



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE Monday, 27th November, 2017

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

**Council Chamber, Civic Offices, High Street, Epping
on Monday, 27th November, 2017
at 7.00 pm .**

**Glen Chipp
Chief Executive**

**Democratic Services
Officer**

Gary Woodhall
(Governance Directorate)
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors J Knapman (Chairman), L Hughes, R Jennings, A Patel, and J M Whitehouse

Independent A Jarvis (Vice-Chairman) and N Nanayakkara.

**PLEASE NOTE THAT THERE WILL BE A MEMBER TRAINING SESSION STARTING AT
6.15PM IN THE COUNCIL CHAMBER DIRECTLY BEFORE THE MEETING**

1. WEBCASTING INTRODUCTION

The Chairman will read the following announcement:

"I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit."

2. APOLOGIES FOR ABSENCE

(Director of Governance) To be announced at the meeting.

3. DECLARATIONS OF INTEREST

(Director of Governance) To declare interests in any item on this agenda.

4. MINUTES

(Director of Governance) To confirm the minutes of the last meeting of the Committee held on 18 September 2017 (previously circulated).

[Click here for Audit & Governance Minutes 18 September 2017](#)

5. MATTERS ARISING

(Director of Governance) To consider any matters arising from the previous meeting.

6. AUDIT & GOVERNANCE WORK PROGRAMME 2017/18 (Pages 5 - 6)

(Director of Governance) To consider the attached Work Programme for 2017/18.

7. ANNUAL AUDIT LETTER 2016/17 (Pages 7 - 20)

(External Auditor) To consider the attached report (AGC-011-2017/18).

8. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 017/18 (Pages 21 - 36)

(Director of Resources) To consider the attached report (AGC-012-2017/18).

9. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER TO NOVEMBER 2017 (Pages 37 - 68)

(Chief Internal Auditor) To consider the attached report (AGC-013-2017/18).

10. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972 requires that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

11. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Background Papers:

Article 17 of the Constitution (Access to Information) define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection one copy of each of the documents on the list of background papers for four years after the date of the meeting. Inspection of background papers can be arranged by contacting either the Responsible Officer or the Democratic Services Officer for the particular item.

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Audit & Governance Committee Work Programme 2017/18

26 June 2017

- Annual Report of the Chief Internal Auditor 2016/17..
- Audit & Governance Committee Annual Report 2016/17.
- Annual Governance Statement 2016/17.
- Anti-Fraud & Corruption Strategy.
- Internal Audit Progress Report.

18 September 2017

- Treasury Management Annual Outturn Report.
- Statutory Statement of Accounts 2016/17.
- Internal Audit Progress Report.

- ❖ Annual Governance Report 2016/17.

27 November 2017

- Treasury Management Mid-Year Report.
- Internal Audit Progress Report.
- Review of the Audit and Governance Committee Terms of Reference.
- Review of the Audit and Governance Committee Effectiveness.

- ❖ Annual Audit Letter 2017/18.

5 February 2018

- Treasury Management Investment & Strategy Statements.
- Internal Audit Progress Report.
- Review of Code of Corporate Governance.
- Review of the Internal Audit Charter.

26 March 2018

- Effectiveness of Risk Management.
- Internal Audit Progress Report
- Internal Audit Strategy and Audit Plan 2018/19.
- Internal Audit Compliance with the Public Sector Internal Audit Standards
- Corporate Fraud Team Strategy 2018/19

- ❖ Planning Letter 2018/19.
- ❖ Audit Plan 2017/18.
- ❖ Grant Claims Audit Report 2016/17.

Unallocated Items

- Information Regarding the Whistle Blowing Policy.

Key

- EFDC Officer Report.
- ❖ External Auditor Report.

N.B...In addition, the Committee's annual private meetings with the External (7pm) and Internal (7.15pm) Auditors are scheduled to take place prior to the 26 March 2018 meeting in the Conference Room.

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-011-2017/18

Date of meeting: 27 November 2017

Portfolio: Finance

Subject: Annual Audit Letter

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

- (1) To consider and note the External Auditor's Annual Audit Letter.**

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor. The Annual Audit Letter summarises the key issues arising from BDO's work during the year.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure proper consideration of the Annual Audit Letter.

Other Options for Action:

There are no other options for action.

Report:

1. The Annual Audit Letter (AAL) confirms that the Financial Statements gave a true and fair view of the Council's financial affairs. It also confirms that the Annual Governance Statement contained in the Financial Statements was not misleading or inconsistent with other information.
2. The external auditors were able to satisfy themselves that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. This enabled them to issue an unqualified value for money conclusion.
3. The AAL confirms that the auditors have not had to exercise their statutory powers and that they have no matters to report. An audit certificate to close the audit for the year ended 31 March 2017 was issued on 27 September 2017.

Resource Implications:

None.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the district.

Consultation Undertaken:

None.

Background Papers:

Statutory Statement of Accounts and associated reports made to the Audit and Governance Committee and Full Council.

Risk Management:

Action plans have been agreed to address areas of risk identified during the audit.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
10/11/17 Director of Resources	The report is a summary of the work conducted in the year by the external auditor and has no equality implications.

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LEPPING FOREST DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
26 October 2017



EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

RESPONSIBILITIES OF AUDITOR AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code), and to review and report on:

- The Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

BDO LLP
26 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 27 September 2017.

We reported our detailed findings to the Audit and Governance Committee on 18 September 2017.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 September 2017.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified true and fair opinion on the financial statements on 27 September 2017.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Management override of controls	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud. Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. We also obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</p>	No issues were identified by our audit work in this area.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Revenue recognition	<p>Under Auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income. We also considered there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the Comprehensive Income and Expenditure Statement.</p> <p>We responded to this risk by gaining an understanding of the authority's internal control environment for the significant income streams, including how these operate and ensure that income is recognised. We also substantively tested an increased sample of fees and charges income.</p>	No issues were identified by our audit work in this area.
Property, plant and equipment valuations	<p>There was a risk over the valuation of land and building as the valuations are based on assumptions that are uncertain by nature, if inappropriate or inaccurate assumptions are used in the calculation of fair values. The extent of the valuation increases exceeded our expectations (which are based on the increases in property prices suggested by published indices). We therefore considered that the valuation of property, plant and equipment (including investment properties) presented a significant risk of material misstatement.</p> <p>We responded to this risk by reviewing the inputs, instructions provided to the valuers and reviewing the valuers' skills and expertise to determine if we could rely on the management expert. We also confirmed that the basis of valuation for assets valued in year was appropriate based on their usage. We also reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual compared to these indices.</p>	No issues were identified by our audit work in this area.
Pension Liability	<p>There was a risk the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability. An independent review of actuarial assumptions highlighted that the discount rate used by the pension fund actuary, Barnett Waddingham, to calculate the value of the liability is outside of what was considered a reasonable range and that the inflation assumption was at the top of the reasonable range.</p> <p>We responded to this risk by agreeing the disclosures to the information provided by the pension fund actuary. We contacted the administering authority and requested confirmation of the controls in place for providing accurate membership data to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. We engaged an auditors' expert, due to the specialist nature of the pension fund liability calculation, to consider the matters highlighted in the independent report and the impact on the reported pension liability. Our expert concluded that reducing both of the identified variables would have a negligible effect on the pension liability.</p>	No issues were identified by our audit work in this area.

FINANCIAL STATEMENTS

Page 15

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Changes in presentation of the financial statements	<p>The Code required changes to the presentation of some areas of the financial statements. These included:</p> <ul style="list-style-type: none">• Change to the format of the Comprehensive Income and Expenditure Statement (CIES)• Change to the format of the Movement in Reserves Statement (MIRS)• New Expenditure and Funding Analysis (EFA) note• Change to the Segmental Reporting note• New Expenditure and Income analysis note. <p>These changes required a restatement of the 2015/16 CIES.</p> <p>There was a risk that these presentational changes would not be correctly applied in the financial statements.</p> <p>We responded to this risk by reviewing the draft financial statements against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p> <p>We ensured that the restatements required by the changes to the Code agreed to prior year financial records. We also ensured that the new notes are in the same format as reported to Finance and Performance Management Cabinet Committee.</p>	<p>The presentational changes and restatement of relevant sections of the financial statements were in accordance with the Code.</p> <p>No issues were identified by our audit.</p>

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £2,000,000. This was determined with reference to a benchmark of gross expenditure (of which it represents 2%) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Governance Committee that we would report all individual audit differences in excess of £40,000.

