

Agenda

Audit and governance committee

Date: **Tuesday 4 July 2017**

Time: **2.00 pm**

Place: **Committee Room 1, Shire Hall, St. Peter's Square,
Hereford, HR1 2HX**

Notes: Please note the time, date and venue of the meeting.

For any further information please contact:

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Agenda for the meeting of the Audit and governance committee

Membership

Chairman **Councillor PD Newman OBE**
Vice-Chairman **Councillor ACR Chappell**

Councillor BA Durkin
Councillor EPJ Harvey
Councillor RJ Phillips
Councillor J Stone
Councillor LC Tawn

Agenda

		Pages
1.	<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence.</p>	
2.	<p>NAMED SUBSTITUTES (IF ANY)</p> <p>To receive details any details of members nominated to attend the meeting in place of a member of the committee.</p>	
3.	<p>DECLARATIONS OF INTEREST</p> <p>To receive any declarations of interest by Members in respect of items on the agenda.</p>	
4.	<p>MINUTES</p> <p>To approve and sign the minutes of the meeting held on 10 May 2017.</p>	7 - 14
5.	<p>QUESTIONS FROM MEMBERS OF THE PUBLIC</p> <p>To receive questions from members of the public.</p> <p><i>Deadline for receipt of questions is 5.00 pm on 29 June 2017.</i> <i>Accepted questions will be published as a supplement prior the meeting.</i></p>	
6.	<p>QUESTIONS FROM COUNCILLORS</p> <p>To receive questions from councillors.</p> <p><i>Deadline for receipt of questions is 5.00 pm on 29 June 2017.</i> <i>Accepted questions will be published as a supplement prior the meeting.</i></p>	
7.	<p>EXTERNAL AUDIT PROGRESS UPDATE</p> <p>To receive a report from the external auditors on progress.</p>	15 - 22
8.	<p>CORPORATE RISK REGISTER</p> <p>To consider the status of the council's 2016/17 corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.</p>	23 - 28
9.	<p>ENERGY FROM WASTE (EFW) LOAN UPDATE</p> <p>To provide assurance to the audit and governance committee on the status of the energy from waste (EfW) loan arrangement.</p>	29 - 50
10.	<p>ACCOUNTING POLICIES UPDATE</p> <p>To agree a change to the council's accounting policy in the 2016/17 financial statements in relation to the pension deficit included therein.</p>	51 - 54
11.	<p>ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY 2017</p> <p>To present to the audit and governance committee the anti-fraud, bribery and corruption policy for approval.</p>	55 - 72
12.	<p>WORK PROGRAMME UPDATE</p>	73 - 78

To provide an update on the work programme for the committee.

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- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and governance committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Wednesday 10 May 2017 at 2.00 pm

Present: Councillor PD Newman OBE (Chairman)
Councillor FM Norman (Vice Chairman)

Councillors: ACR Chappell, PGH Cutter, EPJ Harvey, JF Johnson, J Stone, LC Tawn and SD Williams

In attendance: Councillor PM Morgan

Officers: Claire Ward, Andrew Lovegrove, Jacqui Gooding (SWAP), Phil Jones (Grant Thornton), Zoe Thomas (Grant Thornton), Steve Hodges, Annie Brookes, Erica Hermon, Gill Cox, Lisa Fraser, Lee Davis, Tracey Sampson, Alan Lewis

197. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors RJ Phillips and RL Mayo.

198. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the council's constitution, Cllr PGH Cutter attended the meeting as a substitute member for Cllr RL Mayo and Cllr SD Williams attended as a substitute member for Cllr RJ Phillips.

199. DECLARATIONS OF INTEREST

There were no declarations of interest.

200. MINUTES

RESOLVED:

That the minutes of the meeting held on 21 March 2017 be confirmed as a correct record and signed by the chairman.

201. COUNCIL CONSTITUTION

At the chairman's discretion, the council constitution item was taken first.

The chairman introduced the report and the monitoring officer went through the major changes to the code of conduct as follows:

- the proposed code looks different
- a new schedule 2 interests has been added
- the need to declare gifts and hospitality has decreased from £25 to £20.

There had been a majority vote at the standards working group in relation to the Nolan principle and the willingness to challenge poor behaviour. One of the independent person's view was that there should be a positive duty for members to report other members if they believed they were in breach of the code of conduct. The working group had debated this issue and it had been agreed by the majority of the working

group that the proposed code was in line with the Nolan Principles and that a willingness to challenge poor behaviour was sufficient.

Cllr FN Norman proposed an amendment to include a positive duty to report any poor behaviour as one of the rules, this was seconded by Cllr EJP Harvey.

For: 3
Against: 6
Abstentions 0

The vote was lost.

It was noted that if the revised code was adopted, there would be a requirement for new register of interests forms to be completed by all members. There would also be training arranged for members over the summer period.

The committee hoped that parish councils would also adopt the revised code.

The committee agreed to recommend the revised code of conduct to council on 19 May 2017 for adoption.

The monitoring officer highlighted the minor changes to the constitution since 16 December 2016 following consultation with the cross party working group:

- committee sizes are recommended as 7;
- An independent panel for dismissing statutory officers had been added in line with national guidance issued by the joint negotiating body for chief executive terms and conditions.
- The West Mercia Police and Crime Panel had been added to the list of joint committees.
- A delegation to the monitoring officer had been added where there were inquorate parish councils.
- The move to one budget setting meeting and one council tax meeting removing the requirement for a December meeting.

Following a concern raised by a member of the committee, Cllr PM Morgan, as a member of the governance improvement working group, explained that there would be an opportunity to review the numbers of committee members at the constitution review scheduled to take place in January 2018. It was noted that if there were any other issues with the new constitution, then they could be reviewed at the same time.

It was noted that the member-officer relations protocol contained a specific reference to consultation where changes could affect members' wellbeing.

The committee agreed to recommend the changes to the constitution to council on 19 May for adoption.

THAT:

- (a) having regard to the further work undertaken by the governance improvement working group and the standards working group, the revised constitution be recommended to full Council for adoption, with implementation with effect from annual council in May 2017; and**
- (b) authority be delegated to the solicitor to the council to make technical amendments (grammatical, formatting, and consistency) necessary to finalise the revised constitution.**

202. 2017/18 EXTERNAL AUDIT PLAN AND FEE

At the chairman's discretion, the 2017/18 external audit plan and fee item was taken second.

Members were presented with the 2017/18 external audit plan and fee.

RESOLVED:

That subject to the decision to appoint an external auditor, the external audit plan and associated fee for 2017/18 be approved.

203. HOUSING BENEFIT GRANT CERTIFICATION

At the chairman's discretion, the housing benefit grant certification item was taken third.

Members were provided with the housing benefit grant certification letter from Grant Thornton.

It was noted that very small errors had been found and that steps had been put in place to remedy the situation.

RESOLVED

That the report be noted.

204. PROGRESS REPORT ON 2016/17 INTERNAL AUDIT PLAN

Members were presented with an update on the progress of the internal audit work.

It was noted that by July 2017 all audits would be completed. It was confirmed that two audits were at fieldwork stage and draft reports for a further 5 audits were with managers for comment.

Members' attention was drawn to the significant and partial assurance findings of the report which were:

- Pre-paid cards (direct payments) – partial
- Children missing education – partial
- Looked after children – partial
- Concessionary fares – partial
- Payroll - partial

Payroll

The head of HR and organisational development confirmed that all actions identified in previous and current audits were being undertaken. It was confirmed that a new payroll structure had been in place since April 2017 and a new payroll manager would be in post from 22 May 2017. It was noted that there were several reasons for overpayment of salary which included managers not notifying payroll in a timely manner. Steps were being taken to ensure that managers were aware of their responsibilities.

Children missing education (CME)

Following queries from members, the head of learning and achievement explained that the previous director for children's wellbeing had commissioned the audit and that it was based on an audit sample of four schools. The audit had been commissioned due to the high level of authorised absences recorded by schools. It was noted that the

schools were not using the absence code correctly and the directorate would be sending information to all schools and academies to clarify the use of the code correctly. The audit had identified additional issues and an additional audit was being commissioned with a larger sample of schools.

Looked after children (LAC)

The head of looked children confirmed that the issues raised by the audit would be resolved by changing the way Mosaic (the children's safeguarding case management system) is used. It was anticipated that new processes would be implemented in June 2017 and it should make it simpler for practitioners to use the system.

In response to a query from a member, it was confirmed that the reason for the delay was that Mosaic was a complex computer program and a major upgrade to the system had taken place the previous year. There had also been a need to consult with practitioners and then re-configure the system.

Following a member's query, the head of LAC explained that where there were audit recommendations which are dependent on other systems, the service would look at the level of risk, the issue of regulatory compliance and whether it is a requirement and the impact on children's safety. If the audit recommendation did impact on children's safety, then other methods would be put in place.

In response to a member's question, the head of LAC confirmed that the number LAC had increased over the last 12 months. It was noted that while the fostering service had increased the number of foster carers, there was still a gap and the service was reliant on independent fostering agencies and residential units.

Pre-paid cards (direct payments)

In response to a member's query, the head of prevention and support confirmed that as soon as there was a possibility of data protection breaches, contact was made with the contractor. It was confirmed that the system was now safe in terms of information governance.

It was noted that the current provider had given notice to withdraw from the contract and that an officer decision would be taken to appoint a new provider from 1 July 2017 pending a procurement exercise.

14:58 Cllr Williams left the meeting.

Concessionary fares

The passenger transport manager advised that the consultancy who administer the concessionary fares reimbursement scheme had been successfully used since 2008 and carried out similar work for numerous other councils. However as a result of the audit we would also be introducing closer monitoring of the bus operators returns in-house.

RESOLVED

That the report be noted.

205. TRACKING OF INTERNAL AUDIT RECOMMENDATIONS

Cllr JF Johnson left the meeting at 15:20.

The directorate services team leader presented the report.

It was noted that the committee had agreed to bi-annual reports which would set out all outstanding actions in relation to significant 4 or 5 audit findings and contain details of priority 3 recommendations from 2016. The report contains information up to 31 March 2017 and 187 recommendations had been completed. Of the remaining 12 outstanding actions, 7 would be completed if the contract procedure rules and finance procedure rules were approved by the committee later in the meeting.

Following a member's query, it was agreed that a briefing note would be circulated to committee members providing an update on all the actions which were due for completion by 31 May 2017.

The committee were reassured that the system seemed to be working well.

RESOLVED

That the report be noted.

206. CORPORATE RISK REGISTER

The chairman introduced the item and reminded the committee that they would not be able to challenge the additions or deletions to the corporate risk register but were looking for assurance that the frameworks were being applied appropriately.

The directorate service team leader presented the report.

The three risks which had been recommended by the committee for inclusion on the corporate risk register were used as examples. Members noted that it was difficult to ascertain whether local issues had been taken into account when assessing the risk, e.g. local economy, tourism, etc. The committee requested a further clarification of the analysis and confirmation that it reflects the Herefordshire situation.

The committee noted that the performance, risk, opportunities and management framework approved by cabinet last year was still embedding. The committee requested a review of the framework to ensure that Herefordshire's local situation was appropriately reflected.

Cllr PGH Cutter left the meeting 15:55

Following a request from members, the directorate service team leader agreed to highlight any changes in the corporate risk register for the next meeting.

The committee thanked the directorate service team leader for the report.

RESOLVED

That the report be noted.

207. ANNUAL GOVERNANCE STATEMENT

The head of corporate governance presented the report.

It was noted that the councils are required to produce an annual governance statement as an appendix to the statement of accounts. There had been a change in the statutory guidance in 2016 and the changes to the constitution have also been reflected in the statement. The statement takes into account a range of information and includes an action plan.

Following a query from a member, it was confirmed that the CIPRA principles have been taken into account when developing the statement.

The code of corporate governance had been updated to include a summary of what constituted the council's governance arrangements and the changes in CIPFA principles which had taken place over the years. The draft code had been reviewed by the governance improvement working group who were supportive of the changes. One of the council's appointed independent persons had suggested that the code would be strengthened by making reference to the independent persons. It was agreed that this addition should be made to the code.

The head of corporate governance was thanked for her report.

RESOLVED

- That (a) the draft 2016/17 annual governance statement be approved; and**
- (b) the draft code of corporate governance be recommended to full Council for adoption within the council's constitution**

208. CONTRACT PROCEDURE RULES

The chairman introduced the item and requested that the head of law and governance used the Blue School House situation as an example of where the revised contract procedure rules would have prevented the issue arising.

The head of law and governance presented the report. The committee noted that the previous contract procedure rules (CPR) had focused on procurement activity and did not look at the procurement process from start to finish. The new CPR sets out the activity that needs to be take place in connection with a contract. There is separate detailed guidance for officers which is attached at appendix B. The contract register had been re-designed which would enable better project planning.

