

RIBBLE VALLEY BOROUGH COUNCIL

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Dear Councillor

The next meeting of the **ACCOUNTS & AUDIT COMMITTEE** is at **6.30pm on WEDNESDAY, 11 APRIL 2018** in the **TOWN HALL, CHURCH STREET, CLITHEROE.**

I do hope you can be there.

Yours sincerely

CHIEF EXECUTIVE

To: Committee Members (copy for information to all other members of the Council)
Directors
Grant Thornton
Press

AGENDA

Part 1 – items of business to be discussed in public

1. Apologies for absence.
- ✓ 2. Minutes of the meeting held on 21 February 2017 – copy enclosed.
3. Declarations of Pecuniary and Non-Pecuniary Interests (if any).
4. Public Participation (if any).

INFORMATION ITEMS

- ✓ 5. Internal Audit Annual Report 2017/18 – report of Director of Resources – copy enclosed.
- ✓ 6. Interim Progress and Update Report from Grant Thornton – copy enclosed.
- ✓ 7. Prudential Code Changes – report of Director of Resources – copy enclosed.

DISCUSSION ITEMS

- ✓ 8. General Data Protection Regulations (GDPR) – report of Director of Resources – copy enclosed.

Part II - items of business **not** to be discussed in public

None

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS AND AUDIT COMMITTEE

INFORMATION

Agenda Item No 5

meeting date: 11 APRIL 2018
title: INTERNAL AUDIT ANNUAL REPORT 2017/18
submitted by: DIRECTOR OF RESOURCES
principal author: MICK AINSCOW

1 PURPOSE

1.1 To submit to Committee the internal audit annual report for 2017/18.

1.2 Relevance to the Council's ambitions and priorities:

- Corporate priorities - the Council seeks to maintain critical financial management and controls, and provide efficient and effective services.
- Other considerations – the Council has a statutory duty to maintain an adequate and effective system of internal.

2 BACKGROUND

2.1 Internal audit ensure that sound internal controls are inherent in all the Council's systems. All services are identified into auditable areas and then subjected to a risk assessment process looking at factors such as financial value and audit experience. A risk score is then calculated for each area.

2.2 An operational audit plan is then produced to prioritise resource allocation based on the risk score, with all high risk areas being covered annually.

2.3 The approved Internal Audit Plan for 2017/18 was based on the provision of 673 days of internal audit work. The detailed outturn position at 31 March 2018 is attached at Annex 1 with a summary of the final position for the year being set out in the following table.

Area of Work	Resources (Audit days)		
	Planned	Actual	Variance
Fundamental (Main) Systems	230	235	+5
Other systems work	74	54	-20
Probity and Regularity	242	245	+3
On-going checks	12	12	-
Risk Management PI's	40	40	-
Non-audit duties (insurance)	30	40	+10
Contingencies/Unplanned work	25	25	-
Training	20	22	+2
	673	673	-

2.4 With regard to the variance between planned and actual days on other systems work, this relates to audit work on Business Continuity which has now been moved to the 2018/19 financial year. Due to the recent and ongoing changes in this audit area, and the transition over to a computerised process, it was felt best to undertake this audit work once changes had taken place and were finalised within 2018/19.

2.5 All new audit reports produced during the year have been taken into account in informing the assurance opinion given later in this report.

3 ISSUES

3.1 In all cases, completed audits have resulted in the production of a report and action plan. Each audit report contains a conclusion which gives a level of assurance opinion as follows:

Level 1	Full		The Council can place full reliance on the levels of control in operation
Level 2	Substantial		The Council can place substantial reliance on the levels of control in operation
Level 3	Reasonable		Generally sound systems of control. Some minor weaknesses in control which need to be addressed
Level 4	Limited		Only limited reliance can be placed on the arrangements/ controls in operation. Significant control issues need to be resolved.
Level 5	Minimal		System of control is weak, exposing the operation to the risk of significant error or unauthorised activity

3.2 The table at Annex 2 sets out the assurance opinions issued in respect of all audits carried out since 1 April 2017.

3.3 In providing an overall level of assurance of ‘substantial’ I have taken into account the results of all individual audit assignments and any follow up reviews. The following table summarises the assurance opinions from Annex 2.

Assurance Level	Number of Audits
Full	22
Substantial	8
Reasonable	1
Limited	0
Minimal	0

3.4 Assurance levels on the Council’s key financial systems are consistently good. Reviews on all systems has been completed and all audit reports issued with full assurance levels.

3.5 Work carried out on risk management, council policies, etc. are key elements of the Council’s governance arrangements and the main messages arising from this work have been incorporated in the corporate governance review and Annual Governance Statement.

3.6 In the majority of audit work undertaken during the year we did not identify any significant control weaknesses.

4 QUALITY MONITORING

4.1 Customer satisfaction with internal audit work is judged through auditee’s responses to a customer feedback questionnaire sent out following the completion of the majority of audit assignments. The questionnaire seeks views, expressed as scores on a range from 1 to 5, on 12 aspects of the audit, covering communication, consultation, conduct and reporting.

Summary results from questionnaires returned over the last twelve months are shown at Annex 3.