AUDIT DIFFERENCES

Our audit work did not identify any unadjusted audit differences.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework' (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

INTERNAL CONTROLS

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non-current assets); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

USE OF RESOURCES

CONCLUSION

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

Our work performed during our on-going risk assessment process included a review of the Medium Term Financial Strategy (covering the period 2016/17 to 2020/21), the current year outturn and the Council's reserves position.

The Council remains in a strong financial position due to its healthy reserve balances. Management have updated the Medium Term Financial Strategy (MTFS) since our initial risk assessment and the predicted revenue balance at the end of the period covered by the MTFS is expected to be £5.287m, which represents 41% of the Council's net budget requirement for 2020/21. This is significantly above the minimum 25% approved by members.

We assessed the Council's response to falling central government funding for local government through its exploration of commercial opportunities and the Transformation Programme. The Langston Road Retail Park is expected to provide the Council with a significant source of income once fully operational and revenue estimates within the MTFS from the Shopping Park appear reasonable.

As part of the Transformation Programme the Council commissioned an option appraisal around its Service Accommodation. The service accommodation review demonstrates how the Council is forward thinking in relation its future service requirements and its ability to generate new income streams in an environment of falling central government funding. A detailed business case is being commissioned to quantify costs and savings from the reorganisation of the Council's estate.

As no significant risks have been identified no additional detailed work was performed.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous Annual Audit Letter.

REPORT	DATE
Audit plan	10 March 2017
Audit completion report	06 September 2017
Annual Audit Letter	26 October 2017

FEES

We reported our original fee proposals in our audit.

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Code audit - scale fee	64,672	64,672
Housing benefits subsidy claim certification - scale fee	18,533	18,533
Total audit and certification fees	83,205	83,205
Pooled housing receipts certification	2,000	2,000
Audit-related services fees	2,000	2,000
Other non-audit services	-	-
Total fees	85,205	85,205

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-012-2017/18**
Date of meeting: **27 November 2017**

Portfolio: **Finance**

Subject: **Mid-Year Report on Treasury Management and Prudential Indicators 2017/18**

Responsible Officer: **John Bell** **(01992 564387).**

Democratic Services Officer: **Gary Woodhall** **(01992 564470).**

Recommendations/Decisions Required:

- (1) To note how the risks associated with Treasury Management have been dealt with in the first half of 2017/18; and**
- (2) To make any comments or suggestions that Members feel necessary to the Finance and Performance Management Cabinet Committee.**

Executive Summary:

The mid-year treasury report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the first half of the financial year 2017/18.

During the first half of the year: the Council has continued to finance all capital expenditure from within internal resources; the average net investment position has been approximately £35.7m by coincidence the same figure as last year; and there have been no significant breaches on any of the prudential indicators.

Reasons for Proposed Decision:

To inform the Committee about the risks associated with Treasury Management and how the Council has sought to manage these risks.

To comply with the Committee's role and responsibilities, which include being responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the current year. The updated code in November 2011 also recommended that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. The report attached at appendix 1 shows the mid-year position of the treasury function in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital activity for the year and how it will be financed

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council does plan to borrow in order to carry out its capital programme. The original estimate, along with the spend to 30 September 2017 is shown below in the table.

Financial Year 2017/18		
Capital Expenditure	Estimated £m	to month 6 £m
Non-HRA capital expenditure	10.551	8.173
HRA capital expenditure	28.164	8.732
Total Capital expenditure	38.715	16.905
Financed by:		
Capital grants	0.870	
Capital receipts	10.032	
Borrowing	3.691	
Revenue	24.122	
Total resources Applied	38.715	

5. The revised capital programme is currently being worked on and will be going to Cabinet for approval in December.

6. There is a financial risk involved in reducing the balance of usable capital receipts over the next five years. This risk has the following potential consequences; loss of interest; loss of cover for contingencies; service reductions required; and Council Tax increases required.

7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a five-year period. The forecast Capital Programme for the five years to 2020/21 totals £124m and was partly funded by £24m borrowing. It was predicted that at the end of this period there would still be £1.7m available in Capital Receipts and nil in the Major Repairs Reserve. These figures will be revised as part of the update to the Capital Programme.

The impact on the Council's indebtedness for capital purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council now has an overall positive CFR (HRA and Non-HRA) following the borrowing in relation to the HRA self-financing, and will need to borrow for capital purpose as highlighted in the previous section.

CFR	Financial year 2017/18		
	Estimated £m	Revised £m	to month 6 £m
Non-HRA	54.6	54.6	29.6
HRA	155.1	155.1	155.1
Total Capital expenditure	209.7	209.7	184.7

9. The Director of Resources confirms that there were no breaches of the Authorised Limit (£250m), the Operational Boundary (£240m) and the Maturity Structure of Fixed Rate Borrowing during the period to 30 September 2017.

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this has been evidenced through the Council producing a viable thirty-year financial plan for the HRA. This plan is reviewed quarterly by officers and half yearly reports are presented to Communities Select Committee. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking the borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder was fixed. Any upward movement in interest rates would be 'hedged', in part, by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings cannot be refinanced on suitable terms. Within the original capital programme, it was anticipated that all borrowing would be repaid on maturity and the capital programme would be financed through internal resources. The Council does though intend to borrow later in 2017-18 in order to finance approved capital projects e.g. Langston Road Retail Development.

11. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensure where debt is owed it is managed, such that the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

The Council's overall treasury position

12. During the first half of 2017/18 the average investment position for the first half of the year was £35.7m. The table below shows the treasury position as at 30 September 2017.

Treasury position	31/03/2017 £m	30/09/2017 £m
Total external borrowing	(185.5)	(185.5)
Short term investment		
▪ Fixed investment	25.0	15.0
▪ Cash and Cash Equivalents	16.3	15.1
Total investments	41.3	30.1

13. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

14. The Director of Resources confirms that there have been no breaches of:
- (a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (75%) on investment during the period. At the end of September 2017 neither upper limit was breached and investments were split 50% fixed and 50% in cash and cash equivalents.
 - (b) The limit set for investment over 364 days (£30m). The Council made no investments over 364 days. The average length of short term investment for the period is 32.5 days.
 - (c) The limit set for investment in non UK Country (30%). The Council made one investment (11%) to a counterparty outside of the UK.
15. The risks associated with this section are as follows:
- (a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury management advisors (Arlingclose).
 - (b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Resources has monthly meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.
 - (c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council has currently around 50% of its investments in variable rates, and the remainder are in fixed rate deposits on average for around 32.5 days. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short term.
16. The prudential indicators within this section assist the Council to reduce the risk of:
- (a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money.
 - (b) The Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate amounts of money are available immediately through instant access accounts.
 - (c) Potentially losing out on investment income when interest rates start to increase by ensuring that most deposits are kept within one year.

Resource Implications:

The continued low interest rate was reflected in estimated investment income to the Council of £101,000 in 2017/18.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury management advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2017/18 to 2019/20 and the Treasury Management Strategy for 2017/18 to 2019/20 went to Council on 21 February 2017.

Risk Management:

As detailed in the report, a risk averse position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people are affected by this report which is not directly service related.

