes and classification issues above our reporting threshold in the debtors and creditors notes. These errors are covered in more detail on page 4 and at appendix 2.
Key financial statements audit risks	<p>We identified the following key financial statements audit risks in our 2014/15 External Audit Plan issued in April 2015.</p> <ul style="list-style-type: none"> ▪ Management override of controls; and ▪ Fraudulent revenue recognition. <p>We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.</p>
Accounts production and audit process	<p>The Authority has good processes in place for the production of the accounts and satisfactory supporting working papers although there is scope for improvement, particularly in relation to capital accounting.</p> <p>. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ <i>Whole of Government Accounts</i> ■ <i>Finalisation of work on the VFM conclusion</i> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
VFM conclusion and risk areas	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.</p>

There are no uncorrected audit differences but a number of adjustments above our reporting threshold were identified during the course of the audit.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Accounts Committee.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities. The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1.4 million. Audit differences below £70k are not considered significant.

There are no uncorrected audit differences to report. The following adjustments above our reporting threshold were identified as a result of audit of the Authority's 2014/15 financial statements and these are also detailed at Appendix 2:

- a number of errors were found in the notes for property, plant and equipment (PPE) and we have recommended that the Authority reviews its processes for compiling these notes next year. The PPE errors included:
 - incorrect de-recognition of £2.2m for assets that were actually new buildings with no effect on the net book value as a compensating balancing figure had been included in the note
 - misclassification of £2.2m expenditure relating to new buildings as Council Dwellings additions rather than Asset Under Construction additions with no effect on the net book value
 - incorrect transfer of £1m of land for the new leisure centre from other land and buildings to assets under construction with no overall effect on the net book value
 - incorrect netting off of £231k non enhancing car park expenditure against revaluation which should have been shown as additions and derecognised
 - errors in agreeing the valuation of assets to the fixed asset register and other areas of the accounts.
- misclassification of £949k between headings in the creditors note and £373k increase in both debtors and creditors due to debtors being netted off the creditors balance in error
- misclassification of £973k between headings on the debtors note.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2014/15 ('the Code')*.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

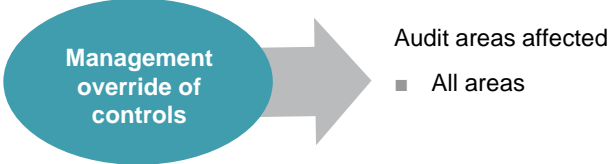
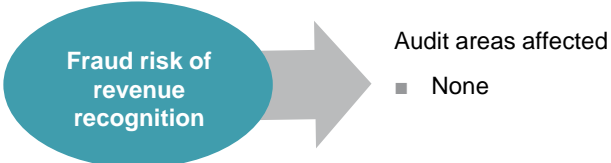
Section three

Financial Statements (continued)

Significant risks

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were management override of controls and the fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p>Management override of controls</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> All areas 	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Fraud risk of revenue recognition</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> None 	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Financial Statements (continued)

Accounts production and audit process

The Authority has good processes in place for the production of the accounts and satisfactory supporting working papers although there is scope for improvement, particularly in relation to capital accounting.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts by 30 June 2015. The Authority has made a number of presentational changes to the accounts presented for audit, however there have been no changes which affect the financial position.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued in March 2015, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> . However, there was scope for improvement in the quality of the working papers in relation to capital accounting due to the numerous errors identified. We have made a specific recommendation for improvement at Appendix 1 and the Authority will need to reduce the number and significance of the errors given the 25% reduction in audit fees next year.

Element	Commentary
Response to audit queries	Officers dealt efficiently with audit queries within a reasonable time.

Findings in respect of the control environment for key financial systems

There are no significant findings to report to you in respect of the control environment.

Prior year recommendations

As part of our audit we specifically follow up the Authority's progress in addressing the recommendations in last year's ISA 260 report. There was one recommendation relating to the authorisation of journals which required follow up work. We found that the Authority has implemented the recommendation detailed in our *ISA 260 Report 2013/14* and has introduced authorisation limits for journals for its staff.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Newark and Sherwood District Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Newark and Sherwood District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the S151 Officer for presentation to the Audit and Accounts Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's

professional judgment, are significant to the oversight of the financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

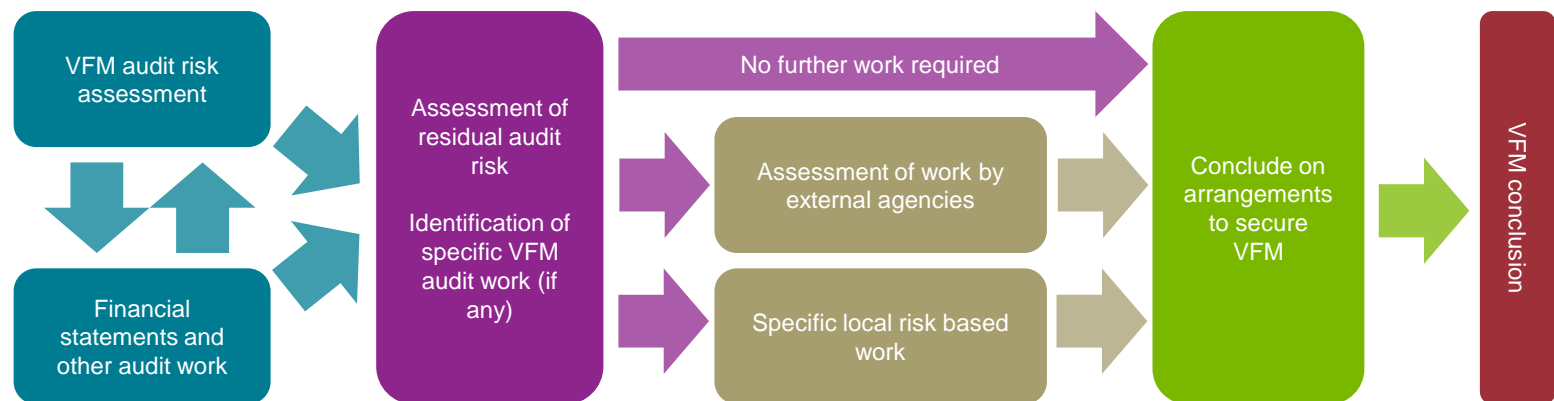
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Appendix 1: Key issues and recommendations

We have given the recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendation.

We will formally follow up this recommendation next year.

We have given the recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendation.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	There were a number of errors in the notes for property, plant and equipment which resulted in audit adjustments. We recommend that the Authority gives priority to reviewing the compilation of these notes for next year.	This recommendation has been agreed by management. Responsible officer: Assistant Business Manager Financial Services – Systems and Accounting Due date: December 2015

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Accounts Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

There are no uncorrected audit differences to report.

Corrected audit differences

Material misstatements

The following material misstatements have been corrected in the revised accounts:

- incorrect de-recognition of £2.2m for assets that were actually new buildings with no effect on the net book value as a compensating balancing figure had been included in the note.
- misclassification of £2.2m expenditure relating to new buildings as Council Dwellings additions than Asset Under Construction additions with no effect on the net book value

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them as follows:

- incorrect transfer of £1m of land for the new leisure centre from other land and buildings to assets under construction with no overall effect on the net book value
- incorrect netting off of £231k non enhancing car park expenditure against revaluation which should have been shown as additions and derecognised
- errors in agreeing the valuation of assets to the fixed asset register and other areas of the accounts.
- misclassification of £973k between headings on the debtors note
- misclassification of £949k between headings in the creditors note and £373k increase in both debtors and creditors due to debtors being netted off the creditors balance in error

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2014/15 ('the Code')*.

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Accounts Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Newark and Sherwood District Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Newark and Sherwood District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

For 2014/15 our materiality is £1.4m for the Authority's accounts.

We have reported all audit differences over £70k for the Authority's accounts to the Audit and Accounts Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in April 2015.

Materiality for the Authority's accounts was set at £1.4m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Accounts Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Accounts Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £70k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Accounts Committee to assist it in fulfilling its governance responsibilities.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

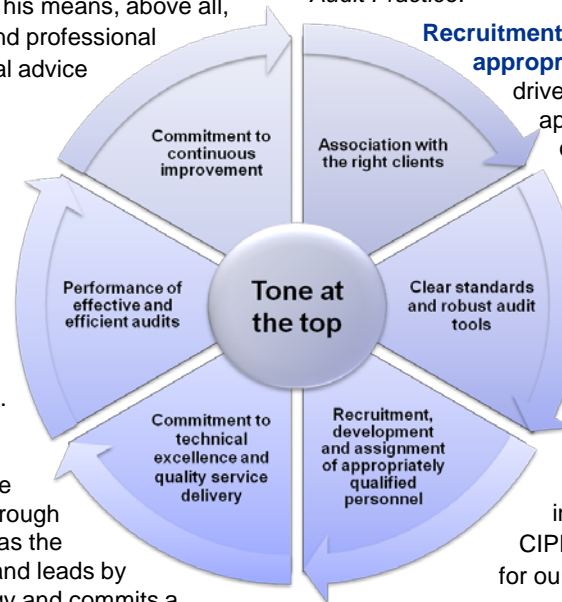
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. John Cornett as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel:

One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.



cutting through complexity™

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APPROVAL OF THE STATEMENT OF ACCOUNTS

1.0 Purpose of Report

- 1.1 To obtain approval of the Council's Statutory Accounts for 2014/15 by an appropriate Committee.

2.0 Background

- 2.1 In accordance with the Accounts and Audit Regulations 2011 there is a legal requirement that the Statement of Accounts for the Council receive approval by an appropriate Committee by the 30th September following the end of the financial year to which the Accounts relate. In accordance with the Council's Constitution, the Statement of Accounts is brought to this Committee for approval. A copy of the full accounts is sent separate to the agenda pack as Appendix A of this report. Any changes arising after the distribution of the agenda will be advised at the meeting. If these are significant they will be notified to Members as soon as they become apparent in order to allow Members to consider them prior to the meeting.
- 2.2 The statutory audit of the accounts has been substantially completed and no additional matters from those identified in the Auditor's report are expected to arise.

3.0 Approval of the Accounts

- 3.1 Although the regulations require the accounts to be approved by a resolution of a Committee it should be noted that approval in this context has, to some extent, a different meaning from other Committee resolutions. The Responsible Financial Officer (RFO) for the District Council, the Director of Resources, retains responsibility for the preparation of the annual accounts and is required to certify that they present a true and fair view of the financial position of the Council at 31st March 2015.
- 3.2 The aim of the Regulations is for Members to demonstrate ownership of the accounting statements. A training session was held on 25th August 2015 to aid Members' understanding of the statement and to address any initial comments. At the training session members asked for details of how the levels of reserves are determined. The annual Budget Strategy report contains an appendix which relates to General Fund reserves and is attached at Appendix C. The HRA Budget and Rent Setting report is attached at Appendix D. Paragraph 9.1 refers to the recommended HRA balance.
- 3.3 There is a statutory requirement for Newark and Sherwood Homes Ltd's Income and Expenditure Account and Balance Sheet for 2014/2015 to be combined with the District Council's accounts to produce Group accounts which also have to be approved by the 30th September. A deadline of 31st May was agreed with Newark and Sherwood Homes Ltd and their accounts were received by this date.

4.0 Changes made to the Statements

4.1 Changes have been made to the core statements following the external audit. There were a number of errors in relation to Property, Plant and Equipment, with two of these being classed as material. However these errors were in respect of property valuation and classification and do not impact on the Council's surplus for the year.

4.2 Housing Revenue Account (pages 70 and 71)

In 2014/2015 the Council incurred £2.2m expenditure on the building of new council houses at Bilsthorpe. This expenditure was incorrectly included in the accounts as expenditure on Council Dwellings as opposed to Assets Under Construction.

The new build scheme was actually completed during 2014/2015 and as a consequence the new properties were revalued as at 31st March 2015 in line with all other council houses. Because the expenditure had been incorrectly classified in the first place the accounting treatment for the revaluation of the new build was also incorrect.

In addition £231k expenditure on housing scheme car parks was incorrectly charged to Council Dwellings instead of to Other Land and Buildings.

Within the Housing Revenue Account (page 70) the corrections reduced the amount charged to Gain/Loss on sale of HRA non-current assets and increased the Impairment of non-current assets (dwellings) by a matching amount.

Within the Movement in Housing Revenue Account Statement (page 71) corresponding adjustments were made to the Gain/Loss on disposal of HRA non-current assets and the Transfer to/from Capital Adjustment Account.

4.3 Movement in Reserves Statement (page 11)

The corrections to the Housing Revenue Account have fed through into the Movement in Reserves Statements Housing Revenue Account column. The Depreciation and Impairment of non-current assets line and the Net gain/loss on sale of non-current assets line have been amended. Due to the nature of the correction neither the General Fund Balance of £2,939k nor the Housing Revenue Account Balance of £2m have been altered,

4.4 Comprehensive Income and Expenditure Statement (page 13)

The corrections to the Housing Revenue Account have fed through into the Comprehensive Income and Expenditure Statement, adjusting the Housing Revenue Account line in Continuing Operations and the Other Operating Expenditure line. Due to the nature of the correction the Total Comprehensive Income and Expenditure figure of (£2,880k) has not been altered.

4.5 Balance Sheet (page 14)

As part of the Non Domestic Rate Collection Fund closedown a debtor was calculated in respect of cash overdrawn for Central Government and Precepting Authorities. This

amount was incorrectly netted off against the Creditors figure, hence understating both the Short Term Debtor and Short Term Creditor figure by £373k. These adjustments have been made and have had no impact on the Council's Net Assets on the Balance Sheet.

4.6 Notes to the Accounts (pages 17-69)

Where appropriate the notes supporting the amended figures described above have been updated.

In addition a number of presentational changes were identified by auditors. The statement has been updated with these changes to ensure compliance with accounting regulations.

4.7 Group Consolidated Accounts (pages 79-82)

The Group statements have been updated to incorporate the changes described above.

5.0 Future Considerations

5.1 In June 2015 the Council's leisure services transferred to Active4Today Ltd, an independent company, similar to Newark and Sherwood Homes Ltd, wholly owned by the Council. The Council already prepares group accounts and for 2015/2016 it will be required to consolidate Active4Today's accounts in a similar manner. The Group accounts will, therefore, have increased importance in the public's understanding of the Council's operations.

5.2 The Accounts and Audit Regulations 2015 came into effect on 1st April 2015. A new requirement for local authorities to produce the financial statements by 31st May and to publish the approved, audited statements by 31st July will have a significant impact on the year end processes, not least where it involves consolidation with two external bodies. Transitional provisions for the financial years 2015/2016 and 2016/2017 will allow existing deadline to be maintained, however, a fundamental review and streamlining of the year end closedown process will be necessary to ensure the Council is in a position to meet the new requirements.

6.0 Annual Governance Statement

The Annual Governance Statement has been reviewed and updated for 2014/2015 and is included on pages 91-93 of the Statement of Accounts. It is reproduced at Appendix B for ease of reference. Members are asked to approve the Annual Governance Statement.

7.0 RECOMMENDATIONS that:

(a) Members approve the Annual Governance Statement for the financial year ended 31st March 2015

(b) Members approve the Statement of Accounts for the financial year ended 31st March 2015

Background Papers

Nil

For further information contact David Dickinson on extension 5300 or Nicola Pickavance, Assistant Business Manager Financial Services on extension 5326.

D Dickinson
Director of Resources

ANNUAL GOVERNANCE STATEMENT**1 Scope of responsibility**

Newark and Sherwood District Council is responsible for ensuring that the Authority's own and, with the addition of Newark and Sherwood Homes, its Group business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newark and Sherwood District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Newark and Sherwood District Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

2 The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Newark and Sherwood District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Newark and Sherwood District Council for the year ended 31 March 2015. Since May 2013 the Council has operated new Governance arrangements through the introduction of a Committee system and approved a new Constitution which is in place at the date of approval of the statement of accounts.

3 The governance framework

The key elements of the District Council's governance framework are as follows:

The District Council has adopted a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is subject to periodic change either through national legislation or local decision and the Governance Framework may be amended accordingly. Within the Constitution, the Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The Annual

Governance Statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009.

The Council's strategic priorities are: Prosperity; People; Place; and Public Service. The delivery of these priorities will be conducted in accordance with the Governance framework.

During 2014/15 the Council facilitated policy and decision-making through a Committee system. Meetings are open to the public except where exempt or confidential matters are being disclosed. In addition, senior officers of the council can make decisions under delegated authority.

The District Council has a cross-departmental Risk Management Group that meets regularly to identify and evaluate all significant risks. A Risk Register is in place and appropriate staff have been trained in the assessment, management and monitoring of risks.

Through reviews by external auditors, external agencies, Internal Audit, and its Performance Team the District Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Services are delivered by trained and experienced people. All posts have a detailed job description and person specification. Training needs are identified through the Performance Appraisal Scheme.

The Council has appointed the Deputy Chief Executive as Monitoring Officer. It is the function of the Monitoring officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration.

The Council has a Standards Committee which promotes and maintains high standards of conduct by members and has also appointed a Designated Independent Person. The standards of behaviour for members and employees are defined through codes of conduct and a code of corporate governance. The Council also has an Anti-Fraud and Corruption Strategy and a Whistleblowing Policy that enables concerns to be raised confidentially by employees or persons doing business with the Council. A complaints system is also operated by the Council to enable comments on services to be received and investigated.

The Council has appointed the Director of Resources as the section 151 (s151) Officer. The s151 Officer is responsible for the proper administration of the Council's financial affairs including maintenance of financial records, presentation of statutory accounts and budgets, provision of effective internal audit and financial advice to Council. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

The Council communicates with the community and its stakeholders by means of a periodic publication, "Voice", through its website and through social media and by specific consultation.

4 Review of effectiveness

Newark and Sherwood District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. Business managers provide assurance to the s151 officer that service areas are compliant with the Council's governance arrangements.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

The Deputy Chief Executive (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution through a dedicated working party comprising, inter alia, all the group leaders, on a regular basis, and has formed a Councillors' Commission to consider any changes resulting from recent legislation.

During 2014/15 the overview and scrutiny function was undertaken through Committees with overview & scrutiny principles being embedded in the remits of the Policy and Finance Committee and the three functional committees as well as the Audit and Accounts Committee

Internal Audit is responsible for reviewing the quality and effectiveness of systems of internal control. An annual audit plan is approved by the Director of Resources and reported to the Audit and Accounts Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Chief Officer and Business Manager. The report includes recommendations for improvements that are included within an action plan and require agreement or rejection by service managers. The Audit and Accounts Committee receives executive summaries of all internal audit reports and is advised of progress in implementing recommendations. Internal Audit reports are considered by the Council's Corporate Management Team.

The Internal Audit Section is subject to regular inspection by the Council's external auditors who place reliance on the work carried out by the section. It should be noted that the internal audit function is carried out by Audit Lincolnshire.

Risk management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed.

5 Significant governance issues

Issue	Action	Responsible Officer
<p>Relocation of Council Headquarters The Council has taken a decision to relocate its headquarters. Kelham Hall has been sold (subject to contract) and a new site identified. It is planned that the relocation will take place in 2017.</p>	<p>The Council has set aside dedicated resources to deliver this programme of change. Necessary sub-projects have been identified and include organisational change as well as physical relocation. External expertise has been identified and procured where necessary. A project Board is in place consisting of all CMT members. A separate risk log has been developed and will be maintained for this programme of work.</p>	<p>Corporate Management Team with M. Finch, Director - Customers assigned as lead officer</p>
<p>Organisational Change In common with all local authorities, the Council will need to continue to make significant changes to its budget to meet changing financial circumstances as a result of the national economic position.</p>	<p>The Council has a change programme led by the Chief Executive and involving all senior officers and Members. This has delivered significant savings and improvements. A budget strategy is in place to deliver savings over the period of the Medium Term Financial Plan.</p>	<p>A. Muter Chief Executive</p>
<p>Management of leisure services</p>	<p>The management of leisure services has been passed to a Council owned company with effect from June 2015. The Council continues to be responsible for the specification of Leisure Services and this will be negotiated annually between the Council and the Company.</p>	<p>M. Finch Director - Customers</p>
<p>Collaboration Agreement The Council has entered a collaboration agreement with Gedling Borough Council and Rushcliffe Borough Council</p>	<p>The collaboration arrangement will consider projects that provide both financial savings and resilience across the three councils. There are regular meetings of the three senior management teams, and a member of CMT leads on projects relating to specific service areas</p>	<p>A, Muter Chief Executive</p>

<p>Major Projects</p> <p>The Council has a number of major capital projects underway and planned. It is important to ensure the necessary skills and capacity is in place to deal with these projects.</p> <p>Specific Projects are:</p> <ul style="list-style-type: none"> • New Leisure Centre • New Office Headquarters 	<p>Major projects have individual governance arrangements in place with specific project groups set up for each project.</p>	<p>Corporate Management Team.</p> <p>A specific member of CMT is designated lead officer for each project:</p> <p>M. Finch M. Finch Director – Customers</p>
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We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for proper governance arrangements to be in place. We will undertake ongoing monitoring of the implementation of any improvements that were identified in our review of effectiveness and as part of our next annual review.

Signed

A. Muter
Chief Executive
September 2015

R.V. Blaney
Leader of the Council
September 2015

COUNCIL'S ANNUAL BUDGET 2016-17 – OVERALL STRATEGY

1.0 Purpose of Report

- 1.1 To introduce the Annual Budget Strategy for consideration by Members before detailed work commences.

2.0 Introduction

- 2.1 The Council's Constitution sets out the process for developing the Council's Annual Budget.

- 2.2 The process requires that the Council's Section 151 Officer (the Director – Resources) presents a report on the overall budget strategy to the Policy and Finance Committee. This report is to cover such considerations as:

- (i) the form of budget presentation
- (ii) levels of inflation for pay and prices
- (iii) average level for increases in fees and charges.

- 2.3 The Policy and Finance Committee is then required to consider the report of the Director – Resources and to approve the budget strategy for the forthcoming financial year.

- 2.4 The report also considers the financial policies previously approved by Cabinet.

3.0 2015/16 Revenue Budget Update

- 3.1 In setting the Revenue Budget for 2015/16, Members agreed a budget strategy to deliver savings through the following:

- Collaboration with other authorities
- Devolution to town and parish Councils
- Alternative management arrangements, such as trusts and local authority companies
- A more efficient asset base (primarily by relocating to more efficient offices)

These savings are in the process of being achieved and the budget for 2015/16 remains a robust estimate. Some of the savings delivered through these strategies will be delivered over more than one financial year and so will contribute to delivering the revenue budget in future years.

- 3.2 When the Council's Medium Term Financial Plan was approved in March 2015, the Plan identified the latest estimate of the budget for the current year and the following 4 financial years. The savings total £2.6m over 4 years, with more than £1.5m needing to be found in 2016/17. These savings are based on estimates of Government Grant and retained business rates as explained further later in the report. The savings required are shown in the table below:

	Estimate 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Savings Level	1,521,740	144,620	381,600	891,880
Cumulative	1,521,740	1,377,120	1,758,720	2,650,600

3.3 These savings then need to be adjusted by subsequent events and plans and these are explained in section 4.3, below.

4.0 Budget Proposals

4.1 Budget Presentation

4.1.1 The budget process will result in setting the budget and the Council Tax for 2016/17, together with the Medium Term Financial Plan covering the following 4 years. The annual revenue budget, medium term financial plan and the level of Council Tax for 2016/17 will be approved by Council at its meeting on 10th March 2016.