- 4.2 The summary shows the average scores obtained from returned surveys. Against a target level of 4 for all aspects of the audit, the majority of questionnaires returned a higher than average score.

5 UPDATE ON RED RISKS

Clitheroe Market Redevelopment

- 5.1 Latest position – detailed discussions with Barnfield Construction continue to take place regarding the scheme. Further revisions have been undertaken by the developer following the most recent meeting with them to reflect the issues raised and these were presented to the Market Working Group at the end of March.

6 CONCLUSION

- 6.1 Internal audit have reviewed the effectiveness of the Council's systems of internal control for 2017/18 having regard to appropriate assurances obtained from other internal sources. The opinion based on this work, is that the Council's systems of internal control are generally sound and effective.

PRINCIPAL AUDITOR

DIRECTOR OF RESOURCES

AA6-18/MA/AC
3 April 2018

BACKGROUND PAPERS: None

For further information please ask for Mick Ainscow.

Annex 1

2016/17 Planned Days	Audit	Actual days to 31/03/18	Status as at 31/03/2018
<i>Fundamental (Main) Systems</i>			
25	Main Accounting	25	✓
20	Creditors	25	✓
20	Sundry Debtors	20	✓
30	Payroll and HR	30	✓
40	Council Tax	40	✓
40	Housing Benefits/CT Support	40	✓
40	NNDR/Business Rates Pooling	40	✓
15	Cash Receipting	15	✓
230		235	
<i>Other Systems Work</i>			
15	VAT	15	✓
12	Treasury Management	12	✓
15	Procurement	15	✓
20	Business Continuity	0	c/f to 2018/19
12	Asset Management	12	✓
74		54	
<i>Probity and Regularity</i>			
3	Joiners Arms Homeless Unit	4	✓
5	Members Allowances	5	✓
15	Recruitment/Safeguarding Arrangements	16	✓
15	Insurance	15	Testing completed
5	Land Charges	5	✓
12	Fees and Charges/Cash Collection Procedures	12	✓
12	Health and Safety	16	✓
10	Car Parking	10	✓
5	VIC/Platform Gallery	6	✓
12	Trade and Domestic Refuse Collection	12	✓
15	Externally contracted Provision of RVBC Services	15	✓
10	Environmental Health	10	✓
15	Transparency/Open Data	15	Testing completed
5	Healthy Lifestyles/Up and Active	5	✓
5	Ribblesdale Pool	5	✓
5	Museum/Café	5	✓
12	Partnership Arrangements	12	Awaiting further information to complete testing

2016/17 Planned Days	Audit	Actual days to 31/03/18	Status as at 31/03/2018
12	Grants received	12	✓
12	Grants paid	12	✓
12	Data Protection	10	Final Testing
15	Section 106 Agreements/Planning Enforcement	13	Awating further information to complete testing
10	Building Control	10	✓
10	Flexitime System	10	✓
10	Planning Applications	10	✓
242		245	
<i>Continuous Activity/Ongoing Checks</i>			
12	Income Monitoring	12	∞
25	Contingencies/unplanned work	25	Driving Licence/Car Insurance Check, Election Duties and Jury Service
15	Risk Management	15	∞
20	Corporate Governance	20	∞
5	Performance Indicators	5	∞
40		40	
30	Insurance	40	∞
20	Training	22	∞
673		673	

Key:



Completed



In progress



Continuous Activity

Not started

No work has been undertaken during the year on these audits.

Internal Audit- Assurance Opinion Results 2017/18

AUDIT	ASSURANCE LEVEL
Insurances/Driving Licences	Substantial ✓ ✓
Healthy Lifestyles	Full ✓ ✓ ✓
Procurement	Full ✓ ✓ ✓
Fees and Charges	Substantial ✓ ✓
Car parking	Full ✓
Grants	Substantial ✓ ✓
Members Allowances	Substantial ✓ ✓
Flexitime System	Full ✓ ✓ ✓
Museum/Café	Full ✓ ✓ ✓
Environmental Health Income	Substantial ✓ ✓
Asset Management	Full ✓ ✓ ✓
Land Charges	Substantial ✓ ✓
Ribblesdale Pool	Full ✓ ✓ ✓
Housing Benefits System	Full ✓ ✓ ✓
Cash Receipting, Banking and Collection	Full ✓ ✓ ✓
Trade and Domestic Refuse Collection	Full ✓ ✓ ✓
Payroll System	Full ✓ ✓ ✓
Treasury Management	Full ✓ ✓ ✓
Recruiting/Safeguarding Arrangements	Full ✓ ✓ ✓
Creditors System	Full ✓ ✓ ✓
Sundry Debtors System	Full ✓ ✓ ✓
VAT	Full ✓ ✓ ✓
Council Tax System	Full ✓ ✓ ✓
NNDR System	Substantial ✓ ✓
Building Control	Full ✓ ✓ ✓
Main Accounting System	Full ✓ ✓ ✓
Planning Applications	Full ✓ ✓ ✓
Health and Safety	Reasonable ✓
Externally Contracted Provision of RVBC Services	Full ✓ ✓ ✓
Homelessness	Full ✓ ✓ ✓
Platform Gallery/VIC	Substantial ✓ ✓