Treasury Management Mid-Year Report 2017/18

Introduction

In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2017/18 was approved at a meeting of the Authority on 21 February 2017. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic backdrop: Commodity prices fluctuated over the period with oil falling below \$45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, it's lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced that it would be starting a reversal of its vast Quantitative Easing programme and reduce the \$4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by \$10bn a month.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-

haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) of Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, and any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. The agency downgraded long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May,

following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Authority meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Local Context

On 31st March 2017, the Authority had net worth of £138.8m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m
General Fund CFR	29.6
HRA CFR	155.1
Total CFR	184.7
Less: Usable reserves	-43.9
Less: Working capital	-2.0
Net worth	138.8

The Authority’s current strategy is to maintain a minimum investment balance of £10m with a view to borrowing to fund the rest of the house building programme probably later in 2017. The treasury management position as at 30th September 2017 and the change over the period is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Rate %
Long-term borrowing	185.5	0	185.5	2.96
Total borrowing	185.5	0	185.5	2.96
Short-term investments	25.0	-10.0	15.0	0.37
Cash and cash equivalents	16.3	-1.2	15.1	0.21
Total investments	41.3	-11.2	30.1	0.29
Net borrowing	144.2	-11.2	155.4	

The reduction in investments is mainly due to the major capital programmes of the Epping Forest Shopping Park and house building.

Borrowing Strategy during the half year

At 31st March 2017, the Authority held £185.5m of loans, this has remained static over the year as slippage in the capital programme has meant the need to borrow has not materialised. The average rate of interest payable is 2.96%, and a weighted average maturity of 19.5 years.

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

It was envisaged that further borrowing would be required within the early part of the 2017/18 financial year but this has been abated due to investment balances remaining higher than expected.

Investment Activity

The Authority holds significant invested funds, representing the amount of balances and reserves held. Investment balances are depleting in line with the major capital spend on the Epping Forest Shopping Park and major house building programmes. The investment position during the half year is shown in table 3 below.

Table 3: Investment Position

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Weighted average rate %	30.9.17 Weighted average maturity (Days)
Banks & building societies (unsecured)	16.3	-0.2	16.1	0.41	88.9
Government (incl. local authorities)	15.0	-11.0	4.0	0.17	67.0
Money Market Funds	10.0	0.0	10.0	0.22	1.0
Total investments	41.3	-11.2	30.1	0.29	56.7

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate

balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Investment balances are being utilised to fund the major capital schemes at present, as the interest rates on investments remain low, thus reducing the need to borrow.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	3.97	AA-	60%	47	0.99%
30.09.2017	4.60	A+	84%	18	0.29%
Similar LAs	4.39	AA-	65%	108	1.43%
All LAs	4.44	AA-	64%	40	1.12%

*Weighted average maturity

As the capital programme progresses funds are being kept on shorter notice periods to ensure sufficient funds are available when required. This means the counterparties that are being used, e.g. banks and building societies are increasing our exposure to the “bail-in” process. Also, keeping investments short term means that the rates of return are not as good as other local authorities with longer dated and more diversified portfolios.

Coupled with the above, the recent Sovereign downgrade of the UK, and subsequent downgrades of certain counterparties, by the rating agencies sees a small drop in the average credit rating of investments used by the Council.

Performance Report

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £m	Budget £m	Over/ (under)	Actual %	Benchmark %	Over/ (under)
Short Term Investments	15.71	16.05	(0.34)	0.37	0.40	(0.03)
Cash and Cash Equivalents	22.68	21.50	1.18	0.21	0.22	(0.01)
Total Investments	38.39	37.55	0.84	0.29	0.31	(0.02)
PWLB Borrowing	185.5	185.5	0.0	2.96	3.00	(0.04)
Short Term Borrowing	0.0	25.0	25.0	0.00	1.00	(1.00)
Total debt	185.5	210.5	25.00	2.96	2.76	n/a
GRAND TOTAL	147.11	172.95	25.84	n/a	n/a	n/a

Compliance Report

The Director of Resources is pleased to report that treasury management activities undertaken during the first half of 2017/18 complied with the CIPFA Code of Practice and the Authority’s approved Treasury Management Strategy with the exception of minor breaches with Nat West

Bank whilst waiting for major payments to be made. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	30.9.17 Actual	2017/18 Limit	Complied
Any single organisation, except UK Government	3 x £5m and 1 x £0.1m	£5m each	✓
UK Central Government	£0m	unlimited	✓
Local Authorities	£4m	£25m in total	✓
Any group of funds under the same management	Up to £5m	£5m per group	✓
Any group of pooled funds under the same management	£0m	£10m per manager	✓
Negotiable instruments held in broker's nominee account	£0m	£15m per broker	✓
Foreign countries	£0m	£5m per country	✓
Registered Providers	£0m	£10m in total	✓
Unsecured investments with Building Societies	£1m	£5m in total	✓
Loans to unrated corporates	£0m	£5m in total	✓
Money Market Funds	£10m	£20m in total	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	30.9.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	£185.5m	£240m	£250m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.17 Actual	2017/18 Target	Complied
Portfolio average credit rating	A+	A-	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	30.9.17 Actual	2017/18 Target	Complied
Total cash available within 3 months	£32.3m	£15m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.9.17 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	83%	100%	✓
Upper limit on variable interest rate exposure	17%	75%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.9.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	17%	100%	0%	✓
5 years and within 10 years	0%	100%	0%	✓
10 years and above	83%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£15m	£5m	£5m
Complied	✓	✓	✓

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.

The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-013-2017/18
Date of meeting: 27 November 2017

Portfolio: Technology and Support Services

Subject: Internal Audit Monitoring Report - September to November 2017

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Committee notes the progress made against the 2017/18 Internal Audit plan and the summary of the work of Internal Audit and the Corporate Fraud Team for the period September to November 2017; and

(2) That the revised Whistleblowing Policy and Procedure be recommended to the Council for approval.

Executive Summary:

This report updates members on the work completed by the Internal Audit Shared Service and the Corporate Fraud Team since the September 2017 Audit and Governance Committee, and also provides the current position in relation to overdue recommendations.

A summary of the requirements of the General Data Protection Regulations is provided at appendix 3 and updates members on the action being taken to implement these at Epping Forest District Council.

The revised Whistleblowing policy and procedure, attached at appendix 4, sets out the action that will be taken when concerns are raised.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

2017/18 Internal Audit Plan

1. Good progress is being made against the 2017/18 Audit Plan as detailed in Appendix 1.

Internal Audit Reports

2. The following reports have been issued since the Committee received its last update in September 2017:

- **Health and Safety - Lone Working (Substantial assurance)**

This audit reviewed the processes around ensuring the health and safety of lone workers in the Council, focussing on front line staff.

The audit found that the health and safety of lone workers is well managed with adequate policies, procedures and monitoring arrangements in place to ensure risks are identified and effective measures put in place to mitigate these risks. Localised procedure notes exist and are being followed by the respective teams, ensuring that safe working practices are in place.

Risk assessments are prepared by managers to ensure safety measures are in place when staff lone work and lone worker safety training is provided for those working alone or in vulnerable situations. It is recommended that risk assessments are regularly reviewed to ensure they remain relevant and up to date, and consideration should be given to making the training mandatory for those job roles identified as lone workers.

The Council's in-house lone worker monitoring system (Careline) is being out-sourced from November 2017. Tunstall Healthcare (UK) Limited has been awarded the contract as the Service Provider for the Council's Careline Alarm Monitoring Service.

- **Council Housebuilding Programme (Substantial assurance)**

Overall, the council house building programme is well managed with adequate officer and Member monitoring and oversight processes in place. The programme has progressed well since the previous audit in December 2015, with phases 1-3 in development and phases 4-6 at planning/feasibility stage.

Corporate and Directorate risks have been identified; however the programme wide risks (owned by the Development Agent) require review as they have not been updated since September 2015.

The use of 141 receipts continues to be monitored closely by Accountancy and Housing Assets to ensure this is in line with government requirements, with clear audit trails and reporting processes in place.

The Council has requested more detailed information from the Employers Agent to provide assurance that procurement and contract management processes are transparent and comply with the Council's Procurement Rules. In September, the Development Agent invoked the three month exit clause in the council housebuilding contract and has given notice to terminate their appointment. A way forward has been agreed with senior management.