4.2 Financial Policies

4.2.1 The Council has agreed policies on Budgeting and Council Tax, Reserves and Provisions, Value for Money and also a set of Budget Principles which set out the approach to be taken to the budget process. These policies were reviewed by the Policy and Finance Committee in September 2014. The policies and principles have been reviewed and updated where necessary and are attached as **Appendices A(i) to A(vi)**.

4.3 Financial Environment and Current Position

4.3.1 Following the General Election in May 2015, the Government announced an emergency budget in July. This will be followed by a Comprehensive Spending Review, the results of which will be announced at the end of November. It is anticipated that the draft Local Government Finance Settlement will be announced in late December 2015. Although figures have not been announced for Government Grant for future years, the Chancellor has stated that local authorities can expect the same trajectory of cuts to Government Grants to be continued and this has been assumed in the Council's Medium Term Financial Plan (MTFP).

4.3.2 Until the draft Local Government Finance Settlement is announced in December, all figures for Government Grant are based on internal estimates. Reductions in Government grant are expected to continue. The current estimates remain unchanged from the approved Medium Term Financial Plan and are:

	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Formula Grant	2,623,630	1,641,110	1,229,100	808,870	381,720

It can be seen that a reduction in grant of approximately £1m is anticipated for the next financial year. Furthermore, by the end of the life of this Council, it is anticipated that Government Grant will have substantially disappeared. However, it must be stressed that

the level of Government Grant for 2016/17 will not be known until December 2015 at the earliest. At that point, it is hoped that indicative figures for future years will also be announced.

- 4.3.3 Members will be aware that the business rates retention scheme was introduced in April 2013. Councils are able to keep a proportion of the business rates revenue as well as a proportion of the growth that is generated in their area. The estimated amounts for retained business rates, excluding growth in the area, are shown in the table below:

	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
Retained Business Rates	3,337,990	3,433,320	3,502,000	3,572,030	3,641,980

It can be seen that the retained business rates increases each year due to inflation and this will benefit the District Council by £95,330 in 2016/17.

- 4.3.4 Retained Business Rates Growth is now a key component of the Council's annual revenue budget. In the budget for 2015/16, income of £620,000 has been included for Business Rates Growth, and it is anticipated that this will increase to £900,000 for each subsequent year. In addition, the Council will receive approximately £400,000 per year from central Government to compensate for changes to the business rates regime announced in the Chancellor's Autumn Statement in December 2014.
- 4.3.5 Members will be aware that the level of Council Tax has now been frozen for a number of years. At this stage, it is not known whether or not the Government will continue to allocate a Council Tax freeze grant to those Councils that freeze their Council Tax in 2016/17. Furthermore, the rules on Council Tax increases and the referendum limit are unlikely to be announced until early 2016.
- 4.3.6 The position with regard to general inflation remains complex. The latest (July 2015) CPI figure for inflation shows an annual increase of 0.1%. The Bank of England forecast is for CPI inflation to remain below 2% by the end of 2016/17.
- 4.3.7 One of the major areas of the budget affected by inflation is the cost of salaries and wages. In the Chancellor's summer budget in July 2015, it was announced that public sector pay increases would be restricted to 1% per annum for the next 4 years. The medium term financial plan already included a 1% increase for pay, increments and other salary costs for each financial year. It should be noted, however, that the budget also announced an intention to introduce a National Living Wage. This will impact on the Council's budget and it will be necessary to assess the position on this as further details are announced.

5.0 **Budgetary Pressures**

- 5.1 There will undoubtedly be budget pressures in certain areas of the budget that will lead to unavoidable increases in the budget in specific areas. The Council's budget has become more reliant on income and so may on occasions be vulnerable to reductions in the level of income, and would also potentially be vulnerable to a rise in inflation or interest rates.

5.2 The Council will also have to consider demand management in areas such as homelessness, community safety and supporting people and potentially in the following areas where budget pressures are likely to arise:

- Welfare reform
- Increased planning applications, which potentially provide increased income but also an increased workload
- Increased house building in the District gives pressure on services such as refuse collection
- Family Information Project and Anti-Social Behaviour as funding streams decline

5.3 Although there has been a clear focus on the need to deliver savings, the Council has also set priorities to develop services in certain areas. This has been through a combination of the development of facilities and assets, and identifying funds for the delivery of specific policies.

5.4 With respect to assets, the Council has developed a National Civil War Centre, is in the process of building a new Leisure Centre in Newark and is progressing the decision to move its headquarters from Kelham Hall. These are included in the Medium Term Financial Plan and all will be provided at no additional cost to council tax payers. Efficiencies in the running costs of these assets against the current asset base have been identified that will support budgets in future years.

5.5 In the March 2013 Budget, the government announced that a flat rate state pension will be introduced from April 2016. This will mean an end to employees in local government pension schemes being able to "opt out" of the state second pension and an end to the 3.4% rebate in National Insurance contributions that public sector employers currently benefit from for those employees that have opted out. This will cost the Council approximately £230,000 per year from 2016/17. This has already been included in the Medium Term Financial Plan.

6.0 **Budget Strategy**

6.1 Whilst there is always a need to improve efficiency and review existing budgets, the Council's budget gap is significant and should principally be addressed through strategic measures. A number of strategies were considered and approved for the 2015/16 budget as set out in 3.1 above. The current estimate for savings in these areas is:

	2015/16 BASE BUDGET £	2016/17 BASE BUDGET £	2017/18 BASE BUDGET £	2018/19 BASE BUDGET £	2019/20 BASE BUDGET £
Leisure Commissioning	(250,000)	(380,000)	(400,000)	(400,000)	(400,000)
Devolution & Service redesign	(260,000)	(260,000)	(260,000)	(260,000)	(260,000)
Accommodation move	0	0	(395,000)	(500,000)	(510,000)
Collaboration	(50,000)	(100,000)	(100,000)	(100,000)	(100,000)
Total	(560,000)	(740,000)	(1,155,000)	(1,260,000)	(1,270,000)

- 6.2 Each of these areas will make a significant contribution to the savings required. It is considered that these will remain central planks of the development of the budget for 2016/17 and future years. It can be seen that the savings from these strategic areas will increase over the period of the Medium Term Financial Plan.
- 6.3 With regard to collaboration with other authorities, at this stage a general savings provision has been included. This is supported by work currently being undertaken on Building Control, Sports and Arts Development, Environmental Health and Planning Administration.
- 6.4 Each year an efficiency review is undertaken to consider the potential for budget savings and for additional income to be incorporated into the budget. This review identifies sustainable savings that can continue to be delivered in future years. For 2015/16 savings of £360,000 were identified and are in the process of being delivered for 2016/17 further savings of £641,000 have been identified. These include an increased vacancy provision based on recent experience, deletion of vacant posts, such as that achieved through the merger of the Policy and Performance Business Units, savings on contracts and increased income.
- 6.5 Capital financing is regularly reviewed to ensure that borrowing is not undertaken unless it is necessary. The latest review has shown that no borrowing is necessary for the current approved capital programme. This includes the new Leisure Centre, the relocation of the Council's headquarters and the vehicle replacement programme. This reduces the capital financing budget (which shows the revenue impact of borrowing) by approximately £500k in 2016/17 and by a similar amount in future years.
- 6.6 The additional savings since the Medium Term Financial Plan was approved in March 2015 are summarised in the table below. The improvements in the Council Tax Base would also provide an effective increase in resources for the Council in addition to these savings.

Savings additional to the approved MTFP

	2016/17 BASE BUDGET £	2017/18 BASE BUDGET £	2018/19 BASE BUDGET £	2019/20 BASE BUDGET £
Business Rates Growth	100,000	100,000	100,000	100,000
Grant in lieu of Business Rates Growth	400,000	400,000	400,000	400,000
Efficiency Review	641,000	641,000	641,000	641,000
Capital Financing	497,140	538,920	630,470	1,044,610
Total	1,638,140	1,679,920	1,771,470	2,185,610

Savings per MTFP	1,521,740	1,377,120	1,758,720	2,650,600
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- 6.7 It can be seen from this that the additional savings, together with the approved budget strategy, will deliver sufficient savings to develop a balanced budget, provided that individual budgets are prepared on the basis that they do not exceed the levels approved

in the Medium Term Financial Plan as adjusted by the savings detailed in this report. Budget Officers have been instructed to prepare their budgets on this basis.

6.8 Members are asked to approve the budget strategy as set out in this report.

7.0 Risks in preparation of the budget

7.1 Although the budget strategy will deliver a balanced budget on the basis of information known at the moment, there are risks that may cause expenditure to increase or income to reduce. Consequently income and expenditure levels will be kept under review throughout the budget process.

7.2 It is essential to ensure that the strategic budget savings are delivered as this is key to ensuring that the Council has a balanced budget. These savings will be kept under review throughout the budget process to ensure that they continue to be achieved.

7.3 Looking further ahead, there is due to be a Business Rate revaluation effective from 2017. The Department for Communities and Local Government has indicated that they will seek to ensure that individual authorities are not adversely affected by this, but there is a risk that successful appeals by Business Rate Payers will reduce both the Business Rate Baseline and the potential from growth.

7.4 The Business Rates system will then be “Re-set” in 2020. At present, it is not known what form this will take and, in particular, whether individual local authorities will continue to benefit from the growth achieved since the localisation of business rates was introduced.

8.0 Timetable

The Budget Timetable is dictated by the corporate timetable for Policy & Finance and operational Committees. The essential deadline is that the Council is able to set the level of Council Tax for 2016/2017 at its meeting on 10th March 2016. Working back from this date a timetable has been drawn up and is attached at **Appendix B**. This timetable enables sufficient time for the budget proposals to be considered by operational Committees and Policy & Finance Committee and also sufficient time for the work to be completed within the Financial Services and other Business Units.

9.0 Basis of Budget Preparation

9.1 As in previous years, figures for salaries and wages will be built up from the detailed base position, taking into account the numbers and salary of each employee per service. It is assumed within the Service Area budgets that the Council will employ 100% of the establishment throughout the year with the exception of known unfilled vacancies where salaries are budgeted to commence on the anticipated starting date, etc.

9.2 No allowance is made within Service Budgets for vacancies occurring during the year. Although there will inevitably be vacancies during the year, it is not known in which Business Units these will occur and so it is proposed to make an overall provision of £100,000 for vacancies in the overall budget and Business Units are expected to find the advertising costs for replacement staff within the overall staffing budget.

9.3 Other expenditure will be built up from the detailed working papers and will take account of previous expenditure levels and any known fluctuations or abnormal items of

expenditure. The full year effect of 2015/16 savings will be built into the budgets for 2016/17.

10.0 Provision for Inflation etc

- 10.1 In line with Government policy, it is proposed to make a provision for a 1% increase in the budget for pay for each year in the Council's Medium Term Financial Plan to include pay, increments and all other salary costs.

General Inflation:

As stated above, the latest CPI figure for inflation shows an annual increase of 0.1% (July 2015). Most forecasts show this measure of inflation remaining below the Government inflation target of 2% in the medium term. It is necessary to remember that the forthcoming budget must look ahead at least 18 months to 31st March 2017.

In order to achieve a balanced budget it is necessary to limit budgets at or below their current level therefore any inflation built into budgets will have to be met by savings elsewhere.

- 10.2 The average rate of interest used to calculate the basis for the Treasury Management budget is based on the average for all external loans currently held by the Council. Members will be aware that the majority of these loans are taken out with either the Public Works Loans Board (PWLB) or UK Banks and are fixed rate loans.

During the period of the MTFP loans will mature and will have to be replaced. This may offer opportunities to reduce the debt rate if they can be replaced with loans at a lower interest rate.

Looking at the debt profile of the Council and likely level of borrowing and repayment, the average interest rate on external debt is 4.3% and it is intended to use this in the initial budget calculations.

The average rate of interest on external debt continues to be reviewed throughout the budget process and the above rate may be varied to ensure that the most accurate interest rate possible is included in the final budget.

As stated above, the current approved capital programme can be financed without the need for any new borrowing. However, for any new schemes this will not necessarily be the case and it will be necessary to assess the extent to which new borrowing may be required.

Unlike many local authorities, the Council has not yet used any of the New Homes Bonus (NHB) to support the revenue budget. The first 2 years of NHB have been allocated to the Think BIG fund, with a further allocation to capital funding. There remains scope for further use of NHB to fund of capital schemes to reduce the revenue impact of borrowing costs.

Should there need to be any new external borrowing for General Fund related projects this will be on the basis of prudential borrowing and the cost will depend on the prevailing rates at the time the funding is needed. Any cost of borrowing will need to be included in the Council's revenue budget.

10.3 Debt Charges:

Debt charges are based on the existing debt of the Council plus new debt to be incurred to finance the approved capital programme if required, and is calculated in accordance with the prudential system of local government capital finance. However, Local Authorities do not in general now receive supported borrowing from Central Government. Consequently, it is unlikely that significant amounts of new borrowing can be supported from the revenue budget in future years without impacting on Council Tax levels.

10.4 Employer's Pension Contributions:

The latest 3 yearly actuarial review of the Pension Fund was as at the 31st March 2013. At this valuation the contributions were certified as an employer contribution due as a percentage of salary plus a minimum contribution due as a monetary amount, payable in addition to the percentage rate. The percentage rate covers future service only and the monetary amount is to cover historic deficits. Based on the actuary's report, the employer's rate of contribution into the fund is set at 12.5% for the period 2014/15 – 2016/17. The monetary sums payable are £946k (2014/15), £1,065k (2015/16) and £1,189k (2016/17). The next three year actuarial review will be carried out as at 31st March 2016 and will come into effect on 1st April 2017.

11.0 Increases in Fees and Charges

11.1 Members will be aware that a review of charges is considered as part of the budget process each year. With this in mind it is proposed that a **guideline** figure for increases to fees and charges should be set at a minimum of 2% for each year of the medium term financial plan. In preparing income budgets officers should have regard to this guidance and the level of CPI at the time the charges are set. Each type of income should be considered on its own merits and there should be comparative assessment with other local authorities and service providers in the area before final approval of fees and charges by Council. It is important for income levels to be considered **net** of VAT where appropriate, ie to consider the level of income ultimately received by the Council.

11.2 Fees and charges are approved by Council as part of the Council Tax setting report in March each year and implemented with effect from April.

11.3 A Corporate Charging Policy is attached at **Appendix A(iv)** and budget officers should also have regard to this guidance when considering the level of fees and charges.

12.0 Consultation

12.1 As in previous years, consultation on the budget will take place with the public and, as statutorily required, with the Commercial Ratepayers.

12.2 The operational committees will have the opportunity during the budget process to make suggestions to Policy and Finance Committee prior to final budget approval by the Council.

13.0 Capital Programme 2016 - 2021

13.1 Prioritisation General Fund Schemes

- (a) The Council has a significant capital programme with the potential further development of the National Civil War Centre, the new Leisure Centre and the office relocation. For any new proposals, it will be necessary to assess the level of available resources particularly where there are significant revenue implications.
- (b) Any new scheme will initially be commissioned by the Corporate Management Team. It will then be assessed against the prioritisation criteria (see **Appendix D**). Based on this assessment a report will be prepared for submission to Policy and Finance Committee in December before final approval by Council.
- (c) Council will consider all schemes and either: a) allocate resources to enable a scheme to be carried out; b) place it on the uncommitted list pending identification of resources; or c) reject it.

13.2 Prioritisation for the Housing Revenue Account

The investment programme is delivered by Newark and Sherwood Homes (NSH). The current programme reflects the latest available information agreed by NSH with the Council's Strategic Housing team. Resources for future years will reflect the ability of the Housing Revenue Account to support any necessary borrowing under the new self-financing regime which commenced on the 1st April 2012, based on the best assessment of available resources. Consideration will be given to the opportunities to build new housing under the 1-4-1 Right to Buy initiative and the possibility of bidding to increase the borrowing cap should that opportunity still be available after the current bidding round. The Strategic Housing Liaison Panel is currently reviewing the programme required to maintain the existing stock and deliver new affordable housing. It will be important to include consideration of the announcements in the summer budget relating to housing rents and sale of high value properties.

14.0 Conclusion

- 14.1 The strategic approach to the budget introduced last year and developed in this report, reduces the need for savings to be delivered on individual budgets. Nevertheless, it is important for managers to continue to scrutinise budgets to ensure that services are delivered as efficiently as possible.
- 14.2 In light of this, Members should therefore consider a budget for 2016/17 and indicative budgets for the period of the Medium Term Financial Plan.

15.0 RECOMMENDATIONS that:

- (a) the overall budget strategy be approved; and**
- (b) budget officers continue work on the assessment of various budget proposals affecting services for consideration in setting the Council's budget.**

Reason for Recommendations

To enable the Council's budget process to proceed encompassing agreed inflation and salaries and wages rates for 2016/17 to 2020/21.

Background Papers

Nil.

For further information please contact David Dickinson on extension 5300, Nicola Lovely on extension 5317 or Amanda Wasilewski on extension 5331.

David Dickinson
Director – Resources

Policy on Budgeting and Council Tax**Introduction**

Each year the Council is required to set a Council Tax in accordance with the provisions of the Local Government Finance Act 1992. It is a requirement of the Act that the Council Tax must be set by 11th March each year.

The Council sets its Annual Revenue Budget in March each year in accordance with the provisions of the Budget Process, which forms part of the Council's Constitution.

The District Council is also responsible for collecting the Council Tax requirement (precepts) for Nottinghamshire County Council, Nottinghamshire Police & Crime Commissioner and Nottinghamshire Fire and Rescue Service and any precepts set by the Parish and Town Councils or Parish meetings within the District. All of these Councils are required to notify the District Council of their requirements before 1st March.

The District Council has no control over the level of Council Tax or precept set by the precepting bodies. This policy covers the District Council element of the Council Tax only. Nevertheless, it is recognised that public perception is influenced by the overall level of Council Tax and it can be difficult to appreciate that the requirements of the District Council form only a part of this. In fact, the District Council's spending requirements account for less than 10% of the total Council Tax bill.

The Government has powers to require local authorities setting "excessive Council Tax increases" to hold a local referendum on the level of Council Tax. The level of excessiveness is set at 2% but may be different in subsequent years.

The District Council's spending requirement includes an amount levied upon it by other bodies. For this Council an annual levy is made by the Trent Valley and Upper Witham Internal Drainage Boards. Since 2014/15, if the levies set by the drainage boards cause the Council to have an excessive increase in Council Tax this would trigger a local referendum.

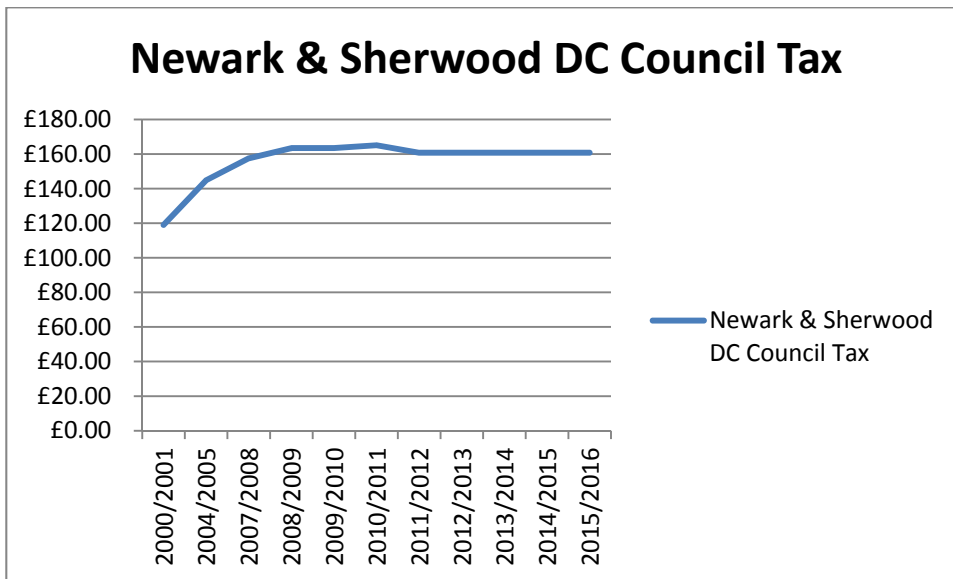
Current Level of District Council Tax

The District Council's level of Council Tax for 2015/2016 is £160.73 for a Band D property. This represents a council tax freeze on 2014/2015. The total bill, including all precepts, is £1,650.71 plus average Parish Precepts of £67.65.

In 2015/2016, the level of Council Tax set by Newark and Sherwood District Council ranks 91st lowest out of 201 District Councils, i.e. 90 District Councils have a lower level of Council Tax and 111 have a higher level.

Trends Over Time

Over time, the Council has had a policy of Council Tax keeping the level of Council Tax to a minimum. The level of Council Tax for the Council is shown in the chart below:



Consultation

Newark and Sherwood District Council believes in the value of wide consultation on its budget proposals. As such, the Council will consult where there are financial decisions of public interest prior to setting the level of Council Tax. The Council will have regard to the results of any consultation. Consultation may include the following:

- Public
- Parish Councils
- Commercial Ratepayers
- Local Strategic Partnership
- Budget Working Parties
- Committees

Proposals

The absolute level of Council Tax, and any annual increase, will depend on the demands facing the District Council, external funding available, and the Council's assessment of the appropriate level of Council Tax. Whilst these factors will vary from year to year, the following criteria will be taken into account when considering the level of Council Tax:

- The Aims and Priorities of the Council
- Inflation
- Consultation Responses
- The level of Council Tax considered to be acceptable to the public
- Government views on grant levels and referendum criteria
- Service demands

Newark and Sherwood District Council aims to set the minimum level of Council Tax consistent with the achievement of its Aim and Priorities and other financial and service demands.

General Fund Balances and Reserves Policy

The Local Government Act 2003 requires all Councils to maintain adequate balances, reserves and provisions to help ensure that their activities are sustainable. This policy covers General Fund Balances and separate policies cover reserves and provisions and Housing Revenue Account balances.

The Council holds General Fund balances to ensure that it has sufficient funds to manage its day to day finances and to enable the Council's financial position to remain secure in the event of unforeseen circumstances.

In 1990, the Council determined that the Council should have a minimum level of General Fund balances of £2million. The current target level of balances agreed in 2013 is £2.9m (£2.2m general balance and £700k earmarked for any variations in the cost of the Council Tax Support Scheme and retained Business Rates).

The District Council's net budget for 2015/16 is £12.49m. However, the District Council will incur gross General Fund expenditure during the year of approximately £60m and must also make precept payments to the County Council, Police Authority, Fire and Rescue Service and Parish Councils. These total a further £57.27m. This gives total gross expenditure and liabilities of £117.27m. This equates to £2.25m per week.

The changes enacted by the Local Government Finance Act 2013 for the localisation of Council Tax Support and the localisation of Business Rates represent a significant transfer of risk from Central Government to Local Government. For Business Rates, reductions of 7.5% would have to be borne by the Council before a safety net comes into effect. However, the Council is a member of the Nottinghamshire Business Rates Pool, which mitigates this risk and funding would only fall by 2% before additional funding could be received if resources within the pool allowed. However, local authorities also bear all the risk of appeals by business ratepayers and these can be backdated to before the localised business rates scheme started. The Council must manage the demand for Council Tax Support, and for extra costs relating to Welfare reform. To address this risk, it will be appropriate for the level of General Fund balances to be maintained at £2.9m in line with the level at 31st March 2015. The appropriate level of balances will be reviewed each year.