Annex 3

Question	Audit Carried Out									
	Healthy Lifestyles	Procurement System	Car Parking	Env Health Income	Land Charges	Ribblesdale Pool	Housing Benefits System	Treasury Management	Building Control	Planning Applications
Sufficient notice given to arrange the visit (not applicable for unannounced visits)	5	5	5	5	5	5	5	4	5	5
A briefing sheet sent prior to audit commencing and any comments/ requests were taken into account during the audit	5	5	5	5	5	5	5	4	5	5
The auditors understanding of your systems and any operational issues	5	4	3	5	4	4	5	4	3	4
The audit carried out efficiently with minimum disruption	5	4	3	5	5	5	5	5	4	5
The level of consultation during the audit	5	4	4	5	5	4	5	4	5	5
The audit was carried out professionally and objectively	5	5	5	5	5	5	5	4	5	4
The draft report addressed the key issues and was soundly based	5	5	5	5	5	5	5	4	4	4
Your opportunity to comment on findings	5	5	5	5	5	5	5	5	5	5
The final report in terms of clarity and conciseness	5	5	5	5	5	5	5	5	4	5
The prompt issue of final report	5	4	5	5	5	5	5	5	4	3
The recommendations will improve control and/or performance	5	4	4	4	5	5	5	4	3	3
Audit was constructive and added value overall	5	4	4	4	5	5	5	3	4	4
Average	5	4.5	4.4	4.8	4.9	4.8	5	4.3	4.2	4.3

Audit Progress Report and Sector Update

Ribble Valley Borough Council
Year ending 31 March 2018

March 2018



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Introduction

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

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

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

Progress at March 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January 2018. Our interim fieldwork visit includes:

- 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

The findings from our interim audit are summarised at page 6 to 8.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin in June 2018 with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

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

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

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

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

We made our initial risk assessment to determine our approach in December 2017 and reported this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers in January as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in January to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	February 2018	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

Results of Interim Audit Work

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

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

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to impact adversely on the Council's financial statements.</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our walkthroughs have covered key areas for the audit including property, plant & equipment (PPE), employee remuneration, and operating expenses.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

	Work performed	Conclusions and recommendations
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has not identified any weaknesses which impact on our planned audit approach. More detailed testing and identification of any large and unusual journals will be carried out as part of the final accounts visit.
Early Substantive Testing	We have carried out substantive testing of Operating Expenses as part of the interim visit. We have also obtained and reviewed the documentation in relation to council tax precepts and other grant and revenue streams.	Our work and testing to date has not identified any weaknesses which impact on our planned audit approach, or that we need to bring to your attention.

Sector Update

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

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

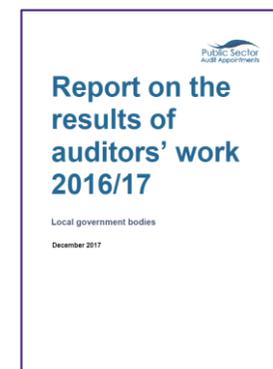
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIFFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your Director of Resources or Finance Team briefed members on the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn.

The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your Director of Resources briefed members on the impact of the changes to the prudential code?

Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

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<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

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RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 7

meeting date: 11 APRIL 2018
title: PRUDENTIAL CODE CHANGES
submitted by: DIRECTOR OF RESOURCES
principal author: LAWSON ODDIE

1 PURPOSE

1.1 To provide those members charged with Governance with information on the recent changes to the Prudential Code.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – none identified
- Corporate Priorities - to continue to be a well-managed Council providing efficient services based on identified customer need. To meet the objective within this priority, of maintaining critical financial management controls, ensuring the authority provides council tax payers with value for money.
- Other Considerations – none identified.

2 WHAT IS THE PRUDENTIAL CODE

2.1 Key to the current system of capital finance is CIPFA's Prudential Code. It is a professional code of practice to support the decisions councils have to make to plan for capital investment at a local level and encompasses the accompanying requirements of the statutory Guidance on Local Government Investments as issued by the Secretary of State (Annex 1).

2.2 Councils are required by regulation to have regard to the Prudential Code when carrying out their duties under Part I of the Local Government Act 2003.

2.3 The code applies to all local authorities, including police, fire and other authorities defined in the enabling primary legislation.

2.4 The key objectives of the code are:

- to ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable
- that treasury management decisions are taken in accordance with good professional practice
- that local strategic planning, asset management planning and proper option appraisal are supported; and
- to provide a clear and transparent framework to ensure accountability.

2.5 In order to demonstrate that we have fulfilled the objectives of the Prudential Code, we are required to prepare, monitor and report on a number of indicators. These have to be set annually on a three year basis as a minimum and are designed to support and record local decision-making, rather than be a means of comparing authorities.

2.6 Prior to review of the Prudential Code, the indicators that have to be set and monitored relate to:

- External Debt (Authorised Limit, Operational Boundary and Actual External Debt)

- Financing Cost to Net Revenue Stream
- Capital Financing Requirement
- Capital Expenditure
- Impact of Capital Investment Decisions on Council Tax
- Gross Debt and Capital Financing Requirement
- Gross and Net Debt
- Interest Rate Exposures
- Maturity Structure of Borrowing
- Principal Sums Invested for Greater than 364 Days
- Formal Adoption of the CIPFA Treasury Management Code of Practice

3 WHY HAS THE PRUDENTIAL CODE CHANGED?

3.1 There have been many changes in Local Government since the production of the initial Prudential Code, particularly around austerity and commercialism. The potential risks from both these areas have been recognised as particularly concerning by CIPFA.