Following a member's query, it was confirmed that value was not the sole measure of complexity for contracts, for example contract length, number of providers in the market, etc. would be taken into account. It was confirmed that if the CPR were approved, contract/procurement management training would be rolled out.

In response to a member's query, it was confirmed that due to the number of contracts in place, the revised CPR would be for new contracts but there may be scope to look at the bigger, high value contracts.

The section 151 officer and chief finance officer explained that in relation to Blue School House, there had been a member decision to award a contract for an agreed figure of £950k. The cost of the contractor work was higher than the decision and for some reason, the contractor received authorisation to carry out the work at the higher cost without a further formal decision. The contractor then identified further issues. The officers chose not to address these issues and not to follow the CPR. It was noted that monitoring had identified the overspend but officers had chosen to override this. An audit has been requested and the section 151 officer and chief finance officer would be ensuring that appropriate monitoring is in place for contracts. It was agreed that the committee would receive a separate report in relation to the Blue School House situation.

RESOLVED

- That (a) the contract procedure rules be adopted for implementation with effect from annual council in May 2017 alongside the constitution.**
- (b) authority be delegated to the head of law and governance to make technical amendments (grammatical, formatting, and consistency) necessary to finalise the CPR for publication.**

209. FINANCIAL PROCEDURE RULES

The section 151 officer and chief finance officer presented the revised financial procedure rules.

It was confirmed that the financial procedure rules was compliant with statutory requirements and the governance improvement working group were supportive of the revised rules.

RESOLVED

That the financial procedure rules be approved.

210. WORK PROGRAMME

The committee's updated work programme was presented. It was noted that reports on accounting policies update and external audit progress update had been added to the July agenda.

RESOLVED:

That subject to the reports on Blue School House, accounting policies update and external audit progress update being added, the work programme be agreed.

The meeting ended at 16:49

CHAIRMAN

Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	External audit progress update
Report by:	Chief finance officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To receive a report from the external auditors on progress.

Recommendations

THAT:

(a) the external auditors update on progress at appendix A to this report be received.

Alternative options

1 There are no alternative options, recommendations are accordance with auditing standards.

Reasons for recommendations

2 The constitution provides that the audit and governance committee will:

- ensure there are effective relationships between external and internal audit, inspection agencies and other relevant bodies by reviewing and agreeing the external auditor's annual audit plan and receiving regular update reports on progress from the external auditor; and

Further information on the subject of this report is available from
Andrew Lovegrove, chief finance officer on Tel (01432) 383519

- satisfy themselves that the council's assurance statements properly reflect the risk environment

Key considerations

- 3 Appendix A provides a progress report from the external auditor on their work.

Community impact

- 4 Effective audit helps ensure the council is transparent about the way in which it conducts business and that it does so efficiently and effectively in line with the values of the council and the corporate plan priority to secure better services, quality of life and value for money.

Equality duty

- 5 None.

Financial implications

- 6 None.

Legal implications

- 7 External audit is a legal requirement; this report provides an update on the approach being taken in line with legislative requirements.

Risk management

- 8 This update informs of the risks present which the internal corporate finance team are preparing responses to. Future reports will disclose the external audit findings.

Consultees

- 9 None.

Appendices

Appendix A – External audit progress report

Background papers

None

Audit and Governance Committee Update Herefordshire Council Progress Report and Update Year ended 31 March 2017

April 2017

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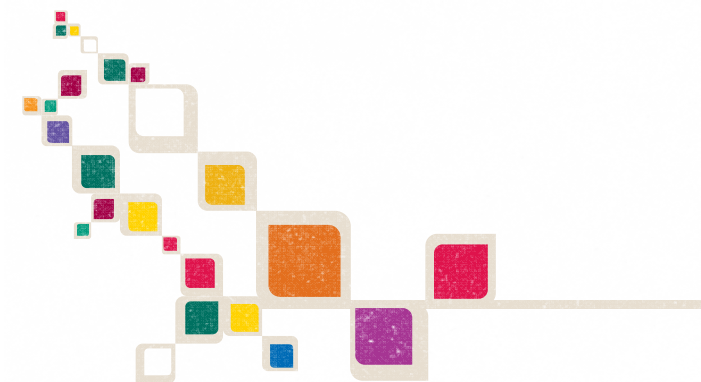
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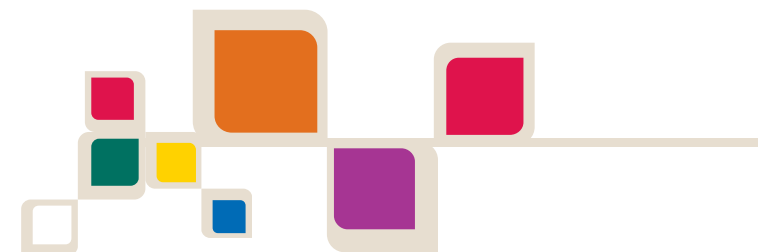
Introduction

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



Progress at March 2017



2015/16 work	Planned date	Complete?	Comments
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Audit of claims:

Housing Benefits	November 2016	Yes	The audit of housing benefit is completed under the PSA contract. Separate engagement letters are agreed for the other 2 claims. We are required to report our findings from this work and this is summarised in the certification letter brought to the April Committee.
Skills funding agency	December 2016	Yes	
Teachers pension	November 2016	Yes	

2017/18 work	Planned date		
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Fee Letter

Audit Fee letter	April 2017	Yes	The Fee letter refers to the indicative audit fee set by PSAA for the financial year 2017/18. This is the last year of our appointment to Herefordshire Council, under the current contract.
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2016/17 work	Planned Date	Complete?	Comments
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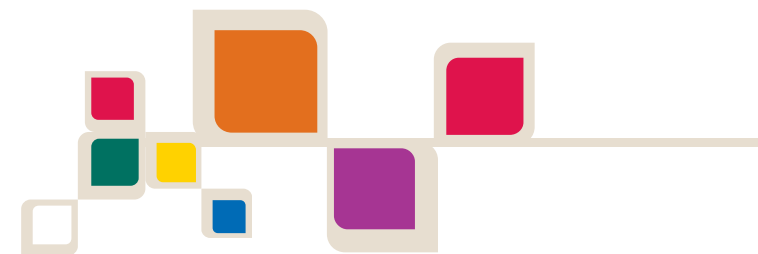
Fee Letter

We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.	April 2016	yes	
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Accounts Audit Plan

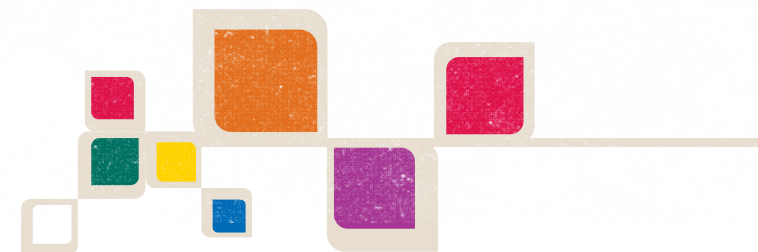
We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	March 2017	yes	Included in the pack to the March Audit and Governance Committee
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Progress at March 2017



2016/17 work (continued)	Planned Date	Complete?	Comments
<p>Interim accounts audit</p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	<p>February and March 2017</p>	<p>In progress</p>	<p>We have completed most of the areas planned to be completed at interim.</p> <p>As the final accounts deadline comes forward in 2017/18 and beyond, it is increasingly important that we bring forward some of our final accounts testing to the interim stage. We had agreed to complete testing up to month 9 of transactions in key areas including operating expenses, revenues, payroll and fixed assets and in the main this was achieved.</p> <p>There are however some areas of PPE where we were unable to complete the work as planned. Changes in senior personnel has meant that some key assumptions have altered during the period of our interim work. Whilst this may often be the case in a period of transition, it has impacted the planning of our interim work. We have been seeking clarity around the Council's policies on: asset lives; classification of investment properties and the method to be adopted to ensure a correct valuation and disclosure of assets marketed for sale in April 2017. We are also awaiting further information to support the overall valuation of PPE.</p> <p>We have now agreed a way forward with your new Chief Finance Officer, including a timetable for these matters to be resolved and a specification of the information to be provided to support the year end position.</p>

Progress at March 2017



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2016/17 work	Planned Date	Complete?	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> audit of the 2016/17 financial statements proposed opinion on the Council's accounts proposed Value for Money conclusion review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June / July 2017	No	<p>We have prepared a detailed list of working paper requirements to support the final accounts audit and have discussed this with your finance team. Your team have agreed that these will be available on the first day of the onsite visit.</p> <p>We have agreed dates for progress updates with key officers prior to our onsite visit and weekly thereafter until completion of our work.</p>
<p>Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	July 2017	No	<p>We have completed our initial risk assessment and this was reported in the audit plan.</p> <p>Our work on the detailed risk assessment is currently ongoing. The findings from our detailed risk assessment will be reported in the audit findings report.</p>
<p>Other areas of work Meetings with Members, Officers and others</p>	ongoing	ongoing	



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Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	Corporate risk register
Report by:	Directorate services team leader

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To consider the status of the council's 2016/17 corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.

Recommendation(s)

THAT:

- (a) **the committee determine whether, in light of the information contained within the corporate risk register, it wishes to make any recommendations to improve effective risk management.**

Alternative options

- 1 The committee could choose not to monitor the risk register; this would not be recommended as this would not provide assurance that risk was being managed effectively within the council.

Reasons for recommendations

- 2 To enable the committee to be assured that the council is managing its risk appropriately, in line with its performance, risk and opportunity management framework.

Key considerations

- 3 The corporate risk register is compiled from risks identified at directorate level, which

Further information on the subject of this report is available from
Steve Hodges, directorate services team leader on Tel (01432) 261923

have been escalated along with high-level generic risks, which require strategic management. Entries within the corporate risk register reflect those risks identified by management board and endorsed by cabinet, thereby strengthening their strategic perspective, management response and controls.

- 4 The inclusion of risks within any level of risk register does not necessarily mean there is a problem; it reflects the fact that officers are aware of potential risks and have devised strategies for the implementation of mitigating controls.
- 5 Each entry within the register is scored to provide an assessment of the residual level of risk. All risks have been scored based on an assessment of their impact and likelihood, adopting the scoring criteria within the Performance, Risk and Opportunity Management Framework. These assessments are made at two points, before any actions are in place (inherent risk) and after identified controls are in place (residual risk).
- 6 Whatever level of residual risk remains, it is essential that the controls identified are appropriate, working effectively and kept under review.
- 7 Three risks have been removed from the corporate risk register, as identified at the end of Appendix A. these risks have been reduced The risks have been deemed by the economy, communities and corporate directorate management team as either being risks that can now be managed within the directorate; or are no longer seen as a risk to the authority and have therefore been removed completely.
- 8 At its meeting of 10 May the committee asked that assurance be given that when considering risk, local issues are taken into account as part of the risk assessment and that it reflects the Herefordshire situation. This was particularly relevant to the three risks that the that the committee had asked to be considered in order to test that the risk assessment framework was being applied appropriately:
 - Water quality issues –members were invited to a Nutrient Management Plan seminar on 7 March where phosphate levels in the rivers Lugg and Wye were discussed. The council operates within guidance of the National Planning Policy Framework (NPPF) and the policies contained within its own Local Plan. The council continues to be a key member of the River Wye Nutrient Management Plan (NMP) Board which provides a local response. The organisations represented on the NMP Board are working collaboratively to identify and deliver actions that achieve the phosphorous conservation target of the River Wye SAC, primarily through the delivery of the Nutrient Management Plan. The Board is developing a monitoring dashboard which will help review performance and delivery of actions within the plan in order to take timely corrective action where identified. The Board remain confident of the success of the NMP given the range of options and actions which are being developed to ensure compliance. Given the NMP process, it is not considered necessary to enter this as a corporate risk at present. However, given the core strategy growth policies it will be necessary to closely monitor progress and review the current assessment in order to determine whether there is a risk that phosphate levels pose a risk to longer term growth delivery.
 - Fracking –. should a planning application be submitted prior to the adoption of the Herefordshire Minerals and Waste Local Plan the adopted Core Strategy policies would most likely apply to the consideration of the application. Key considerations in respect of a planning application for this type of development are likely to include:

Further information on the subject of this report is available from
Steve Hodges, directorate services team leader on Tel (01432) 261923

- Impact of any increased traffic movements on county's roads, in particular HGVs movements which may not be appropriate in parts of the county;
- Impacts upon the county's landscape, heritage assets and biodiversity, particularly on sensitive areas and sites such as the AONBs, scheduled ancient monuments and listed buildings and internationally important sites such as SACs and nationally designated sites such as SSSIs; and
- Any likely economic impact from the development (positive or negative)

Existing policies in the Core Strategy which would be used to in determining the application would therefore include:

- Policy SS1 – the overarching policy reflecting the NPPF presumption in favour of sustainable development.
- Policy SS6 – strategic policy setting out to conserve and enhance environmental assets.
- Policy SS7 – strategic policy which sets out how development proposals should address the issue of climate change.
- Policy MT1 – dealing with issues related to traffic management and highway safety.
- Policy E4 – Tourism – which in particular in criterion 2 gives particular regard to conserving the landscape and scenic beauty of the AONBs.
- Policy LD1 – The main policy setting out development requirements to conserve and enhance the county's landscape again making special reference to the AONB.
- Policy LD2 - The main policy setting out development requirements to conserve, restore and enhance the county's biodiversity and geodiversity. Special regard is given to internationally important sites such as SACs and nationally important sites such as SSSIs.
- Policy LD4 – provides protection for the historic environment and heritage assets.