- **Local Plan Staffing Resources (Substantial assurance)**

This audit reviewed the processes around managing the internal and external staff resource available to prepare the Local Plan to submission for examination. Overall, the staff resource required for the preparation of the Local Plan, the Council's top priority, is being well managed. Due to high staff turnover and vacancies within the team, staff resource is identified as a significant risk to the

delivery of the Local Plan, and is closely monitored and reported to both senior management and Members. Along with many other Local Authorities, the Council experiences considerable difficulty recruiting suitably qualified planners, and as a consequence, a range of approaches has been taken to engage appropriately qualified staff in order to minimise staffing gaps or lack of critical skills.

Resource has been provided through contracts with specialist firms, secondments and, more recently, the Council has been successful in recruiting an experienced planner as Projects Officer. Staff resource has been engaged in accordance with the Council's Procurement Rules and recruitment procedures as appropriate.

- **Health and Safety – Townmead Depot follow up**

In September 2016, Internal Audit issued a limited assurance report regarding Health and Safety arrangements at the Townmead Depot as depot management processes were lacking which presented safety and security risks for Council employees and other users of the depot.

A detailed action plan was drawn up and good progress has been made to address the issues raised. As part of this, an independent Fire Risk Assessment was undertaken in February 2017 which made recommendations around fire safety policy and procedures, staff fire training, fire drills and fire testing, waste disposal and storage arrangements. The majority of these have yet to be actioned compromising the health and safety of both users and visitors to the site, including fire fighters should they have to attend an incident. An interdisciplinary group has been established to address the issues identified in the Fire Risk Assessment.

The action plan includes other improvement works for the site. These have been postponed following the decision to relocate Pyrles Lane nursery to Townmead Depot and form part of that project plan which is being monitored through the Council's project management system.

The recommendation around formalising arrangements between Epping Forest District Council and Waltham Abbey Town Council requires negotiation on both sides. The Estates and Valuation department is currently assessing the most appropriate form of agreement and progress is being monitored by Internal Audit and reported to the Audit and Governance Committee through the tracker process.

Recommendation Tracker

3. The Audit and Governance Committee continues to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of whether they are overdue or not.

4. The current tracker is shown at Appendix 2 and contains one high priority recommendation which has not passed its due date, in addition to one medium and two low priority recommendations which have passed their due dates (compared to two medium and two low priority recommendations in September 2017).

5. The high priority recommendation relates to the implementation of an action plan to address the issues identified following the Fire Risk Assessment at Townmead Depot.

Table 1. Summary of tracker as at 15 November 2017.

Recommendation type	Number (November 2017)	Number (September 2017)	Number (June 2017)
High Priority not passed its due date	1	0	0
High Priority passed its due date	0	0	0
Medium Priority passed its due date	1	2	1
Low Priority passed its due date	2	2	2
Total	4	4	3

Other Internal Audit Activities

6. A number of assignments in the Audit Plan are included to provide advice and guidance throughout the year on current and future issues relevant to the Council, and ultimately help to inform the Chief Internal Auditor's annual opinion; but these do not result in an audit report. This includes Internal Audit representation on business groups and project teams in addition to less formal meetings. Significant items are included below for Members' information:

- **General Data Protection Regulation (GDPR) Working Party** – Internal Audit is actively involved in assisting in the implementation of the GDPR, a key area for all Councils. Further details and a summary of GDPR requirements are provided in Appendix 3.
- **Programme and Project Management** - Internal Audit continues to be an active member of this project group which is drawing to a close as the system solution, Covalent (now called Pentana), has now been rolled out across the Council. The group is now reviewing the service and directorate business planning process for 2018/19.
- **Personal Data (Payroll/HR)** – Internal Audit is a member of this project group which is reviewing the processes and forms associated with the new iTrent payroll/HR system. Advice is provided to ensure that appropriate controls are retained in the new processes which are being developed as the new system is being implemented.
- **Corporate Debt Working Party** – Internal Audit is providing advice to this group over processes and controls as the Council reviews its approach to debt management, including exploring options for a corporate debt management system.
- **Risk Management Group** – Internal Audit is actively involved in improving risk management processes throughout the Authority. The risk management strategy has been revised and was approved by Finance and Performance Cabinet Committee on 14 September 2017. The revised strategy provides clearer operational guidance to Officers on the risk management process and the criteria

for assessing risks has been updated.

The new risk register template developed for directorates has been implemented in the Governance and Resource Directorates and is being rolled out to Communities and Neighbourhoods.

National Fraud Initiative

7. The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include the Department for Works and Pensions (DWP), police, fire and rescue authorities as well as local councils and a number of private sector bodies.

8. The review of the 2016/17 data matches is in progress and Internal Audit is providing training and guidance to Officers to enable a review of their matches. Previous exercises have found many NFI matches are not fraudulent and there is usually a simple explanation for matches (for example inaccurate data). Internal Audit is a key contact for the NFI, coordinating the submission of the Council's data and ensuring there is a process for reviewing data matches in accordance with the Council's available resources and the requirements of the Cabinet Office. No significant frauds have been identified to date.

Corporate Fraud Team

9. Since September 2017, a further three Right To Buy applications have been stopped / withdrawn as a result of Corporate Fraud Team (CFT) intervention resulting in a discount saving of approximately £234,000 and ongoing rent revenue streams of around £137,000.

10. A further council property, which was the subject of a succession fraud, has been recovered. Investigations by the CFT discovered that there was no entitlement to the property. The property is in the process of being re-let to someone on the waiting list, saving around £18,000.

11. A former tenant has been convicted of two counts of fraud (under the Fraud Act 2006) relating to subletting. A guilty plea was also entered to a charge of illegal subletting (under the Prevention of Social Housing Fraud Act 2013) prior to the trial commencing. The defendant was sentenced to 12 months imprisonment for each count, suspended for 12 months, along with 150 hours of unpaid work in the community. In addition they will also have to pay a victim surcharge to EFDC and the Council's prosecution costs. A Proceeds of Crime Act action relating to this case is still ongoing.

12. A further Social Housing fraud prosecution is still scheduled to go to trial early in 2018.

13. From the middle of September, the Corporate Fraud Team has entered into a joint working arrangement with Brentwood Borough Council to provide a fraud service to them for 2 days per week on a paid for basis.

Revised Whistleblowing Policy

14. The Council's whistleblowing policy and procedure has been revised and attached as Appendix 4. Only minor changes have been made to the previous version (dated October 2014) and have been approved by the Corporate Governance Group. The main changes being two procedural additions:

- (i) Timescales – setting out expectations on how long an investigation may take;
- and

- (ii) Investigating procedures – to guide staff members who may be nominated as an Investigating Officer.

15. Staff will continue to be reminded about the Council's whistleblowing policy and procedure on a periodic basis in the staff newsletter, District Lines, as well as through poster campaigns (Appendix 5).

Review of significant issues identified in the 2016/17 Annual Governance Statement

16. In June 2017, the Audit and Governance Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts. The AGS outlines the proposed actions to be taken to deal with significant governance issues identified. The Corporate Governance Group monitors the actions set out in the AGS on a regular basis. The progress made to date on addressing the issues identified for improvement during 2017/18 is shown in table 2.

Table 2. Areas for improvement or monitoring during 2017/18

No.	Issue	Management response	Progress as at November 2017
1	<p>General Data Protection Regulations (GDPR)</p> <p>It is imperative that businesses and public bodies are prepared for the GDPR which will apply in the UK from 25 May 2018. The government has confirmed that the UK's decision to leave the EU will not affect the commencement of the GDPR.</p>	Work is already in hand to ensure Epping Forest is compliant with the requirements of the GDPR ahead of May 2018 and beyond.	A GDPR working group has been established, chaired by the Director of Governance. A Council-wide Information Asset register has been prepared and work is ongoing to establish the basis for all processing activities.
2	<p>Corporate Policies</p> <p>For the second year, Service Assurance Statements identified a need to raise awareness of, and communicate changes to, corporate policies in particular Officer Code of Conduct, data protection policies, anti-fraud and Whistleblowing.</p>	A staff awareness campaign will be devised and implemented to address this and will include use of metacompliance to ensure staff have read relevant policies, articles in the monthly staff newsletter District Lines, and reminders at staff briefings.	<p>The revised anti-fraud and corruption strategy was approved by Council on 27 July 2017.</p> <p>The whistleblowing policy has been revised and approved by the Corporate Governance Group.</p>

Resource Implications:

Within the report.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

2017/18 Audit and Resource Plan.