3.2 When CIPFA were reviewing the Prudential Code last year, they saw that it was important to ensure that the changes were there to strengthen and improve the existing framework and that any changes within public sector service delivery and processes continued to reflect transparency, accountability and good decision making.

3.3 The Prudential Code plays a pivotal role in providing assurance that the decisions made around capital finance have at their heart the principles of:

- Affordability
- Sustainability
- Prudence

3.4 The Code framework aims to be structured in a way that is flexible enough to support innovation, but to be durable enough to essentially provide assurance for those who operate within its principles and those who oversee that activity.

4 WHAT HAS CHANGED WITH THE REVIEW OF THE PRUDENTIAL CODE?

Capital Strategy

4.1 Key developments for the new version of the Code include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

4.2 The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. As with many authorities, being a new requirement, this is not a formal strategy that is currently produced.

4.3 However, many of the elements that would be included in such a strategy are already considered at many of the stages that we currently follow in setting our capital programme.

4.4 The capital strategy must form part of our integrated revenue, capital and balance sheet planning – so key to the production of our budgets. The strategy must also set out the long term context in which our capital expenditure and our investment decisions are

made. As a result there will be links where appropriate from this strategy to our Treasury Management Strategy.

4.5 The strategy must also reflect on risk and reward and the impact on the achievement of our priorities. The Director of Resources must also report explicitly on deliverability, affordability and risk associated with the Capital Strategy.

4.6 Below is a summary of the main sections that would be anticipated in a Capital Strategy going forward

- **Capital Expenditure**

- Governance
- Long term plans
- Asset management planning
- Restrictions around funds

- **Investments and liabilities**

- Approach, due diligence, risk appetite
- Governance process for approval and monitoring
- Summary of material investments, guarantees and liabilities

- **Treasury management**

- Governance
- Long term planning including MRP
- Risk appetite, key risks and sensitivities

- **Skills and knowledge**

4.7 Our Capital Strategy will be developed over the coming months and brought back to committee for approval in order to play a role going forward.

Adoption of CIPFA's Treasury Management Code

4.8 The new Code has removed the requirement for us to state that we have adopted CIPFA's Treasury Management Code.

4.9 This is not a change to diminish the gravity of the Treasury Management Code, but more to reflect that in reality we have no option other than to adopt CIPFA's Treasury Management Code, and so does not need to be specifically stated in any policy.

Principles Apply to Mayors, Combined Authorities and Group Entities

4.10 The new Code has made specific reference and given clarification that the principles of the Prudential Code also apply to Mayors, Combined Authorities and Group Entities.

Requirement to Consider Explicitly Separate Ring-Fenced Funding streams

4.11 Where ringfenced resources or separate funds exist, affordability must be considered only against those resources available to fund borrowing.

4.12 Under combined authority arrangements affordability may need to be considered against combined authority resources and the impact on underlying authorities. Where debt or guarantees relating to local enterprise partnerships (LEPs), subsidiaries or other corporate and non-corporate bodies exist, the impact on the council should be considered.

Deletion of Council Tax Indicator

- 4.13 Previously the Code required that we forecast the potential impact of our capital programme decisions on the council tax level. This indicator gave a forecast financial value per Band D property.
- 4.14 It has been recognised that this does not necessarily link to the decision making processes taken in setting the council tax level and has therefore been removed from the Code.

Other Matters

- 4.15 Other changes had been proposed on drafts of the new Prudential Code, however, these have not been taken forward in to the final version.
- 4.16 It does not include an explicit ban on borrowing for profit-making investment, as had previously been proposed. However, it is understood that there are likely government moves to prevent councils using loans to fund out-of-area property investments. There has recently been growing concern in the Treasury about the scale of council borrowing to fund commercial investments.
- 4.17 The Code includes the statement that councils “must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”.
- 4.18 The government’s Local Authority Investment Code stipulates that where a local authority chooses to disregard the Prudential Code and Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed, the Treasury Management Strategy should explain:
- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
 - The local authority’s policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.
- 4.19 The government’s Local Authority Investment Code also states that where a local authority classifies an investment as contributing to regeneration or local economic benefit, it should be able to demonstrate that the investment forms part of a project in its Local Plan.

5 CONCLUSION

- 5.1 There have been a number of changes to the Prudential Code in this latest review by CIPFA in order to better reflect the current landscape that we operate in of austerity and commercialism.
- 5.2 Risk is a key factor under the Code and this is reflected in other moves to ensure considerations around return on rental yields and borrowing to support such ventures.
- 5.3 The changes to the Prudential Code have other consequential impacts on the CIPFA Treasury Management Code. These have been reflected in our updated Treasury Management Strategy and Treasury Management Policies and Practices, as approved by Policy and Finance Committee at their last meeting on 20 March.