It is recommended that the District Council aims to maintain General Fund balances at approximately £2.9m.

The Council also holds reserves for specific areas of expenditure. Each reserve has a specific purpose. They are subject to annual review by the Section 151 officer as part of the budget process and if no longer required are used for other purposes. It is proper accounting practice to maintain reserves for these purposes.

It is recommended that:

- a) Reserves should be subject to an annual review by the Section 151 officer;**
- b) Reserves should not be over-provided;**
- c) Reserves should be used for the purpose for which they are provided (subject to a and b above)**
- d) Reserves should not be used to support ongoing general fund expenditure (subject to recommendations a and b, above)**

Budgeting Principles

The Council will prepare its budget in accordance with the following principles:

Council Objectives

The purpose of the budget is to enable the Council to achieve its objectives and meet its statutory duties. In setting the budget and Council Tax, the Council will also have regard to Government requirements, including the Local Government Finance Settlement and the latest Comprehensive Spending Review.

Balanced Budget

The Council is required to set a “balanced budget” with sources of funding identified to cover all expenditure proposed.

Affordable Budget

In setting the budget, the Council will consider the affordability of proposals and their impact on the level of Council Tax.

Inflation

The Council will have regard to the level of inflation when considering budget proposals. It may consider different indices of inflation for different purposes. For example, the retail prices index (RPI) and the consumer prices index (CPI) do not always reflect the rate of inflation faced by the Council and this may be better measured by specific indices such as those widely available for construction costs or energy.

Sustainable Budget

The Council will set a budget to be sustainable over time. This will be reflected in the Council’s Medium Term Financial Plan and Capital Programme. The budget will include an overall risk assessment and will incorporate appropriate sensitivity analysis in order to ensure a robust final budget.

Budget Demands

Any developments in the Council’s revenue and capital budgets will be required to go through the Council’s formal bidding process. Only those items approved as part of this will be included in the final budget.

Use of 3rd Party Funding

Where third party funding is used to contribute towards the Council’s budgets, a plan is required to ensure that this element of the budget is sustainable if and when the 3rd party funding ceases. Where appropriate, an exit strategy is required.

Adequate Reserves and Provisions

The Council aims to have adequate, but not excessive, reserves to cover unforeseen expenditure. Specific provisions are also in place to cover items of expenditure that are certain but where their timing is not known. Further details are set out in the policy on balances and reserves.

Asset Management

The Council aims to manage its assets efficiently in accordance with best practice. Full details are set out in the Asset Management Plan.

Council Tax Levels

In accordance with this policy, the Council aims to set the minimum level of Council Tax possible consistent with the achievement of its Aim and Priorities and other financial and service demands.

Value for Money

The Council aims to achieve value for money in the provision of all of its services. This is set out in the Council's Value for Money Strategy.

Risk Assessment

In accordance with section 25 of the Local Government Act 2004, the s151 officer will conduct an annual risk assessment of the robustness of the estimates made in the Council's budget.

Sensitivity Analysis

The s151 officer will carry out a review of the impact of variations to key elements of the proposed budget (a "sensitivity analysis") on an annual basis.

NEWARK AND SHERWOOD DISTRICT COUNCIL

CORPORATE CHARGING POLICY

Revised: July 2015

Date of next revision: July 2016

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1. Introduction

This Policy applies to external fees and charges other than those prescribed by the government. It provides a guide to internal charging arrangements but is subject to CIPFA's 'Best Value Accounting Code of Practice' and has regard to the Audit Commission's publication "*Positively Charged*".

It is not intended to apply to the disposal of Council assets, rents, internal charges or rechargeable works, nor will it apply where charges are governed by statutory regulation or guidance.

The Policy does apply if we have discretion, but not if there is a prescribed fixed charge.

Over the period of the Medium Term Financial Plan services will align their charges and processes with this policy.

This policy must be read in conjunction with the other related Council policies and strategies, including Financial Regulations, Equalities Policy, VFM Strategy, Corporate Plan.

If after reading this Code you require further guidance or clarification, or you are not sure how best to comply with the Policy then please contact your Business Manager or the Director of Resources.

2. Purpose of the Policy

To establish a policy within which fee and charge levels will support the Medium Term Financial Strategy and Corporate Plan; and,

To encourage a consistent approach to the setting and reviewing of charges for services provided by Newark and Sherwood District Council by:

- specifying the processes and frequencies for reviewing existing charging levels or introducing new charges for areas of the council's work for which charges could in principle be set;
- providing guidance on the factors that need to be taken into consideration when charges are reviewed on an annual basis;
- establishing parameters for calculating different levels of charges;
- recommending the criteria for applying concessions or discounted charges on a consistent council wide basis;
- requiring more active use of market intelligence relating to different services.

3. Processes and Frequencies for Reviewing Charges

The following arrangements for reviewing charges will be applied throughout all areas of the Council where charges for services already exist or could in principle be set:

- all discretionary charges will be considered and approved by Council as part of the Budget and Council Tax setting process in March of each year.
- a major review of each business unit's charging strategy will take place at least once every three years to ensure consistency with the council's priorities, policy framework,

service aims, market sensitivity, customer preferences, and income generation needs, and the justification for any subsidy that the council as a whole makes to the service.

- annual reviews will be carried out for all of these services as part of the budget process, and shall have regard for the budget strategy approved in September each year.
- where fees are not to be increased or are proposed to be increased below inflation, this must be reported to CMT by the budget officer clearly stating the financial implications and budget shortfall before the deadline for completion of the revenue budget.
- these formal reviews will be overseen by the appropriate Director.
- where decisions on fees and charges, including any concessions or discounts, are taken outside the budget process approved by CMT and Policy and Finance Committee, any proposals must have due regard to the Medium Term Financial Plan.

4. Factors Relevant to the Annual Review of Charges

Annual reviews of charges will consider the following factors:

- a. inflationary pressures generally and input costs specific to the service;
- b. any statutory framework relating to the service
- c. the actual or potential impact of any competition in terms of price or quality;
- d. trends in user demand and the forecast effect of price changes;
- e. equality and access to services;
- f. customer survey results;
- g. benchmarking results;
- h. council wide and service budget targets;
- i. cost structure implications arising from developments such as investments made in the service;
- j. consistency with other charges;
- k. alternative charging structures that could be more effective;
- l. validity of continuing any concessions;
- m. proposals for targeted promotions during the year, and evaluation of any that took place in the previous year;
- n. where less than the full cost is being recovered (including nil charges), the justification for the decision is reviewed and documented to ensure that this decision remains valid and that significant income is not being lost.

5. Processes for Setting Charges for New Sources of Income

All Business Managers should explore new business opportunities with a view to generating additional income.

All guidance in this Policy must be considered when setting new fees and charges.

A business plan must be prepared.

Any potential new income streams will need to be approved by CMT and Policy and Finance Committee.

The setting of the fees and charges must be made in accordance with the current VAT regulations.

The proposed billing and recovery administrative process must be agreed with the S151 officer prior to the charges being implemented.

A central record will be maintained by the relevant Business Manager of any decisions made not to charge for a service where a charge could be made.

6. Calculation of Charges

Charges will apply to all users, and will be set at a level to maximise take-up and income targets and wherever possible covering or exceeding the full cost of providing the service in question.

It is the responsibility of the Business Manager to ensure that the proposals comply with the appropriate legal framework and any legal restrictions. Advice should be taken from the Council's Legal section before any proposal is finalised.

This calculation of full cost should be based on the direct cost of service provision including staff, supplies and services, equipment, premise costs. Overheads and capital asset depreciation charges should be included but consideration may be given to a less than full cost recovery of these elements where inclusion would distort competition.

Where less than the full cost is being recovered, the justification for the decision must be documented and retained by the appropriate Business Manager and clearly state the financial implications and budget shortfall.

All fees and charges must be calculated in accordance with the current V.A.T. regulations.

7. Concessionary Charges

In some circumstances the Council will offer subsidies to all users or concessions to specific user groups where this is consistent with achieving its priorities.

Entitlement to concessionary charges must have regard to equalities legislation and is designed to reduce barriers to participation arising from:

- Age;
- Level of income;
- Family circumstances;
- Health
- Educational circumstances.

Concessions will not apply to retail sales from shops or cafes.

Concessionary charges may also be made available to organisations whose purpose is to assist the Council in meeting specific objectives in its priorities and policy framework, or which contribute to the aims of key local partnerships in which the Council has a leading role.

Concessionary charges should not normally apply to peak times or in situations that would result in the loss of income from customers paying standard charges. Neither would they normally be available to organisations that are based outside of the Council's area other than on a reciprocal basis.

Only one concession can be applied to the standard charge at any given time.

Services wishing to adopt a concessionary charging scheme must demonstrate the scheme is practicable in terms of assessment, collection and evidencing for audit purposes.

8. Discounts

For certain services it will be normal practice to set promotional discounts, Frequent User discounts or group Discounts.

Promotional discounts are defined as short-term charges that are targeted to increase take-up or awareness of the services that are available.

Frequent User discounts are to be used only for commercial reasons such as generating customer loyalty where alternative provision from competitors exists, and where market analysis shows a real risk of reduced income if they are not offered.

Group discounts are to be used to encourage take up by organisations able to block book and Family discounts to encourage parents and children's take up.

Discounts can be applied to both the standard charge and the concessionary charge.

Discounts can only be applied where the Service has received prior approval of the principle to apply a discount to the charge for this service.

9. The Use of Market Intelligence

All managers of discretionary services for which a charge is made should take steps to identify competitors offering similar or related services, and make use of comprehensive and dynamic market intelligence in evaluating:

- their charging strategy;
- the range of services provided;
- the quality of services provided;
- their cost structure.

All managers of services for which a charge is made should consult with customers, relevant partners and stakeholders on the range, quality and cost of services provided prior to the triennial review.

Consultation should also take place with potential customers and target groups to determine improvements needed to encourage participation at least every five years.

Comprehensive and accurate usage statistics will be maintained for all services and at all facilities where charges are made, to enable analysis of usage, justification of any subsidy given by the Council, and accurate forecasting of the effect of price changes on usage.

Benchmarking should be undertaken at least annually regularly with other Councils in the local area and with relevant national groupings of authorities, to ensure that charges are at comparable levels and that significant differences are understood and justified.

10. Further Guidance

Charges should be payable in advance wherever possible or collected by direct debit or through the corporate income system.

All fees/charges must be reported annually to the Financial Services Business Unit as part of the budget process for publishing in the annual budget book.

All fees/charges must be published on the Councils website.

Policy on Grants to Parish Councils

The Local Government Finance Act 2012 localised support for Council Tax, changing from a benefit scheme to a discount scheme. Discounts have the effect of reducing the Council Tax Base, which in turn reduces the amount of Council Tax raised. To mitigate this effect the government made a grant available in 2013/14, identifying an element that related to Parish Councils. The grant was set at a level that was a reduction of 10% on the forecast cost of Council Tax benefit for 2013/14.

Newark & Sherwood District Council paid over the parish element of the grant to parish councils in 2013/14 to offset the impact of the reduction in the Council Tax Base. The total grant paid to parishes in 2013/14 was £260,000.

For the years after 2014/15, government has announced that the funding for Council Tax Support will be rolled into general grants and will not be separately identifiable.

General grants have been reduced significantly since 2010/11 and in the June 2013 spending round the government said that local government should expect funding cuts to continue on the same trajectory.

Since the parish element of grant funding for Council Tax support is no longer explicitly identified, and the Council is experiencing ongoing cuts to its own grant funding, the Council's policy is that:

From 2014/15 no further grant will be paid to parish and town councils that received less than £500 grant in 2013/14.

For all other parish and town councils, the grant paid will be reduced to zero over the three financial years 2014/15, 2015/16 and 2016/17.



**NEWARK &
SHERWOOD**
DISTRICT COUNCIL

Value for Money Strategy

Revised: Sept 2015

Next revision due: Sept 2016

Introduction

Newark & Sherwood District Council recognises its responsibility to achieve value for money from all its activities, however they may be funded.

The council is committed to the pursuit of economy, efficiency and effectiveness as part of its corporate strategy. It will seek to achieve value for money in the pursuit of its objectives and in the delivery of all services.

The council has a neutral position on service delivery methodologies. It will consider all service delivery options, including in-house provision, partnerships with other public sector organisations (including shared services), partnerships with private sector organisations, and bought in services as appropriate for individual services or groups of services.

With the current focus on reducing the national deficit leading to reduced government funding, it is inevitable that the annual revenue and capital budget setting will be challenging each year. The council has a range of methodologies in place to ensure that its aims and priorities are delivered within an acceptable level of council tax. The Value for Money Strategy is a key element of this process.

Value for Money Principles

The principles involved in achieving value for money are:

Efficiency – considering the relationship between the amount of resources used (inputs) and the level of performance.

Effectiveness – the ability to achieve stated goals or objectives, judged in terms of both output and impact.

Economy – the acquisition or use of resources of an appropriate quality at minimum cost.

There are several aspects to be considered:

- Balancing effectiveness with efficiency
- Balancing efficiency with economy
- Sustaining the funding arrangement (where this is desirable)
- Demonstrating the most appropriate use of resources

Value for money can be defined as: **the use of available resources in an efficient and economical way to deliver effective services or achieve desired outcomes.**

The council is accountable for using resources efficiently to avoid wasting public funds, but this does not mean always seeking the lowest short-term cost. Waste occurs when a service – no matter how cheap or expensive – is ineffective. Effectiveness and efficiency needs to be balanced to achieve value for money.

The costs and benefits of each arrangement must be evaluated in terms of what the council seeks to achieve.

The council will manage any risks to its own interests, and use arrangements and processes such as monitoring, review and evaluation to demonstrate effectiveness and value for money.

At the planning stage, the council should be able to justify how it intends to apply its resources. After implementation it should be able to demonstrate that the policy is having the desired effects, and that the money is not going to waste. If there are unintended outcomes from its policies the council needs to adapt its funding arrangements to take them into account.

Objectives

To achieve value for money, the council will:

- target resources towards achieving the council's objectives and meeting the needs of local people;
- integrate VFM principles within existing planning, management and review processes;
- adopt recognised good practice as appropriate;
- analyse potential budget issues for the following financial year at an early stage and take a corporate approach to developing solutions;
- ensure that VFM principles are taken into account during the commissioning process;
- benchmark activities against other similar activities and organisations where appropriate;
- respond to opportunities to enhance the economy, efficiency and effectiveness of activities;
- promote a culture of continuous improvement;
- demonstrate actively to both internal and external stakeholders that the achievement of VFM is sought in all activities undertaken;
- ensure that all staff recognise their continuing obligation to seek VFM for the council as part of their activities;
- seek external funding where appropriate to support the council's services if the external funding assists the achievement of the council's objectives.

Methodologies for achieving VFM

The council has a number of different methodologies that contribute to the achievement of VFM. These include:

- the Commissioning process;
- identification of growth and savings through the budget process;
- effective use of ICT (supported by the ICT Strategy);
- service reviews;
- scrutiny by service Committees;
- Audit & Accounts Committee;
- corporate procurement mechanisms (supported by the Procurement Strategy and policies);
- partnership working including consideration of shared services and public/private partnerships;

- customer feedback.

Responsibility for delivering VFM

The Council is required to satisfy itself that VFM is being sought, and achieved from the use of public funds.

The responsibility for achieving VFM lies with all Members and staff and is not restricted to those with resource or financial responsibilities. All Members and staff should endeavour to seek and achieve VFM in all activities and to bring to management's attention any opportunities for improvement.

Managers have the responsibility to maintain an awareness of good practices in their own area of operation and ensure that these are followed appropriately.

The corporate management team will provide a corporate overview of VFM to ensure that initiatives are not restricted to individual service areas.

The council has an expectation that bodies with which the Council has partnership arrangements and organisations in receipt of grant aid from the council will follow VFM guidelines.

2015/16 REVENUE BUDGET TIMETABLE				Appendix B	
Action	Base Budget & General Principles of Budget	Draft Budget	Draft Final Budget	Final Budget Approval & Council Tax Setting	
Base budget, general principles of budget & Budget Strategy	Policy & Finance Committee 10 th September 2015				
Support Services – agree basis for recharging		11 th September 2015			
Working Papers Issued to Budget Officers		Last date 20 th July 2015			
		Budget developed with Business Managers & Committee Chairs			
Draft budgets complete – no support services allocated	30 th September 2015	30 th September 2015			
Budgets uploaded to eFinancials	6 th – 8 th October				
Co-ordination and review of first draft budget and reports prepared.	12 th – 16 th October				
First draft of budget		Economic Development Committee 25 th November 2015 (papers 4/11/15) Leisure & Environment Committee 24 th November 2015 (papers 5/11/15) Homes & Communities Committee 30 th November 2015 (papers 05/11/15) Policy & Finance Committee 3 rd December 2015 (papers 11/11/15)		Policy & Finance Committee 3 rd December 2015 (papers 11/11/15)	
Support services allocated and uploaded to eFinancials		23 rd – 27 th November There may be late changes if Policy & Finance refers budgets back to Committees or change their own budget			
Final Committee budgets approved for consideration by Policy & Finance			Leisure & Environment Committee 26 th January		

Committee 25 th February 2016			2016 (papers 07/01/15) Economic Development Committee 6 th January 2016 (papers 7/12/15) Homes & Communities Committee 18 th January 2016 (papers 22/12/2015) Policy & Finance Committee 28 th January 2016 (papers 06/01/15)	
Housing Revenue Account Budget and rent setting report				Policy & Finance Committee 28 th January 2015 to make comments to Council on 9 th February 2016 for approval. (Papers complete by 06/01/16)
Council Tax Discounts Scheme determined				Council 15 th December
Council Tax Base				Officer Decision determined between 1 st December and 31 st January
Revenue Budget Setting				Policy & Finance 25 th February 2016
Parish Council Precept information received			(up to) 29 th February 2016	
Council Tax setting				Council 10 th March 2016 (papers 02/03/15)

CAPITAL PROGRAMME TIMETABLE 2016-2021

Date	Corporate	Council/Policy & Finance Committee/Operational Committees
Continuous	Possible asset disposals are identified; the likely level of receipts and the revenue implications are estimated.	Approval by Policy & Finance Committee.
April - September	CMT approve the commissioning of new schemes.	Consultation with Policy & Finance Committee and operational Committees where relevant
April - September	Appraisal forms complete for all schemes to be considered in the Capital Programme process. The Key corporate priorities to be targeted with key service plans priorities and Smart Focus.	Consultation with Portfolio holder and relevant Committee.
By 30 th September	Revenue implications of bids included in budget bids	
By 31 st October	Existing schemes are revised for timing and, where relevant, whether they can now proceed e.g. if failed to get external finance allocation is lost	Report submitted to Policy & Finance Committee in December on changes to existing programme (if necessary)
By 31 st October	Detailed appraisal using prioritisation scheme process and report produced for CMT on results of appraisal. CMT consider report and agree prioritisation it relevant	
December		Policy & Finance Committee consider draft programme based on prioritised schedule including revenue implications
January 2015		Operational Committees consider Policy & Finance Committee reports
By 31 st January 2016	Revised estimates of resources available completed including levels of Borrowing, Revenue Contribution and Capital Receipts targets.	
By 31 st January 2016	Prepare summary of comments from operational Committees for Policy & Finance Committee to consider. Includes clarification by Directors/Business Managers	
5 th February 2016	Final report produced for Policy & Finance Committee including comments from operational Committees	
25 th February 2015		Policy & Finance Committee consider revenue and capital budgets and financial implications and recommend programme to Council
10 th March 2015		Council tax setting meeting.

NEWARK & SHERWOOD DISTRICT COUNCIL
CAPITAL PROGRAMME 2016 - 2021 PRIORITISATION SCHEME

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
1	<p>Key Priorities Scheme must link to at least one of the Council's priorities and be an objective contained within a Service Plan.</p>	<p>If a scheme does not clearly relate to these areas it will not be considered further.</p>	<p>Each scheme to be marked as to how well it fits with the following-</p> <ul style="list-style-type: none"> • Prosperity • People • Place • Public Service 	35%
2	<p>Evidence of Need Service Strategy National Strategy or Guidelines Statutory Obligation</p>	<p>In some cases local demands are in excess of national guidelines and strategies and this tries to acknowledge that the two must be balanced. This will cover Health and Safety related schemes.</p>	<p>The following factors will receive equal weighting :-</p> <ul style="list-style-type: none"> • Statutory Obligation • National Strategy • Validity of consultation in relation to project. e.g. How specific to this project? Who was consulted, was this comprehensive? • Quality of evidence of need for project .e.g. size of sample base, date of evidence, format of evidence 	10%
3	<p>Partnership Eligibility under existing criteria can be demonstrated.</p>	<p>Show that work has been done to ensure that the obtaining of external finance is realistic. The degree to which the partnership will add value to the project.</p>	<p>The proportion of finance which will be met by third party. The likelihood of receiving support. Assessment of the value the partner will add to the project.</p>	15%

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
4	<p>Outputs and Outcomes These have been clearly identified and can be justified from supporting evidence. Specific comments should be made as to how the scheme represents value for money when compared to other options</p>	<p>This will enable the council to improve the way it reports its work and clearly show what is being achieved. The comments should refer to any performance indicators which the proposal is addressing specifying what the improvement target is.</p>	<p>Assessment then made on what the scheme will achieve.</p>	<p>15% Assessment of all factors or group of factors</p>
5	<p>Financial Capital costs have been based on internal or external professional advice Revenue implications have been properly developed</p>	<p>Capital costs include both works and land purchase and cover all associated costs. Try and avoid “guesstimates” which result in schemes requiring increased finance or having to be reduced to meet finance available.</p>	<p><u>Capital</u> will be based on the quality of work which has been put into estimate. e.g. costed feasibility studies. <u>Revenue</u> will be based on whether the effect is positive, neutral or negative on the revenue budget. Positive effect scores 10 Neutral effect scores 3 Negative effect scores 0</p>	<p>15% Capital marked 1 to 5 Revenue marked 0 to 10</p>
6	<p>Risk Assessment Identify the level of risk in a project not being able to proceed. For example planning appeals, listed building consent. Over subscription of partnership funds</p>	<p>Try and ensure that not all schemes selected are high risk with the danger that there will be delays in delivery or no-delivery.</p>	<p>The following will all need to be considered:- Technical Issues Financial Uncertainty Partnership uncertainty Planning Issues Legal issues Timescale</p>	<p>10%</p>

HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING 2014/15

1.0 Purpose of Report

- 1.1 To show actual outturn of the Housing Revenue Account for the year 2012/13 (column 2 of Appendix A).
- 1.2 To examine the proposed income and expenditure on the Housing Revenue Account for 2014/15 (column 4 of Appendix A) and, in accordance with Section 76 of the Local Government and Housing Act 1989, to make recommendations to avoid a deficit on the Housing Revenue Account.
- 1.3 To receive indicative figures of income and expenditure for the financial years 2015/16 to 2018/19 (columns 5 to 8 of Appendix A).
- 1.4 The report makes recommendations to adjust rent levels and service charges with effect from April 2014. These have been calculated in accordance with the rent setting policy agreed by Cabinet on 26th January 2012.
- 1.5 To determine the apportionment of these rent increases having regard to Section 162 of the Local Government and Housing Act 1989 which, amongst other things, requires that *“a Local Housing Authority shall have regard, in particular to the principle that the rents of houses of any class or description should bear broadly the same proportion to private sector rents as the rents of houses of any other class or description”*.
- 1.6 To determine charges for garage rents, plots and garage ports.
- 1.7 To approve arrangements to determine housing support service charges.
- 1.8 To approve the annual management fee payable to Newark and Sherwood Homes, in accordance with the Management Agreement.