In addition the UDP Minerals policies continue to be saved; these include:

- Policy M10 which deals with oil and gas exploration and development. This policy itself refers to any proposal meeting the geological, technical and environmental considerations of policy M3 which indicates planning applications would only be permitted where they would not adversely affect constraints such as the AONB, international or national sites of importance for nature conservation or scheduled ancient monuments.

Although the UDP policies have been in place for some time (prior to the issue of "fracking" had arising in the county) they still represent the adopted development plan policies and can be used to reflect any concerns by planning committee should proposals be advanced.

In addition, a Minerals and Waste Local Plan is being prepared which will provide an up to date policy framework within the county, including a robust position on "fracking". The forthcoming Issues and Options consultation paper will identify options for policy approaches to fracking.

- Flood alleviation – local flood risk management and land drainage forms part of the Herefordshire Council and Balfour Beatty Living Places (BBLP) annual plan.

Further information on the subject of this report is available from
Steve Hodges, directorate services team leader on Tel (01432) 261923

BBLP's work programme for 2017/18 includes undertaking studies to enable funding grants to be accessed for flood alleviation. Our risk-based approach targets resources and funding at those parts of the county that are most susceptible to flooding. The Local Flood Risk Management Strategy ('the Strategy') will be an important document for the on-going management of flood risk throughout the county. A draft of the strategy will be presented to general scrutiny committee on 11 July 2017 before being considered for adoption by Cabinet on 14 September 2017. The strategy will be accompanied by an action plan that identifies a programme of work for reducing local flood risk within Herefordshire. The council does acknowledge the risk of flooding and this is reflected in a service level risk. Based upon the activity already underway, flood alleviation is not considered to be a corporate risk.

Community impact

- 9 Risk management underpins all aspects of the council's strategic aims.
- 10 The risks within the registers are linked to the projects that are in place to deliver the council's priorities.
- 11 Risk management is an internal management process that is open to scrutiny from councillors and the public at the council's audit and governance committee meetings.

Equality duty

- 12 There are no equality duty implications arising from this report.

Financial implications

- 13 There are no financial implications associated with the recommendations.

Legal implications

- 14 There are no legal implications associated with the recommendations.

Risk management

- 15 There are no risks arising directly from the report. By reviewing the corporate risk register greater assurance is given that the council is managing its risks appropriately.

Consultees

- 16 Cabinet considered the end of year corporate risk register as part of the corporate performance and budget report at its meeting of 22 June 2017.

Appendices

Appendix A End of year corporate risk register

Background papers

- None identified.

Further information on the subject of this report is available from
Steve Hodges, directorate services team leader on Tel (01432) 261923

Risk Reference	Risk Description	Opened	Risk score before controls	Existing Controls in Place	Risk score after controls	Changes to risk score	Risk Owner (Name & Title)
CR.001	Emergency events IF/AS: Significant events happen (e.g. severe weather, major flooding, terrorism and/or influenza pandemic risks) THEN: there could be a significant cost implication to the Council and it may be necessitate staff redeployment to backfill and maintain critical services. Failing to respond effectively to major emergencies/incidents could result in a loss of public confidence through adverse publicity, loss of life to public or council employees, loss of service, economic damage or environmental impacts. Lack of trained staff (deployed or other) means we may not respond as quickly/effectively as we should.	Apr 11	16	Council and multi-agency plans reviewed as part of wider WM Local Resilience Forum objectives. Resilience Direct (cabinet officer system) to progress information sharing, planning and response mechanisms and data. Council Business Continuity Management System in place. Multi-agency exercise planned for an animal health incident in June 2017. Rest Centre training and provision for 200 people at Three Elms Unit.	12	◀▶	Equality, Resilience, Information and Records Manager.
CR.002	Health & Safety IF: Herefordshire Council doesn't comply with Health and Safety legislation THEN there is an increased risk of: employees injured through work activity; council prosecuted by HSE for breaches of legislation; increased insurance claims and insurance premiums; member of public, contractor or employee killed at work, possible corporate manslaughter, loss of reputation and financial costs to the council; sickness rates increase because of lack of compliance with good health, safety and wellbeing practice; increased employer/employee litigation through inconsistent approach to managing health and safety in the workplace; unable to defend H&S claims or disputes; and, fire damage and financial and reputational costs to the council through fire at a council owned building.	May 11	16	Strategy – Strategy/project plan in place to achieve full compliance with H&S legislation, prioritised by high risk activities; H&S policy current and reviewed each year. Cultural – Sharepoint H&S tool box available via front page of intranet; H&S and Fire Safety part of existing mandatory training; some improvement has been made in last period with wider engagement from employees with H&S systems (when things have gone wrong); employees consulted about H&S issues through 'house' meetings. Systems – Accident reporting/investigation and work based ill health in place; mandatory training; first aid/fire warden training in place; some systems updated (focused on high risk areas); employers liability insurance; Directorate H&S reps kept up to date with current risks and good practice control measures;	12	◀▶	Health and Safety Advisor
CR.003	Medium Term Financial Strategy IF: we do not have a sustainable Medium Term Financial Plan THEN: we will not achieve a balanced budget, risk serious service failure	Aug 12	20	- MTFS to 19/20 approved by Council in Feb. All savings RAG rated and reviewed. Majority green for 17/18 * MTFS linked to Corporate Priorities * update going to Cabinet in January	3	◀▶	Chief Finance Officer
CR.007	Litigation IF/AS: Litigation claims against Herefordshire Council are successful THEN: this may expose the Council to significant unbudgeted costs and reputational damage		20	The Council will escalate matters through formal dispute resolution processes as required. The timing of these next steps will be set in response to circumstances. UPDATE: Judgement on matter taken to enforcement in Council's favour. Other matters continue to be progressed through dispute resolution procedures. Current litigation and mediation response to legal claims is ongoing and managed through Projects Boards.	8	◀▶	Director, ECC Assistant Director, Communities
CR.008	Information governance IF: Staff do not treat the information they access appropriately THEN: this may lead to the risk of referral to the Information Commissioner and/or legal challenge with resultant unbudgeted costs and reputational damage for the Council.	Feb 14	16	A series of mandatory online training modules have been introduced (including Data Protection, Environmental Information Regulations, Freedom of Information, Information Security). All employees must also complete a staff confidentiality agreement in order to acknowledge that they agree to abide by the council's information governance policies.	4	▼	Assistant Director, Communities
CR.011	ICT Platforms IF: The technology ICT systems/platforms are not appropriate or used to their full effect THEN: We fail to transform our services and cost the organisation more money	Apr 14	16	Programme Boards for major systems improvements, FWI, Adult Care. Measures are in place to ensure that access to systems/technology is in place and will be progressed through a number of initiatives.	6	◀▶	Chief Finance Officer
CR.015	Deprivation of Liberty The authority does not meet the statutory requirements for Deprivation of Liberty and individuals are unlawfully deprived of their liberty An increasing number of cases already subject to DoLS are being taken to the Court of protection, increasing the risk of Costs and Financial penalties for the Local Authority	Oct-14	20	Additional investment into DOL's has been made, and weekly performance management of waiting list is in place. Regular reporting and review up to Director Level and to Safeguarding Adults Executive Group. Working with external Best Interest Assessors. DoLS team are checking all referrals for DoLS against list of open safeguarding referrals to ensure these cases are prioritised in terms of implementing DoLS. Other triage criteria are also followed to identify cases where there is a high risk to the individual and a high risk to the Council of litigation. Two full time BIA posts have been created and filled on a one year secondment basis. Further awareness training with staff and providers, additional legal support and constant review and prioritisation of cases waiting for assessment. Programme to train staff as BIAs in place. Independent BIA engagement plan ongoing two additional full time seconded posts created and filled. Multi agency MCA and DoLS policies completed.	12	◀▶	Assistant Director of Operations AWB
CR.016	Safeguarding Individuals at risk of abuse are not protected	Oct-14	16	A Safeguarding Improvement Programme has implemented a new process to embed the principles of Making Safeguarding Personal. This has included changes to the current processes, an improved performance framework and a new audit tool. Progress will continue to be monitored going forward and be fed into DLT, AD Operations and monthly report to DASS and HSAB. Peer challenge including independent auditing has taken place, recommended system and practice actions are included in the MSP review. Processes for identifying learning from AWB case audits and audits undertaken through HSAB PAQA as well as SAR are now in place and monitored through single agency board (DLT) and HSAB.	12	◀▶	Assistant Director of Operations AWB

Risk Reference	Risk Description	Opened	Risk score before controls	Existing Controls in Place	Risk score after controls	Changes to risk score	Risk Owner (Name & Title)
CR.017	Demographic Pressures Continued demographic pressures require significant savings to be made or reductions in levels of dependency to manage rising levels of demand across council services	Oct-14	25	Range of primary and secondary preventative services commissioned including Information, Advice, Signposting, Reablement, Telecare, Rapid Response. Communications strategy and proactive media briefing advising on ASC LA services focus. Proactive screening of cases that are not eligible through reviews and diversion to other services	16	◀▶	Director Adults & Wellbeing
CR.020	Economic Resilience IF: The Herefordshire economic position does not improve THEN: the county will continue to underperform economically and suffer from low wage levels, low educational attainment, low number of skilled jobs, and a general low market attractiveness.	Jun 15	16	Implementation of the Economic Development Strategy. Economic Masterplan being developed. Delivery of the Fastershire project. Delivering and promoting the Local Development Framework. Implementing the delivery of the Enterprise Zone. Securing external funding.	12	◀▶	Assistant Director, Growth
CR.021	Welfare Reform Impact of further welfare reform is currently not able to be quantified in terms of financial impact on Herefordshire residents with subsequent reduction in payment of council tax, other financial liabilities to the council and increasing pressure for local support to be met by the council	Jun-15	20	Welfare Rights service in place, IAS service will support individuals into community capacity that gives specialist advice on welfare issues	12	◀▶	Director Adults & Wellbeing
CR.022	Integration The scale and pace of integration work required internally to the council and across health and social care proves to be undeliverable and a new model for integrated and financially viable health and social care pathways does not emerge	Jun-15	25	Transformation Board and Joint Commissioning Board in place underpinned by refreshed Health and Well Being strategy	16	◀▶	Director Adults & Wellbeing
CR.023	Council Redesign/Resources Reducing resources in the form of grant, uncertainty and the requirement to deliver transformation at speed combine to increase risk of failure to meet statutory and/or legal duties and powers		25	Transformation programme within each director, corporate plan, refreshed governance and constitution, quarterly performance management reporting and director performance management through appraisal system	12	◀▶	Chief Executive
CR.024	System resilience and urgent care The role and responsibility of adult social care alongside system and process is not clearly set out in relation to system resilience and urgent care		16	social care pathway for prevention of hospital admission and discharge is aligned with WVT. Joint post funded through SRG to manage interface is in place, number of schemes funded through BCF to support urgent care - however this post has now ceased. On call arrangements in place and AMPH/EDT rota is in place. Senior Management attend operational and strategic SRG. IUCS in place. Recently appointed a complex care pathway lead, to lead on EDT OOH provision.	16	◀▶	Assistant Director of Operations
CR.028	Accommodation Strategy IF: the Programme is not managed to time and budget THEN: there will be significant risks to service delivery and savings plans	Mar 16	12	Accommodation Board	4	◀▶	Head of Corporate Asset Management
CR.034	Short Breaks Recommissioning IF/AS: Short breaks recommissioning is delayed THEN: Significant reputational damage may be caused	Jul-14	16	Regular monitoring to continue to ensure that placements are prioritised. Timely recruitment process in place for staff changes.	12	◀▶	Children's Joint Commissioning Manager
CR.035	Early Help IF/AS: The new early help strategy is not implemented quickly and effectively THEN: The child protection system will come under pressure again; OR children and their families will be waiting for support which if not available within a reasonable time, may lead to an increase in risk of harm.	Dec-16	16	Implementation programme under development	12	◀▶	HoS Education Development

The following risks have been removed from the corporate risk register

CR.006	Fastershire IF: Expectations not met through the Fastershire Broadband Project, Business Case Failure and / or failure to meet State Aid requirements and the supplier fails to provide an acceptable baseline of deployment from which to deviate or monitor change. THEN: Areas identified as modelled to receive NGA may slip out of programme; There may be slippage in delivery timescales and ultimately the constituent experience of retail services may reflect badly on the council's support for a wholesale solution; BT could deliver to ineligible areas and low take up and optimisation could undermine the original investment case.
CR.031	BREXIT IF: Negotiating leaving the European Union is yet to commence and will take 2 years THEN: in the interim there is expected to be volatility and uncertainties to affect businesses individuals and funding opportunities.
CR.032	Pensions re-evaluation AS: A revaluation is due in the summer of 2016 based on the portfolio position as at 31 March 2016, market conditions and valuation assumptions have a major impact on the valuation of the deficit THEN: A pensions working group, national guidelines and valuation experts work together to establish an agreed approach and deficit estimate. Changes in assumptions could result in a need to refresh the MTFs with additional savings to fund.



Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	Energy from waste loan update
Report by:	Chief finance officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To provide assurance to the audit and governance committee on the status of the energy from waste (EfW) loan arrangement.

Recommendations

THAT:

- (a) the risks to the council, as lender, are confirmed as being reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice; and**
- (b) arrangements for the administration of the loan are reviewed and, having regard to the advice of external advisors, confirmed as satisfactory.**

Alternative options

- 1 None, the loan arrangement was contractually agreed in May 2014, no breaches or areas of concern have taken place during this reporting period.

Reasons for recommendations

- 2 To fulfil the functions delegated to the committee in relation to governance of the waste loan arrangement.

Further information on the subject of this report is available from Josie Rushgrove, head of corporate finance, on tel (01432) 261867

Key considerations

Background

- 3 Following the approval to provide financing for the construction of an energy from waste (EfW) plant Council delegated to the audit and governance committee the responsibility to review the loan arrangements (including waiver terms) and risks to the council as lender and make recommendations as necessary.
- 4 No decisions or courses of action have been identified for recommendation to the committee.

Key loan features and update

- 5 Herefordshire and Worcestershire councils are funding the EfW plant through the use of prudential borrowing. Drawdowns of funding from Mercia continued over the 33 month construction period.
- 6 The total loan facility was agreed at £163.5m, with Herefordshire providing 24.2% of the loan value, being £40m, with drawn downs complete and repayments now falling due.
- 7 Total loan interest and fees chargeable to Mercia are fixed and are representative of commercial bank charges. These total £69m (£17m for Herefordshire) during the loan period. These charges are repayable before the PFI contract ends in 2023 and are recharged to the councils by Mercia through the unitary charge for waste disposal.
- 8 The facility achieved take over on 2 March 2017, two days after the contractual take over date of 28 February 2017. The delay was due to the failure to complete a number of required tasks by 28 February which did not impact the loan agreement.

Financial advisor update

- 9 The latest progress update from the financial advisors show that Mercia have met all senior term loan facility agreement (STLFA) requirements during this reporting period. Cover ratios and cash flow test requirements that ensure Mercia have equity and cash balances sufficient to cover loan repayments have been complied with.
- 10 Part of the loan conditions is the actual construction period cash flow test (ACPCFT) which confirms Mercia have sufficient cash flows in relation to Mercia's equity contribution to the EfW. The ACPCFT is prepared by Mercia on a quarterly basis and reviewed by Deloitte acting in the capacity as financial advisors to the councils in relation to the STLFA to determine whether:

“actual operating cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds... the amounts of operating cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the base case financial model.”
- 11 The ACPCFT performed by Deloitte, attached at appendix a, reports a result of an excess cash flow amount of £3.2m as at 31 December 2016. This means that overall operations have produced £3.2m more than forecast in the base case financial model and the ACPCFT test is satisfied.

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance, on tel (01432) 261867

- 12 Mercia are able to use existing business as equity for cash flow purposes. The cashflow Mercia sets aside during the construction phase qualifies as Mercia's contribution of equity capital. Mercia have achieved their required contribution of equity capital to the project that takes risk ahead of the councils STLFA. A higher cash flow offsets the need for Mercia to draw down funds and the council has the ability to lock up Mercia's equity if Mercia fails to achieve an adequate level of excess cash. At present Mercia has the right level of equity to satisfy the tests required under the loan agreement. The ACPCFT test is satisfied.

Technical advisor update

- 13 As set out in its terms of reference, the committee will be advised by external financial, technical and legal advisers on behalf of the council's section 151 officer. Fichtner consulting engineers have been appointed as technical advisor to the lender during the construction phase of the EfW. The company has produced a summary report up to the takeover date of 2 March 2017 for consideration by the committee and this is attached at appendix b.

Waivers and consents

- 14 The committee are asked to note that since the previous update the following waivers and consents have been requested and approved:
- a) In March 2017 the partner councils provided a waiver/consent under clause 18.4(b)(K) of the Senior Term Loan Facility Agreement (STLFA) in relation to the issuance of a take-over certificate without the prior written consent of the Lenders. The waiver/consent was provided by the partner councils on the basis of appropriate expert advice
 - b) In March 2017 the partner councils provided a waiver/consent under part c of schedule 6 of the STLFA in relation to a time deductible per occurrence contained within the Business Interruption Insurance Policy procured by the Borrower. The waiver/consent was provided by the partner councils on the basis of appropriate expert advice.

Community impact

- 15 There is no additional community impact as a result of this progress update report. The loan arrangement will contribute to the following council corporate plan priority to secure better services, quality of life and value for money.

Equality duty

- 16 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance, on tel (01432) 261867

- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

17 The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Financial implications

- 18 There are no financial implications arising from the recommendations.
- 19 The loan arrangement is progressing to plan with the financial implications being reflected in the medium term financial strategy and treasury management strategy approved by Council in February 2017.
- 20 All costs incurred by advisors are recharged to mercia.

Legal implications

21 The terms and arrangements for this loan agreement are set out in the senior term loan facilities agreement. There are no specific legal implications arising from this report.

Risk management

- 22 The partner councils have undertaken an assessment of risk in its role as lender working with legal advisors (Ashursts), finance advisors (Deloitte) and technical advisors (Fichtner) to understand the basis on which commercial banks reserve elements of their margin against risks. The review considered:
- a) Counterparty risk
 - b) Security package
 - c) Key income generation assumptions in the financial model
 - d) Specific project risks
 - e) Interest and foreign exchange rate risk
- 23 Attached at appendix c is the current risk register detailing the controls in place safeguarding the council's position in the lending arrangement. The majority of risks are now closed following the EfW achieving actual takeover on 2 March 2017. The two remaining open risks are substantially mitigated and are therefore assessed as green.
- 24 The risk register is shared with Worcestershire County Council and is therefore in a jointly agreed format.

Consultees

25 None.

Appendices

Appendix A Financial advisor update (ACPCFT)

Appendix B Technical advisor update

Appendix C Risk register

Background papers

- None identified.



Senior Term Loan Facility Agreement

Actual Construction Period Cash Flow Test

For the period:
1 October 2016 to 31 December 2016

Important notice

Deloitte LLP ("Deloitte") is acting for Worcestershire County Council ("WCC") and the County of Herefordshire Council ("CoHC") (together "the Councils" or "the Clients") on the terms set out in the engagement letter dated 13 November 2014 (the "Engagement Letter") in connection with the financial advisory services in relation to the Senior Term Loan Facility Agreement ("STLFA" or "Agreement") with Mercia Waste Management Limited ("MWM" or "Mercia") (in total, the "Project") and has no responsibility to anyone other than the Clients for providing advice in relation to the Project.

This document, which has been prepared by Deloitte, comprises the written materials/slides for the purpose of providing a presentation to the Clients envisaged in the Engagement Letter. No other party is entitled to rely on this document for any purpose whatsoever and Deloitte accepts no responsibility or liability to any party other than the Client in respect of this document and/or any of its contents.

The information contained in this document has been compiled by Deloitte and includes material obtained from information provided by the Councils and by Mercia but has not been verified. This document also contains confidential material proprietary to Deloitte. In particular, it should be noted that the financial information contained in this document is preliminary and not audited.

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Actual Construction Period Cash Flow Test

Background

Mercia has a Waste Management Services Contract ("WMSC") with the Councils. Mercia secured planning consent for a new facility and re-negotiated the WMSC for the design, construction and operation of an Energy from Waste ("EfW") plant over the remainder of the WMSC, due to expire in 2023. Financial close was reached in May 2014.

In order to ensure the funding solution demonstrated Value for Money ("VfM"), the Councils used their Prudential borrowing powers to debt fund Mercia's EfW Plant.

Based on a capital structure of 85% debt and 15% equity, the Councils issued a senior loan facility.

Within the Senior Term Loan Facility Agreement ("STLFA"), the Councils included an Actual Construction Period Cash Flow Test ("ACPCFT"). This test is carried out on a quarterly basis following financial close (the first quarter ending 30 September 2014) and is used to determine whether:

"Actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds... the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model."

Should a shortfall occur, Mercia will be required to remedy this shortfall by means of an equity injection equal to the amount of the shortfall in accordance with the contractual documentation.

Mercia operate the local council recycling collections and the landfill site, as well as the construction of the new EfW plant.

Source: Mercia; Financial Model; Senior Term Loan Facility Agreement.

Scope of review

Deloitte has reviewed the calculation provided by Mercia for the ACPCFT. In doing so Deloitte has:

- Agreed the terms of the calculation to the STLFA;
- Agreed the "model" Operating Cash generated during the period to the Base Case Financial Model;
- Agreed the actual Operating Cash generated during the period to management information;
- Re-performed the calculation of the ACPCFT; and
- Compared the senior term loan facility draw downs against those forecast in the Base Case Financial Model.

We have not received any technical reports for the period 1 October 2016 to 31 December 2016.

Summary of results

The result of the ACPCFT performed by Mercia for the period under review is an Excess Cash Flow amount as at 31 December 2016 of £3,186k, which has increased by £2,135k from the Cash Flow flow test in the previous period.

This shows that from 1 May 2014 to 31 December 2016, the operations have produced £3,186k more than was forecast in the Base Case Financial Model, which is a further increase in Excess Cash Flow from Q1 2016, following four consecutive periods of under-performance against the modelled forecast, up to and including Q4 2015.

Based on the above, the ACPCFT for the quarterly period under review would be satisfied. In completing our work set out above, we have not identified any inconsistencies between Mercia's calculation and the underlying information.