Risk Management:

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 6 to the report.

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Appendix 1 - Audit Plan Monitoring 2017-18

	Directorate	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	High Priority Recs	Medium Priority Recs	Low Priority Recs
Quarter 1 and 2										
Cyber security	Resources	16	Final report	n	n	n	Substantial	0	1	0
Health & Safety - Lone Working	Resources	10	Final report	n	n	n	Substantial	0	3	0
Health & Safety - Fire Risk Assessments	Communities	10	Final report	n	n	n	Moderate	0	2	0
House building	Communities	10	Final report	n	n	n	Substantial	0	4	0
Planning Applications	Governance	5	Final report	n	n	n	Substantial	0	0	0
Local Plan - Staff Resources	Neighbourhoods	5	Final report	n	n	n	Substantial	0	0	0
Community Safety - joint working	Communities	10	Draft report	n	n		Substantial	0	0	1
Income - Fleet Operations	Neighbourhoods	12	Draft report	n	n		Substantial	0	0	0
Planned maintenance and major works	Communities	12	In Progress	n						
Income - card payments	Resources	15	ToR issued							
Asset Management strategy	Neighbourhoods	10	Scoping							
Quarter 3										
Commercial property - service charges	Neighbourhoods	12	Scoping							
Payroll inc new HR/payroll system	Key Financial Control	14	Scoping							
Accounting system/General Ledger	Key Financial Control	10	Scoping							
Debtors	Key Financial Control	12	Scoping							
Capital projects programme	Resources	14	Scoping							
Contract register	Resources	15	Scoping							
Housing Benefits	Key Financial Control	10								
Safeguarding	Communities	10								
North Weald Airfield - establishment audit	Neighbourhoods	12								
Governance: St John's Road	Neighbourhoods	10								
Quarter 4										
Business Continuity Planning	Neighbourhoods	10								
Leisure management contract	Neighbourhoods	12								
Anti Social Behaviour	Communities	12								
Agency staff	Resources	12								
HR absence management	Resources	12								

Equality Impact Assessments	Chief Executive	12									
Complaints	Chief Executive	10									
Additional audits											
Health & Safety - Townmead Depot follow up	Neighbourhoods	5	Final Report	n	n	n	n/a	1	0	0	
								1	10	1	
ToR = Terms of Reference											

EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 15 November 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
Audit Recommendations 2015/16									
External Data Transfers 2015/16 Report No. 763 July 2016 <div>Page 47</div>	3	A mechanism should be devised for monitoring compliance against agreed information sharing protocols. For example, a sample should be selected, say annually, to see if the relevant department or business is complying with the agreed sharing protocol.	Low	This will be considered as part of the Information Asset Register being created as part of recommendation 1.	Director of Governance	31/03/17	31/03/18	April 17: This process will be developed along with the review process in recommendation 1, once the Information Asset Register is complete. May 17: The review process in recommendation 1 has begun and will include a process for monitoring compliance with information sharing protocols. August 17: The processes around information sharing protocols are included in the GDPR action plan which is being delivered by via the GDPR working group. October 17: The GDPR working group continues to meet monthly and is making progress with the action plan which includes a review of the information sharing protocols.	Overdue
External Data Transfers 2015/16 Report No. 763 July 2016	6	The Council should periodically request assurance from 3rd parties that the data shared is only retained for the period it was intended, that the process for disposal in place is appropriate and in line with current best practice and	Low	This will be considered as part of the Information Asset Register being created as part of recommendation one.	Director of Governance	31/03/17	31/03/18	April 17: This process will be developed along with the review process in recommendation 1, once the Information Asset Register is complete. May 17: The review process in recommendation 1 has begun and will include a process for gaining third party assurances over shared data.	Overdue

EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 15 November 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
		legislative requirements.						<p>August 17: Processes around third party data assurances are included in the GDPR action plan.</p> <p>October 17: The GDPR working group continues to meet monthly and is making progress with the action plan which includes a review of the data processing agreements.</p>	
Audit Recommendations 2016/17									
Health and Safety - Townmead Depot Report No. 05.16/17 September 2016	1	EFDC should implement a formal agreement for Waltham Abbey Town Council's (WATC) usage of Townmead Depot. The agreement should include the following: <ul style="list-style-type: none"> • Terms of use • Operational arrangements • Roles and responsibilities of both parties 	Med	The process of drafting the agreement will be led by the Assistant Director (Technical Services) and require additional help from Legal and Estates. The recent site visit to the Depot highlighted the ongoing issues between EFDC and WATC. The meeting concluded the two authorities will work together to ensure the Depot is managed effectively and access is controlled. This is a longstanding issue which will require negotiation on both sides.	Director of Neighbourhoods Assistant Director (Technical Services)	30/06/17	31/12/17	<p>April 17: Legal Services have produced the first draft of the agreement; this is currently being reviewed internally. Once any changes are agreed, WATC will be invited to comment on the document.</p> <p>August 17: Following a strategic review of land allocation between the Council and WATC, the Estates and Valuation Manager is revisiting the appropriate form of agreement with the Town Council. A meeting will be arranged with WATC to explore the options. In light of this development it is prudent to put on hold the formal agreement for the time being.</p> <p>October 17: Following a preliminary discussion with WATC, negotiations are ongoing to agree the most</p>	Overdue

EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 15 November 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
								appropriate form of legal agreement between the two authorities.	
Audit Recommendations 2017/18									
Health and Safety - Townmead Depot follow-up Report No. 11.17/18 November 2017 Page 49	1	The following action should be taken as outlined in the Fire Risk Assessment (FRA) report: <i>It is recommended that the actions in this fire risk assessment are undertaken within the timescales suggested. Management to sign off and date when actions are completed.</i> <i>Review this fire risk assessment on a regular basis (six monthly) at first and then annually once management procedures have been addressed.</i>	High	The nature of issues raised and the complexity of site requires a collective effort. It is proposed that the Assistant Director Technical Services will lead the effort with the support of: Health and Safety Officer, Facilities Manager, Chief Estates Officer, Fleet Operations Manager, and Countryside Manager	Assistant Director (Technical Services)	Following an inter- disciplinary site visit at the end of November an action plan to address the FRA will be drawn up beginning December 2017. Internal Audit will monitor progress being made to implement the action plan.			In progress

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Appendix 3

Update on General Data Protection Regulations

The General Data Protection Regulation (GDPR), which is to replace the Data Protection Act (DPA), will be implemented on 25 May 2018. It is crucial that the Council is prepared for it, not least because the fines for non-compliance have increased substantially.

The focus of the new legislation is on greater proactivity and transparency. The Council will need to be clear about the information it holds and ensure that there is a proper legal basis for holding it and that individuals' consent has been obtained. Consent for personal data to be processed must be "freely given, specific, informed and unambiguous" – a pre-ticked box will no longer be adequate.

Among other provisions, the GDPR expands the definition of personal data to cover, for example, location, cookies and IP addresses. It introduces new concepts including "sensitive data" such as biometric information. For sensitive data, consent must be explicit. In the case of a challenge, the onus will be on the Council to demonstrate that consent was given.

Subjects of the data will have new rights:

1. The right to be informed
2. The right of access
3. The right to rectification
4. The right to erasure
5. The right to restrict processing
6. The right to data portability
7. The right to object
8. Rights in relation to automated decision making and profiling.

A brief overview of these rights follows.

1. The right to be informed

The GDPR sets out the information that the Council should supply and when individuals should be informed. The information to be supplied is determined by whether or not the personal data was obtained directly from individuals. Much of this information is consistent with current obligations under the DPA, but there is some further information the Council will be explicitly required to provide. The information about the processing of personal data must be:

- concise, transparent, intelligible and easily accessible;
- written in clear and plain language, particularly if addressed to a child; and
- free of charge.