HEAD OF FINANCIAL SERVICES
AA9-18/LO/AC
3 April 2018

DIRECTOR OF RESOURCES

STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

(3rd Edition)

Issued under section 15(1)(a) of the *Local Government Act 2003* and effective for financial years commencing on or after 1 April 2018

POWER UNDER WHICH THE GUIDANCE IS ISSUED

1. The following Guidance is issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003*. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

DEFINITION OF TERMS

2. In this guidance the **2003 Act** means the *Local Government Act 2003*.
3. **Local authority** has the meaning given in section 23 of the *2003 Act*. To the extent that this guidance applies to parish councils and charter trustees (see paragraph 11) a reference to a local authority includes those councils and trustees.
4. The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.
5. For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include *pension funds* or *trust fund investments*, which are subject to separate regulatory regimes and therefore are not covered by this guidance.
6. A **credit rating agency** is one of the following three companies:
 - Standard and Poor’s;
 - Moody’s Investors Service Ltd; and
 - Fitch Ratings Ltd.
7. For the purposes of this guidance a **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

8. The **Treasury Management Code** means the statutory code of practice issued by CIPFA: *“Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition”*.
9. The **Prudential Code** means the statutory code of practice, issued by CIPFA: *“The Prudential Code for Capital Finance in Local Authorities, 2017 Edition”*.
10. The **Capital Strategy** is the strategy required by the updates to the Prudential Code and Treasury Management Code.

APPLICATION

Effective date

11. This guidance applies for financial years commencing on or after 1 April 2018. It supersedes all previous editions of the Statutory Guidance on Local Authority Investments.
12. Strategies presented to Council or equivalent before 1 April 2018 but relating to 2018-19 and future financial years do not need to include all of the additional disclosures required by this edition of the guidance should it not prove practical or cost effective to do so. If a local authority chooses not to include the new disclosures in its 2018-19 Strategy, it must include the disclosures in full in the first Strategy presented to full Council or equivalent after 1 April 2018.

Local authorities

13. This guidance applies to all local authorities in England.
14. This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

KEY PRINCIPLES

Transparency and democratic accountability

15. For each financial year, a local authority should prepare at least one Investment Strategy (“the Strategy”). The Strategy should contain the disclosures and reporting requirements specified in this guidance.
16. The Strategy should be approved by the full council. For authorities without a full Council, the Strategy should be approved at the closest equivalent level. The

Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year.

17. Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.

18. The Strategy should be publicly available on a local authority's website. Where a parish council or charter trustee does not maintain its own website, they should post a public notice detailing how local residents can obtain a copy of the Strategy, free of charge.

19. Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Strategy can be published in those documents instead of in the Strategy.

Contribution

20. Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other investments.

21. Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance.

22. Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority. It is for each local authority to define the types of contribution that investments can make and a single investment can make more than one type of contribution.

Use of indicators

23. The Strategy should include quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return

received. Where investment decisions are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on.

24. Local authorities should consider the most appropriate indicators to use, given their risk appetite and capital and investment strategies. Whilst this guidance does not prescribe specific indicators or thresholds, the indicators used should be consistent from year to year and should be presented in a way that allows elected members and the general public to understand a local authorities' total risk exposure from treasury management and other types of investment.

25. Where a local authority has entered into a long term investment or has taken out long term debt to finance an investment the indicators used should allow Councillors and the general public to assess the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out.

Security, Liquidity and Yield

26. A prudent investment policy will have two underlying objectives:

- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed.

27. The generation of **yield** is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with these priorities.

28. When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance.

29. When entering into other types of investments local authorities should consider the balance between security, liquidity and yield based on their risk appetite and the contribution(s) of that investment activity.

Security

Financial Investments

30. Financial investments can fall into one of three categories:

- **Specified investments**;
- **Loans**; and
- Other **Non-specified investments**.

Specified Investments

31. An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended]*.
- The investment is made with a body or in an investment scheme described as high quality (see paragraph 33 or with one of the following bodies:
 - i. The United Kingdom Government;
 - ii. A local authority in England or Wales (as defined in section 23 of *the 2003 Act*) or a similar body in Scotland or Northern Ireland; or
 - iii. A parish council or community council.

32. For the purposes of paragraph 32 the Strategy should define high credit quality. Where this definition incorporates ratings provided by credit rating agencies paragraph 42 is relevant.

Loans

33. A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

34. Local authorities can make such loans whilst continuing to have regard to this guidance if they can demonstrate in their Strategy that:

- Total financial exposure to these type of loans is proportionate;
- They have used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9 *Financial Instruments* as adopted by proper practices to measure the credit risk of their loan portfolio;
- They have appropriate credit control arrangements to recover overdue repayments in place; and
- The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

Non-specified investments

35. A non-specified investment is any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment.
36. For non-specified investments (i.e. those not meeting the criteria in paragraph 31), the Strategy should:
- Set out procedures for determining which categories of investments may be prudently used (and where these procedures involve the use of credit ratings, paragraph 32 is relevant).
 - Identify which categories of investments have been defined as suitable for use.
 - State the upper limits for the maximum amounts both individually and cumulatively that may be held in each identified category and for the overall amount held in non-specified investments and confirm that investments made have remained within those limits.