Calculation

Actual Construction Period Cash Flow Test

Metric (£000)	May – Sep 14	Oct – Dec 14	Jan - Mar 15	Apr - Jun 15	Jul - Sep 15	Oct - Dec 15	Jan - Mar 16	Apr - Jun 16	Jul - Sep 16	Sep - Dec 16
Base case financial model										
<i>b/f cash attributable to Ops</i>	4,254	4,793	7,051	9,123	11,246	13,203	15,388	17,482	19,801	22,115
Gross revenue	18,603	10,448	10,847	11,813	12,374	10,627	11,140	12,046	12,640	10,861
Operating costs	(14,893)	(8,111)	(8,320)	(8,961)	(9,253)	(8,590)	(8,821)	(9,439)	(9,671)	(8,775)
Changes in working capital	(1,212)	320	(18)	(252)	(37)	451	138	134	(216)	359
Cell preparation assets	(612)	0	0	0	(632)	0	0	0	0	0
Corporation tax	(1,346)	(400)	(437)	(477)	(494)	(303)	(363)	(423)	(439)	(318)
Total change	539	2,258	2,072	2,122	1,957	2,185	2,094	2,319	2,314	2,127
³³ <i>c/f cash attributable to Ops</i>	4,793	7,051	9,123	11,246	13,203	15,388	17,482	19,801	22,115	24,242
Actuals										
<i>b/f cash attributable to Ops</i>	4,637	6,480	11,674	10,423	12,333	14,218	15,655	17,860	20,197	23,165
<i>Gross revenue</i>	19,688	13,341	10,578	11,929	12,091	10,523	11,091	13,078	12,487	8,991
Operating costs	(15,557)	(8,588)	(8,509)	(9,372)	(9,682)	(8,916)	(9,245)	(9,812)	(9,847)	(6,409)
Changes in working capital	(1,392)	1,363	(3,018)	(171)	(131)	(341)	358	(928)	332	1,683
Cell preparation assets	(333)	(286)	0	0	(189)	0	0	0	0	0
Corporation tax	(563)	(636)	(302)	(476)	(204)	171	0	0	(4)	(3)
Total change	1,843	5,194	(1,252)	1,910	1,885	1,437	2,204	2,338	2,968	4,262
<i>c/f cash attributable to Ops</i>	6,480	11,674	10,423	12,333	14,218	15,655	17,860	20,197	23,165	27,428
Variance	1,304	2,936	(3,324)	(212)	(72)	(748)	110	20	654	2,135
Excess cash flow a/c b/f	383	1,687	4,623	1,299	1,087	1,015	267	377	396	1,050
Excess cash flow a/c c/f	1,687	4,623	1,299	1,087	1,015	267	377	397	1,050	3,186

Commentary

Summary

- The calculation is the result of a methodology agreed between parties (the Councils and Mercia) as per the STLFA signed on 21 May 2014.
- The outcome of the ACPCFT performed by Mercia for the quarter under review is an Excess Cash Flow amount of £3,186k.
- In the period from 1 May 2014 to 31 December 2016, the operations have produced £3,186k more Excess Cash Flow than was forecast for this period in the Base Case Financial Model.
- We note that in the period there has been an over performance against the Base Case Financial Model of £2,135k, following four consecutive periods of under-performance against the modelled forecast up to and including Q4 2015.
- Based on the above, the ACPCFT for the period under review is satisfied. We have not identified any inconsistencies between Mercia's calculation and the underlying information.
- Following four consecutive quarterly periods of under-performance against the modelled forecast, it has been noted that there has now been four successive quarters of over-performance, with an increase in Excess Cash Flow of £2,135k in Q4 2016 following an increase of £654k in the previous quarter.
- Despite revenue falling short of expectation by £1,869k (£8,991k vs. £10,861k), that was more than made up for by positive performance in both operating costs (£2,366k below expectations) and favourable working capital movements (£1,324k better than expectations). Corporation tax has also performed better than expected, with a £3k charge comparing favourably to an expected £318k charge. Combined, these have led to the Excess Cash Flow total of £2,135k.
- From a discussion with Mercia on 20 February 2017, the under performance of revenue and lower operating costs reflects a diversion of materials to the EfW site in order to support commissioning activities. This means lower landfill tax, which goes through both the cost (when Mercia pay the tax) and revenue lines (when it is recharged to Mercia's customers).

Revenue and operating costs down against modelled forecast

- We note that for the quarter under consideration, revenue actuals were 17% below the modelled forecast, and operating costs 27% below the modelled forecast.
- Under performance of revenue has been driven by increasing tonnage being diverted to the EfW plant to support the requisite commissioning activities, which have been ramped up at a greater rate than forecasted.
- The EfW site began commissioning activities in Q3 2016, with minimal volumes diverted from landfill. This continued at a greater level through Q4, and is expected to continue, albeit levelling off, in subsequent quarters. Therefore the depressed revenue and cost lines from landfill will continue into future quarters.

Changes in working capital and corporation tax

- The increase in the Excess Cash Flow amount has been principally driven by favourable movements in Operating Costs and working capital, and the position achieved in respect of corporation tax.
- The favourable movement in working capital in the period is largely a reflection of decreasing trade debtors compared to the modelled forecast (£3,312k vs. £593k), predominantly due to the lack of a landfill tax debtor from customers (see above).
- The favourable position with regards to the Corporation Tax relates to two elements: firstly capitalised interest, which is tax deductible, wasn't forecasted in the model. Secondly, Mercia is adopting a different position on capital allowances, depreciating over a shorter period than was initially forecasted. The second of these elements will balance out over the length of the project.

Commentary (continued)

ACPCFT trend

- It has been noted that whilst the Excess Cash Flow amount is still positive at £3,186k (an increase of £2,135k from the previous period), prior to Q1 2016 there were four consecutive periods of under-performance against the modelled forecast (i.e. a negative variance of actuals against the model).
- Mercia stated that there were no significant movements in the pricing of recyclable materials during the period, though Deloitte has not validated this.
- Equally, the recyclable volumes have continued to hold steady; a trend that is expected to continue. Deloitte has not validated this.
- As a result of these factors, operational improvements and the Deed of Rectification, Mercia is projecting a stable or increased Excess Cash Flow Account for the next quarter.
- In any case, should the ACPCFT be failed in subsequent quarters, the process to resolve this has been extracted and included in Appendix 2.

Senior Term Facility Loan draw downs

Actuals vs Forecast in the Financial Model

The table below shows the actual Senior Term Facility Loan draw downs against those forecast in the financial model.

Model	May - Sep 14	Oct - Dec 14	Jan - Mar 15	Apr - Jun 15	Jul - Sep 15	Oct - Dec 15	Jan - Mar 16	Apr - Jun 16	Jul - Sept 16	Oct - Dec 16	Cumulative
Model											
Facility A	5,241	2,341	1,725	5,633	3,205	4,249	2,355	2,448	861	551	28,609
Facility B	18,898	8,426	6,190	20,288	11,490	15,241	8,382	8,699	2,957	1,832	102,404
Total	24,139	10,767	7,915	25,921	14,695	19,490	10,737	11,147	3,818	2,383	131,013
Actual											
Facility A	4,576	-	1,713	2,375	3,289	4,746	5,180	5,626	-	2,021	29,527
Facility B	16,532	-	6,187	8,581	11,883	17,145	18,715	20,324	-	7,300	106,666
Total	21,108	-	7,900	10,956	15,172	21,891	23,895	25,950	-	9,321	136,193
Difference	(3,031)	(10,767)	(15)	(14,965)	477	2,401	13,158	14,803	(3,818)	6,937	5,180

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Facility A is the amortising loan. Capital repayments begin in the quarter ending 30 June 2017 following the end of the construction period. Facility B is the bullet loan which is forecast to be repaid in the quarter ending 31 December 2023.

From discussions with Mercia management, the lack of a draw down in the quarters 1 October 2014 to 31 December 2014 and 1 July 2016 to 30 September 2016 reflects both a delay in the EfW build (meaning less cash was required for the EfW build) and the lower-than-expected capital expenditure in non-EfW build (meaning that more of the cash can be used on the EfW build). Overall the actual loan drawdowns are still expected to match those forecast in the model.

From discussions with Mercia management, the draw downs against the facilities are higher in Q4 2016 compared to the modelled forecast as a result of timing differences between the programme and the milestones assumed in the model. As such there has been an increase in draw downs compared to the modelled forecasts.

Appendix 1

Mercia's calculation (£000)

	1 Oct 16 to 31 Dec 16 ACTUAL	1 Oct 16 to 31 Dec 16 MODEL
Profit Before Depreciation and Tax	2,582	2,086
Working Capital Movement (Operating)	1,683	359
Corporation Tax (Cash)	-3	-318
Operating Cash Flow	4,262	2,127

Excess Cash Flow

	1 Oct to 31 Dec 2016		
	Actual	Model	Var
Operating Cash Opening Balance	23,166	22,116	1,050
Operating Cash Flow (as above)	4,262	2,127	2,135
Operating Cash Closing Balance	27,428	24,242	3,186

Mercia's cash flow notice

<i>Excess Cash – Opening Balance (Sep 2016)</i>	1,050
<i>Gross Revenue</i>	-1,869
<i>Operating Costs</i>	+2,365
<i>Changes in Working Capital</i>	+1,325
<i>Corporation Tax</i>	+315
<i>Total</i>	+2,136
<i>Excess Cash – Closing Balance (Dec 2016)</i>	3,186

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Appendix 2

Extracts from Senior Term Loan Facility Agreement

“Actual Construction Period Cash Flow Test” means the quarterly test to be carried out on each Actual Construction Period Cash Flow Testing Date, in relation to the preceding quarter to determine whether: actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model;

“Actual Construction Period Cash Flow Testing Date” means each Quarter Date following Financial Close, up to and including Completion;

“Actual Construction Period Cash Flow Shortfall” has the meaning given to it in clause 15.9 (Actual Construction Cash Flow Test);

⁴³**“Actual Construction Period Cash Flow Remedy Amount”** means the minimum amount necessary following a failure by the Borrower of the Actual Construction Period Cash Flow Test, to pass such test;

“Actual Construction Period Excess Cash Flow Amount” means the amount of Operating Cash generated in any quarter during the Construction Period which is greater than the amount required to satisfy the Actual Construction Period Cash Flow Test; and

“Base Cash Financial Model” means the computer model, agreed between the Lenders and the Borrower at Financial Close, as amended from time to time by agreement between the Lenders and the Borrower and delivered pursuant to paragraph 11.1 (Part I – Initial Conditions Precedent) of Schedule 3;

“Current Assets” means:

- a) cash held by the Borrower;
- b) any balance on the Debt Service Reserve Account;
- c) any balance on the Maintenance Reserve Account;
- d) any prepayments received;
- e) amounts owed to the Borrower and/or the amounts of any accounts receivable (in each case from trade debtors or HMRC in respect of VAT);
- f) amounts in respect of deferred taxes;
- g) inventory; and
- h) any cell preparation assets.

“Current Liabilities” means:

- a) amounts owed by the Borrower and/or the amounts of any accounts payable (in each case to trade creditors or HMRC in respect of National Insurance and VAT);
- b) the amount of any accruals or provisions made;
- c) the amount of any deferred tax liability;
- d) any cell restoration liabilities;
- e) any aftercare liabilities; and
- f) liabilities in respect of Corporation Tax

Appendix 2 (continued)

Extracts from Senior Term Loan Facility Agreement

“**Gross Revenue**” means, at any Ratio Testing Date and without double counting, the sum of:

- a) operating revenue including the Unitary Payment, any interim service payments (if applicable) and any actual or guaranteed third party income, but excluding, for the avoidance of doubt, the Bullet Payment;
- b) interest earned on all cash accounts (other than the Distribution Account);
- c) damages;
- d) insurance Proceeds to the extent received as compensation for loss of revenue;
- e) income earned on Authorised Investments (other than any Authorised Investments in respect of the Distribution Account, if any);
- f) rebates of Tax actually received or projected to be received in the latest Approved Budget; and
- g) all other income or proceeds of a revenue nature from whatever source;

Assumed in the Approved Financial Model to be receivable by the Borrower in the period commencing with such Ratio Testing Date and terminating on the Final Repayment Date or, in respect of any Ratio Testing Period ended on that Ratio Testing Date, all such revenues actually received during such Ratio Testing Period;

“**Operating Cash**” means:

- a) gross Revenue; less
- b) operating costs; plus or minus
- c) changes in Working Capital; less
- d) corporation Tax.

In each case, in respect of the Financial Year, as reflected in the operating cash flow calculation in the Approved Financial Model;

“**Working Capital**” means Current Assets minus Current Liabilities

“Operating Costs” means, without double counting any of those costs, and including any VAT thereon, costs identified as, or as the case may be, falling within the category of:

- a) costs and expenses of administering, maintaining and operating the Borrower, SWSL and BWL and the Project including, without limitation, all operating costs accrued prior to, or arising after Financial Close relating to the Borrower’s, SWSL’s and BWL’s existing operations under, or related to, the Waste Management Services Contract all costs relating to Environmental Matters and the costs of complying with the requirements of Environmental Laws and the terms and conditions of Environmental Authorisations (together in all cases with any applicable VAT thereon which is irrecoverable VAT);
- b) the costs of insurance premia (other than in relation to insurances covering the construction and commissioning of the Plant) and all property and occupation charges and rates to which the Project may be subject (together in each case with any applicable VAT thereon which is irrecoverable VAT);
- c) sums payable by the Borrower under the terms of the Project Documents to which it is a party, other than in relation to construction and commissioning of the Plant (together with any applicable VAT thereon which is irrecoverable VAT);
- d) taxes payable (excluding VAT other than “output tax” within the meaning of Section 24(2) of the Value Added Tax Act 1994) other than in relation to the construction and commissioning of the Plant;
- e) development costs; and
- f) in all cases, the equivalent lines thereafter in each Approved Budget and each Approved Financial Model.

The Borrower may only withdraw sums from the Excess Cash Flow Account:

- i. to meet Project Costs at any time on or after the Take-Over Date, but prior to Completion; or
- ii. to transfer any amount standing to the credit of Excess Cash Flow Account on Completion to the Distribution Account, provided that no Event of Default is continuing.