2. The right of access

Under the GDPR, individuals will have the right to obtain:

- confirmation that their data is being processed;
- access to their personal data; and
- other supplementary information.

These are similar to existing subject access rights under the DPA.

However, this information must be provided free of charge. The removal of the £10 subject access fee is a significant change from the existing rules.

3. The right to rectification

Individuals are entitled to have personal data rectified if it is inaccurate or incomplete. If the Council has disclosed the personal data in question to third parties, it must inform them of the rectification where possible. It must also inform the individuals about the third parties to whom the data has been disclosed.

A response must be given within one month (more quickly than the current 40 days).

4. The right to erasure

The right to erasure is also known as 'the right to be forgotten'. The broad principle underpinning this right is to enable an individual to request the deletion or removal of personal data where there is no compelling reason for its continued processing. Under the DPA, the right to erasure is limited to processing that causes unwarranted and substantial damage or distress. Under the GDPR, this threshold is not present.

5. The right to restrict processing

The Council will be required to restrict the processing of personal data in the following circumstances:

- Where an individual contests the accuracy of the personal data (the processing must be restricted until the accuracy of the data has been verified);
- Where an individual has objected to the processing and the Council is considering whether it has legitimate grounds that override those of the individual;
- When processing is unlawful and the individual opposes erasure and requests restriction instead;
- If the Council no longer needs the personal data but the individual requires the data to establish, exercise or defend a legal claim.

6. The right to data portability

The right to data portability allows individuals to obtain and reuse their personal data for their own purposes across different services. It allows them to move, copy or transfer personal data easily from one IT environment to another in a safe and secure way, without hindrance to usability.

7. The right to object

Individuals have the right to object particularly with regard to direct marketing and processing for purposes of scientific or historical research and statistics.

8. Rights in relation to automated decision making and profiling.

The GDPR provides safeguards for individuals against the risk that a potentially damaging decision is taken without human intervention. It will be important to identify whether any of the Council's processing operations constitute automated decision making and consider whether procedures need to be updated to deal with the requirements of the GDPR.

The Plan

A working group has been established to lead on this. The group is chaired by the Director of Governance and membership comprises the Data Protection Officer, Internal Audit, ICT Security Officer and Human Resources, in addition to a representative from each of the directorates.

An action plan has been developed to monitor progress and this is regularly reported to the Corporate Governance Group.

Through the directorate representatives, the group is currently contacting all managers to identify the various processing activities carried out, and to compare this to the Information Asset Register prepared by Internal Audit. This will be used as a basis for reviewing data processing agreements and information sharing protocols.

The Council's relevant policies (Data Protection, Subject Access Requests, and Document Retention etc.) will then be subject to review

Training is to be provided initially to the Leadership Team and then rolled out to managers through the directorate management team meetings.

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Epping Forest District Council

Whistleblowing

Policy and Procedures

(Confidential Reporting)

Version	1	Status	DRAFT
Implementation Date	November 2017	Review Date	October 2020
Revised by	Martin Crowe	Policy Lead Officer	Sarah Marsh

CONTENTS

	Page
Introduction	3
Scope	3
Aims	3
What is a whistleblower?	3
Staff responsibilities	3
Safeguarding – allegations of abuse made against staff	4
Harassment or Victimisation	4
Types of whistleblowing eligible for protection	5
Who is protected?	5
Who isn't protected?	5
Tribunals	5
Confidentiality	6
Anonymous allegations	6
Untrue allegations	6
Reviewing the Policy and Procedure	6
Other relevant information	6
Other organisation's policies and procedures	7
Whistleblowing Procedure	8
Raising a concern	8
How to raise a concern	9
How the Council will respond	9
Action to be taken	9
Acknowledging receipt	10
Timescales	10
Investigating Procedure	10
Future contact and meetings	10
Support offered during the enquiry	10
Alleged perpetrator	11
How the matter can be taken further	11
Other useful contacts	11

Introduction

Epping Forest District Council (EFDC) will not tolerate activities such as criminal activity, improper conduct, unethical behaviour, malpractice etc. or any attempt to conceal such activities in the administration of its responsibilities.

The Council believes in having an open and honest culture and is committed to the highest possible standards of probity and accountability. In line with that commitment, the Council encourages anyone with serious concerns about any aspects of the Council's work to raise those concerns.

The Council is committed to tackling the types of conduct listed above and other forms of malpractice, including abuse of vulnerable people, and treats these issues extremely seriously.

Employees and Members are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances, they may feel it is easier to ignore the concern rather than report what may just be a suspicion for fear of being wrong.

The Council recognises that some concerns may be extremely sensitive and have therefore established a framework to allow concerns to be raised confidentially, and provide for a thorough and appropriate investigation of the matter to bring it to a satisfactory conclusion.

This policy fully complies with and supports The Public Interest Disclosure Act 1998 and The Enterprise and Regulatory Reform Act 2013 (which amends The Employment Rights Act of 1996).

Scope

This policy applies to matters of suspected fraud and corruption within the Council as well as allegations of other unacceptable conduct perpetrated by staff (including contractors). It is intended to cover concerns that fall outside the scope of other procedures. For example, there are separate procedures in place to enable staff to lodge a grievance relating to their employment.

This policy also supports the Council's anti-fraud and corruption strategy and makes it clear that concerns can be raised without fear of reprisals. It is intended to encourage and enable employees and Members to raise serious concerns within the Council, irrespective of seniority, rank or status, rather than overlooking a problem.

Aims

This policy aims to:

- provide ways for staff to raise concerns and receive feedback on any action taken.
- allow staff to take the matter further if they are dissatisfied with the Council's response.
- reassure staff that they will be protected from reprisals or victimisation for reporting in good faith.

What is a whistleblower?

It is an employee, a former employee or member of an organisation who reports suspected misconduct to people or entities that have the power and presumed willingness to take corrective action. Officially this is called 'making a disclosure in the public interest'.

Staff responsibilities

Staff have a duty to draw attention to bad and/or poor practice in the workplace, including practice that may be criminal, abusive and/or neglectful and unethical. Failure to report amounts to collusion with the perpetrator and abuse. Additionally, staff who work with vulnerable people have an individual responsibility to raise concerns with someone who has the authority to take action.

It may be necessary to go outside the immediate work environment or the immediate organisation, for example to Social Services or the Police.

A staff member can report things that they know or suspect aren't right, are illegal or if anyone at work is neglecting their duties. Concerns must be raised when staff reasonably believe that one or more of the following has occurred, is in the process of occurring, or is likely to occur:

- a criminal offence (including fraud, corruption, bribery, money laundering)
- a failure to comply with a statutory or legal obligation
- improper unauthorised use of public or other funds
- improper use or misappropriation of assets (for example, theft of council property)
- a miscarriage of justice
- maladministration, misconduct or malpractice
- endangering of an individual's health and safety
- staff perpetrating abuse of a vulnerable individual
- damage to the environment
- any other similar occurrences
- any instance of unethical behaviour
- deliberate concealment of any of the above

If staff are unsure whether a concern should be raised, advice can be sought from the Director of Resources (Section 151 Officer), the Director of Governance (Monitoring Officer), the Director of Communities, the Director of Neighbourhoods, or Chief Internal Auditor, (the Section 151 Officer and Monitoring Officer are statutory roles). The overriding concern should be that it would be in the public interest for malpractice to be corrected and, if appropriate, sanctions applied.

Safeguarding - allegations of abuse made against staff

All Council staff should be aware that colleagues could carry out abuse of children and vulnerable adults and that all allegations are taken seriously so that appropriate action can be taken.

In the event of a serious allegation against a member of staff regarding children or young people, the Council will follow the procedures set out in the Southend, Essex and Thurrock (SET) Child Protection document and will involve the Local Authority Designated Officer (LADO) employed by Essex County Council.

The Council will use similar procedures in order to protect vulnerable adults.