Non-financial investments

37. As defined in paragraph 4 of this guidance non-financial investments are non-financial assets that the organisation holds primarily or partially to generate a profit. Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. Local authorities should consider whether the asset retains sufficient value to provide security of investment using the fair value model in *International Accounting Standard 40: Investment Property* as adapted by proper practices.
38. Where the fair value of non-financial investments is sufficient to provide security against loss, the Strategy should include a statement that a fair value assessment has been made within the past twelve months, and that the underlying assets provide security for capital investment.
39. Where the fair value of non-financial investments is no longer sufficient to provide security against loss, the Strategy should provide detail of the mitigating actions that the local authority is taking or proposes to take to protect the capital invested.
40. Where a local authority recognises a loss in the fair value of a non-financial investment as part of the year end accounts preparation and audit process, an updated Strategy should be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk Assessment

41. The Strategy should state the local authority's approach to assessing risk of loss before entering into and whilst holding an investment, making clear in particular:

- How it has assessed the market that it is/will be competing in, the nature and level of competition, how it thinks that the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements.
- Whether and, if so how, a local authority uses external advisors be they treasury management advisors, property investment advisors or any other relevant persons.
- How the local authority monitors and maintains the quality of advice provided by external advisors.
- To what extent, if at all, any risk assessment is based on credit ratings issued by credit ratings agencies.
- Where credit ratings are used, how frequently they are monitored and the procedures for taking action if credit ratings change.
- What other sources of information are used to assess and monitor risk.

Liquidity

42. For financial investments that are not treasury management investments or loans the Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed and state what those maximum periods are and how the local authority will stay within its stated investment limits.
43. For non-financial investments the Strategy should set out the procedures for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed. It should also state the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions. Where local authorities hold non-financial investment portfolios they can choose to assess liquidity by class of asset or at a portfolio level if appropriate.

Proportionality

44. Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.
45. The assessment of dependence on profit generating investments and borrowing capacity allocated to funding these should be disclosed as a minimum over the life-cycle of the Medium Term Financial Plan. However, an assessment of longer term risks and opportunities is recommended.

Borrowing in advance of need

46. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.
47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:
- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
 - The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

Capacity, skills and culture

48. The Strategy should disclose the steps taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.
49. The Strategy should disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.
50. Where appropriate the Strategy should comment on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

ANNEX A – INFORMAL COMMENTARY ON THE STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

Power under which this Guidance is issued [paragraph 1]

1. The **Local Government Act 2003**, section 15(1), requires a local authority "...to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify...".
2. The guidance on investments in the main part of this document is issued under section 15(1) of the 2003 Act and authorities are therefore required to have regard to it. This part (**Annex A**) contains an informal commentary ("the commentary") on the Statutory Guidance.
3. Two codes of practice issued by the *Chartered Institute of Public Finance and Accountancy* (CIPFA) contain investment guidance which complements the MHCLG guidance. These publications are:
 - *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*
 - *The Prudential Code for Capital Finance in Local Authorities*
4. Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] as amended*.

Objectives in updating the Guidance

5. The 2nd edition of this Guidance, which was issued in 2010, reflected concerns raised by the CLG and Treasury Select committees as part of their enquiries into the financial crash of 2007-8. The key areas of focus were:
 - The practice of investing for yield, especially in Icelandic Banks;
 - The need for transparent investment strategies; and
 - The use of Treasury Management advisors.
6. The changes made to the 3rd edition of this Guidance reflect changes in patterns of local authority behaviour. Some local authorities are investing in non-financial assets, with the primary aim of generating profit. Others are entering into very long term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects that are in line with their wider role for regeneration and place making.

7. In addition, the National Audit Office and the Public Accounts Committee have raised a number of concerns about local authority behaviour that this guidance aims to address. These are:

- Local authorities are exposing themselves to too much financial risk through borrowing and investment decisions;
- There is not enough transparency to understand the exposure that local authorities have as a result of borrowing and investment decisions; and
- Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

Effective Date [paragraphs 11-12]

8. This Guidance applies from 1 April 2018. It supersedes all previous editions of the Guidance.

9. The Guidance requires local authorities to produce a number of additional disclosures. Many local authorities already produce these as part of internal reporting and risk management procedures. However, if these disclosures are not currently produced, then local authorities do not need to prepare them in full for Strategies presented to full Council or equivalent before 1 April 2018. Those local authorities who do not include the required disclosures in their 2018-19 strategies, should present them for approval the first time the relevant Strategy is updated or superseded.

Local Authorities [paragraphs 12-13]

10. This Guidance applies to all local authorities, who hold or during the next financial year intend to hold financial or non-financial investments, solely or in part to generate revenue income.

11. It applies to parish councils whose investments exceed the thresholds set out in paragraph 14. The decision to lower the financial threshold for parish councils has been taken in recognition that some parishes have begun to engage in commercial ventures. As parish councils tend to be fairly small and to obtain a greater percentage of their funding directly from council tax payers than other types of local authority, it is right that they demonstrate that they have carefully considered the expertise that they need to manage the risks arising from their strategy.