Appendix 2 (continued)

Extracts from Senior Term Loan Facility Agreement

Actual Construction Period Cash Flow Test

- 45
- a) On each Actual Construction Period Cash Flow Testing Date, the Borrower will provide evidence satisfactory to the Lenders (acting reasonably) that the Actual Construction Period Cash Flow Test has been satisfied.
 - b) Where there is a failure by the Borrower to satisfy the Actual Construction Period Cash Flow Test on any Actual Construction Period Cash Flow Testing Date (an "**Actual Construction Period Cash Flow Shortfall**"):
 - i. The Borrower shall serve a Standby Equity Funding Notice on each Shareholder pursuant to clause 4.2 (Standby Equity Funding Notice) of the Equity Agreement and through such notice request that each Shareholder contribute Equity in an amount equal to its Standby Contribution in accordance with clause 4.1 (Provision of Standby Equity) of the Equity Agreement; and
 - ii. in the event that [*Shareholder A*] fails to contribute Equity in accordance with clause 15.10(b)(i) above, the Borrower or the Security Agent shall be entitled to make a claim under the Equity Guarantee ([*Shareholder A*]) for an amount equal to [*Shareholder A's*] Standby Contribution of the Actual Construction Period Cash Flow Remedy Amount within the relevant period that such Equity is required to be paid pursuant to clause 8.1(b) ([*Shareholder A's parent*] Guarantee) of the Equity Agreement.

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MEMORANDUM

To: Mark Forrester
cc: Simon Lewis
From: Kerry Booth
Date: 6th March 2017
Subject: Mercia LTA Construction Progress Summary – March 2017

Organisation: Worcestershire County Council
Organisation: Worcestershire County Council
Our Ref: S1291-2300-0010KSB
No. of Pages: 2

1 INTRODUCTION

Mercia Waste Management Limited ("Mercia") is constructing the 200,000 tonnes/year, 18 MWe Mercia EnviRecover EfW Plant in Hartlebury, Worcestershire. Fichtner Consulting Engineers Ltd (Fichtner) has been appointed as lender's technical advisor (LTA) for the construction phase of the plant. This summary memo covers relevant activities and progress based on review of latest available reports from the Owner's Engineer (OE) and Mercia (covering 1st – 31st January 2017) and additional information provided to the LTA team since that date.

2 PROJECT PROGRESS

The facility achieved Take Over on 2nd March 2017, two days after the contractual Take Over date of 28th February 2017. The delay compared to the contractual Take Over date was due to HZI's failure to complete a number of required tasks by 28th February, including demonstration of items on the firefighting cause and effect matrix, building services take over tests, emergency lighting tests, completion of high priority building services observations, and removal of all construction equipment and debris.

3 KEY PROJECT RISKS AND OBSERVATIONS

The Project Manager issued the Take Over certificate with Minor Items which do not materially affect the safe or efficient operation of the works outstanding. Following Take Over, HZI is responsible for closing out these Minor Items. Under the terms of the EPC contract, the Performance Bond remains in place until Acceptance, and after Acceptance a Retention Bond must be in place to provide protection to the Owner against any failure by HZI to rectify these items.

4 FINANCIAL AND COMMERCIAL

The cumulative amount which has been certified to date is £114,473,224.60. The LTA has issued twelve payment certificates to allow drawdown on the senior loan.

As Take Over has been achieved, HZI is eligible to apply for the associated payment milestone under the contract. The LTA has not received a request for certification of this payment.

5 HEALTH AND SAFETY

Health and safety standards have been maintained in recent months. There was an increase in site safety observation reports in January, and HZI was instructed that health and safety should remain the top priority.

One red card was issued in January. The red card related to abusive behaviour and language toward HZI staff by a contractor when they were challenged on not wearing appropriate personal protective equipment on site.

6 PLANNED ACTIVITIES NEXT PERIOD

The following activities are planned from March 2017:

- Completion of drainage works in welfare area (subject to previous Variation Order allowing completion after Take Over);
- Completion of Minor Items;
- Completion of the EPC Performance Tests; and
- Delivery of final documentation.

Yours sincerely
FICHTNER Consulting Engineers Limited



Kerry Booth
Associate Senior Consultant



Phin Eddy
Commercial Director

Energy from Waste Risk Register

Appendix c

Risk Reference	Description of risk	Gross Impact	Gross Likelihood	Gross Risk Score	Risk control approach	Mitigating Actions	Residual Impact	Residual Likelihood	Residual Risk Score	Assigned to (Risk Owners)
a	Default of loan repayments by borrower to lenders due to SPV (Mercia) or HZI falling into administration.	Critical	Medium	15	Risk transferred	Due to the security package negotiated by the Councils a fall away analysis indicated that Mercia, its Shareholders and HZI would need to enter administration at the same time to put at repayment at risk during the construction phase. The maximum exposure to the Councils has been calculated and included within the sufficiency assessment of the Council's reserves. All press articles are scanned regularly for indications of financial strength issues and followed up to ensure counterparty risk is not increased.	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default and Deloitte to monitor Mercia's actual quarterly cash flow tests and cover ratios that have to be maintained by Mercia.
f	Mercia loan principal and / or interest repayments are below the required values as per the rates agreed in the STFLA .	Substantial	Very Low	6	Risk treated	The Council's treasury team maintain a spreadsheet detailing drawdowns to date and expected future principal and interest payments. This is reconciled to Mercia's repayment spreadsheet and will be matched to principal and interest repayments received from Mercia during the post construction period.	Substantial	Almost Impossible	5	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

Key

High 19 – 24	Unacceptable Risk: Immediate control/improvement required
Medium 8 – 18	Acceptable Risk: Close monitoring and cost effective control improvements sought.
Low 1 – 7	Acceptable Risk: Need periodic review, low cost control improvements sought if possible.

Scoring Matrix

Likelihood

Very High	9	19	21	24
High	8	12	20	23
Medium	4	11	15	22
Low	3	10	14	18
Very Low	2	6	13	17
Almost Impossible	1	5	7	16
	Negligible	Substantial	Critical	Extreme



Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	Accounting policy update
Report by:	Chief finance officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To agree a change to the council's accounting policy in the 2016/17 financial statements in relation to the pension deficit included therein.

Recommendation

THAT:

- (a) the accounting policy in relation to pension deficit valuation be amended to reflect a single valuation for Herefordshire Council and Hoople Ltd, and take effect in the 2016/17 financial statements.**

Alternative options

- 1 To do nothing. This is not recommended as it would not resolve the issue of the council and Hoople Ltd financial statements not accurately reporting their respective pension deficit liabilities.

Further information on the subject of this report is available from Andrew Lovegrove, chief finance officer on Tel (01432) 383519

Reasons for recommendations

- 2 The constitution provides that the audit and governance committee will review and approve the financial statements, the external auditor’s opinion and reports to members and oversee management action in response to the issues raised by external audit. The recommendation of this report supports the committee in fulfilling this role.
- 3 The accounting policy change will remove the need for separate actuarial calculations for Hoople Ltd and the council, reducing the pension scheme administration costs incurred.

Key considerations

- 4 On commencement of Hoople Ltd existing council staff transferred to their new employer with their associated defined benefit pension obligations under the local government pension scheme (LGPS) on a fully funded basis via an admission agreement. This scheme is a defined benefit scheme administered by Worcestershire County Council and valued by Mercer. Hoople Ltd closed the LGPS to new entrants with all new employees having access to an alternate Standard Life pension scheme.
- 5 The 2016/17 financial statements accounting policy update includes a revised pension deficit with the admission of Hoople Ltd based on the actuarial valuation assumptions as at 31 March 2016. The purpose of this change is to accurately state the council’s total pension deficit liability as guarantor and majority shareholder of Hoople Ltd. The impact of this change is as follows:

	2013 valuation (excludes Hoople Ltd)	2016 valuation (inclusive of Hoople Ltd)	Change
Pension deficit	£137.7m	£118.2m	(£19.5m) reduction
% of deficit funded	65%	70%	5% improvement
Recovery period	21 years	18 years	3 years reduction

- 6 In previous financial years Hoople Ltd’s pension deficit has been split by the actuarial valuers and the council’s financial statements excluded Hoople Ltd’s liability. The proposed change in accounting policy would remove the need for this additional calculation, with all pension deficit/surplus being allocated to Herefordshire council at each triannual valuation.
- 7 The Hoople Ltd 2013 pension deficit totalled £760k and an actual pension deficit contribution of £28,700 was made in 2016/17. Hoople Ltd’s future in-service pension contribution rate has been set at 15.2% for 2017/18; this will be adjusted to incorporate a fixed deficit contribution to ensure compliance with the admission

Further information on the subject of this report is available from Andrew Lovegrove, chief finance officer on Tel (01432) 383519

agreement which states that Hoople Ltd shall pay all sums due in respect of any pension liabilities arising to fully fund the cost of eligible employees transferred. The fixed uplifted contribution rate will ensure clarity of cost to Hoople and provide a capped limit to their annual pension cost.

Community impact

- 8 To ensure clear and transparent processes are in place to govern how resources of the council are effectively managed and supports the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open, transparent and accountable.

Equality duty

- 9 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 10 The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Financial implications

- 11 This accounting policy update does not impact on either the council or Hoople Ltd pre-existing financial liabilities in relation to each party's pension costs.
- 12 Actual pension deficit costs will continue to be incurred by both Hoople Ltd and Herefordshire Council as stated in the admission agreement. These costs are reflected in each organisations' budget assumptions. The fixed contribution rate payable by Hoople will ensure the risk of additional pension costs falling to the council will be minimised.
- 13 The pension deficit valuation note reflected in the council's 2016/17 financial statements will include re-measurements on pension assets of £58.3m, this includes two elements:
- a) £62.9m gain due to the pension fund investment returns being higher than the IAS19 interest on plan assets over the year and;
 - b) £4.6m loss due to experience items from the incorporation of the 2016 triennial valuation results. This includes fully funding Hoople Ltd at the 31 March 2016 actuarial valuation and other items of experience that emerge

Further information on the subject of this report is available from
Andrew Lovegrove, chief finance officer on Tel (01432) 383519

following an actuarial valuation not allowed for in the accounting calculations over the inter-valuation period.

- 14 Each actuarial valuation costs approximately £2,500, therefore by reducing the need for a separate valuation for Hoople Ltd there will be a triannual administration saving of approximately £2,500.

Legal implications

- 15 Section 62 of the local government pension scheme regulations 2013 requires the council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards. One valuation where there is an admitted body and a separate fund is possible because of the liability that the council holds as guarantor of the scheme.

Risk management

- 16 This accounting policy change does not result in new additional risks, the pension deficit valuation will continue to fluctuate based on the underlying assumptions used at each triannual valuation point.

Consultees

- 17 Hoople Ltd board have been consulted and are supportive of this update.

Appendices

None

Background papers

None



Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	Anti-fraud, bribery and corruption policy 2017
Report by:	Chief finance officer / chief internal auditor

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To present to the audit and governance committee the anti-fraud, bribery and corruption policy for approval.

Recommendation

THAT:

- (a) **the audit and governance committee approve the update of the anti-fraud, bribery and corruption policy.**

Alternative options

- 1 To retain the current policy. This is not recommended as the policy needs to reflect current constitutional policy and procedure in order to be effective.

Reasons for recommendations

- 2 The council's constitution delegates to the audit and governance committee responsibility for maintaining an overview of and agreeing changes to the council's anti-fraud, bribery and corruption policy. The policy has been updated to reflect recent changes to the constitution and related policies.

Further information on the subject of this report is available from
 Andrew Lovegrove, chief finance officer / Jacqui Gooding, assistant director (SWAP) on Tel (01432)
 383519 / (01432) 260294

Key considerations

- 3 The policy summarises the culture of the council with regard to its opposition to fraud and corruption.
- 4 The policy also sets out clearly to members, employees, contractors, the council's partners, and the public:
 - The council's commitment to tackling fraud, bribery and corruption
 - Its actions to promote the prevention of fraud, bribery and corruption
 - The responsibility of members and employees in minimising the risk of fraud and reporting any suspicions they may have.

Community impact

- 5 The council's adopted code of corporate governance includes commitments to: behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law; and managing risks and performance through robust internal control and strong public financial management. The anti-fraud, bribery and corruption policy is part of the council's governance arrangements by which it ensures that the principles of good corporate governance can be upheld and maintained.

Equality duty

- 6 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

 - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 7 The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. The policy does not impact directly on this duty but requires that any activity carried out under the policy complies with the relevant equality policies.

Financial implications

- 8 There are no direct financial implications from adopting a revised policy. However the policy sets out the council's response to fraud and corruption and how the council will action any recovery of losses.

Legal implications

- 9 The policy satisfies the legislative requirements to have effective arrangements for tackling fraud and bribery

Risk management

- 10 The committee is responsible for reviewing and approving the council's anti-fraud, bribery and corruption policy; if this is not done there is the risk that the policy will not be sufficient and robust in addressing fraud.

Consultees

- 11 None.