If staff feel a colleague has:

- (a) behaved in a way that has harmed a vulnerable person, or may have harmed a vulnerable person; or
- (b) possibly committed a criminal offence against, or related to, a vulnerable person; or
- (c) behaved towards a vulnerable person in a way that indicates they are unsuitable to work with them

then they *must* inform their line manager immediately and follow the relevant procedure as outlined in the Council's Safeguarding Policy and Procedures.

Harassment or Victimisation

The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect staff when they raise a concern in good faith. This does not mean, if they are the subject of disciplinary or redundancy procedures, that those procedures will be halted as a result of confidential reporting.

Types of whistleblowing eligible for protection

People have in the past often been deterred from whistleblowing about abuse or neglect by duties of confidentiality and/or fear of the consequences of speaking out.

The Public Interest Disclosure Act 1998 seeks to protect individuals making disclosures and expects that malpractice disclosures will generally be made in the first instance to the person's employer or another person/body who appears responsible for the malpractice.

The Act expects employers to have procedures so that staff who have justified concerns about breaches of practice or the law can pass on these concerns to be investigated. Staff are only protected by the Act if they

are acting in good faith, and reasonably believe that their allegations are true. Allegations made for financial gain are not protected, even if they are true.

It may be justified for the whistleblower to disclose to a third party in the first instance rather than the employer.

A disclosure made in accordance with the Act's expectations will mean that:

- a confidentiality clause in an employment contract cannot be used to prevent staff from disclosing relevant breaches of the law or practice. This means that confidentiality terms in employment contracts cannot be used by employers who are responsible for breaking a law or for abuse or neglect or other malpractice.
- dismissal on grounds of disclosure within the terms of the Act is automatically unfair, and can be challenged before an employment tribunal.

Someone who is treated detrimentally at work because of making a disclosure, which is protected by the Act, may be able to claim compensation at an Employment Tribunal.

The person providing the information may be reluctant to give their name or they may ask that they remain anonymous. Their wishes will be recorded and respected as part of the referral process.

Whilst respecting their right to confidentiality, they cannot however be given an absolute undertaking that they will not be identified at a later date, especially, if any legal action is indicated.

Who is protected?

The following people are protected:

- employees
- agency workers
- people that are training with the Council, but not employed
- self-employed workers engaged by the Council, if supervised or working off-site
- volunteers
- Council Members

A worker will be eligible for protection if:

- they honestly think what they're reporting is true
- they think they're telling the right person
- they believe that their disclosure is in the public interest

Workers who aren't employees cannot claim unfair dismissal because of whistleblowing, but they are protected and can claim what is known as 'detrimental treatment'.

Tribunals

Workers dismissed for whistleblowing can go to an employment tribunal. If the tribunal decides the employee has been unfairly dismissed, it may order that they are:

- reinstated (get their job back)
- paid compensation

A tribunal judge can reduce any compensation awarded by 25% if they find the person has acted dishonestly.

A whistleblower who is bullied at work will also be able to bring a claim to the employment tribunal against their employer or colleagues.

Confidentiality

The Council will respect confidentiality and all steps will be taken to ensure that confidentiality is maintained throughout the process. However, it must be appreciated that the investigation process may reveal the source of the information.

Any statement made by a whistleblower may be required as part of the evidence but could be submitted anonymously, if requested.

Anonymous Allegations

This policy encourages staff to put their name to their concerns. Anonymous allegations make it difficult to assess the veracity (truth) of the person making the allegation as well as the credibility of the facts and evidence on which the concern is based. It is worth remembering that some cases will rise and fall on the credibility of the person making the allegation. Concerns expressed anonymously are more difficult to action effectively, but they will all be considered. In such circumstances, the Council will take the following factors into account when establishing the scope and depth of the investigation:

- the seriousness of the issues raised.
- the credibility of the concern.
- the likelihood of confirming the allegation from attributable sources and information provided.

Untrue Allegations

If staff make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against them. In raising a concern, you should exercise due care to ensure the accuracy of the information. If you knowingly make a malicious or vexatious allegation, or make an allegation for personal gain then further action may be taken against you (which may include disciplinary action).

Reviewing the Policy and Procedure

The Chief Executive has overall responsibility for the maintenance and operation of this policy. The Chief Internal Auditor maintains a record of concerns raised and outcomes, and will report, on an annual basis, to Members via the Audit and Governance Committee.

Other contacts with respect to this policy are the Director of Neighbourhoods, Director of Governance, Director of Resources, Director of Communities, Chief Internal Auditor, Assistant Director (Human Resources), Assistant Director (Benefits) and your trade union representative.

The Whistleblowing Policy and Procedure will be reviewed every three years, or when necessary due to changes in legislation etc., by the Chief Internal Auditor.

Other relevant information

Other relevant EFDC documents that may be read in conjunction with this Policy and Procedure:

- Anti-Fraud and Corruption Strategy (including the Fraud Response Plan and Anti Money Laundering Policy)
- Safeguarding Policy and Procedures;
- Recruitment Policy and Procedures;
- Staff Handbook - Disciplinary and Grievance Policies and Procedures;
- Staff Code of Conduct;
- Safety Policy;
- Accident and Incident Report Guidance.
- Safe Working Practice Guide – A guide to professional boundaries for Staff;
- A Guide to Risk Management for Managers and the Risk Assessment Template;
- Equality and Diversity Policy;
- Compliments and Complaints Booklet;
- Dealing with Complaints – for officers and Members
- Data Protection Policy and Procedures.
- IT Policies and Procedures regarding e-safety and appropriate use of the internet.

Other organisation's policies and procedures:

- Southend, Essex & Thurrock (SET) - Child Protection Procedures.
- Southend, Essex & Thurrock (SET) - Safeguarding Adult Guidelines.

Whistleblowing Procedure

Raising a concern

The way a worker can 'blow the whistle' on wrongdoing depends on whether they feel they can tell their employer. If staff feel they can't tell their employer, they should contact a prescribed person or body such as a trade union etc. If staff decide to blow the whistle to a prescribed person rather than the Council, they must make sure that they've chosen the correct person or body for the issue.

For example:

- HM Revenue and Customs - for taxation, business, finance or fraud.
- The National Audit Office - fraud and corruption in local government.
- The National Crime Agency - about money laundering and major financial crimes.
- The Information Commissioner - data protection and freedom of information rights and duties.
- The Health and Safety Executive - health and safety at work.
- The Pensions Regulator - about occupational and private pensions.

Staff should make disclosures to people other than their employer if:

- they reasonably believe that they will be treated detrimentally for disclosing to the employer; or
- they reasonably believe that the evidence will be destroyed or hidden if the employer is 'tipped off'; or
- the employer has been told, but has not taken appropriate action.

Raising concerns within the Council – staff should contact one of the following:

- their Line Manager
- their Service Director
- their Trade Union representative
- the Corporate Fraud Investigation Team
- the Chief Internal Auditor
- the Human Resources Department

Staff may also raise a concern or discuss the issue with:

Job Title	Name	Contact
The Chief Internal Auditor	Sarah Marsh	01992 564446
The Chief Executive	Glen Chipp	01992 564758
Deputy Chief Executive (also Director of Neighbourhoods)	Derek Macnab	01992 564050
Director of Resources (Section 151 Officer)	Bob Palmer	01992 564279
Director of Governance (Monitoring Officer)	Colleen O'Boyle	01992 564475
Director of Communities	Alan Hall	01992 564004
The External Auditor (may liaise with the Chief Internal Auditor depending on the type of concern)	Zoe Thompson BDO LLP	01473 320734
Assistant Director of Human Resources	Paula Maginnis	01992 564536
The Corporate Fraud Manager	Martin Crowe	01992 564170

Elected Members should raise concerns with:

The Chief Executive, Deputy Chief Executive, Chief Internal Auditor, Corporate Fraud Manager or Monitoring Officer.

How to raise a concern

The earlier a concern is expressed and the more details provided, the easier it will be to effectively investigate and take action. At this stage, staff are not expected to prove the allegation but will need to demonstrate that there are sufficient grounds for the concern, to enable a meaningful investigation to take place.

Staff can raise a concern in the following ways:

In Writing

- Staff can send a letter or email to one of the people or organisations mentioned on page 7.