2.0 Introduction

- 2.1 The setting of the budget and the approval of rent levels at Council in February 2014 will allow the required time to notify tenants of proposed changes to rents in accordance with the legislation.
- 2.2 Members will be aware that since April 2012 the Housing Revenue Account is now self-financing and there is no longer any central government control though HRA subsidy. Other controls continue to exist such as the cap on overall HRA debt and the ring-fencing of the account.
- 2.3 The timetable for approval of the budget and rent setting to enable rents to be increased from the beginning of the financial year in April 2014 is restricted by external constraints, in that the correct notification of variation needs to be given to tenants.

2.2 The key dates in the budget setting timetable are detailed in the table below:

Council determination of HRA budget and rent setting	18 th February 2013
Newark and Sherwood Homes update of rent systems	By end of February 2014
Generation of rent cards and letters to notify tenants of variation of their rent levels (tenants are required to be given one month's notice by law of rent changes).	By end of February 2014

Any slippage from these key dates would jeopardize the implementation of rent rises for 1 April 2014 and result in a subsequent loss of income to the Housing Revenue Account.

3.0 Background Information

- 3.1 Since April 2012, following the housing finance reforms the Housing Revenue Account has been operating within a 30 year self-financing Housing Revenue Account business plan. Council officers have been working with colleagues from Newark and Sherwood Homes to monitor and review the business plan which informs the 2014/15 budget process and medium term financial plan 2014/15 to 2018/19.
- 3.2 At its meeting on 11th April 2013, Cabinet approved the Heads and Terms of the new management agreement with Newark and Sherwood Homes and gave delegated authority to the Director – Safety to finalise the agreement. Under the new agreement which came into effect on 1st October 2013 there is a new methodology for calculating the management fee and this process has been followed for determining the fee for 2014/15. Details of the fee are shown in paragraphs 5.1 to 5.5 of this report.
- 3.3 The budget proposed in this report is based on the Council's existing policy on rent setting, which was approved in January 2012 and follows the Government's existing guidance on setting rents for social housing. Members will be aware that the Government are consulting on changes to the mechanism for setting social housing rents. Consultation closed on 24th December 2013, therefore it is unlikely that the results will be known by the date of this Committee. If the proposals remain unchanged from those contained in the consultation document, Government guidance will be for convergence of rents with other social housing landlords to cease after 2014/15 and thereafter rents will increase by CPI plus 1% however there will be flexibility to increase the rent to the target (or formula) rent when re-letting a property after a void period.
- 3.4 The Council's self-financing Housing Revenue Account Business Plan (SFHRABP) was endorsed by Cabinet on 28th June 2012. This included the short term (3 to 5 years) strategic priority to focus on the principle of debt repayment. This was relaxed at Cabinet on 17th January 2013 to allow consideration for flexibility in the use of surplus Housing Revenue Account resources when these arise however the draft budget presented today assumes that external debt continues to be repaid as it becomes due and provided that the business plan can afford the repayment. Additional surpluses on the Housing Revenue Account are set aside in the major repairs reserve where they can be used to fund major repairs, debt repayment or growth.

- 3.5 In his Autumn Statement, the Chancellor announced that *nationally* the Housing Revenue Account borrowing limit would be increased by £300m. The detail behind this statement is not known but it is believed that Councils will bid to their Local Enterprise Partnerships for the increased borrowing approval. The headroom currently available for Newark and Sherwood District Council is approximately £8m with current revenue surpluses across both NSDC and NSH in the region of £5m, although some of these surpluses are already allocated (e.g. minimum HRA reserve, revenue contribution to Bilsthorpe project, bad debts reserve etc).

4.0 The Self-financing Housing Revenue Account Business Plan

- 4.1 The reforms to housing finance became effective on 28th March 2011, when the Council took on new borrowing of £36,078,000 from the PWLB to buy itself out of the Housing Subsidy system. At that time the HRA had a total debt of £104,408,417 of which internal debt (borrowed from the General Fund) was £6,582,714 against a debt cap of £112,475,000. The District Council, as all stock owning authorities, has to operate within the debt cap and in accordance with the treasury rules. There is no requirement by government for authorities to reduce debt levels, i.e. pay off the debt.
- 4.2 The current approved Business Plan is based on a financial model that ensures the Council continues to deliver the necessary capital investment in the housing stock, enables an effective housing management service and services the new debt. The current short term strategic priorities for the Business Plan are:
- a) Delivery of the Decent Homes Standard Plus (informed by the priorities for investment set through tenant consultation).
 - b) Maintaining the core housing management service in accordance with the nine local service standards.
 - c) A Capital works programme that will continue to include legislative, regulatory and health and safety requirements, energy efficiency measures and deliver environmental improvements (informed by the priorities for investment set through tenant consultation).
 - d) Focus on the principle of debt repayment over the short term (3-5 years).
 - e) Allowing future consideration in relation to growth (provision of additional housing).

At the Cabinet meeting on 17th January 2013 the principle of debt repayment was discussed and the following resolution was made:

- 4 j) 'the current strategic priority of debt repayment be reconsidered to allow flexibility in the use of surplus HRA resources when these arise.'

- 4.3 The HRA has now been operating within a self-financing regime for a little under 2 years and the actual income and expenditure incurred during the year is scrutinised by Newark and Sherwood Homes and the District Council.
- 4.4 The base financial model, covering a 30 year period, has been rolled forward for 2014/15 to 2043/44 based on prudent assumptions, risk and sensitivities covering for example inflation and interest rates, rent setting, void rates and Right-to-Buy levels. Officers from Newark and Sherwood Homes and the District Council have made assumptions on the likely impact of welfare reform in the early years. It has also been agreed that Newark and Sherwood Homes will identify part of their overall reserves as an additional provision for bad debts, should the impact of those reforms be worse than anticipated.

- 4.5 At this point in time the model shows that the HRA will be sustainable over the 30 year period to continue to deliver the necessary capital investment programme in the Council's housing stock, to deliver housing services and to service the new debt. It also provides the potential to generate future capacity to enable growth, such as building new homes, acquiring properties, expanding the management service offered and to continue to improve services for tenants. Should members continue with the strategic priority of repayment of debt rather than growth, in the long term there is the opportunity to repay debt within the 30 year business plan. Due to the debt profile there will be around £34m debt outstanding at the end of the 30 years, but revenue reserves will be in excess of this. In the early years all revenue funding is committed so debt will be rolled forward until there is sufficient revenue cash for repayment.
- 4.6 The Housing Revenue Account budget for 2014/15 and medium term financial plan to 2018/19 is based on the revised business plan 30 year financial model.

5.0 Newark and Sherwood Homes Management Fee

- 5.1 Under the new management agreement, Newark and Sherwood Homes will be paid a fee in accordance with the framework detailed below. The activity of NSH is integral to the effective management and long term viability of the Housing Revenue Account (HRA) Business Plan. This gives rise to a requirement for the Management Fee to be considered within the context of the HRA as a whole.

Fee Elements

The annual management fee comprises:

- i. Service Fees – Core Housing Management Services - Tenancy sustainment and income recovery
- ii. Service fees – Core Housing Management Services – Repairs and maintenance
- iii. Service Fees – Core Housing Management Services – Core service support
- iv. Service Fees – Core Housing Management Services – Company

Additionally Newark and Sherwood Homes will receive income for managing the Housing Revenue element of the Council's capital programme, i.e.

- v. Works fee – fee payable for the delivery of the Asset Management Programme.

Payments will also be made where Newark and Sherwood Homes provide general fund Services to the Council:

- vi. Other NSH Work – Non HRA Core Services (Right to buy/Hostel management)

Finally, the company will be able to provide services to third parties such as rent income from properties that it has purchased through the Empty Homes scheme.

- vii. Fee income from third party schemes/investments

5.2 Following negotiations between officers from Finance and Newark and Sherwood Homes on the 2014/15 management fee it is recommended that the management fee for 2014/15 comprises the following:

- I. Service Fees – Core Housing Management Services - Tenancy sustainment and income recovery £1,782,890
- II. Service fees – Core Housing Management Services – Repairs and maintenance £3,903,620
- III. Service Fees – Core Housing Management Services – Core service support £1,886,230
- IV. Service Fees – Core Housing Management Services – Company £64,860

The total management fee payable for 2014/15 will therefore be £7,637,600

Newark and Sherwood Homes recently presented their 2014/15 delivery plan to the Strategic Housing Liaison Panel. This contained details of 2012/13 performance and benchmarked costs and indicated key areas for future improvements in performance with one of the main tasks being a focus on the responsive repairs programme – this is reflected in an increase in allocated resources to ii) the core housing management services – repairs and maintenance. Some of these resources are offset by a reduction in the management costs however there are areas where additional costs have been incurred, e.g.

- Annual pay award 2013/14 and assumed pay award for 2014/15
- Increased leasing costs of the new vehicle fleet
- Increased costs of grounds maintenance tender

5.3 The payments will be set for a 3 rolling year period. In the first year of the Agreement a ‘base line’ Management Fee will be set. It is proposed that this will be set for 3 years (subject to taking into account external factors including inflation and other aspects which are out of the control of the Company). However for years 2 and 3 of the first three year period there will be efficiency targets set of 3% each year. At the end of year 3 there will a further base line exercise carried out, again using the framework which sets out the fee elements. This will determine the Management fee for the next 3 year period, as well as efficiency targets for the second and third years within that second three year period and so on, etc.

5.4 At all times the Council retains a prudent balance in line with Audit Commission guidelines adjusted for known future expenditure identified in the HRA business plan. At the 31st March 2013 Newark and Sherwood Homes paid a surplus of £2,961,000 to the HRA increasing the overall HRA balance to £5,223,196.

5.5 Under the terms of the new management agreement, the management fee is calculated in a way that is much more aligned to the estimated costs of the Company discharging the housing service. Newark and Sherwood Homes will retain any surpluses that they have accrued; however clause 12 of the management agreement details how those surpluses should be applied:

12.1 Subject to Clauses 12.2-3 NSH shall be entitled to use any available surpluses or reserves following discussion with the Council in furtherance of the Council’s strategic housing objectives/aims.

12.2 Surpluses and/or reserves shall only be deemed to be available for the purposes of Clause 12.1 if this is consistent with generally accepted accounting practice or specific confirmation from NSH's auditors and to the extent not required to maintain NSH's reserves in accordance with Schedule 8. (see paragraph 5.6 I to iv)

12.3 NSH shall keep the Council informed about the use of its surpluses and reserves.

5.6 As part of the new management agreement it was agreed that Newark and Sherwood Homes will need to retain certain reserves to support cash flow and to protect against financial risk. The Company Growth/Development reserve sets aside financing for growth programmes, the Company is responsible for the use of this reserve with the future intention that any growth activities give consideration to the Council's strategic priorities.

Where replenishment of the reserves is required to maintain the agreed level, the contribution cost will be built into the Core Housing Management Services – Core service Support annual budget and therefore be included within the annual revenue fee. The reserves held by the Company will comprise:

- i. Minimum reserve
- ii. Bad debts reserve
- iii. Development and IT reserve
- iv. Staffing and pay reserve
- v. MRR/Depreciation
- vi. Growth/Development reserve

6.0 Rent Levels

6.1 As part of the self-financing settlement in 2012 the assumption was made that local authorities would continue to follow the Government's guidelines on annual rent setting i.e. that rents would continue to move towards convergence with other Registered Social Providers and that rent increases would be based on September RPI plus 0.5% with a cap on increases of RPI + 0.5% plus £2. As a result of this the self-financing settlement figure assumes a certain level of income in the business plan.

6.2 Cabinet considered the report on the Self-financing HRA in January 2012 and agreed a rent setting policy that rent levels should continue to be determined by following the Government's guidance as assumed in the self-financing settlement.

6.3 Members will be aware of the Government's consultation on the future rent setting policy for social housing. It proposes to end convergence with effect from 1st April 2015, and to increase rents in future by CPI + 1% rather than RPI +1%. There is an element of flexibility as the proposals allow for vacant properties to be relet at target (formula) rent.

6.4 In line with Government guidance and the Council's current rent setting policy the rent levels in Appendix B have been calculated by applying CPI + 1% to the target rent and continuing towards convergence for 2014/15. Increases are capped at CPI + 1% + £2.

- 6.5 When applying the complex formulae to Newark and Sherwood rents data the actual average rent increase equates to 5.99% or a £4.67 weekly increase based on a 48 rent week year. The minimum increase is 5.11% and maximum 7.64%. The rent increase of 5.99% is based on a September CPI of 2.7%, plus 1.0% real increase with convergence by April 2015/16. The rent increase for Newark and Sherwood tenants reflects the national picture as similar (and higher) rent increases are impacting on all Councils with Housing stock. The difference between CPI + 1.0% and the actual increase is as a result of the move towards rent convergence with other Registered Social Providers. Newark and Sherwood District Council historically kept rents low, especially rents of sheltered properties, and it is the low starting point that creates the high rent increases as we near convergence.
- 6.6 A number of new Council properties were built during 2011/12 and 2012/13 and these were let at 'target rent' calculated using the CLG formula. Future rent increases on these properties will be in line with CPI + 1.0% as they are already at convergence.
- 6.7 Setting a lower rent increase than that calculated following current Government guidance on convergence will have a significant detrimental impact on the long term HRA Business Plan as the debt settlement under self-financing was calculated on the assumed rent levels (i.e. converged rents) rather than actual rent income. The Committee should note that 34% of tenants have their rent charge met in full by Housing Benefit, with a further 28% having a proportion of their rent charge met by Housing Benefit.
- 6.8 Members of the Strategic Housing Liaison Panel have reviewed a number of financial models for the Housing Revenue Account Business Plan considering the implications of a variety of rent increase scenarios from a rent freeze through to continuing with the current policy of achieving as near to convergence as possible by 2014/15 and thereafter increasing rents by CPI +1% in line with the proposals under consultation by the CLG. Each scenario has also been modelled with 2 options, the first to repay debt as soon as the business plan allows and the second to borrow up to the debt cap and maximise new build.
- 6.9 An extract from the draft minutes of the Strategic Housing Liaison Panel held on 16th September 2013 is attached at Appendix C. These minutes were considered by Policy Committee on 19th September 2013 and an extract from those minutes is also attached in the same appendix. The minutes of the meeting of the Strategic Housing Liaison Panel held on 10th December are considered elsewhere on this agenda and members are asked to consider the discussions on the HRA business plan and rent setting scenarios reported in Minute No. 20.
- 6.10 Should members of this Committee be minded to implement a rent increase for 2014/15 that does not follow convergence at CPI +1% this will mean a departure from existing policy and it will be necessary to cite reasons why the current rent setting policy should not be followed. The policy will need to be revised on the completion of the Government's consultation on rent setting and any new legislation or guidance that may follow. A copy of the current policy is attached at Appendix D. It is recommended that the current rent setting policy should be revised when guidance is issued by the Department for Communities and Local Government.
- 6.11 The impact of alternative rent setting scenarios on the short term (5 years) of the HRA business plan has been modelled for 3 additional options, rent freeze followed by annual increases at CPI + 1%, annual increase of CPI each year only, and annual increase of CPI +

1% - the table below shows how much income is lost from the business plan during the years 2014/15 to 2018/19 – it does not take into account losses incurred by increasing interest costs when debt cannot be repaid.

Scenario	Income lost 2014/15 to 2018/19
Rent freeze 2014/15, increases of CPI+1% thereafter	£6,192,450
Annual increases of CPI from 2014/15	£5,505,560
Annual increases of CPI + 1% from 2014/15	£2,099,710

If the figures above are projected forward for the full 30 year business plan there is a significant impact on the viability of the HRA business plan and the ability to repay debt or build new housing, and there may also be an impact on the ability to provide services to tenants.

7.0 Housing Support Service Charge

- 7.1 Housing based support services are a core function provided by Newark and Sherwood Homes under the terms of its management agreement with the Council.
- 7.2 The main support service provided is to tenants in the Council’s supported accommodation, representing approximately 50% of the Council’s housing stock.
- 7.3 The Council currently holds contracts with the County Council through the Supporting People Programme covering alarm only and floating support services, including those provided at Vale View. The funding ensures that eligible tenants are in receipt of subsidy to pay for their housing related support charge.
- 7.4 Through the County’s budget reduction proposals, funding for the alarm only service with a contract value of £37,728, will cease on 31st March 2014 and for the floating support services, with a contract value of £170, 125.60, by 30th November 2014.
- 7.5 Discussions are currently ongoing with the Council, Newark & Sherwood Homes and the County on a future model of service delivery at Vale View, it is the County’s intention to withdraw the present stream of support people funding by December 2014.
- 7.6 In response to the County Council’s initial decision in 2012, as part of its budget cuts to the Supporting People Programme to terminate the current Supporting People contracts with the Council from April 2013 (*this decision was later deferred for a further period detailed at paragraph 7.4*) Newark and Sherwood Homes progressed a fundamental review of its management services to continue to provide housing based support services to tenants and to mitigate the impacts of the withdrawal of supporting people funding on the HRA Business Plan.
- 7.7 This was undertaken following comprehensive consultation with tenants (as required under section 105 of the Housing Act 1985) and other service users to ensure that the new model of support and tenancy assistance is both affordable and valued by tenants and other service users. The principles of the tiered, tailored service approach implemented on 1st April 2013 are:

- a) A mandatory, chargeable lifeline service of £1.50 per week for all tenants in designated supported housing accommodation in line with the conditions of the tenancy agreement
- b) A discretionary intensive housing management service to aid those tenants who need higher levels of involvement to sustain their tenancy
- c) A discretionary range of additional services available to tenants and private customers, each attracting a varying charge.

7.8 The historical charge for tenants who received housing related support services prior to the 1st April 2013 was £3.60 and though the mandatory charge has reduced to £1.50 a direct comparison cannot be made to the services provided under each charge. It should be noted that for Vale View the housing support service charge is £70.84 per week which covers the provision of intensive, 24 hour, on-site support to enable vulnerable tenants to effectively sustain their tenancies including accessing services from other agencies including extra care services which are provided by the county councils contracted provider. A range of other payable services are also available at the scheme such as the provision of meals and laundry services. A full list of the current mandatory and discretionary support charges is shown at Appendix E.

7.9 As stated at 7.4 the County's funding for support services will cease for all currently eligible tenants during 2014, meaning that all tenants living in designated supported housing will be responsible for paying this charge. Newark & Sherwood Homes will continue to work with all effected tenants to minimise the financial impact of this, along with ensuring the continued viability of the HRA Business Plan.

7.10 In terms of the future Supporting People funded programme for older people it is the intention of the County Council to introduce a county wide short term support service to commence 1st December 2014 enabling 600 older residents to access support at any point in time. This is compared with the present 10,000+ older residents that benefit from the current support services provided through supporting people funding. The County are also looking to introduce a new initiative to tackle social exclusion to again commence on 1st December 2014.

7.11 It is proposed that the support charges that were introduced with effect from 1st April 2013 should remain at the 2013/14 level for 2014/15. It should be noted that pension increases will be in line with CPI for September 2013 at 2.7%.

8.0 Other Service Charges

8.1 A number of tenants have heating and water/sewerage provided at their property with the costs of these being recharged through a weekly service charge. It is proposed that these weekly charges are increased in line with September 2013 CPI i.e. 2.7%. It is noted that although the Rent Setting Policy stipulates RPI as the appropriate index, CPI is recommended instead as this more closely reflects the nationally accepted measure of inflation.

8.2 The properties built during 2010/11 to 2012/13 are currently subject to a weekly service charge of between £3.52 and £5.87 covering the costs (where appropriate) of landscaping,

lighting and drainage. It is proposed that these weekly charges are increased in line with September 2013 CPI, i.e. 2.7%.

8.3 In meeting its statutory homelessness responsibilities the Council would like to explore options available to implement an intensive housing management charge (eligible for housing benefit) at the homeless hostels at Seven Hills, Newark and Wellow Green, Ollerton to support tenancy sustainment and move on.

8.4 The type of management to be offered and associated costs will be determined by the Housing Options team so that an appropriate service charge can be agreed. It is proposed that authority to approve the level of the service charge should be delegated to the Director – Resources following consultation with the Leader, Deputy Leader and Leader of the Opposition party.

9.0 Balances

9.1 The Housing Revenue Account balances at 31 March 2013 were £5,223,196 (including the NSH surplus of £2,961,000), which is £956 per property based on a stock of 5,464 at the same date. The Audit Commission's best practice guideline of £150 in 1989 inflated at 3% per annum to £323 in 2013 has previously been used as a measure for a prudent retained balance. However under self-financing, the risks previously met by the Government through housing subsidy have now been transferred to local authority HRAs. The self-financing HRA business plan assumes a minimum general reserve of £2,000,000.

9.2 As part of the discussions with Newark and Sherwood Homes about future management arrangements it is considered that Newark and Sherwood Homes should identify levels earmarked reserves for specific purposes:

- i. Minimum reserve
- ii. Bad debts reserve
- iii. Development and IT reserve
- iv. Staffing and pay reserve
- v. MRR/Depreciation
- vi. Growth/Development reserve

9.3 Paragraph 5.5 details how other surpluses held by Newark and Sherwood Homes should be applied, i.e. that they should be used, following discussion with the Council, to further the Council's strategic housing objectives/aims.

10.0 Garage Rents, Plots and Garage Ports

10.1 The level of garage rents was raised in 2013/14, in line with the average rent increase, to £7.40 per week. (plus VAT if they are let to non-Council tenants).

10.2 The level of garage plot rents was raised in 2013/14, in line with the average rent increase, to £37.75 per annum with VAT payable for non-Council tenants.

10.3 The level of garage port rents was raised in 2013/14, in line with the average rent increase, to £3.30 per week with VAT payable for non-Council tenants.

- 10.4 Officers from both the District Council and Newark and Sherwood Homes have undertaken a review of the garage sites focusing on the following matters:
- Location
 - Condition
 - Investment required
 - Demand/availability
 - Customer preferences
 - Future options, e.g: introducing differential rent levels for garages based on demand/condition, incentivising low demand garage sites, assessing a sites development potential.
- 10.5 Whilst it may be possible to increase rents for the more desirable garages, officers are aware that a large increase in rent will increase the expectations of tenants around improvements to the condition and security of the garages. Therefore it is not proposed to introduce differential rent levels at the current time.
- 10.6 Officers from both NSDC and NSH continue to identify existing and redundant garage sites which could be suitable for small scale new build projects should the Council decide on a policy of future growth.