Appendices

Appendix A – anti-fraud bribery and corruption policy

Appendix B – fraud response plan

Appendix C – warning signs for potential fraud

Background papers

- None identified.

Anti-fraud, bribery and corruption policy

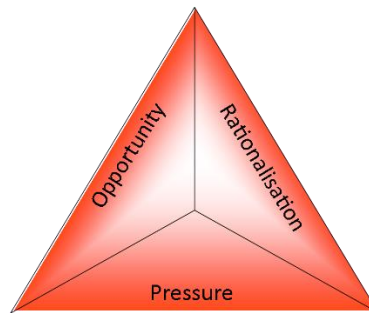
Reference number	
Approved by	Audit and governance committee
Date approved	
Version	2.0
Last reviewed	5 January 2015
Review date	30 May 2017
Next Review date	30 May 2019
Category	Corporate governance
Owner	Chief finance officer
Target audience	All council staff, councillors, contractors, the council's partners and the public

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1. Introduction

- 1.1 The council is determined to pursue a policy of zero tolerance to fraud, bribery and corruption.
- 1.2 Three key elements exist in most acts of theft, fraud and corruption and are shown in the Fraud Triangle below;



Opportunity - The fraudster will usually look for opportunities to commit fraud. They may have heard stories from others who have cheated an organisation in a certain way before and may seek to copy this. Detailed knowledge of internal systems may make it easier for fraud to occur, particularly if the fraudster is aware of its weaknesses or has excessive control responsibility. Weak internal controls make it easier for fraud to be successful and reduce the likelihood of it being identified.

Motive/Incentive/Pressure - A person who commits fraud may be pressured to, or needs to commit fraud. It might be due to a financial need such as living beyond their means, debts, a desire for material goods, or to feed an addiction. The sense of beating the system may also act as a motivator.

Rationalisation - A fraudster will often justify to themselves why they have committed fraud. They may see their act as revenge for inadequate pay or excessive workload. They may convince themselves that they will pay the money back one day; or that the organisation is so big it won't miss the small amount taken.

- 1.3 The purpose of this policy is to set out clearly to councillors, employees, contractors, the councils partners, and the public:
 - The council's commitment to tackling fraud, bribery and corruption
 - Its actions to promote the prevention of fraud, bribery and corruption
 - The responsibility of councillors and employees in minimising the risk of fraud and reporting any suspicions they may have
- 1.4 The council has a duty to ensure that it safeguards the public money that it is responsible for and takes very seriously its stewardship of this money and the high expectations of the public and the degree of scrutiny to which the affairs of the council are subject. Proper accountability achieved through probity, internal control and honest administration is therefore essential.

1.5 The government has made it clear as they attempt to reduce public sector spending that they expect both central and local government to take the issue of fraud seriously and do more to tackle the issues from public sector funding to prevent fraud. In June 2011 'Eliminating Public Sector Fraud' set out four priorities to tackle fraud effectively in the public sector:

- Collaboration
- Zero tolerance
- Better assessment of risks and measurement of losses
- Greater focus on fraud prevention activity

1.6 This was followed by the National Fraud Authority (NFA) producing a National Local Government Fraud Strategy (April 2011) 'Fighting Fraud Locally' and more recently the Local Government Counter Fraud and Corruption Strategy 2016-19 the new strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters to account more quickly and efficiently, and improve the recovery of losses. The strategy contains examples of good practice which should enhance the fight against fraud based around three key themes:

- Acknowledge – acknowledging and understanding fraud risks
- Prevent – preventing and detecting fraud
- Pursue – being stronger in punishing fraud and recovering losses

1.7 In November 2014, the CIPFA Counter Fraud Centre issued a code of practice on managing the risk of fraud and corruption which built on the National Local Government Fraud Strategy. This code supports good governance and demonstrates effective financial stewardship and strong public financial management. This strategy contains five key themes:

- Acknowledge the responsibility of senior management for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption

2. What is fraud, bribery and corruption

2.1 **The Fraud Act 2006** created a criminal offence of fraud and identifies three main ways it can be committed with a maximum penalty of 10 years imprisonment:

- Fraud by false representation
- Fraud by failing to disclose information
- Fraud by abuse of position

2.2 The Act also created four related criminal offences of:

- Possession of articles for use in frauds
- Making or supplying articles for use in frauds
- Participating in fraudulent business
- Obtaining services dishonestly

2.3 **The Bribery Act 2010** defines bribery as “giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so”. There are four key offences under the Act:

- Bribery of another person
- Accepting a bribe
- Bribing a foreign public official
- A corporate offence of failing to prevent bribery

2.4 **The Proceeds of Crime Act 2002 and the Terrorism Act 2000** place obligations on the Council and its staff with respect to suspected money laundering and makes it a criminal offence to help a criminal ‘launder’ the proceeds of crime.

2.5 **The UK Anti-Corruption Plan 2014** aims to bring about a co-ordinated and collaborative approach, setting out clear actions and priorities. The plan covers both UK and international activities, and includes local government. There is no universally accepted definition of ‘corruption’. The UN Guide for Anti-Corruption Policies (2003) notes that “definitions applied to corruption vary from country to country in accordance with cultural, legal or other factors and the nature of the problem as it appears in each country.” However, the World Bank definition is widely used and defines a ‘corrupt’ practice as the ‘offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.’

3. **This policy provides an overview of the measures designed to combat any attempted fraudulent or corrupt act. For ease of understanding it is separated into four areas:**

- **Culture**
- **Reporting**
- **Prevention**
- **Detection**
- **Investigations**
- **Discipline and prosecution**
- **Recovery of losses**

**A fraud response plan is included at Appendix B
Warning signs of potential fraud at appendix C**

4. Culture

- 4.1 Whilst there is a need for an anti-fraud, bribery and corruption policy it is equally important to emphasise the faith the council places in the integrity and honesty of its entire staff. The council also expects that all outside individuals and organisations including suppliers, contractors and claimants will act towards the council with honesty and integrity.
- 4.2 All councillors and employees are expected to be aware of standards of conduct and the procedures designed to reduce the risk of fraud, bribery and corruption occurring.
- 4.3 All employees shall be responsible for their own conduct, with managers being additionally responsible for maintaining internal checks and control procedures within their service area.
- 4.4 Fraud, bribery and corruption risks will be considered as part of the council's strategic risk management arrangements.
- 4.5 The council is determined that the culture and tone of the organisation is one of honesty, openness and opposition to fraud, bribery and corruption. The council will not tolerate fraud, bribery or corruption of any form or degree in the administration of its responsibilities whether from inside or outside the council.
- 4.6 There is an expectation that, and requirement that, all individuals and organisations associated in whatever way with the council will act with integrity and that councillors and employees at all levels, will lead by example.
- 4.7 The council's employees are an important element in its stance on fraud and corruption and are positively encouraged to raise any concerns that they may have on these issues, immaterial of seniority, rank or status, where they are associated with the council's activity. This they can do in the knowledge that such concerns will, wherever possible, be treated in confidence and properly investigated. The public also has a role to play in this process and should inform the council if they feel fraud/corruption may have occurred.

5. Prevention

- 5.1 The council recognises that a key preventive measure in the fight against fraud, bribery and corruption is the taking of effective steps at the recruitment stage to establish, as far as possible, the previous record of potential staff, in terms of their propriety and integrity. In this regard temporary and contract staff will be treated in the same manner as permanent staff.
- 5.2 The council will regularly review and keep its disciplinary procedures up to date and in line with good practice.
- 5.3 The council has contract procedure rules and financial procedure rules in place that specify procedures to be followed in administering the council's affairs and place a requirement on employees when dealing with the council's affairs to act in accordance with best practices.
- 5.4 The chief finance officer has been designated with the statutory responsibilities of the finance director as defined by section 151 of the Local Government Act 1972. These responsibilities outline that every local authority in England and Wales should: 'make

arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility or the administration of those affairs’.

‘Proper administration’ encompasses all aspects of local authority financial management including:

- Compliance with the statutory requirements for accounting and internal audit;
- Managing the financial affairs of the council
- The proper exercise of a wide range of delegated powers both formal and informal;
- Under these statutory responsibilities the section 151 officer contributes to the anti-fraud and corruption framework of the council.

5.5 The solicitor to the council (monitoring officer) is responsible for ensuring that all decisions made by the council are within the law. The monitoring officer’s key role is to promote and maintain high standards of conduct throughout the council by developing, enforcing and reporting appropriate governance arrangements including codes of conduct and other standard policies.

5.6 The council has developed and is committed to continuing, with systems and procedures that incorporate efficient and effective internal controls, which include adequate separation of duties wherever possible. It is required that the directors, assistant directors and heads of service and other key managers will ensure that such controls, including those in a computerised environment are properly maintained. Their existence and appropriateness will be independently reviewed by the council’s internal audit service.

5.7 The council will work with Partner Organisations to develop where possible a joint approach to antifraud activity.

6. Detection

6.1 Directors, assistant directors, heads of service and all managers shall ensure that internal control is implemented and maintained and will report any matters where internal control has failed to the chief internal auditor.

6.2 Internal audit has a preventative role in trying to ensure that systems and procedures are in place to prevent and deter fraud and corruption. Internal audit may be requested to investigate cases of suspected financial irregularity, fraud or corruption, except benefit fraud investigations, in accordance with agreed procedures. Within the financial procedure rules in the constitution, representatives of internal audit are empowered to:

- enter at all reasonable times any council premises or land
- have access to all records, documentation and correspondence relating to any financial and other transactions as considered necessary
- have access to records belonging to third parties such as contractors when required
- require and receive such explanations as are regarded necessary concerning any matter under examination
- require any employee of the council to account for cash, stores or any other council property under his/her control or possession

- 6.3 Herefordshire council will take part in the National Fraud Initiative.
- 6.4 The audit and governance committee will review and approve as part of the annual audit plan the internal audit programme for fraud prevention and detection work.
- 6.5 The council's code of practice on whistleblowing allows employees and councillors to raise any concerns they may have in confidence and anonymously should they wish.

7. Reporting

- 7.1 The council expects all elected members and employees of the council to report any concerns that they may have in respect of fraud and corruption. Members of the public outside individuals and organisations including suppliers, contractors and claimants are also encouraged to report concerns.
- 7.2 As set out in the whistleblowing policy, employees are encouraged and expected to raise any concerns they may have without fear of recrimination. Such concerns will be treated in the strictest confidence and will be properly investigated.
- 7.3 Employees should normally raise concerns with their immediate manager or that manager's manager. This depends, however on the seriousness of the issues involved and who is suspected of the malpractice. If staff believe that their management is involved they should approach:
 - i) The chief finance officer - Tel: 01432 383519
 - ii) The chief internal auditor – (South West Audit Partnership) Tel: 07872500675
 - iii) The chief executive - Tel: 01432 260044
 - iv) The solicitor to the council – Tel: 01432 260657
- 7.4 Elected councillors should normally report any concerns to the appropriate senior management team member or one of the officers listed in 7.3.
- 7.5 The council discourages anybody who has reasonably held suspicions from doing nothing, trying to investigate the matter themselves, approaching or accusing the individual themselves. Any of these actions could result in any counter fraud investigation being compromised.
- 7.6 Senior management is responsible for following up any allegation of fraud or corruption and will do so in line with the council's financial regulations.
- 7.7 Senior management is expected to deal swiftly and firmly with those who have defrauded the council or who are corrupt.
- 7.8 There is a need to ensure that any investigation process is not misused and therefore, any abuse such as raising unfounded malicious allegations will be dealt with as a disciplinary matter.

8. Investigations

- 8.1 The investigation of fraud, bribery and corruption is a complex and specialist area and will usually be undertaken by internal audit, or for less complicated cases, managers, under internal audit advice. Internal audit will ensure that there is a procedure that can

be implemented to ensure that all evidence is correctly obtained, stored and recorded.

- 8.2 Depending on the nature and anticipated extent of the allegations, internal audit will normally work closely with management and other agencies to ensure that all allegations and evidence is properly investigated and reported on.
- 8.3 To facilitate audit work and investigations, internal audit staff are accorded rights, by the Accounts and Audit Regulations 2011, to access all necessary documents, records, information and explanations from any member of staff.
- 8.4 When undertaking fraud investigations, council investigators will observe the Police and Criminal Evidence Act Codes of Practice.
- 8.5 Any decision to refer an investigation to the police will be taken by the chief internal auditor in consultation with the chief finance officer and others, as appropriate.