Transparency and democratic accountability [paragraphs 15-19]

12. The Government believes that local authorities need to be better at explaining “why” not just “what” they are doing with their investment activity. That means that the sector needs to demonstrate more transparency and openness and to

make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

13. The additional disclosures required by the Guidance should be included in a single document presented to full Council or the equivalent. Although the Guidance refers to an Investment Strategy, providing that all of the disclosures are easy for interested parties to find and are in or linked from a single document, a separate Strategy does not need to be prepared. The Strategy should be updated at least annually.
14. Subject to the provisions in paragraph 35 and 36 of the commentary, local authorities can exclude specific non-financial investments from the required disclosures on grounds of commercial confidentiality. The Government expects that non-disclosure on grounds of commercial confidentiality will be an exceptional circumstance. A local authority should only determine that it would breach commercial confidentiality to include an investment in the disclosures on receipt of appropriate professional advice, using the same criteria as would be used to exclude the public from a Council meeting. Local authorities should reassess whether the commercial confidentiality test is met every time a new Strategy is presented to full Council or the equivalent.
15. Under Regulation 17 of the *The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012* as amended overview and scrutiny committee members have right of access to any confidential information relating to any decision by any committee or any member of the executive of their council. Nothing in this Guidance has the power to override this regulation.
16. Assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the *Local Government Act 2003* should not be classified as non-financial investments for this purpose.
17. If disclosures are already produced in another document that is publicly available then a local authority can provide a link to the disclosures from the Strategy rather than reproducing them. The exception is disclosures contained in the Statutory Accounts, which do not meet the requirements of this Strategy. This is because local authority statutory accounts can be complex and difficult for users who are not familiar with local government accounting to understand and statutory accounts are prepared to a higher level of materiality than local authorities should use for internal risk management.

Contribution [paragraphs 20-22]

18. Local authorities may have several different objectives, when deciding to acquire an asset. If an asset is not solely held for yield, then a local authority may have a different risk appetite or be willing to accept a lower return than it otherwise would.

19. Each local authority should determine how it categorises different types of contribution, and each investment can have more than one type of contribution. A non-exhaustive list of types of contribution include:

- Yield/profit
- Regeneration
- Economic benefit/business rates growth
- Responding to local market failure
- Treasury management

20. Where a local authority classifies an investment as contributing to regeneration or local economic benefit, it should be able to demonstrate that the investment forms part of a project in its Local Plan.

Use of indicators [paragraphs 23-25]

21. Local authorities should present a range of indicators to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. The indicators should cover both the local authority's current position and the expected position assuming all planned investments for the following year are completed. The indicators do not need to take account of Treasury Management investments unless these are expected to be held for more than 12 months.

22. The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. We recommend that, the indicators in the table below are used. Where local authorities have a different risk appetite or different expectation of returns depending on the contribution(s) each type of investment makes, they should consider presenting the indicators, classified by type of contribution or risk appetite.

Debt to net service expenditure (NSE) ratio	<i>Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>
Commercial income to NSE ratio	<i>Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.</i>
Investment cover ratio	<i>The total net income from property investments, compared to the interest expense.</i>
Loan to value ratio	<i>The amount of debt compared to the total asset value.</i>
Target income returns	<i>Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.</i>
Benchmarking of returns	<i>As a measure against other investments and against other council's property portfolios.</i>
Gross and net income	<i>The income received from the investment portfolio at a gross level and net level (less costs) over time.</i>
Operating costs	<i>The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.</i>
Vacancy levels and Tenant exposures for non-financial investments	<i>Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.</i>

23. Where appropriate, local authorities should consider including targets or limits set by members alongside the outturn. Where there has been a significant change in year on year performance against any of the indicators presented local authorities should include an explanation in the Strategy.

24. Local authorities can choose to present additional indicators in the Strategy should they believe that it would enhance understandability and transparency to do so.

Security, liquidity and yield [paragraphs 26-29]

25. For treasury management and other financial investments local authorities should continue to prioritise **SECURITY, LIQUIDITY** and **YIELD** in that order of importance.

26. Whilst consideration of **security** and **liquidity** is important for loans and non-financial investments, the relative balance between objectives may be different depending on the nature and objectives in making a specific investment.

Security and liquidity

Loans [paragraphs 33 – 34, 40]

27. Loans to joint ventures, local SMEs or third sector bodies, and wholly owned companies fall within the scope of the Guidance. When considering security and liquidity of loans local authorities should set limits for their total exposure and apply the expected loss model in line with the requirements of *IFRS 9 Financial Instruments*.

Non-financial investments [paragraphs 37-40, 43]

28. Where a local authority has a non-financial investment, it will have an asset that can be realised to recoup the sums invested. Therefore, the Guidance requires local authorities to consider security by reference to the value of the asset relative to purchase price and to set out the plans to recoup the investment if realising the asset would not recoup the sums invested. In the period immediately after purchase, it is normal for the directly attributable costs of purchasing a non-financial investment to be greater than the realisable value of the asset. In this scenario, all the Strategy needs to disclose is how long the local authority expects it to take for the increase in asset values to provide security for the sums invested and the assumptions underpinning that expectation.