11.0 Financial Considerations

- 11.1 Once again it has been a very difficult year, with a significant amount of resources being used in the preparation of the Housing Revenue Account annual budget and self-financing business plan.
- 11.2 The current budget proposals are based on the 30 year self-financing Housing Revenue Account Business plan and in future years will depend on the programme selected by Members.
- 11.3 The budget includes costs that continue to fall to the HRA following the transfer of management of the housing stock to Newark and Sherwood Homes, for example property insurance, depreciation, and costs of financing the borrowing to fund the capital programme. The budget also includes costs of back funded superannuation (in respect of the service prior to 1st November 2004 of those staff who transferred to Newark and Sherwood Homes), external audit fees, and costs of central services which continue to fall to the HRA, for example a recharge from Financial Services for work done in respect of rent setting, servicing the Strategic Housing Liaison Panel, final accounts and budget processes etc.
- 11.4 The number of properties sold under 'Right To Buy' has shown a slight rise in the last 2 years as Government has created more incentives for tenants to buy their properties. There have also been changes to the system for calculating pooling of receipts with the District Council signing up to the national 1-for-1 replacement policy whereby additional receipts can be retained in order to part fund the construction of new social housing.
- 11.5 Under the 1-for-1 replacement policy the Government states that every additional council home sold under Right to Buy will be replaced at a national level by an affordable rent home. The baseline is the number of Right to Buy property sales assumed in the self-

financing settlement made prior to the recent policy invigoration (40,000 nationally in the first 10 years of self-financing).

11.6 In the first 18 months of self-financing there have been Right to Buy receipts totalling £679m nationally and this has been applied as follows:

- Transaction costs £16m – retained by local authorities to offset costs
- Allowable debt £161m – assumed to be used to repay HRA debt, but not compulsory.
- Local Authority Share £82m – use under existing rules
- Treasury Share £195m – to balance the self-financing settlement
- Deductible Buy Back Allowance £3m – buying back previous RTB properties
- 1-for-1 Receipts £219m

11.7 For Newark and Sherwood District Council the comparative figures are:

- Total Right to Buy receipts £1,310k (29 properties)
- Transaction costs £38k
- Allowable debt £402k
- Local Authority Share £209k
- Treasury Share £501k
- Deductible Buy Back Allowance £NIL
- 1-for-1 Receipts £160k

11.8 The conditions for retaining 1-for-1 receipts are that they must constitute no more than 30% of the total amount spent on the provision of new affordable housing and that the full amount of spending on the scheme must be spent (work completed) within 3 years of the retained receipts. The remaining 70% of the scheme cannot be funded from public sector grant (e.g. HCA funding) or non RTB housing receipts.

11.9 1-for-1 receipts can be used for development costs of replacement homes at affordable rent which may be acquired or constructed and can be provided by a registered provider so long as the local authority has nomination rights. Development costs may include the cost of acquiring new land but not the value of land already owned by the authority.

11.10 Under the 1-for-1 replacement policy the receipts retained by Newark and Sherwood District Council currently amount to £207,189, the trigger was first hit in quarter 2 of 2013/14 therefore the amount of spend on new affordable housing is required to be £690,629 which needs to be spent by 30th December 2016. It is essential that Members consider a programme of new build or acquisition of properties to ensure that the conditions of retaining the receipts are met.

11.11 On 3rd January 2014 the department for Communities and Local Government announced a range of proposals to speed up the process by which eligible tenants can purchase their council homes through the Right to Buy. The maximum discount for houses will be increased to 70% in line with the current discount for flats. Maximum cash caps for discount will be increased in line with the Consumer Price Index rate of inflation. The Government announced in the Autumn Statement that they were to introduce Right to Buy Agents to help buyers complete their home purchase and also that they would establish a £100m fund to improve applicants' access to mortgage finance. They are also pressing

ahead with their proposals to amend the qualifying period for Right to Buy from five years to three.

- 11.12 On the advice of the Audit Commission, depreciation continues to be calculated based on the valuation of the Council stock rather than on a componential basis, however it is no longer reversed out of the HRA 'below the line'. It remains as a charge to the HRA transferring funds to the Major Repairs Reserve. There is an additional transfer from the HRA to the Major Repairs Reserve to ensure that there is sufficient funding for the capital programme during the life of the 30 year business plan. Officers from the Council and Newark and Sherwood Homes continue to scrutinise the capital programme on an ongoing basis to ensure that sufficient funding is available.
- 11.13 At the end of the financial year 2012/2013, the Housing Revenue Account added £431,902 to balances, giving a brought forward balance at 1 April 2013 of £2,262,197. This budget proposes to maintain balances (excluding efficiency gain) around £2,260,000 for 2013/14 to 2018/19. The self-financing HRA business plan assumes a minimum HRA balance of £2,000,000.
- 11.14 The District Council and Newark and Sherwood Homes have worked closely through the last year to determine a new management agreement and governance arrangements following the decision to retain Newark and Sherwood Homes as the Council's Housing Management Company. This has seen the formation of a Strategic Housing Liaison Panel consisting of senior Council and Board Members supported by officers of both organisations, which meets quarterly.
- 11.15 The Council's Policy Committee set out the performance framework for Newark and Sherwood Homes at its meeting on 19th September 2013 and this will now be monitored by the Homes and Communities Committee.
- 11.16 The estimates of rent income in this report have once again been based on the formulae under the Rent Restructuring guidance and inflation rates at September 2013. The full impact of welfare reform is not known, however as a prudent measure the provision for bad debts has been increased in 2014/15 and 2015/16 in the HRA Business Plan model and the budget. Newark and Sherwood Homes are considering ways to ensure that rent collection rates remain as high as possible and that tenants are kept fully informed about the changes.
- 11.17 The Government's proposals for changes to the calculation for rents for social tenants are detailed in section 6 of this report, as is the impact on the business plan of applying a different rent increase for 2014/15 to that provided for within the existing Rent Setting Policy. When Government guidance on future rent setting is issued, the existing Rent Setting Policy which is attached as Appendix D of this report should be reviewed and brought back to a future Policy Committee for approval.
- 11.18 The budget summary in Appendix A indicates how surpluses accrue to the Housing Revenue Account in future years under a debt repayment model - we have assumed that debt will only be repaid when it reaches maturity, rather than incurring additional costs by redeeming debt early and incurring additional premium.

- 11.19 As stated in 11.4 the number of properties sold under the Right to Buy has increased over the last 2 years. The Housing Revenue Account business plan projections for RTB sales show a significant reduction in the Council's housing stock over the life of the business plan if investment in new properties is not undertaken.
- 11.20 The Housing Revenue Account budget considered in this report assumes that the Council will ensure that the existing properties continue to be maintained to the decent homes plus standard whilst repaying debt as soon as the business plan allows. Whilst the business plan is not 'set in stone', Members are asked to decide on options to meet the Council's strategic objectives. Members may wish to now review this position and opt for a programme that is a combination of prudent growth, standards and partial debt repayment. This is discussed in more detail in section 12, below, and incorporated in recommendation 15 b. As stated in paragraph 11.4 above, identifying possible future new build schemes will allow RTB 1-for-1 receipts to be utilised by the District Council as they arise. The budget currently sets aside any surpluses into the major repairs reserve which allows not only for funding of major repairs over the life of the business plan but also for future new development or repayment of debt.

12.0 Growth

- 12.1 As already stated, the Business Plan's current focus is on the principle of debt repayment, however financial opportunities referred to in this report do exist to deliver prudent growth to benefit the long term sustainability of the Business Plan and to meet the evidenced housing need across the district. This is in addition to the HRA having a range of available assets that have the potential for housing development.
- 12.2 For the Business Plan 'growth' primarily means increasing the Council's housing stock levels be it through new build or acquisition. Separate to the Business Plan the Council also has the opportunity to enable Registered Providers operating in the district to increase the levels of affordable housing, an example of this is through grant funding, (which could not be financed through HRA money).
- 12.3 Council officers are developing a draft HRA 'Growth Strategy', which will identify and review all of the available delivery, asset and finance options that could enable additional Council owned, affordable housing. The Strategy in the first instance will be considered at the next Strategic Housing Liaison Panel in March 2014. Depending upon the outcome of this work the Strategy will then be taken through the Committee cycle for the appropriate approvals.

13.0 Proposals

- 13.1 The proposed budget for 2014/15 is attached at Appendix A. The proposed rent levels are attached at Appendix B.
- 13.2 The proposed combined management and maintenance fee of £7,637,600 under the existing management agreement as stated in paragraph 5.2 should be noted.
- 13.3 As stated in paragraphs 7.6 and 7.7 there has been a fundamental review of the current support service provision and the Council implemented charges on a tiered service

approach as shown in Appendix E. It is recommended that these charges should remain at the 2013/14 level for 2014/15

- 13.4 As stated in paragraphs 8.1 and 8.2 it is proposed that all other services charges are increased by 2.7% in line with CPI from 1st April 2014.
- 13.5 That charges for garages, garage plots and garage ports are increased in line with the average rent increase with effect from 1st April 2014. The new weekly charges based on a 5.99% rent increase will be:

	£	
Garage Rents	7.84	(plus VAT if they are let to non Council tenants)
Garage Ports	3.50	(plus VAT if they are let to non Council tenants)
Garage Plots	40.00	per annum (plus VAT if they are let to non Council tenants)

14.0 Legal Comments

- 14.1 Whilst the Council's existing Rent Setting Policy stipulates that rent levels will continue to follow convergence with other registered social landlords, it is open to the Council to depart from its current policy if it has sound reasons for so doing. Therefore the Policy Committee could decide to recommend a different level of rent increase to that required to achieve convergence if it considered, for example: that it was appropriate to do so due to the fact that the Government is moving away from recommending convergence and has consulted on new guidance limiting rent increases; together with concerns around the current economic situation and impact upon tenants etc. If Members are minded to depart from the current policy it is suggested that the reasons for so doing are clearly recorded as part of any decision.

15.0 RECOMMENDATIONS that:-

- (a) **the Rent Setting Policy be considered and revised when the new Government guidance on rent setting is issued following the period of consultation by Communities and Local Government and submitted for approval at a future meeting of the Policy Committee;**
- (b) **officers prepare a growth strategy for ultimate approval by the Policy Committee to allow for prudent growth and use of the borrowing headroom, whilst considering housing standards and any need for debt repayment; and**
- (c) **the following recommendations be made to Council at its meeting on 18th February 2014:**
- i. the Housing Revenue Account budget for 2014/2015 as set out in Appendix A to this report be recommended to Council on 18th February 2014; (subject to any recommendations on rents or growth);**
 - ii. the Management and Maintenance Fee for 2014/2015 of £7,637,600 be noted;**

- iii. the weekly rents of all properties in the Housing Revenue Account be increased in accordance with the amount shown on the spreadsheet, as Appendix B to the report;
- iv. that the support charges in Appendix E remain at the 2013/14 level;
- v. that other services charges should be increased by 2.7 % with effect from April 2014;
- vi. garage, garage plot and garage port rents are increased by 5.99% in line with the agreed rent increase on dwellings with effect from 1st April 2014; and
- vii. delegated authority be given to the Director – Resources following consultation with the Leader, Deputy Leader and Leader of the Opposition Party to approve the level of an intensive housing management charge to support tenancy sustainment and move on at the hostels at Wellow Green, Ollerton and Seven Hills, Newark.

Reason for Recommendations

To enable the HRA budget for 2014/2015 the rent levels, garage rent, garage plots, garage ports and Housing Support Service Charge levels to be recommended to Council.

Background Papers

None.

For further information please contact Amanda Wasilewski on Extension 5331 or Rob Main on Extension 5930

David Dickinson
Director - Resources

Karen White
Director - Safety

INTERNAL AUDIT PROGRESS REPORT

REPORT PRESENTED BY: HEAD OF AUDIT AND RISK MANAGEMENT – AUDIT LINCOLNSHIRE

1.0 Purpose of Report

To receive and comment upon the latest Internal Audit Progress Report which covers the period up to 31 July 2015.

2.0 Introduction

The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2015/16 against the agreed audit plan.

3.0 RECOMMENDATION

That the Audit and Accounts Committee consider and comment upon the latest internal audit progress report.

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

David Dickinson
Director of Resources



Internal Audit - Progress Report 2015 / 16



Date: *July 2015*

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Contact Details:

Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG

☎: 01522 553692 ☉ lucy.pledge@lincolnshire.gov.uk

Introduction

- 1 The purpose of this report is to:
 - Advise of progress being made with the Audit Plan
 - Provide details of the audit work during the period
 - Raise any other matters that may be relevant to the Audit and Accounts Committee role

Key Messages

- 2 The Internal Audit plan for the first six months of 2015/16 has been scheduled. There are 21 audits/jobs in this period, including one non-planned piece of additional work, and one audit transferred from 2014/15. Progress so far is:
 - 3 audits complete 14% of jobs
 - 1 audit at draft report stage 5% of jobs
 - 1 audit at fieldwork stage 5% of jobs
 - 1 audit at client brief stage 5% of jobs
- 3 We are pleased to report that we have issued 6 reports since the last Committee. Three of these provided Effective/High and two Some Improvement/Substantial levels of assurance. The remaining report was a follow-up report for which a level of assurance was not applicable.
- 4 The assurance levels have been changed following some negative feedback from clients. In particular clients felt that 'major improvement' was too emotive a term and tended to overstate the level of improvement required, whilst others felt that 'inadequate' and 'effective' were difficult to comprehend. To address this we have simplified the assurance levels along the lines suggested by CIPFA and the levels are now High, Substantial, Limited and Low assurance (see Appendix 1 for definitions).

Internal Audit work completed from May to July 2015

5 The following audit work has been completed and a final report issued:

Effective Assurance / High	Some Improvement Needed / Substantial	Major Improvement Needed/ Limited	Inadequate / Low
<ul style="list-style-type: none"> ■ Planning Policy ■ Customer Responsiveness ■ Leisure Centre Project Management 	<ul style="list-style-type: none"> ■ Contract Management ■ Palace Theatre 	<ul style="list-style-type: none"> ■ None 	<ul style="list-style-type: none"> ■ None

Note The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 1.

6 The follow-up report was of the ICT Infrastructure audit of December 2012. We found that most of the findings from the 2012 audit have been addressed, either they have been completed, are in progress or planned to be completed in the next year.

There are two recommendations that have not been progressed and it is not currently planned to do so. Whilst there are reasons for this we would suggest that they be considered further and have included them as low priority recommendations, they are:

- The introduction of a technical security assessment for applications and network components
- The establishment of a minimum set of security requirements to enable partnering.

7 For the audits in the above table, we confirmed that the Council has sound processes in place. Below is a summary of our findings:-

Planning Policy

The Council has effective processes in place to develop and deliver planning policy in the areas reviewed. This was demonstrated through:-

- Neighbourhood Planning
 - Evidence of effective support to neighbourhoods when submitting applications to designate neighbourhood areas, we have recommended clarifying the type and level of this support for the future
 - Effective governance in decision making and approval
 - Communication with stakeholders through the NSDC web site and individual liaison

- Processes in place for claiming government funding in line with conditions
- Assets of Community Value
 - Maintenance of the Community Asset Register and publication in line with legislation
 - An approved process followed and well communicated internally and externally
- Local Development Scheme
 - We found the scheme was regularly reviewed and progress reported through the Committee structure
 - Published as required by legislation

We also found that operational risks have been identified and are being managed.

Customer Responsiveness

The Council is good at dealing with customer complaints. The use of the CRM system, supported by monthly performance reports ensures that complaints are recorded and adequately dealt with. The Council's procedures are comparable to those in other Local Authorities and comply with Local Government Ombudsman guidelines.

Leisure Centre Project Management

The project is well managed and the current processes in place will support the Council in achieving their agreed objectives to deliver a new leisure centre on time and within budget.

We identified the following areas of good practice:

- Design and business case refined over a 16 month period using external and internal expert advice expected for a project of this size
- Effective governance processes with regular reporting by an externally appointed project manager. As at April 2015 the project is on target for delivery at budgeted cost
- Evidence of effective financial management through the Director-Customers who is project sponsor and project team. The Director-Customers provides regular updates to CMT and budget monitoring is included in the capital programme regularly reported to Policy & Finance Committee
- Monthly dash board reports by the project manager including issues and risks which are assigned to individuals to manage
- Risk register in place which identifies target dates and responsibilities, next actions dates are identified as August 2015
- Consultation with stakeholders, consideration of suggestions as part of project design. Ongoing consultation as part of developing activity schedules, publicity and promotion

Contract Management

Purchases between £50,001 and EU thresholds are being managed effectively; formal tendering was found to be operating in compliance with contract procedure rules.

- Through discussion with officers and review of Committee reports and minutes we can see that a governance process was in place for the sale of Kelham Hall.
- Legal and financial due diligence has taken place and appropriate experts were appointed where required for the sale of Kelham Hall.

Palace Theatre

- We found that overall sales and income is being effectively managed and the theatre has good practices in place for the collection, reconciliation and banking of income.
- In particular the following areas were all found to be working well:-
 - Payments to artists and agents are made in accordance with the contract and evidence is available to support all calculations.
 - Tickets are held securely and the sale of tickets is controlled.
 - The exchange and refund of tickets is controlled and made in accordance with the refund policy.
 - All income is collected and accounted for and stock is held securely with regular stock checks being undertaken.

Other Significant Work

8 Newark Cattle market

We have carried out some financial modelling work for the Director Safety in respect of the cattle market to set out the effect on the rental income using various different calculation methods.

Audits in Progress

9 The following 2015/16 audits have commenced:-

Audits at Draft Report Stage

- National Civil War Centre

Audits in Progress

- Partnership Working
- Equality and Diversity

Performance Information

10 Our current performance against targets is shown below:-

Performance Indicator	Target	2015/16 Actual @ 31/07/15
Percentage of plan completed.	100% (Annual year end)	10%*
Percentage of key financial systems completed.	100% (Annual year end)	0%
Percentage of recommendations agreed.	100%	None yet due
Percentage of recommendations implemented.	100%	N/A
Timescales		
a) Draft report issued within 10 working days of completing audit.	■ 100%	■ 100%
b) Final report issued within 5 working days of closure meeting / receipt of management responses.	■ 100%	■ 100%
c) Draft report issued within 2 months of fieldwork commencing	■ 80%	■ 100%
Client Feedback on Audit (average)	Good to excellent	None Issued

*Indicator based on the number of days spent against the total number of days within the revised plan (14% of jobs have been completed).

- 11 Good progress is being made, there is some slight slippage of less than a month due to an unforeseen delay in deploying staff and additional work required by both the Council and Newark and Sherwood Homes. Work is scheduled and it is anticipated that the plan will still be completed on target.
- 12 The table represents the results of 2015/16 but we are still progressing the audits and follow-up the implementation of recommendations for 2014/15.

Other Matters of Interest

13 Grant Thornton – Local Government Governance Review 2015: All aboard?

Grant Thornton have published their fourth annual review into local authority governance which aims to assist senior management and elected members of councils, fire & rescue authorities and police bodies to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Focusing on three particular aspects of engagement – within the organisation, with partners and with the public – the key messages from the report are:

- while more than 90% of survey respondents felt their organisations encouraged well-managed risk taking and innovation, 43% felt scrutiny committees were not challenging enough about the way authorities do things
- 84% of respondents said their organisations are now using or considering alternative delivery models but only 45% feel that scrutiny of service quality is sufficiently challenging
- 49% said the transition to police and crime commissioners has not had a positive impact on local partnership working arrangements, while 42% saw no difference in local healthcare governance as a result of councils' new public health role
- annual accounts and annual governance statement continue to expand in length, making them even more challenging for the public to read and understand
- only 30% of cabinet positions in local authorities are held by women, while over half our survey say members do not adequately reflect the demographic profile of the local population

Alongside the research findings, the report highlights examples of good practice and also poses a number of questions for management and members, to help them assess the strength of their current governance arrangements. For the full report please follow the link:

[Grant Thornton - Local Government Governance review 2015: All aboard?](#)

Appendix 1

Assurance Definitions¹

<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

¹ These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 2 - Outstanding recommendations as at July 2015

Audit Area	Date	Assurance	No.of Agreed Recs	Implemented /Closed	Outstanding*		Revised Implementation Date	Not Due
					H	M		
Deputy Chief Executive								
Corporate Governance	Jun'14	Substantial	3	1		1		1
Customers								
Corporate Complaints	Jun'14	Substantial	2	0		2	31/12/15	0
Palace Theatre	Jun'15	Some Imp. Needed	12	6		3	30/09/15	3
Transparency Agenda	Apr'15	Effective	2	0		1	30/09/15	1
Growth								
Building Control	Jan'13	Substantial	4	2		2	1 - 01/09/15 1- 30/09/15	0
ICT								
IT Security	Feb'13	Substantial	11	10		1	30/09/15	0
ICT Partnerships/Projects	Sept'14	Some Imp. Needed	6	3		3	30/09/15	0
Resources								
Payroll	Apr'14	Substantial	2	1		1	31/08/15	0
Treasury Management	Jul'14	Some Imp. Needed	4	3				1
General Ledger	Dec'15	Effective	2	1				1
Procurement Counter Fraud	Feb'15	Effective	2	1				1
Contract Management	Jun'15	Some Imp. Needed	11	1		0		10
Print Project	Apr'15	Some Imp. Needed	6	5	1		30/09/15	0
Safety								
Health and Safety	May'15	Some Imp. Needed	3	1		2		0
Safeguarding	Feb'15	Some Imp. Needed	10	3		6	1- 31/07/15 1- 30/09/15 1- 31/12/15	1
Strategic Housing Hawtonville Neighbourhood Project	Jan'15	Some Imp. Needed	2	0		2		0
Strategic Housing Strategy	Jan'15	Some Imp. Needed	4	0		4		0
Strategic and Emerging Risks								
Emerging Risks	Feb'14	Substantial	4	3		1		0
Total			90	41	1	29		19

* Originally due by 31 July and not implemented.

Appendix 3 - Internal Audit Plan & Schedule 2015/16

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities	77					
<u>Deputy Chief Executive</u>						
Planning Policy	10	Local Development Framework and other policies in place, compliance with the requirements of the Localism Act - neighbourhood planning and assets of community value.	April	April	July	Effective
<u>Director Safety</u>						
HRA Business Plan	8	Reviewed, assumptions made, linkages.	Aug/Sept			
Partnership work - NSH	18	To review the partnership arrangements in place.	May/June	June		Fieldwork
<u>Director Customers</u>						
Housing Options/Homelessness	8	High level review of strategies, policies and process to meet the homelessness responsibilities.	Jun/Jul			Meeting arranged for August to commence audit.
National Civil War Centre	8	Review requested of key processes in place for income, security and others following opening of centre.	June	June		Draft report.
ICT Audit	10	Review of the service itself looking at future planning and	Jun/Jul			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		meeting objectives.				
<u>Director Communities</u>						
Refuse and Recycling	10	Review of processes in place to:- <ul style="list-style-type: none"> ○ collect domestic, bulky and trade waste ○ collection of income ○ meet the targets 	Sept/Oct			
<u>Director of Resources</u>						
Capital Programme	5	Approved and monitored.	Sept/Oct			
Due Diligence	75					
<u>Deputy Chief Executive</u>						
Corporate Planning	5	High level review of planning in place for the Council:- corporate priorities, business plans, objectives.	Aug/Sept			
<u>Director of Resources</u>						
Budgetary Control	8	Cyclical system review.	July			
Creditors	8	Cyclical system review.	Aug/Sept			
Debtors	8	Cyclical system review.	Aug/Sept			
VAT/Tax	10	Cyclical system review.	Jul/Aug			
Financial Regulations and Management	8	Regulations are in place, communicated and monitored	Sept/Oct			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		for compliance				
<u>Director Safety</u>						
Human Resources	10	Overview of service.	Oct/Nov			
Equality and Diversity	10	Review of progress and benchmarking against the Public Sector duty. Requested by management.	Jul/Aug	July		Client brief issued and appointments made to start fieldwork.
Mansfield Crematorium	5	We will undertake our annual review of accounts.	April	April	May 2015	Completed
Gilstrap Accounts	1	We will undertake our annual review of accounts.	July			
Cattle Market	2	Annual audit of rental fee - additional work requested on 2013/14 figures.	Unplanned	May	N/A	Completed
Key Projects	8					
Council Offices – Vacation and New Build	8	Key, two year project. Advisory / gateway review – first gateway review.	Sept/Oct			
Strategic and Emerging Risks	8					
Strategic Risks	8	Review of monitoring arrangements and detailed review of one or more strategic risks.	Aug/Sept			
Other relevant Areas	31					
Newark and Sherwood Homes	28	Internal Audit Plan 2015/16	Various			Client briefs agreed. Additional work

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
						requested currently 8 days.
Follow-up of previous audit reports	3		Ongoing			
Non-Audit	19					
Advice & Liaison	5		Ongoing			
Annual Report	3		Ongoing	April	N/A	Completed
Audit Committee	5		Ongoing			
Contingency	6	8 days to allocate as necessary throughout the period, 2 days currently allocated to Cattle Market additional work allocated. 6 days remaining.	N/A	N/A	N/A	N/A
Grand Total (Revised)	218					

REVISION OF POLICIES – ANTI-FRAUD AND CORRUPTION STRATEGY AND GUIDANCE FOR DEALING WITH IRREGULARITIES

1.0 Purpose of Report

- 1.1 To present to the Committee the revised Anti-Fraud and Corruption Strategy and the Guidance for Dealing with Irregularities.