9. Discipline and prosecution

- 9.1 The council's disciplinary procedures will be used where the outcome of any investigation indicates improper behaviour.
- 9.2 The chief finance officer is responsible for deciding in consultation with the relevant member of management board and the chief internal auditor as appropriate, whether any matter under investigation should be referred for police investigation and take recovery action as appropriate on such matters

10. Recovery of losses

- 10.1 The council will normally seek to recover losses incurred as a result of fraud, bribery and corruption.
- 10.2 If anyone under investigation offers money in settlement of any losses to the council, it should be made clear that any monies offered will be accepted:
 - Without prejudice to any other actions the council may wish to take;
 - That acceptance is only in respect of losses identified to date; and
 - That the council reserves the right to seek recovery any further losses that may come to light in the future.
- 10.3 Consideration will be given to legal action against the perpetrator of fraud or those benefiting from fraud in order to cover the council's losses.

11. The council's human resources policies

- 11.1 All investigations, internal procedures and codes of conduct will comply with and take account of the council's HR policies.

12. Data protection

- 12.1 The council will share any personal data with the police or any other body in connection with the detection, investigation or prosecution of fraud in line with the Data Protection Act 1998.

13. Working with other agencies

13.1 There are arrangements in place to continue to develop and encourage the appropriate exchange of information between the council and other agencies in relation to fraud, bribery and corruption to help prevent, deter and detect fraud. These include, but are not limited to:

- Police
- Department for Work and Pensions (DWP)
- HMRC
- National Anti-Fraud Network
- External Audit
- Other authorities

14. Related policies and other strategies

14.1 The following policies support or are linked to the anti-fraud, bribery and corruption policy.

- Anti-Money Laundering Policy
- Codes of Conduct (employees and councillors)
- Grievance Policy and Procedure
- Financial Procedure Rules
- Contracts Procedure Rules
- Whistleblowing or Confidential Reporting Code
- Equality Policy
- Disciplinary Procedures

FRAUD, BRIBERY AND CORRUPTION RESPONSE PLAN

Stage 1 – Commencing an investigation
<p>Decisions to proceed with an investigation will be made by the appropriate director in conjunction with the chief internal auditor, and the chief finance officer. At this point the above officers will need to assess whether there is a requirement for any INTERNAL employee to be suspended.</p>
Stage 2 – Appointment of investigating officers
<p>For each investigation, the first step will be to appoint an investigating officer.</p> <p>The chief internal auditor may appoint a lead officer from Internal Audit and decide on the overall lead for the investigation (depending on its nature/significance).</p>
Stage 3 – Planning the investigation
<p>The investigating officer will need to liaise with the internal audit lead officer to ensure that a plan of action is drawn up. The internal audit officers will as a matter of priority ensure that all relevant evidence including documentary records pertaining to the investigation are immediately secured.</p>
Stage 4 – Referral to police
<p>If the investigation relates to a suspected criminal offence, the chief internal auditor will need to consider (in conjunction with the relevant member of management board and the chief finance officer) whether to inform the police. If they decide that a formal police investigation is necessary then liaison with the police will normally be via legal and the chief internal auditor.</p>
Stage 5 – Gathering evidence
<p>The investigating officer will ensure, in conjunction with the internal audit lead officer that all evidence of fraud or corruption relating to the investigation is gathered objectively, systematically and in a well-documented manner. Where this is being carried out in conjunction with a police investigation the internal audit lead officer will be responsible for preparing any required statement and assembling all evidence and exhibits. The internal audit lead officer will keep the investigating officer fully informed of all developments with any police investigation.</p>
Stage 6 – Progress reviews
<p>During the course of the investigation, the internal audit lead officer will produce confidential interim reports (which can be verbal reports) on progress and findings. These will normally be to the investigating officer.</p>
Stage 7 – Conclude investigation and improve system controls

The internal audit lead officer will produce a final report that may be used by management as a basis for disciplinary action, where necessary, in liaison with HR or termination of a contractor's contract where necessary in liaison with legal.

An issues report will identify any system weaknesses that enabled the fraud to occur and make recommendations for improvements. Managers are expected to take prompt action to implement recommendations.

The chief internal auditor will inform the external auditor as agreed in the joint working protocol.

Stage 8 – Recovering losses

The investigating officer will ensure that all opportunities are followed to obtain compensation for any losses to the council including insurance, voluntary restitution or by compensation claims.

Stage 9 – Release of information

Press Release

The decision to issue press statements about fraud or corruption cases that have been investigated and proven by the council will be made by the investigating officer, chief internal auditor and monitoring officer together with the chief executive. They will take account of, on a case by case basis, any sensitive and legal issues involved and the need for confidentiality.

Reporting to Audit and Governance Committee

The Audit and Governance Committee will be informed by the chief internal auditor if Internal Audit are requested to complete an investigation as part of the internal audit quarterly update to the committee. The chief finance officer, monitoring officer and chief internal auditor will consider on a case by case basis taking into account any sensitive and legal issues involved and the need for confidentiality the level of the information provided to the committee by the chief internal auditor.

WARNING SIGNS FOR POTENTIAL FRAUD, BRIBERY, CORRUPTION

As stated above managers are responsible for the design of systems, (in conjunction with compliance with corporate policies), which must include controls that will prevent and detect fraud within their processes. Employee training and awareness is essential in ensuring that they are alert to the signs that a fraud may be being undertaken.

Warning signs for potential fraud
<p><u>External</u></p> <p>Supplier Invoices</p> <ul style="list-style-type: none">• There is no record of an official order made• The invoice contains errors in details such as officer's name and addresses• Goods have not been received• Stated website has limited contact information• Documents supporting supplier invoices are inadequate or obviously altered• Key documents appear to have been photocopied• Evidence that a document has been altered. <p>Customer Applications and Payments</p> <ul style="list-style-type: none">• Gaps in information given• Unable to supply identification• Unable to provide original documents• Only able to supply photocopied documents• Unwilling to meet at their home• Large transactions paid by cash• Overpayments made and refunds requested <p><u>Internal</u></p> <ul style="list-style-type: none">• A person has a sudden change of lifestyle without apparent reason or unexplained and sudden wealth• Noticeable personality or routine changes - continually works after hours, comes in frequently on weekends, insists on taking work home, requests for unusual patterns of overtime• Possessiveness of job and records - reluctant to take holiday, go off sick or share responsibility• Misfiled or missing documents such as receipts, estimates, correspondence.• Computer enquiries made which are not necessary to job role,• Suppliers & contractors insisting on dealing with a particular officer• Unexplained budget pressures• Poor audit trails

Procurement - procurement can be complex and can also encompass a range of areas spanning the whole period from agreeing a project to contract monitoring, extensions and re-letting. this type of fraud can be difficult both to detect and to investigate. In some cases, procurement fraud can be linked to grant fraud or classified as grant fraud. Procurement processes are vulnerable because there are multiple ways to commit fraud, some of which are:

- Price fixing - suppliers collude to fix the prices they will charge.
- Bid rigging - Suppliers collude to ensure a particular bidder wins the contract
- Manipulation of specifications to favour a particular bidder
- Split contracts – the splitting of contracts to bring them below procurement thresholds
- Bribery for awarding a contract - A bribe ('kickback') is given to a council employee or councillor to secure the award of a contract.
- Conflict of interest - A council employee or councillor does not disclose a pecuniary or other personal interest in a contract

Contract Management -

- Overcharging - Overbilling in relation to the goods and services which have been delivered. This includes unjustified expenses claimed by consultants.
- Duplicate payments -The council is charged twice for the same goods or services.
- False invoices -A form of identity fraud. Payment to a genuine supplier is diverted to a bank account controlled by the fraudster. This could also be an internal fraud perpetrated by a council employee.
- False claims and variations - Unjustified contractual claims and payments for contract variations. This type of fraud is often associated with under-priced bids ('loss leaders').
- False performance reporting - Payment is claimed for levels of performance that have not been achieved.
- Phantom suppliers -A fictitious company, or a real company that does not have a genuine relationship with the council, is set up as a supplier and receives payment.
- Sub-standard materials - Cheaper materials are substituted for those specified in the contract.
- Misappropriation of assets - Council assets (including data and intellectual property) are stolen or exploited illegitimately by suppliers in the course of performing a contract.

Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	Work programme for 2017/18
Report by:	Democratic services officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To provide an update on the Committee's work programme for 2017/18.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for 2017/18 for the audit and governance committee be agreed.

Alternative options

- 1 There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme in order to set out its objectives for the coming year.

Reasons for recommendations

- 2 The work programme is recommended as the committee is required to define and make known its work for the coming year. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.
- 3 The committee is asked to consider any further adjustments.

Key Considerations

Further information on the subject of this report is available from
Caroline Marshall, democratic services officer on Tel (01432) 260249

- 4 The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.

Community impact

- 5 A clear and transparent work programme provides a visible demonstration of how the committee is fulfilling its role as set out in the council's constitution.

Equality duty

- 6 This report does not impact on this area.

Financial implications

- 7 There are no financial implications.

Legal implications

- 8 The work programme reflects any statutory or constitutional requirements.

Risk management

- 9 The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurances that risk management processes are robust and effective.

Consultees

- 10 The chief finance and S151 officer and monitoring officer have contributed to the work programme

Appendices

Appendix A – audit and governance work programme 2017-18

Background papers

- None identified.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
September 2017		
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.
Internal audit (Annual)	SWAP annual report	To consider SWAP's annual report and opinion, and a summary of the internal audit activity and the level of assurance it can give over the council's corporate governance arrangements
Accounts (annual)	Signing of accounts	To approve the statement of account and includes the signing of the letter of representation
External audit	External auditor report	Presentation of the Audit Findings Report for consideration by the Committee before approval of the statutory accounts. The report will contain the external audit draft opinion on the accounts, draft value for money conclusion and a summary of the key findings for the 2016/17 financial year.
Governance (annual)	Statement on Internal Control	Review the council's Statement of Internal Control and recommend its adoption to council
External audit (Every three years)	Appointment of the Council's local (external) auditor	To recommend the appointment of the council's local (external) auditor to council.
Governance	Blue School House	To consider a report on Blue School House
Governance (every meeting)	Work programme	To note the current work programme of the committee
November 2017		
External audit (annual)	Annual audit letter	To review the annual audit letter
External audit	External auditor report	To note the timetable for completion of the 2017/18 audit; 2016/17 audit cycle and current issues update.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.
Governance (annual)	Raising Concerns at Work policy	To review and approve, if necessary, any changes to the policy.
Governance (annual)	Information governance review	To review the council's information governance requirements to include all complaints (inc. children's social care), information requests, breaches of Data Protection Act, corporate governance and Regulation of Investigatory Act.
Internal audit (Bi-annual)	Internal tracking of audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal audit
Internal/external audit (annual)	Review of performance of internal and external audit	<ul style="list-style-type: none"> • To consider a report dealing with the management and performance of the providers of internal audit services • Ensure that there are effective relationships between external and internal audit and that the value of the combined internal and external audit process is maximised.
Governance	Arrangements for reviewing the constitution	<ul style="list-style-type: none"> • Recommendation for reviewing the constitution.
Governance (as and when there are working groups)	Working group update	To provide an update
Governance (every meeting)	Work programme	To note the current work programme of the committee
January 2018		
External audit	Grant Certification Letter	<ul style="list-style-type: none"> • Report on grant claims completed in 2016/17 plus update on fees
External audit	External auditor report	<ul style="list-style-type: none"> • Timetable for completion of 2017/18 and current issues update.
Governance (Annual)	Annual governance statement progress	<ul style="list-style-type: none"> • Review of the effectiveness of the council's governance process and system of internal control.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
Governance (Annual)	Constitution Review	<ul style="list-style-type: none"> Update on the progress of the annual governance statement Conduct an overview of the council's constitution and recommendation to council of any changes
Governance (Annual)	Code of Conduct Review and complaints	<ul style="list-style-type: none"> Review the code of conduct and recommend any changes to the code to council Review code of conduct complaints
Governance (Annual)	Contract procedure rules, finance procedure rules and the anti-fraud and corruption strategy	Review of procedure rules/strategy and approve any amendments to the rules.
Governance (as and when there are working groups)	Working group update	To provide an update.
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Governance (every meeting)	Work programme	To note the current work programme of the committee
March 2018		
External audit (Annual)	External auditors annual plan	Review and agree the external auditors annual plan, including the annual audit fee and annual letter.
External audit	Informing the risk assessment	Report setting out risks and council's approach to managing risks in key areas.
External audit	External auditor report	Timetable for completion of 2017/18 and current issues update.
Internal audit (Annual)	Internal audit plan for 2018/19	To consider the internal audit plan for 2018/19.
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.
Governance (as and when there are working groups)	Working Group Update	To note progress of the working group
Governance (Bi-annual)	Internal tracking of audit recommendations	Monitor implementation of action plans agreed in response to

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
Governance (Annual) Governance (Quarterly)	Future work programme for 2018/19 Corporate risk register	recommendations made by internal audit To note the work programme for 2018/19. To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.