Staff should give as much information as they can about their concern giving background information (where relevant), the reason why they're concerned and any important details such as names, dates and places etc. If any evidence is held (such as documents, photographs etc.) this should be provided also.

By Telephone

- Staff can leave a message on the 24-hour Anti – Fraud / Whistleblowing Hotline 01992 564444; or
- Speak to a member of the Internal Audit Team during office hours on 01992 564449 or a member of the Corporate Fraud Team on 01992 564170.

This service is strictly confidential and staff do not have to give their name if they do not wish to. The person receiving the concern will make notes of any conversations so that, if required, a proper investigation can be undertaken.

Through an Advocate

Staff may prefer, in order to protect themselves or maintain anonymity, invite their trade union or other representative to raise the matter on their behalf. The representative may be required to obtain additional information so that a proper investigation can be undertaken.

How the Council will respond

Action to be taken

This will depend on the nature of the concern. The process for fraud, corruption and other criminal investigations is covered in the Fraud Response Plan section of the Anti-Fraud and Corruption Strategy and the matters raised may:

- be investigated internally by Internal Audit.
- be investigated internally by the Corporate Fraud Investigation team
- be investigated internally by an investigating officer appointed by the Monitoring Officer
- be referred to the Police.
- be referred to the external auditor or Ombudsman.
- be referred to the Local Authority Designated Officer (regarding child protection cases).
- form the subject of an independent enquiry.

or any combination of the above.

If the concern is a safeguarding matter then it will be referred to the Safeguarding Lead Officer or one of the designated deputies who will follow the procedures in the Council's Safeguarding Policy and Procedures.

In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it will take. Some concerns may be resolved by agreed action without the need for further investigation. Any investigations will follow the course of natural justice and in particular will adhere to Articles 6 and 8 of the Human Rights Act 1998 (right to a fair hearing and right to private family life), the Regulation of Investigatory Powers Act 2000 and other appropriate legislation such as The Police and Criminal Evidence Act 1984 and The Criminal Procedure and Investigations Act 1996 (this list is not exhaustive).

Acknowledging receipt

The person with whom the concern was initially raised will write to the staff member within three working days of the concern being received (excluding anonymous concerns) to acknowledge receipt.

Timescales

Due to the varied nature of these sorts of matters, which may involve internal investigators and /or the police, it is not possible to lay down precise timescales for such investigations in this Policy. Such matters are expected to be investigated quickly but without compromising a proper investigation. There is, therefore, a presumption that the investigation should normally be completed within forty (40) working days commencing from the decision to investigate. If it is clear that the investigation will take longer, for example if outside agencies' are involved, then this time may need to be extended

Please note that these time estimates are indicative only. The Council will respond to all concerns as quickly as possible but the Council will have to test the concerns as appropriate. It must be noted however that testing a concern is not the same as either accepting or rejecting it. The overriding principle for the Council will be the public interest. In order to be fair, initial enquiries will have to be made to decide whether an investigation is appropriate and, if so, what form it should take.

Investigating Procedure

Depending on the nature of the allegation received, it is not feasible to incorporate every stage or action in an investigation. However the following should serve as a set of minimum standards. The Monitoring Officer or his/ her nominated officer may arrange for the appointment of an investigating officer who will:

- Ensure that full details and clarifications of the concern are obtained.
- Consider the involvement of any external agencies at this stage (e.g. the Police).
- Ensure that the allegations are fully investigated with the assistance, where appropriate, of other individuals / bodies.
- Hold interviews with all relevant people as soon as possible.
- Prepare a written report containing the findings of the investigation promptly at the conclusion of the investigation.
- Keep the complainant informed of the progress of the investigations and, if appropriate, of the final outcome.
- If one or more member(s) of staff is implicated then:
 - They should be informed as soon as is practicably possible;
 - The investigator should liaise with the relevant manager(s), where appropriate;
 - The investigator must keep an open mind;
 - The investigator's report will be passed to the Monitoring Officer who will decide what further action to take; and
- The Monitoring Officer will inform any individuals under investigation and the relevant manager(s), where appropriate, as to whether or not the concern has been substantiated.

Future contact and meetings

The amount of contact between staff raising the concern and the officer(s) considering the issues will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information will be sought from staff in a discreet manner. When any meeting is arranged, staff have the right, if they wish, to be accompanied by a trade union or other representative. The meeting can be off site, if requested.

Support offered during the enquiry

The Council will take steps to minimise any difficulties staff may experience as a result of raising a concern, and will provide the appropriate level of support. For instance, if staff are required to give evidence in disciplinary or criminal proceedings, the Council will advise them about the procedure and provide reassurance where required.

With internal proceedings, staff will have the option of asking someone else to represent them.

To maintain confidence in the process, staff will be kept advised of the outcome of any investigation (subject to legal constraints).

Staff can withdraw from the process at any stage but they, or their representative, must inform the person with whom the initial concern was raised and the investigating officer. Staff will be requested to provide a reason for their withdrawal.

Alleged perpetrator

The person against whom the concern has been raised will be informed following the initial investigations if it is considered that there is an issue to be investigated further, subject to current Human Resources procedures. This person will be supported in an appropriate manner and will be informed of the progress of the investigation.

How the matter can be taken further

The Council hopes staff will be satisfied with the response to their concern. However, if staff are not satisfied they should inform their Service Director, Chief Executive or Deputy Chief Executive in the first instance.

If staff feel it is right or necessary to take the matter outside the Council, the following are possible contact points:

- the External Auditor
- relevant professional bodies or regulatory organisations
- their solicitor or other legal representative
- the Police
- their Trade Union
- their local Council Member

Other useful contacts:

Public Concern at Work – whistleblowing charity

Provides free confidential advice on how to raise a concern about malpractice at work.

Tel: 020 7404 6609 www.pcaw.co.uk

GOV.UK

More information on whistleblowing can be found on the GOV.UK website at **www.gov.uk/whistleblowing**.

If something's wrong, do what's right ...speak up!

If you see a risk or wrongdoing, a safeguarding problem or malpractice, then 'blow the whistle' so we can change it.



We will encourage and support staff who want to raise genuine concerns - so please tell us if something at work is troubling you. We are committed to dealing with any concerns openly, responsibly and professionally.

If you want to talk about something that's wrong please tell your manager, or call **01992 564 444** to discuss your concerns in complete confidence.

You can also talk to any of these designated officers:

Glen Chipp	01992 564758	Chief Executive
Derek Macnab	01992 564050	Deputy Chief Executive and Director of Neighbourhoods
Bob Palmer	01992 564279	Director of Resources (Section 151 Officer)
Colleen O'Boyle	01992 564475	Director of Governance (Monitoring Officer)
Alan Hall	01992 564004	Director of Communities
Paula Maginnis	01992 564536	Assistant Director of Human Resources
Janet Twinn	01992 564215	Assistant Director of Benefits
Sarah Marsh	01992 564446	Chief Internal Auditor



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Appendix 6: Equality analysis report

Step 1. About the policy, service change or withdrawal

Name of the policy, service or project: <i>be specific</i>	Internal Audit
Revised / new / withdrawal:	New
Intended aims / outcomes/ changes:	Update report to Audit and Governance Committee on the Internal Audit Service and Corporate Fraud Team
Relationship with other policies / projects:	None
Name of senior manager for the policy / project:	Colleen O'Boyle
Name of policy / project manager:	Sarah Marsh

Step 2. Decide if the policy, service change or withdrawal is equality relevant

<p>Does the policy / project / service process involve, or have consequences for employees or other people? If yes, please state who will be affected. If yes, then the policy / project is equality relevant. <i>No</i></p> <p>If no, state your reasons for this decision. Go to step 7.</p> <p><i>The majority of Council policies and projects are equality relevant because they affect employees or our communities in some way.</i></p>	If yes, state which protected groups:
	<p>If no, state reasons for your decision:</p> <p>The recommendations affect the operational delivery of the Internal Audit Service and will help improve the effectiveness of the Audit and Governance Committee; individuals are not being targeted.</p>

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