2.0 Background Information

- 2.1 The last revision of the Anti-Fraud and Corruption Strategy and the Guidance for Dealing with Irregularities was reported to the Audit & Accounts Committee in 2012.
- 2.2 The revised documents are attached as Appendix A – Anti-Fraud and Corruption Strategy and Appendix B – Guidance for Dealing with Irregularities.

3.0 RECOMMENDATION

That:

- a) Members consider the revised policies and**
- b) Members recommend to Policy & Finance Committee the approval of the Anti-Fraud and Corruption Strategy and the Guidance for Dealing with Irregularities.**

Background Papers

Nil.

For further information please contact Nicky Lovely, Business Manager Financial Services on extension 5317.

David Dickinson
Director Resources



**NEWARK &
SHERWOOD**
DISTRICT COUNCIL

ANTI-FRAUD & CORRUPTION STRATEGY

Revised: August 2015

Next revision due: August 2017

1. INTRODUCTION

- 1.1 The Council recognises that the extent and nature of its services and activities means there is a risk of loss due to fraud, corruption (including bribery), theft, and the falsification, unauthorised destruction or suppression of records.
- 1.2 This Strategy applies to Members, Officers and Employees, and all Associated Persons including but not limited to: temporary workers, consultants, contractors, suppliers, agents, advisers, subsidiaries, any person or body acting for or on behalf of the Council, and individuals or bodies seeking to gain influence with the Council.
- 1.3 Any proven breach of this strategy is likely to constitute a serious disciplinary, contractual and criminal matter for the individual(s) or body implicated, and in addition to physical loss may cause serious damage to the reputation and standing of the Council.

2. POLICY STATEMENT

“Newark and Sherwood District Council is committed to the highest standards of public service, business conduct, openness, probity, accountability and honesty. As part of this commitment we will not tolerate fraud, corruption, theft, or the falsification, unauthorised destruction or suppression of records. We will vigorously and objectively investigate all allegations of such action, and pursue legal, financial, other appropriate redress, and prosecution, where merited.

A further part of this commitment will be to implement a proportionate, comprehensive, fair and balanced strategy in order to:

- develop and maintain a culture of openness, probity, accountability and honesty;
- acknowledge and understand fraud risks
- maintain appropriate levels of internal control;
- deter, prevent, detect and investigate fraud, corruption, theft and the falsification, unauthorised destruction or suppression of records ;
- seek appropriate sanctions, where justified, against individuals or bodies;
- take legal action and prosecute where considered appropriate;
- seek redress in respect of any resources involved;
- preserve assets and resources for use in the best interests of the community’.

3. AIMS AND SCOPE OF THE STRATEGY

3.1 The overall aim of this Strategy is to create and maintain an Anti-Fraud and Corruption culture within Newark and Sherwood District Council, and to ensure irregularities are detected, reported and dealt with appropriately.

3.2 The specific objectives of the Anti-Fraud Strategy are to operate proportionate and appropriate measures aimed at:

- Acknowledging and understanding the areas at risk of fraud;
- Prevention;
- Detection and Cessation;
- Loss recovery;
- Admonishment and Disciplinary action;
- Prosecution and legal action.

3.3 The objectives will be achieved by:

- the Council's commitment to the creation of a workable partnership with its citizens whereby fraud, corruption (including bribery), theft and the falsification, destruction or suppression of records will not be tolerated;
- the introduction and regular review of appropriate practices within Council Policies and Codes of Practice which govern the actions of Employees, Members and "Associated persons"; and
- the Council's ongoing commitment for the provision of appropriate and adequate resources proportionate to the risk.

4. POLICIES

4.1 There are a number of essential documents, policies, procedures, guidance notes and rules associated with the Anti-Fraud Strategy. It is therefore important that all Members, Employees, and where appropriate Associated Persons are made aware of them, their role in complying with them as well as the implications of non-compliance.

4.2 Core policies are incorporated into the Council's Constitution and include:

- Financial Regulations
- Council Procedure Rules
- Contract Procedure Rules
- Code of Conduct for Officers / Members
- The Whistleblowing Policy

4.3 Specific Policies, including Staff policies:

- Guidance notes for staff regarding Gifts and Hospitality
- Guidance for Dealing with Irregularities
- The Housing Benefit Anti-Fraud Strategy
- Prosecution Policy

- Data Matching Code of Practice
- Customer Care Policy
- Information, Communication and Technology:
 - Information Technology Security Protocol
 - Mobile and Landline Communication Protocol
 - Email Protocol
 - ICT Password Protocol
 - ICT Remote Access Policy
- Recruitment, Training and Discipline
 - ⊖ Recruitment and Selection Policy and Procedures
 - Staff Vetting procedure (for staff in high-risk posts).
 - Induction Pack and Training.
 - Dismissal and Disciplinary Procedure.
 - Managing Disciplinary and Grievance Toolkit
 - Grievance Procedure – Standard and Modified.
 - Dignity at Work Policy
 - Equal Opportunities Policy.

5. **RESPONSIBILITIES**

5.1 Directors

- 5.1.1 Are responsible for ensuring that all Members, Employees and relevant Associated Persons are aware of the documents applicable to them, have access to them, and have knowledge of their contents and implications.
- 5.1.2 Must act promptly in respect of any alleged breach of this Strategy, and should act in accordance with all associated Council Policies, including the Guidance for Dealing with Irregularities.

5.2 Business Managers

- 5.2.1 Are responsible for ensuring that Staff and Associated Persons within their service areas have access to those documents which relate specifically to their service or role.
- 5.2.2 The Annual Governance Statement Checklist which is circulated to all Business Managers requires them to confirm annually that *'staff have access to, are familiar with, and work in accordance with the following documents and take action where non-compliance is identified and report thereon as required.'* The list of documents includes this Anti-Fraud and Corruption Strategy and related Policies.

5.3 Members

- 5.3.1 Are responsible for ensuring they read and understand the rules and regulations which apply to them and abide by them. Any queries in relation to the interpretation of the document should in the first place be raised with the relevant Director.
- 5.3.2 Are required to declare annually any "Related third party transactions" where they could be

in a position to influence both sides of a transaction involving the Council.

5.4 Employees and Associated Persons

5.4.1 Are responsible for ensuring they read and understand the rules and regulations which apply to them and abide by them. Any queries in relation to the interpretation of the document should in the first place be raised with their Business Manager or the relevant Director.

5.4.2 Specific officers are required to declare annually any “Related third party transactions” where they could be in a position to influence both sides of a transaction involving the Council.

5.5 ALL Members, Employees and Associated Persons

5.5.1 Must provide all information relevant to an alleged breach of this strategy in full and without delay.

5.5.2 Full and timely assistance and information must be provided to any appropriate authority should prosecution result from an investigation..

5.6 Director of Resources

5.6.1 The Director of Resources is the Responsible Officer for this strategy and associated policies and must be informed promptly of every alleged/suspected breach thereof.

5.6.2 He will ensure that all reports of alleged irregularity will be properly investigated relative to the scale and nature of the allegation, and in a timely manner.

5.6.3 He will maintain detailed records of all instances reported under this Strategy and under the Employee Guidance for Dealing with Irregularities.

5.6.4 He will ensure that an annual fraud risk assessment will be undertaken, identifying the level of risk, controls already in place and any further actions required to mitigate the risk. This will be reported to those charged with governance.

5.6.5 He will ensure that regular reports of counter-fraud activity are reported to those charged with governance.

6. ACTION

6.1 Formal action may be taken against anyone who fails to abide by the Strategy and related Policies, including Employees, Members, Associated Persons or any other party. This could ultimately include: the disciplining or dismissal of an Employee; sanctioning or referral to the Standards Committee in respect of Members; Police involvement and prosecution; involvement of any Authorised Body or Agency; legal action to recover losses, seek redress or other reason. The Council may terminate the contracts of any Associated Persons who are found to have breached the relevant Policy.

6.2 Where action is taken, due regard will be taken of any relevant Policies of the Council.

6.3 Concerns raised by Employees:-

These will be handled in conjunction with the Employee Guidance for Dealing with Irregularities.

6.4 Concerns raised by members of the Public or other third parties:-

- When the Council is informed of a concern, it will be referred to the Responsible Officer.
- It will be investigated to assess what action should be taken, which may be an internal enquiry or a more formal investigation.
- A formal written response will be issued summarising the concern and setting out how the Council proposes to handle the matter. The informant will be notified who is handling the matter, how to contact them, whether further assistance may be needed, and anticipated timescale. The Council will give as much feedback as possible, and will notify the informant if the concern more properly falls within another Council Policy (such as the Grievance Procedure or Harassment Policy).

6.5 The Council's Benefit Investigators will investigate potential fraud and abuse concerning Housing and Council Tax Benefits, and Council Tax Support in accordance with the Housing Benefit Anti-Fraud Strategy and this strategy.

6.6 Where necessary, the Council will work in co-operation with other authorities and organisations (such as the Police, the Department for Work and Pensions, the Council's External Auditors, Her Majesty's Revenue, Customs and Excise etc.) in order to combat fraud, corruption (including bribery) and theft.

6.7 The Council will participate in data matching exercises from time to time, in accordance with the Data Matching Code of Practice developed by the Audit Commission.

6.8 The Council operates a Customer Comments procedure to enable residents of the District to raise any concerns relating to Council services.

6.9 Disclosures concerning unlawful conduct, financial malpractice or dangers to the public or environment may be made under the Council's Whistleblowing Policy. This is primarily for major concerns where the interests of others or of the organisation itself are at risk, and which fall outside the scope of other Council procedures, such as:-

- The unauthorised use of public funds
- Possible fraud or corruption (including bribery)
- Sexual or physical abuse of both employees and clients
- Health and Safety risks
- Conduct which is a breach of the law
- Disclosures related to miscarriages of justice
- Damage to the Environment
- Other unethical conduct.

7. THE COUNCIL'S ASSURANCES

- The Council is committed to this Strategy as indicated in the above Policy Statement.
- All abuse and especially persistent or planned abuse will result in consideration of legal action being taken against the individual(s) concerned.
- The Council will pursue the repayment of any financial gain from any person or body found defrauding it.
- Due importance will be given to investigating all concerns raised under this Strategy.
- Each case will be examined on its own merits, and any action taken will only occur after it has been fully and properly considered.
- Investigation and action will be timely.
- The Council and its Officers will treat everyone with fairness.
- Formal action may be taken against anyone who fails to abide by the Strategy and related Policies, including Employees, Members, Associated Persons or any other Party. This could ultimately include: the disciplining or dismissal of an Employee; sanctioning or referral to the Standards Committee in respect of Members; Police involvement and prosecution; involvement of any Authorised Body or Agency; legal action to recover losses, seek redress or other reason.
- The Council may terminate the contracts of any "Associated Persons" who are found to have breached the relevant Policy.

8. AFFIRMATION

- 8.1 The Council Members positively support the introduction of this Anti-Fraud and Corruption Strategy, and it has been re-affirmed by:-
- The Policy & Finance Committee on 10th September 2015
- 8.2 The Strategy is an evolving document which will be formally reviewed every two years, or as appropriate per 8.3 below. Such review to be initiated by the Director of Resources.
- 8.3 The Director of Resources will draw ongoing anomalies to the attention of the Corporate Management Team, for onward information to the Audit and Accounts Committee and Policy & Finance Committee.
- 8.4 For any queries concerning any aspect of this strategy, please contact the Responsible Officer.

David Dickinson

Director of Resources and Responsible Officer

APPENDIX A

DEFINITIONS

Corruption: the abuse of power by a public official for private gain. Includes:

- Bribery – the offering, giving or receiving of a payment in exchange for a perceived advantage
- Bias –giving, allowing or receiving preferred treatment

A relevant function or activity where corruption could occur includes public, state or business activities or any activity performed in the course of a person’s employment, or on behalf of another company or individual, where the person performing that activity is expected to perform it legally, in good faith, impartially, or in accordance with a position of trust.

Fraud: a dishonest action designed to facilitate gain (personally or for another) at the expense of the Council, the residents of the District and/or the wider community. (e.g. overstatement of expenses claims, false claims for benefits).

Theft: the physical misappropriation of cash or other tangible assets (e.g. taking cash or equipment).

Falsification, unauthorised destruction or suppression of records: includes financial records, budgets and budgetary reports and all documentation of the Council, for any financial or other type of advantage. It includes deliberate omission or mis-recording of entries to relevant financial, reporting, and other records.

Fraudulent or corrupt acts may include:-

- Where a process or system is likely to be abused by either employees or public, e.g. allocation of housing
- Where individuals or companies have fraudulently obtained money from the Council, e.g. by submitting invalid invoices, or Housing Benefit fraud
- Where Council equipment is used for personal use, e.g. personal use of Council vehicles
- Where an individual is appointed without the appropriate qualifications due to falsifying an application form
- Activities undertaken by officers of the Council which may be illegal, or against the Council’s Constitution or policies, e.g. awarding a contract in return for an inducement

It may also be an offence under the Fraud Act 2006 or the Bribery Act 2010 to seek to influence or induce any other person to commit an irregular act.

This list is not exhaustive; it is intended for illustration purposes only.

Associated Persons: includes but is not limited to: temporary workers, consultants, contractors, suppliers, agents, advisers, subsidiaries, any person or body acting for or on behalf of the Council, and individuals or bodies seeking to gain influence with the Council.



**NEWARK &
SHERWOOD**
DISTRICT COUNCIL

GUIDANCE FOR DEALING WITH IRREGULARITIES

Revised: August 2015

Next revision due: August 2017

1. PURPOSE AND INTRODUCTION

- 1.1 These procedures have been set up to provide administrative guidance for employees in the event of a suspected irregularity being identified. The Council has produced an Anti-Fraud and Corruption Strategy which sets out the stance which the Council takes and the various documents produced in relation to irregularities. The Strategy applies to all Members, Officers and Employees, and all Associated Persons including but not limited to: temporary workers, consultants, contractors, suppliers, agents, advisers, subsidiaries and any person or body acting for or on behalf of the Council. The overall policy in relation to fraud and corruption is:

Newark and Sherwood District Council is committed to the highest standards of public service, business conduct, openness, probity, accountability and honesty. As part of this commitment we will not tolerate fraud, corruption, theft, or the falsification, unauthorised destruction or suppression of records. We will vigorously and objectively investigate all allegations of such action, and pursue legal, financial, other appropriate redress, and prosecution, where merited.

A further part of this commitment will be to implement a proportionate, comprehensive, fair and balanced strategy in order to:

- develop and maintain a culture of openness, probity, accountability and honesty;
- maintain appropriate levels of internal control;
- deter, prevent, detect and investigate fraud, corruption, theft and the falsification, unauthorised destruction or suppression of records ;
- seek appropriate sanctions, where justified, against individuals or bodies;
- take legal action and prosecute where considered appropriate;
- seek redress in respect of any resources involved;
- preserve assets and resources for use in the best interests of the community.

- 1.2 The Council has a number of Policies, Codes of Practice and Guidelines that apply to Members, Employees and Associated Persons to ensure good practice and supplement procedures. These are outlined within Section 4 of the Anti-Fraud and Corruption Strategy.

2. IRREGULARITIES

- 2.1 **Corruption**, or **bribery** as it is commonly referred to, relates to financial or other type of

advantage that is offered or requested with the:

- i) intention of inducing or rewarding improper performance of a function or activity; or
- ii) knowledge or belief that accepting such a reward would constitute the improper performance of such a function or activity.

2.2 **Fraud:** the intentional distortion of financial or other statements for personal gain (e.g. overstatement of expenses claims).

Fraudulent or corrupt acts may include:-

- Where a process or system is likely to be abused by either employees or public, e.g. allocation of housing
- Where individuals or companies have fraudulently obtained money from the Council, e.g. by submitting invalid invoices, or Housing Benefit fraud
- Where Council equipment is used for personal use, e.g. personal use of Council vehicles
- Where there is a misuse of resources, e.g. theft of building materials
- Activities undertaken by officers of the Council which may be illegal, or against the Council's Constitution or policies, e.g. awarding a contract in return for an inducement

This list is not exhaustive, it is intended for illustration purposes only.

2.3 **Theft:** the physical misappropriation of cash or other tangible assets (e.g. taking cash or equipment).

2.4 **Falsification, unauthorised destruction or suppression of records:** includes financial records, budgets and budgetary reports and all documentation of the Council, for any financial or other type of advantage. It includes deliberate omission or mis-recording of entries to relevant financial, reporting, and other records.

2.5 It is also an Irregularity to seek to influence or induce any other person to commit an irregular act.

2.6 An Irregularity may be made by any person, both within the Council and by third parties or other people seeking improperly to influence matters in the Council.

3. RESPONSIBILITIES

3.1 It is the responsibility of all staff to prevent and detect irregularities. The initial discovery of an Irregularity is often down to the alertness of either employees, third parties dealing with the Council, Members or the general public, and it is in everyone's interests to remain vigilant and alert to the possibility of irregularity.

3.2 It is everyone's responsibility to report suspected irregularities.

3.3 The Director of Resources is designated as the Responsible Officer for the maintenance and

operation of the Anti-Fraud and Corruption Strategy and the Guidance for Dealing with Irregularities.

- 3.4 These Guidance procedures are linked and complimentary to the Council's Anti-Fraud and Corruption Strategy, which should also be referred to in the event of alleged or suspected irregularity.

4. DETECTION AND INVESTIGATION OF AN IRREGULARITY

- 4.1 An irregularity, or inducement to commit an irregularity, may be made both from within the Council, or by an outside party.

- 4.2 **Raise your concerns:** It does not matter if you are mistaken in raising your concerns; the Council maintains policies to prevent unfair treatment of employees who raise a genuine concern in good faith. However the Council will obviously not extend this assurance to an employee who maliciously raises a matter that they know is untrue or makes an allegation for personal gain. Such an action could be construed as gross misconduct and be dealt with in accordance with the Council's Dismissal and Disciplinary Procedure.

If you do have concerns relating to the disclosure of the irregularity, because of factors such as the potential for harassment or because you feel the matter may not be dealt with properly, use of the Council's Whistleblowing Policy should be considered.

- 4.3 It is recognised that you may want to raise a concern in confidence. If you ask that your identity is protected, it will not be disclosed without your consent. If the situation arises where the Council is not able to resolve your concern without revealing your identity (for instance because your evidence is needed in court) it will be discussed with you, as to whether and how the matter can be progressed.
- 4.4 If you do not tell the Council who you are, it will be much more difficult to investigate the matter and to give you feedback. Concerns raised anonymously are much less powerful, and it is possible that they could not be considered by the Council.

5 DETAILED GUIDANCE

5.1 Initial Identification and Disclosure:

- i) Make an immediate note of your concerns, with appropriate relevant details such as names, dates, times (in general, the type of information that may be required if the matter is pursued further).
- ii) Convey your concerns to your immediate Line Manager where possible.
- iii) You may, if you feel it more appropriate, convey your concerns to the Responsible Officer (currently Director of Resources), or if you feel that this is not appropriate to the Business Manager Human Resources, the Monitoring Officer or the Chief Executive.
- iv) Where the irregularity relates to a suspected or known theft, also inform the Insurance Officer at the earliest opportunity e.g. via telephone or e-mail. This is

because speed is vital to prevent further loss and re-occurrence, and to aid investigation. This officer will ensure that all relevant areas are addressed such as building security.

A Theft Report must be completed (this is a formal document available on the Intranet and from the Insurance Officer). You must forward completed copies as soon as possible to all Officers listed on the form even if you have previously notified them by phone or e-mail. If you need advice on how to complete the form, please ask your Line Manager.

- v) On initial contact you will be informed if your concern falls within an existing Council procedure for disclosing concerns (such as the Grievance Procedure, the Harassment Policy, or the Whistleblowing Policy), and you will be advised as to what you need to do next.

5.2 Evaluation and Investigation:

- i) The person to whom you make the disclosure should inform the Responsible Officer and relevant Director (unless this is deemed to be inappropriate) at the earliest opportunity.
- ii) They will also undertake an initial evaluation of the details you have provided and may require further details from you.
- iii) On the basis of the initial evaluation further enquiries may be made by the person receiving the report, in conjunction with the Responsible Officer, to identify whether an investigation is appropriate and what form it should take, or they may pass the matter onto another Officer or Director for such an investigation to be undertaken.
- iv) A formal written response will be issued to you summarising your concern and setting out how it is proposed to handle the matter. You will also be notified of the officer who is handling the matter and how to contact them if they are different to whom you made the disclosure. You will be provided with as much feedback as possible throughout the process.
- v) Appropriate supporting documentation, including decisions made, must be maintained throughout by all involved.
- vi) The Responsible Officer will decide and recommend what further action, if any, is required. Such decision may be made in conjunction with other members of the Corporate Management Team, as appropriate.
- vii) It is the responsibility of the person receiving the report and the Responsible Officer to act with due speed appropriate to the nature and seriousness of the suspected irregularity, and to keep you reasonably informed of progress.
- viii) Any further detailed investigation must be undertaken with due thoroughness.
- ix) You should keep notes of all subsequent communication, discussion, etc., relating to the incident.
- x) Each case will be examined on its own merits, and any action taken will only occur after it has been properly considered.
- xi) Officers of the Council will treat everyone with fairness.
- xii) Appropriate action may be considered in relation to employees. Any disciplinary, dismissal, or criminal proceedings will be considered in accordance with the Council's Policies, including Dismissal and Disciplinary Procedures, and in accordance with the Council's Prosecution Policy.

- xiii) Similarly, appropriate action may be considered in relation to Members and Associated Persons.

5.3 Police Involvement, Legal Proceedings, and Involvement of other Authorised Bodies:

- i) If it is decided at any stage that the matter should be referred to the Police, any other authorised body (for example but not limited to: Director of Public Prosecutions, Serious Fraud Office, Her Majesty's Revenue and Customs, UK Financial Intelligence Unit) or that legal proceedings of any nature should be taken, such a course of action will be made only by the Chief Executive, Monitoring Officer or S151 Officer in conjunction with the Corporate Management Team. The Leader of the Council will be informed.
- ii) If your personal property is involved, you obviously have the right to report such a matter to the police at any time.
- iii) Should you be required to give evidence in criminal, legal, or disciplinary proceedings, arrangements will be made for you to receive advice about the procedure.

6. CONCLUSION

- 6.1 This Guidance is an evolving document which will be formally reviewed every two years, or as appropriate per 5.2 below. Such review to be initiated by the Director of Resources.
- 6.2 The Director of Resources will draw ongoing anomalies to the attention of the Corporate Management Team, for onward information to the Audit and Accounts Committee.
- 6.3 For any queries concerning any aspect of this Guidance, in the first instance please contact the Business Manager Financial Services or the Responsible Officer.

David Dickinson
Director of Resources and Responsible Officer
August 2015

FRAUD RISK ASSESSMENT

1.0 Purpose of Report

1.1 This report is to inform Members of the update of the Fraud Risk Register undertaken during August 2015.

2.0 Background Information

2.1 A fraud risk assessment was undertaken in June 2014 and a fraud risk register produced and presented to the Committee.

2.2 The fraud risks have been reassessed and the register updated.

3.0 Work Undertaken

3.1 All of the services provided by the Council have been reviewed to understand whether there are any new areas where fraud might occur. The types of fraud have also been considered to determine if there are any new risks to the Council.

3.2 The assessment then reviewed the risk scores and determined whether the impact or likelihood of any of the frauds occurring has changed over the last year.

3.3 The number and values of transactions have been updated to reflect the 2014/15 financial year. Estimates of potential fraud losses have been calculated based on rates of fraud identified by the National Fraud Authority.

3.4 The final part of the exercise was to consider whether any new controls had been put in place during the year, whether the further controls identified last time had been implemented and whether there were any new controls that could be put in place to further reduce the risk.

4.0 Results

4.1 Seventeen areas of the Council's activities are considered to be at the risk of fraud, three of which have sub-categories within them. The type of risk is dependent on the service. No new areas or types of fraud were identified. Based on the existing controls, of those risks, four are currently considered to be medium risk (amber) and sixteen are low risk (green).

4.2 The risks where the assessment has changed are:

- Council Tax Support Scheme – amber to green. Potential amounts lost to fraud are low so impact reduced
- Council Tax – green to amber. As government austerity measures continue to bite, the likelihood of this fraud is considered to be higher.
- Procurement/Payments - green to amber. Fraudsters are using increasingly sophisticated electronic means to perpetrate frauds, so likelihood considered to be higher.

- Investments – amber to green. Treasury management staff were new in post last year so the risk of them not recognising suspicious incidents is considered to have reduced.

4.3 The further actions that have been implemented during 2014/15 which will help to mitigate fraud risks include:

- A Counter-fraud page on the Council's website
- A Counter-fraud page on the staff Intranet
- A County-wide Council Tax Second Person Discount review
- Compliance with the 2014 Transparency Code
- Guidance on contract management added to the procurement page on the staff Intranet
- Review and update of Financial Regulations, the Anti-Fraud & Corruption Strategy, the Guidance for Dealing with Irregularities and the Anti-Money Laundering Policy.

In addition legislation is now in place to allow prosecutions of people who commit fraud in relation to Council Tax Support. The Council is in the process of creating a prosecutions policy which will set out the process to be followed.

4.4 There are a few new actions that need to be put in place, the main one being to train all staff on the revised Financial Regulations.

4.5 Thirteen of the risks have achieved their target score. Of the seven that are still above the target score, in most cases this is due to the Council being able to do little to prevent the likelihood of the fraud occurring.

4.6 The Fraud Risk Register will be updated and reported to the Committee annually. The risks, controls, current risk scores and target scores, and further actions, will be added to the Covalent system to ensure regular monitoring is undertaken. Progress on implementing further actions will be reported in the bi-annual Counter-Fraud activity report to the Committee.

5.0 Equalities Implications

5.1 There are no equality implications in the report.

6.0 Impact on Budget/Policy Framework

6.1 The further actions detailed in the Fraud Risk Register can be achieved without impacting on current Council budgets. Fraud, if it occurs, could be a serious drain on the Council's resources.

7.0 RECOMMENDATION

That Members note the content of the report.

Reason for Recommendations

To promote a strong counter-fraud culture, it is important that Members are aware of the Council's fraud risks and the controls in place to mitigate them.

Background Papers

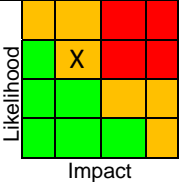
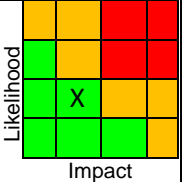
NSDC Counter-Fraud Health Check report

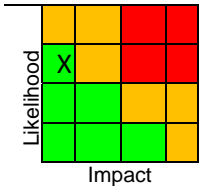
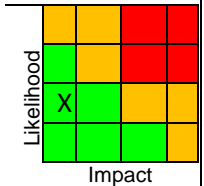
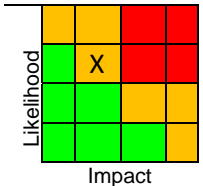
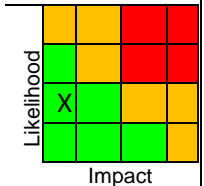
For further information please contact Nicky Lovely on Ext 5317

David Dickinson
Director - Resources

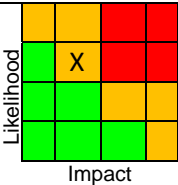
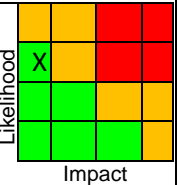
NEWARK & SHERWOOD DISTRICT COUNCIL

RISK IDENTIFICATION AND ASSESSMENT

Risk	Key Controls/Actions	Risk Owner	Current Risk Score	Target Risk Score	Current Assurance Status	Exposure
<p>1. Housing Benefit</p> <p>Any fraud linked to the false claiming of housing benefit</p> <ul style="list-style-type: none"> False applications False documents Failing to notify change 	<p>Controls in place</p> <ul style="list-style-type: none"> Housing Benefit Anti-Fraud Strategy Annual participation in National Fraud Initiative HBMS – Government housing benefit matching scheme Fraud investigators Use prosecution, caution & admin. penalties Key controls in the housing benefit application process – prevention & detection Authorised officer powers – access to employers, landlords, banks & building societies Daily ATLAS updates to system Fraud awareness training to social landlords Ad hoc communication to social landlords Up to date Financial Regulations Experienced benefits staff Combined database with revenues Only accept original documents in support of claims Subscription to National Anti-Fraud Network DWP led Housing Benefit review Publicity Internal Audit reviews Whistleblowing Policy Separation of duties Counter-fraud page on website detailing how public can report fraud 	<p>Resources Directorate</p> <p>Business Manager Revenues & Benefits</p>			<p>Amber</p>	<p>CIPFA Fraud Survey 2014/15:- NSDC HB Fraud - 5 cases, value £29k</p> <p>Annual level of housing benefit paid approx. £26.3m</p> <p>National Fraud Authority potential annual fraud losses = 0.7% or £184k</p>

	<p>Further actions required This fraud to be reassessed after October 2015 when Housing Benefit begins to be merged into Universal Credit and the Council's fraud investigators transfer to the DWP Single Fraud Investigation Service</p>				
<p>2. Council Tax Support Scheme</p> <ul style="list-style-type: none"> False applications Failing to notify change 	<p>Controls in place</p> <ul style="list-style-type: none"> Most controls same as for Housing Benefits Up to date Anti-Fraud & Corruption Strategy Council Tax Support policy Counter-fraud page on website detailing how public can report fraud Up to date Financial Regulations Whistleblowing Policy County-wide Second Person Discount review completed <p>Further action required</p> <ul style="list-style-type: none"> Prosecution powers to be used once Prosecution Policy approved 	<p>Resources Directorate</p> <p>Business Manager Revenues & Benefits</p>			<p>Green</p> <p>Too early for detailed analysis of cases.</p> <p>Annual level of council tax support paid - £6.8m</p> <p>National Fraud Authority potential annual fraud losses = 0.7% or £47.6k</p>
<p>3. Council Tax</p> <ul style="list-style-type: none"> Single person discount Avoidance of liability through any other fraudulent claim for council tax discount or exemption New properties not on the list <ul style="list-style-type: none"> (i) built without planning permission (ii). No notification of properties built & occupied or built & substantially complete 	<p>Controls in place</p> <ul style="list-style-type: none"> Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy National Fraud Initiative Monthly monitoring of council tax base Liaising with the university – access to student lists Application checks Annual review of students continued attendance on course Checks with electoral register Information from planning re Permitted Developments where full planning not required Checks on documentary evidence for exemptions Visual inspection Internal Audit reviews Whistleblowing Policy Separation of duties Counter-fraud page on website detailing how public can report fraud County-wide Second Person Discount 	<p>Resources Directorate</p> <p>Business Manager Revenues & Benefits</p>			<p>Amber</p> <p>CIPFA Fraud Survey 2014/15:- NSDC Council Tax Discount Fraud – 149 cases, total value £72k</p> <p>Annual Council Tax Income collected – approx. £58m</p> <p>National Fraud Authority potential annual fraud losses = 4% or £2.32m (NSDC share = £232k)</p>

	review completed				
	Further actions required				
<p>4. NNDR</p> <ul style="list-style-type: none"> Failure to declare occupation Payment using false bank details Companies going into liquidation then setting up as new companies Avoidance of liability through fraudulent claim for discount or exemption Empty rate avoidance 	<p>Controls in place</p> <ul style="list-style-type: none"> Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy Ensure liable person identified for each assessment on the list Information sharing with other Business Units Inspections of occupied properties Checking empty properties Information from Landlords or letting agents Public complaints – reports to valuation office Internal Audit reviews Whistleblowing Policy Separation of duties Register of Gifts & Hospitality/Register of Interests Supporting evidence requested Counter-fraud page on website detailing how public can report fraud <p>Further actions required</p> <ul style="list-style-type: none"> Use of Analyse Local to be introduced 	<p>Resources Directorate</p> <p>Business Manager Revenues & Benefits</p>			<p>Green</p> <p>Annual NNDR income collected - approx. £38m</p> <p>National Fraud Authority potential annual fraud losses = 3.76% or £1.43m (NSDC share £150k)</p>
<p>5. Credit Income and Refund fraud (e.g. Council tax , NNDR, Rents)</p> <ul style="list-style-type: none"> Suppression of notification of debt to be raised Improper write-off Failing to institute recovery proceedings Switching/transferring arrears or manipulation of credit balances Payment using false / fraudulent instrument then re-claim of refund Employee based; false payment then request for refund 	<p>Controls in place</p> <ul style="list-style-type: none"> Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy Debit/credit card payments monitoring Review of unusual activity Refund to original card/bank account where appropriate Authorisation Checking against other accounts (Council Tax, etc) to ensure no other money owed to NSDC Staff counter-fraud training Audit trail/personal logins Reconciliations Budgetary controls Write off policy Authorisation levels (including 	<p>Resources Directorate</p> <p>Business Manager Revenues & Benefits</p>			<p>Green</p> <p>Total value of refunds made in 2014/15 = £637k</p> <p>Total value of write-offs in 2014/15 = £319k</p> <p>(Refunds and write-offs relating to NDR and Council Tax)</p>

	<p>transfer)</p> <ul style="list-style-type: none"> • Debt recovery procedures • Supervisory controls • Review of credit balances and suspense items • Enforcement agents • Internal Audit reviews • Whistleblowing Policy • Register of Gifts & Hospitality/Register of Interests • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet <p>Further actions required</p> <ul style="list-style-type: none"> • Financial Regulations training for all staff 					
<p>6. Procurement/Contract fraud</p> <p>Contract</p> <ul style="list-style-type: none"> • Bid rigging / cartels: • Cover pricing • Bribery of officers or Members involved in contract award • Collusion between officers and contractors involved in tendering • Violation of procedures; • Manipulation of accounts • Failure to supply; • Failure to supply to contractual standard; • Inflating performance information to attract greater payments 	<p>Controls in place</p> <ul style="list-style-type: none"> • NAFN & fraud alerts • Contract procedure rules • Up to date Financial Regulations • Contract management • Contract Terms & Conditions • Equifax check on accounts • Finance team check on accounts for large contracts • Evaluation teams for award of contracts - individual scoring • Code of Conduct • Whistleblowing policy • OJEU regulations • Register of Gifts & Hospitality/Register of Interests • Procurement Business Unit advice & involvement • Secure receipt and storage of tenders • Up to date Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Internal Audit reviews • Separation of duties • Contract management training if requested • Advertisement of contract opportunities • Transparency Code 2014 and Transparency agenda 	<p>Resources Directorate</p> <p>Business Manager Procurement</p>			<p>Amber</p>	<p>Total annual supplier spend – approx. £20.6m</p> <p>National Fraud Authority potential annual fraud losses = 1% or £206k</p>

Payments

- Credit cards / procurement cards;
- False invoices/claims
- Duplicate payments (false submission)
- BACS fraud (fraudulent change of bank details)
- Mandate fraud
- Fake details for internet payments
- Claiming petty cash for personal items
- Records or methods of payment;

- Counter-fraud page on website detailing how public can report fraud
- Counter Fraud section on new intranet
- Procurement guidance on Contract Management on new intranet

Further actions required

- Financial Regulations training for all staff

Controls in place

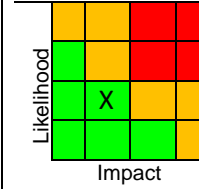
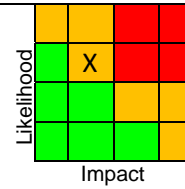
- Up to date Financial Regulations
- Up to date Anti-Fraud & Corruption Strategy
- National Fraud Initiative
- Whistleblowing Policy
- Payment authorisation process
- Reconciliations
- Audit Trail/personal logins
- Segregation of duties
- Check/approval on changes to creditor details
- Budgetary control
- Card security features
- Procedures
- Ownership for cards identified
- Staff counter-fraud training
- NAFN fraud alerts
- Experienced staff
- Internal Audit reviews
- Register of Gifts & Hospitality/Register of Interests
- Transparency reporting
- Counter-fraud page on website detailing how public can report fraud
- Counter Fraud section on new intranet

Further actions required

- Financial Regulations training for all staff

Resources
Directorate

Business
Manager
Financial
Services

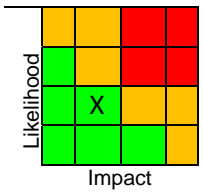
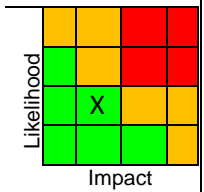


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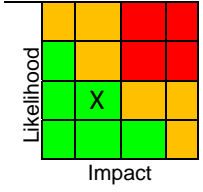
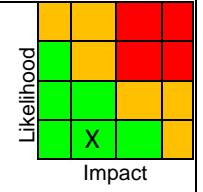
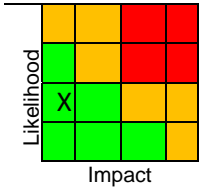
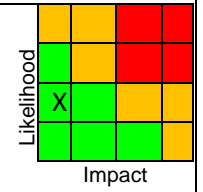
<p>7. Bank Fraud</p> <ul style="list-style-type: none"> False instruments: misuse of cheques, alteration of existing cheques. Mandate, Direct Debit, Standing Order fraud on Council's bank account Theft of customer card data 	<p>Controls in place</p> <ul style="list-style-type: none"> Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy Bank reconciliation Control accounts Cheque signatories – authorisation Letter from banking/ID to withdraw cash Audit trail/personal logins Verify changes of bank account details using original contact info plus audit trail. Security checks on standing orders Staff counter-fraud training Internal Audit reviews Whistleblowing Policy Separation of duties Register of Gifts & Hospitality/Register of Interests NAFN fraud alerts PCIDSS compliance Counter-fraud page on website detailing how public can report fraud Counter Fraud section on new intranet <p>Further actions required</p> <ul style="list-style-type: none"> Financial Regulations training for all staff 	<p>Resources Directorate</p> <p>Business Manager Financial Services</p>			<p>Green</p>	<p>2014/15 – 12,706 debit transactions and 59,167 credit transactions processed by the bank</p>
<p>8. Investment Fraud</p> <ul style="list-style-type: none"> The fraudulent misappropriation of assets; Loss through breach of procedures; False instruments 	<p>Controls in place</p> <ul style="list-style-type: none"> Treasury Management Strategy Investment procedures Authorisation of investments/loans Treasury Management advisers Suitability checks on investments Segregation of duties Regular independent supervision Audit trail of investments/personal logins Staff counter-fraud training Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy Internal Audit reviews Whistleblowing Policy Separation of duties 	<p>Resources Directorate</p> <p>Business Manager Financial Services</p>			<p>Green</p>	<p>Average level of investment for 2014/15 approx. £14m</p>

	<ul style="list-style-type: none"> Counter Fraud section on new intranet <p>Further actions required</p> <ul style="list-style-type: none"> Financial Regulations training for all staff 					
<p>10. Employment Recruitment</p> <ul style="list-style-type: none"> False identity, Immigration (no right to work or reside); False qualifications; Failing to disclose previous convictions <p>Payment</p> <ul style="list-style-type: none"> Creation of non- existent employees; Unauthorised changes to payroll; Redirection or manipulation of payments; False sick claims; Not working required hours; Not undertaking required duties; Working for multiple employers (without informing manager) False declarations of mileage; False documentation to support allowances; Breaches of authorisation and payment procedures Abuse of time <p>Other</p> <ul style="list-style-type: none"> Inappropriate acceptance of gifts or hospitality Non-declaration of interests 	<p>Controls in place</p> <ul style="list-style-type: none"> NFI Code of Conduct HR policies – sickness, Appraisals, disciplinary & capability Pre-employment checks by HR Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy Separation of duties between HR, Payroll & Business Managers Contracts Access controls Management supervision Authorisation of claims Budgetary control Exception reports produced and reviewed Audit trail/personal logins Any employee changes signed off by HR Manager Reconciliation of payroll to BAC's payments Probation periods Register of Gifts & Hospitality/Register of Interests Medical certification for sickness Request forms to request permission to undertake additional employment Secondary employment register Training for managers on disciplinary process Staff counter-fraud training Internal Audit reviews Whistleblowing Policy Counter-fraud page on website detailing how public can report fraud Counter Fraud section on new intranet <p>Further actions required</p>	<p>Safety Directorate</p> <p>Business Manager HR & Legal</p> <p>Resources Directorate</p> <p>Business Manager Financial Services</p>			<p>Green</p> <p>Green</p>	<p>Total cost of payroll including expenses payments 2014/15 = £12m</p> <p>National Fraud Authority potential annual fraud losses = 0.2% or £24k</p> <p>Average number of employees paid monthly 643</p>

	<ul style="list-style-type: none"> Financial Regulations training for all staff 				
11. Insurance <ul style="list-style-type: none"> False insurance claims 	<p>Controls in place</p> <ul style="list-style-type: none"> Up to date Financial Regulations Up to date Anti-Fraud & Corruption Strategy Claims Handlers Experienced staff Alerts on current national trends to insurance team Prior year information on data base to match to previous claims Staff counter-fraud training Internal Audit reviews Whistleblowing Policy Register of Gifts & Hospitality/Register of Interests Counter-fraud page on website detailing how public can report fraud <p>Further actions required</p> <ul style="list-style-type: none"> Financial Regulations training for all staff 	<p>Resources Directorate</p> <p>Business Manager Financial Services</p>			<p>Green</p> <p>Number of claims received 2014/15 = 32</p> <p>Total value of claims settled 2014/15 = £263,597</p>
12. Money Laundering <ul style="list-style-type: none"> Using the Council to hide improper transactions 	<p>Controls in place</p> <ul style="list-style-type: none"> Staff Awareness Up to date Money Laundering policy Up to date Financial Regulations Training of officers Upper limit for cash transactions = £5,000 Whistleblowing Policy <p>Further actions required</p> <ul style="list-style-type: none"> Anti-Money Laundering training for relevant staff 	<p>Resources Directorate</p> <p>Business Manager Financial Services</p>			<p>Green</p>
13. Elections <ul style="list-style-type: none"> Fraudulent voting Fraudulent acts by canvassers Fraudulent acts by poll clerks/officers Fraudulent acts by individuals 	<p>Controls in place</p> <ul style="list-style-type: none"> Up to date Anti-Fraud & Corruption Strategy Supervisory roles at counts Postal votes counts supervised Access controls at polling stations & counts Ballot box controls Ballot paper account 	<p>Resources Directorate</p> <p>Business Manager Democratic Services</p>			<p>Green</p>

	<ul style="list-style-type: none"> • Insurance • Pre employment checks • Supervisory checks • Application forms scrutinised before processing • Whistleblowing Policy • Register of Gifts & Hospitality/Register of Interests • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet <p>Further actions required</p> <ul style="list-style-type: none"> • Financial Regulations training for all staff 					
<p>14. Development Management</p> <ul style="list-style-type: none"> • Corruption/collusion/ Inducements/conflict of interest/bribery • Planning, S106, affordability, other areas where officers are checking compliance / fines issued etc • Using Planning Process to increase land values • False representation 	<p>Controls in place</p> <ul style="list-style-type: none"> • Supervisory checks by Team Leaders/Manager on planning applications • One to one discussion with all case officers • Open & visible process all cases open to Team leaders & peers • Public scrutiny • Planning Committee scrutiny • Pre application advice • Report for all applications and pre-application advice with explanation of grant or refusal • Sign off of completion by Business Manager Development or Senior Planner • Ombudsman (3rd party scrutiny)-planning appeal system • Reconciliation of planning fees • Separation of duties in the fee procedure (receipting, banking, planning application) • Audit trail on fee income • Significant enforcement action-reporting & sign off • Section 106 – separation of duties, legal agreement, triggers for payment monitored, monitoring group, reconciliation • Constitution including Members conduct re planning • Regular communication with affected 	<p>Deputy Chief Executive</p> <p>Business Manager Development Management</p>	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	<p>Green</p>	<p>Number of planning applications determined 2014/15 = 901</p>

	<p>parties throughout the process where appropriate</p> <ul style="list-style-type: none"> • Register of Gifts & Hospitality/Register of Interests • Up to date Financial Regulations • Up to date Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Code of Conduct (officers & Members) • Internal Audit reviews • Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet <p>Further actions required</p> <ul style="list-style-type: none"> • Financial Regulations training for all staff • Creation of site notes and/or notes of discussion 					
<p>15. Economic and third sector support fraud</p> <p>(Any fraud that involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non governmental organisation)</p> <ul style="list-style-type: none"> • Fake applications • Collusion • Misuse of funds • Failure to deliver agreed service 	<p>Controls in place</p> <ul style="list-style-type: none"> • Substantiate authenticity of application • Regular monitoring of delivery • Check & authorisation of grant claims • Separation of duties between grant approval & sign off • Grant criteria • Quotes for work • Grant assessment • Up to date Financial Regulations • Up to date Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Register of Gifts & Hospitality/Register of Interests • Retentions based on performance • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet <p>Further actions required</p> <ul style="list-style-type: none"> • Financial Regulations training for all 	<p>Deputy Chief Executive</p> <p>Business Manager Economic Growth</p> <p>Business Manager Community Sports & Arts Development</p>			<p>Green</p>	<p>National Fraud Authority potential annual fraud losses = 1% or £6k</p> <p>Total Think BIG loans granted 2014/15 = £297.5k</p> <p>Total Disabled Facilities Grants awarded 2014/15 = £400k</p> <p>Total grants awarded to voluntary sector 2014/15 = £171k</p> <p>Total grants and funding supporting individuals and communities 2014/15 = £34k</p>

	staff					
<p>16. Housing fraud</p> <ul style="list-style-type: none"> • Fraudulent application - false information • False homelessness applications - false information • Key selling • Fraudulent succession • Unlawful sub-letting • Using property as second home • Right to Buy - fraudulent application, valuation, etc. 	<p>Controls in place</p> <ul style="list-style-type: none"> • NSH Approach to Tenancy Fraud document • National Fraud Initiative • Form of identification required from applicants • Proof of residency required • Documents obtained to support claim • Checks on information provided • Summary check at allocation stage • Declaration and future changes signed by applicant • Confirmation of all information e.g. previous tenancies • Robust tenancy agreement • Robust sign up-info to tenant re rules • Routine tenancy inspections • Using intelligence • Publicity of impact and consequences • Eviction powers • Home visits • Photographs • Acting on hearsay evidence • Acting on information from other bodies such as police • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Separation of duties • Register of Gifts & Hospitality/Register of Interests • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet <p>Further actions required</p>	<p>Safety Directorate/ Newark & Sherwood Homes</p> <p>Chief Executive Newark & Sherwood Homes</p> <p>Business Manager Strategic Housing</p> <p>Business Manager Housing Options</p>			<p>Green</p>	<p>National Fraud Authority potential annual fraud losses = 1% or £0.7m to £1.2m</p> <p>Audit Commission Survey 14/15 Sub-letting tenancy fraud = 5 cases</p> <p>No of Council houses approx. 5439</p> <p>Annual rent income approx. £20.8m</p>
<p>17. Fraudulent use of Council assets</p>	<p>Controls in Place</p> <ul style="list-style-type: none"> • Up to date Financial Regulations • Up to date Anti-Fraud & Corruption Strategy • Up to date Guidance for Dealing with Irregularities • Management controls 	<p>All Directorates</p> <p>All Directors & Business Managers</p>			<p>Green</p>	

	<ul style="list-style-type: none"> • Induction process • Security policy • User reports e.g. internet, telephone • Internet use policy • Access controls • Software audit facility • Code of conduct • Inventory checks • Complex passwords • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Counter Fraud section on new intranet <p>Further Actions required</p> <ul style="list-style-type: none"> • Financial Regulations training for all staff 					
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REVISION OF POLICIES – ANTI-MONEY LAUNDERING POLICY

1.0 Purpose of Report

1.1 To present to the Committee the revised Anti-Money Laundering Policy.

2.0 Background Information

2.1 The last revision of the Anti-Money Laundering Policy was 2010.

2.2 The revised document is attached as Appendix A.

3.0 RECOMMENDATION

That Members approve the revised policy

Background Papers

Nil.

For further information please contact Nicky Lovely, Business Manager Financial Services on extension 5317.

David Dickinson
Director Resources



**NEWARK &
SHERWOOD**
DISTRICT COUNCIL

ANTI-MONEY LAUNDERING POLICY

Revised: August 2015

Next revision due: August 2017

1. General

Whilst there is no statutory requirement for the Council to adopt an Anti-Money Laundering Policy or to appoint an Anti- Money Laundering Officer, there is a statutory duty on the organisation and on individuals to disclose suspicions that may arise during the course of normal business.

Our policy is:

- to do all we can to prevent, wherever possible, the Council and its staff being exposed to money laundering;
- to identify the potential areas where money-laundering may occur and provide staff with guidance and training to help prevent money laundering;
- to ensure that all suspicions are reported to the Council's Anti-Money Laundering Officer;
- to use the Proceeds of Crime Act to recover any monies lost to money laundering.
- to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

A guidance note on the disclosure of an event that could potentially be money-laundering is attached at Appendix A and clarifies the action to be taken if any suspicions are aroused.

Both this Policy and the Guidance Note sit alongside the Council's Whistleblowing Policy and Anti- Fraud & Corruption Strategy.

All Officers and Members must comply with this Policy and Guidance Note.

If after reading this Policy you require further guidance or clarification then please contact your Line Manager or the Councils Anti-Money Laundering Officer.

2. Introduction

2.1 Money laundering is the method by which criminals try to hide and disguise the origin of the money they make from their crimes. The term laundering is used because criminals need to turn criminal money into clean funds that they can use without arousing suspicion. The Government are keen to make it as difficult as possible for criminals to launder money and have introduced a considerable amount of legislative rules to try and achieve this aim.

2.2 The money laundering legislation has changed significantly in recent years. The Proceeds of Crime Act 2002 consolidated and amended the criminal law relating to money laundering and the Money Laundering Regulations 2003 (the "Regulations"), 2007 and the Money Laundering Regulations Amendment 2012 set out the obligations of all bodies carrying out Relevant Business.

2.3 The Regulations require all persons carrying out Relevant Business to:

"establish such procedures of internal control and communication as may be appropriate for the purpose of forestalling and preventing money laundering".

Failure to comply with the Regulations (irrespective of whether money laundering has taken place) is itself a criminal offence which can be prosecuted by the Financial Services Authority and the Crown Prosecution Service.

3. What is covered by the Regulations?

3.1 Paragraph 2 of the Regulations sets out what is considered “Relevant Business”. For the purposes of the work carried out by the Council the following are Relevant Business and are thus subject to the rules set out in the Regulations:-

- estate agency work
- tax advice, accountancy and audit services
- services relating to the formation, operation or management of companies or trusts
- legal services (including but not limited to property transactions).

3.2 This list should not be treated as prescriptive or exhaustive and all employees are encouraged to be aware of the possibility of money laundering in their work. If they have any suspicions of money laundering these should be reported appropriately.

3.3 There are three principal offences under the Regulations and these are:-

- a) concealing – where someone knows or suspects a case of money laundering, but conceals or disguises its existence
- b) arranging – where someone involves himself or herself in an arrangement to assist in money laundering
- c) acquisition – where someone seeks to benefit from money laundering by acquiring, using or possessing the property concerned.

3.4 There are also two “third party” offences and these are:-

- a) failure to disclose one of the three principal offences
- b) tipping off – where someone informs a person or people who are, or are suspected of being, involved in money laundering in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

3.5 Money laundering offences may be tried at a Magistrates’ Court or in the Crown Court depending on the severity of the suspected offence. Trials at a Magistrate’s court can attract fines of up to £5,000, up to 6 months in prison, or both. In a Crown Court, fines are unlimited, with possible prison sentences of between 2 to 14 years.

4. Obligations imposed on the Council

4.1 The Regulations impose certain obligations on the Council. These are:-

- a) the appointment of a “nominated officer” to receive internal reports of suspicious circumstances and to generally review compliance with the Regulations;
- b) the putting into place of procedures for the prevention and forestalling of money laundering to include:

- internal reporting of knowledge or suspicion, or reasonable grounds for knowledge or suspicion, that a person is engaged in money laundering;
- staff awareness and training of relevant staff;
- client identification, although it is not a legal requirement to put in place formal procedures for evidencing the identity of those the Council does business with, in practice, prudence dictates that the Authority should ensure that staff are alert to potentially suspicious circumstances.

4.2 **Nominated Officer**

In accordance with the Regulations, the Authority's nominated officer, known as the Anti-Money Laundering Officer, is the Director - Resources. He is responsible for devising, implementing and maintaining the Authority's policies and procedures with respect to money laundering. This is a serious responsibility and needs to be undertaken relative to the assessed risks involved. The Anti-Money Laundering Officer will maintain appropriate records of any referral to him and will decide on the basis of any relevant information available, whether to make a report to the Serious Organised Crime Agency (SOCA).

4.3 **Internal Reporting Procedures**

Reporting procedures are in place and a pro forma (copy attached at Appendix B) is to be completed by any member of staff who identifies a case which he/she suspects may involve money laundering. The completed pro forma is to be forwarded to the Anti-Money Laundering Officer. If a member of staff suspects any money laundering activity he/she should:-

- immediately stop working on the transaction involved
- complete a pro forma reporting the incident to the Anti-Money Laundering Officer as soon as possible
- ensure that the other party to the transaction is not informed of the officer's suspicion that money laundering is suspected

4.4 While the following is not prescriptive, and common sense needs to apply, the types of activity that should arouse suspicion are as follows:-

- a) any transaction involving an unusually large amount of cash especially where the cash involved exceeds the amount necessary to settle a transaction and the person concerned requests a non cash refund of the excess
- b) involvement of an unconnected third party without logical reason or explanation
- c) movement of funds overseas
- d) where, without explanation, the size, nature and frequency of transactions or instructions is out of line with normal expectations.

It is acknowledged that the risk of money laundering occurring in the Council is low but nevertheless it is important that all relevant staff remain vigilant to any unusual circumstances involving cash. The Councils Financial Regulations require that all cash receipts over a value of £5,000 shall be reported to the Councils Anti-Money Laundering Officer who will be responsible for taking the appropriate action.

4.5 All relevant records relating to any suspicious transaction should be retained and made available to the Anti-Money Laundering Officer who may retain these for up to 5 years.

4.6 **Client Identification**

It is not a legal requirement for the Authority to put in place formal procedures for evidencing the identity of those with whom it does business. However, in certain circumstances e.g.

- where funds flow through the Authority from a source with which it is unfamiliar,
- if the Council is forming a new business relationship,
- or is considering undertaking a significant one-off transaction,

it would be prudent to set up and maintain identification procedures with respect to the parties involved. This will be especially true if the parties concerned are not physically present, or may be acting for absent third parties.

Advice on what constitutes a need to maintain client identification records will be provided by the Anti-Money Laundering Officer, as requested.

5.0 **Conclusion**

5.1 Should anyone have concerns regarding any transactions they are involved with, or are aware of, then contact should be made with the Anti-Money Laundering Officer.

GUIDANCE NOTE - DISCLOSURE PROCEDURE

Reporting to the Anti-Money Laundering Officer (AMLO)

- a) Where you know or suspect that money laundering activity is taking/has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under the legislation, you must disclose this as soon as practicable to the AMLO. The disclosure should be within “hours” of the information coming to your attention, not weeks or months later. **SHOULD YOU NOT DO SO, THEN YOU MAY BE LIABLE TO PROSECUTION.**
- b) Your disclosure should be made to the AMLO using the form attached at Appendix B. The report must include as much detail as possible, for example:
- Full details of the people involved (including yourself, if relevant), e.g. name, date of birth, address, company names, directorships, phone numbers, etc;
 - Full details of the nature of their/your involvement;
 - If you are concerned that your involvement in the transaction would amount to a prohibited act (under sections 327 – 329 of the 2002 Act), then your report must include all relevant details, as the AMLO will need to obtain consent from the Serious Organised Crime Agency (SOCA), for the Council to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given.
 - You should therefore make it clear in the report whether there are any deadlines for receiving such consent e.g. a completion date or court deadline;
 - The types of money laundering activity involved:
 - If possible, cite the section number(s) under which the report is being made e.g. a principal money laundering offence under the 2002 Act (or 2000 Act), or general reporting requirement under section 330 of the 2002 Act (or section 21A of the 2000 Act), or both; Advice should be sought from the Legal section
 - The dates of such activities, including:
 - whether the transactions have happened, are ongoing or are imminent;
 - Where they took place;
 - How they were undertaken;
 - The (likely) amount of money/assets involved;
 - Why, exactly, you are suspicious –along with any other available information to enable the AMLO to assess whether there are reasonable grounds for knowledge or suspicion of money laundering, and to enable him to prepare his report to the SOCA, where appropriate. You should also enclose copies of any relevant supporting documentation.
- c) Once you have reported the matter to the AMLO you must follow any directions he may give you. **You must NOT make any further enquiries into the matter yourself:** any

necessary investigation will be undertaken by the SOCA. Simply report your suspicions to the AMLO who will refer the matter on to the SOCA if appropriate. All members of staff will be required to co-operate with the AMLO and the authorities during any subsequent money laundering investigation.

- d) Similarly, **at no time and under no circumstances should you voice any suspicions** to the person(s) whom you suspect of money laundering without the specific consent of the MLO, even if the SOCA has given consent to a particular transaction proceeding; otherwise you may commit a criminal offence of “tipping off” (see the Anti-Money Laundering Policy for further details).
- e) Do not, make any reference on a client file to a report having been made to the AMLO. Under Data Protection legislation a client has the right to see their file and the mentioning of a report in the file could be construed as “tipping off” and may render you liable to prosecution. The AMLO will keep the appropriate records in a confidential manner.

Consideration of the disclosure by the Anti-Money Laundering Officer

- f) Upon receipt of a disclosure report, the AMLO must note the date of receipt on his section of the report and acknowledge receipt of it. He should also advise you of the timescale within which he expects to respond to you.
- g) The AMLO will consider the report and any other available internal information he thinks relevant through e.g.:
- reviewing other transaction patterns and volumes;
 - considering the length of any business relationship involved;
 - evaluating the number of any one-off transactions and linked one-off transactions;
 - reviewing any identification evidence held;

He will undertake such other reasonable enquiries he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to the SOCA is required. Enquiries will be made in such a way as to avoid any appearance of tipping off those involved. The AMLO may also need to discuss the report with you.

- h) Once the AMLO has evaluated the disclosure report and any other relevant information, he must make a timely determination as to whether:
- there is actual or suspected money laundering taking place; or
 - there are reasonable grounds to know or suspect that is the case; and
 - whether he needs to seek consent from the SOCA for a particular transaction to proceed.
- i) Where the AMLO does so conclude, then he must disclose the matter as soon as practicable to the SOCA on their standard report form and in the prescribed manner, unless he has a reasonable excuse for non-disclosure to the SOCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).
- In cases where legal professional privilege may apply, the AMLO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting

the matter to the SOCA.

- Where the AMLO has a reasonable excuse for nondisclosure, then he must note the report accordingly; he can then immediately give his consent for any ongoing or imminent transactions to proceed.
- Where consent is required from the SOCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the SOCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the SOCA.

- j) Where the AMLO concludes that there are no reasonable grounds to suspect money laundering then he shall mark the report accordingly and give his consent for any ongoing or imminent transaction(s) to proceed.
- k) All disclosure reports referred to the AMLO and reports made by him to the SOCA must be retained by the AMLO in a confidential file kept for that purpose, for a minimum of five years.
- l) **The AMLO commits a criminal offence if he knows or suspects, or has reasonable grounds to do so, through a disclosure being made to him, that another person is engaged in money laundering and he does not disclose this as soon as practicable to the SOCA.**

DRAFT

CONFIDENTIAL

Report of Money Laundering Activity

From: _____

Service Area: _____

Ext/Tel No: _____

URGENT: YES/NO

Date by which response needed: _____

Details of suspected offence:

Name(s) and address(es) of person(s) involved:
<i>[if a company/public body please include details of nature of business]</i>

Nature, value and timing of activity involved:
<i>[Please include full details e.g. what, when, where, how. Continue on a separate sheet if necessary]</i>

Nature of suspicions regarding such activity:
<i>[Please continue on a separate sheet if necessary]</i>

Has any investigation been undertaken (as far as you are aware)? <i>[Delete as appropriate]</i>	Yes / No
---	----------

If yes, please include details below:

Have you discussed your suspicions with anyone else? <i>[Delete as appropriate]</i>	Yes / No
---	----------

If yes, please specify below, explaining why such discussion was necessary:

Please set out below any other information you feel is relevant:

Signed: _____ Dated: _____

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

THE FOLLOWING PART OF THIS FORM TO BE COMPLETED BY THE AMLO

Date report received: _____

Date receipt of form acknowledged: _____

CONSIDERATION OF DISCLOSURE:

Action plan:

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to the SOCA? [Delete as appropriate]	Yes / No
--	----------

If yes, please confirm date of report to SOCA: and complete the box below:

Details of liaison with the SOCA regarding the report:		
Notice Period:	from:	to:
Moratorium Period:	from:	to:

Is consent required from the SOCA to any ongoing or imminent transactions which would otherwise be prohibited acts? [Delete as appropriate]	Yes / No
--	----------

If yes, please confirm full details in the box below:

Date consent received from SOCA:

Date consent given by you to employee:

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the SOCA, please set out below the reason(s) for non-disclosure:

[Please set out any reasonable excuse for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed:

Other relevant information:

Signed: _____ **Dated:** _____

THIS REPORT TO BE RETAINED

CONCLUSIONS FROM KNOWLEDGE & SKILLS QUESTIONNAIRE

1.0 Purpose of Report

- 1.1 To advise Members of the responses from the Knowledge and Skills questionnaire and to propose a training plan.

2.0 Background

- 2.1 At the June meeting of the Committee, Members confirmed that they would reassess their knowledge and skills pertaining to the work of the Committee to identify any training needs. The knowledge and skills assessment is based on CIPFA's Guidance for Audit Committees, and the questionnaire was circulated at the beginning of July 2015.

3.0 Responses from the Questionnaire

- 3.1 Of the three responses which had been received at the time of writing the report, none identified areas where training was urgent.
- 3.2 However, there were areas identified where further information would enhance Members' ability to support the Council's governance arrangements. These are:
- Knowledge of the Council's arrangements for tackling fraud, and the fraud risks facing it.
 - Regulatory requirements pertaining to Treasury Management
 - The principles of the Public Sector Internal Audit Standards
 - Knowledge of the Council's arrangements to uphold ethical standards
 - Knowledge of the Council's Whistleblowing arrangements
 - Knowledge of the role of the Chief Financial Officer as required by CIPFA and how the authority meets the requirements
- 3.3 The Council's Anti-Fraud and Corruption Strategy, Guidance for Dealing with Irregularities and Fraud Risk register are considered elsewhere on the agenda. These will provide details of the Council's arrangements for tackling fraud and identify the fraud risks.
- 3.4 A training session with Arlingclose, the Council's treasury management advisers is arranged annually to take place alongside the November meeting of the Committee. It is proposed to arrange the next session on 4th November 2015, and to ask Arlingclose to present information on regulatory requirements.
- 3.5 Each year the Committee carries out a self-assessment of its effectiveness against the Public Sector Internal Audit Standards. A report setting out the requirements for the self-assessment is to be brought to the November meeting. Further information on the principles of the Standards will be provided in that report.
- 3.6 For the other areas identified, a report setting out the Council's arrangements will be brought to the November meeting.

4.0 Equalities Implications

4.1 There are no equalities implications, as all members of the Committee are invited to attend training sessions.

5.0 Impact on Budget/Policy Framework

5.1 The proposed training will be provided within existing budgets.

6.0 RECOMMENDATION(S)

That the Committee:

- a) note the areas where further information will be provided;
- b) agree that a training session for Treasury Management be arranged alongside the November meeting.
- c) note that further information will be provided in a report to be brought to the November meeting of the Committee.

Background Papers

None

For further information please contact Nicky Lovely, Business Manager – Financial Services on Ext 5317

David Dickinson
Director - Resources

RESPONSES TO QUESTIONS RAISED AT THE PREVIOUS MEETING

1.0 Purpose of Report

1.1 To provide answers to questions raised at the last meeting of the Audit & Accounts Committee.

2.0 Following on from the Empty Homes audit, have the Council had to return any money to the HCA due to being unable to identify sufficient empty homes to bring back into use?

2.1 After the Empty Homes audit report was published, the housing market started to improve. A decision was therefore taken by the Homes & Communities Committee that carrying out work on empty homes was not such a priority, so the Council did not make a funding application to the HCA.

3.0 RECOMMENDATION

That Members consider the response provided.

Background Papers

Nil

For further information contact Nicky Lovely, Business Manager - Financial Services, on extension 5317.

David Dickinson
Director - Resources

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
24th June 2015	Terms of Reference of the Audit & Accounts Committee	David Dickinson	Ensure that Committee members are aware of the role of the Committee
	Treasury Management Outturn Report	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	IAS 19 Pension Assumptions	Nicola Pickavance	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Internal Audit Report	Lucy Pledge/John Sketchley (Audit Lincs)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives
	Knowledge and skills assessment for Committee members	Graeme Black/David Dickinson	Ensure that the Committee has the appropriate knowledge and skills to fulfil its role
	Audit Committee Work Programme	David Dickinson	
25TH August 2015	Training session on Statement of Accounts	Nicola Pickavance	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and

			consider the integrity of financial reporting
9th September 2015	External Audit Annual Governance Report	John Cornett/Helen Brookes	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts & Annual Governance Statement	David Dickinson / Nicola Pickavance	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council's objectives
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Anti-Fraud & Corruption Strategy and Guidance for Dealing with Irregularities		
	Fraud Risk Register	Nicky Lovely	Gain assurance that the Council understands its fraud risks and that actions are in place to address them.
	Anti-Money Laundering Policy	David Dickinson	Gain assurance that the Council has appropriate arrangements in place to deal with any attempts at money laundering
	Conclusions from Knowledge and Skills questionnaire	Nicky Lovely	Ensure that any training requirements of Committee members are met
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	

4th November 2015 To be confirmed	Treasury management training session	Arlingclose	Ensure that the Committee has the appropriate skills to be able to review the Council's Treasury Management Strategy and performance reports
4th November 2015	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Statement of Accounts Deadline Changes	David Dickinson/Nicky Lovely	Ensure members are aware of changes to legislation that will impact on the Committee meeting cycle
	Annual Audit Letter	John Cornett/Helen Brookes (KPMG)	Gain assurance on the Council's Statement of Accounts and arrangements for achieving Value for Money
	External Audit Certification of Claims & Returns	John Cornett (KPMG)	Gain assurance that claims and returns are managed appropriately
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	The Council's arrangements for : Upholding ethical standards Whistleblowing Meeting the requirements of CIPFA's Statement on the Role of the Chief Financial Officer	Nicky Lovely	Ensure that the Committee has the appropriate skills to carry out its remit
	Initiating the Annual Review of the Effectiveness of the Internal Audit Function	David Dickinson/Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
10th February 2016	Treasury Performance	Tara Beesley	Gain assurance that treasury management

			activities are in line with the current Treasury Management Strategy
	Draft Treasury Strategy	Tara Beesley	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Internal Audit Progress Report	Lucy Pledge/John Scott (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Combined Assurance Report	Lucy Pledge/John Scott (Audit Lincs)	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	Draft Annual Internal Audit Plan 2016/17	Lucy Pledge/John Scott (Audit Lincs)	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Results of the Review of the Assessment of Effectiveness of the Internal Audit Function	Nicky Lovely	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements
	Review of significant internal control issues highlighted in the Annual Governance Statement	David Dickinson	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Risk Management report	Lisa Lancaster	Gain assurance that appropriate risk management arrangements are in place
	Strategic Risk Register	Lisa Lancaster	Gain assurance that the Council considers its strategic risks and that these are being managed effectively
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
27th April 2016	Statement of Accounting Policies	Nicola Pickavance	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts

	IAS19 Pension Assumptions	Nicola Pickavance	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	External Audit Plan for 2015/16 Accounts and VFM Conclusion	John Cornett/Helen Brookes (KPMG)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts and arrangements to achieve Value for Money
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	