29. Non-financial investments are by their nature illiquid. However, this does not mean that the local authority does not need to plan for realising a part of its non-financial investment portfolio, for example to repay debt. The liquidity of the non-financial investment portfolio should be considered over the repayment period of any debt taken out to acquire assets, which could be very long term. Given current trends such as the scale and pace of technology driven change, there is no guarantee that non-financial investments will continue to deliver value over their lifetime. To manage this risk, local authorities need to have plans to realise the capital tied up in non-financial investments if required. In addition, the Strategy should consider the trade-offs between accepting capital loss and refinancing debt incurring additional debt servicing costs by doing so, if appropriate.

Proportionality [paragraphs 44-45]

30. Local authorities need to consider the long term sustainability risk implicit in becoming too dependent on commercial income or in taking out too much debt relative to net service expenditure.

31. In addition, whilst under statute, local authority debt is secured on the revenues of that authority, in practice, there is no realistic prospect of the revenues of any local authority being sufficient to pay back debt equating to many multiples of the sum of NNDR and Council Tax Income, without a pervasive and long term impact on service delivery. It is unclear whether local authorities who have adopted a debt financed commercial investment strategy have realistic plans to manage failure. Whilst the Government recognises the importance of local authorities taking on debt to enhance service provision, irrespective of the source of finance, it does not believe that it should do the same for commercial investments.
32. For this reason, the Guidance introduces a new requirement that in every local authority, full council or its nearest equivalent, sets limits that cannot be exceeded for gross debt compared to net service expenditure, and for commercial income as a percentage of net service expenditure.
33. If a local authority has exceeded these limits through investments taken out prior to the introduction of this Guidance, it does not need to dispose of investments currently held. However, authorities who have exceeded their self-assessed limits should not enter into any further investments, irrespective of how these are financed, other than short term investments required for efficient treasury management.

Borrowing in advance of need [paragraphs 46-47]

34. The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The purpose of repeating that statement in this Guidance is to make it clear that it extends to borrowing taken on to finance the acquisition of non-financial as well as financial investments.
35. Local authorities can still finance the acquisition of financial on non financial investments from capital receipts generated from the sale of surplus assets. However, they should not repurpose receipts allocated to the acquisition of assets that contribute to service delivery to fund the purchase of investments, solely to avoid the requirements against borrowing in advance of need.
36. If exceptionally a local authority, chooses not to have regard to the provision on borrowing to fund investment activity the Guidance requires them to explain, in their Strategy, the rationale for this decision.
37. The purpose of this disclosure is to allow external auditors, tax payers and other interested parties to understand why the local authority has chosen to disregard

the Guidance, and to hold the authority to account should they believe there is not sufficient reason for doing so.

Capacity, Skills and Culture [paragraphs 48-50]

38. In the Public Accounts Committee report of 18 November 2016¹, members raised concerns that, locally elected members may not always have the background and expertise to understand the risks associated with the decisions that they are being asked to make. For this reason the Guidance extends the requirements on capacity and skills to members and any statutory officers involved in or responsible for signing off on investment decisions.
39. Members do not necessarily need formal training in understanding investment risks to satisfy the requirements of the Guidance. Depending on their level of expertise a presentation setting out the risks and opportunities of an investment strategy/specific investment in terms a layman would understand, may be sufficient to meet the new requirements.
40. The Government is aware that many local authorities have brought in outside expertise to identify and negotiate investment opportunities. Whilst this can be an effective method of risk management, it is important that those negotiating deals understand that they are not operating in a purely commercial environment and that the prime purpose of a local authority is to deliver statutory services to local residents. Therefore, the Strategy should comment on how they have been made aware of this.

¹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/financial-sustainability-local-authorities-16-17/>

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 8

meeting date: 11 APRIL 2018
title: GENERAL DATA PROTECTION REGULATION (GDPR)
submitted by: DIRECTOR OF RESOURCES
principal author: LAWSON ODDIE

1 PURPOSE

1.1 To provide members with details of the new requirements under GDPR for discussion.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – none identified
- Corporate Priorities - to continue to be a well-managed Council providing efficient services based on identified customer need.
- Other Considerations – none identified.

2 BACKGROUND

2.1 Currently, all organisations in the UK that collect, process or store personal information must comply with the Data Protection Act 1998 (DPA), or face fines of up to £500,000 in the event of a data breach.

2.2 The DPA will soon be superseded by the EU General Data Protection Regulation (GDPR), which introduces tougher fines for non-compliance and breaches, and gives people more say over what companies can do with their data. It also makes data protection rules more or less identical throughout the EU.

2.3 The EU's General Data Protection Regulation (GDPR) is the result of four years of work by the EU to bring data protection legislation into line with new, previously unforeseen ways that data is now used.

2.4 The GDPR will apply in the UK from 25 May 2018. The government has confirmed that the UK's decision to leave the EU will not affect the commencement of the GDPR.

3 REQUIREMENTS AND RIGHTS UNDER GDPR

3.1 Like the Data Protection Act, GDPR applies to 'personal data'. However, the GDPR's definition is more detailed and expansive providing a wide range of personal identifiers that constitute personal data, reflecting the changes in technology and the way organisations collect information about people. Attached at Annex 1 is a useful guide.

3.2 It can be assumed that any data held that falls within the scope of the Data Protection Act will also fall within the scope of GDPR. It not only applies to electronic personal data but to manual filing systems.

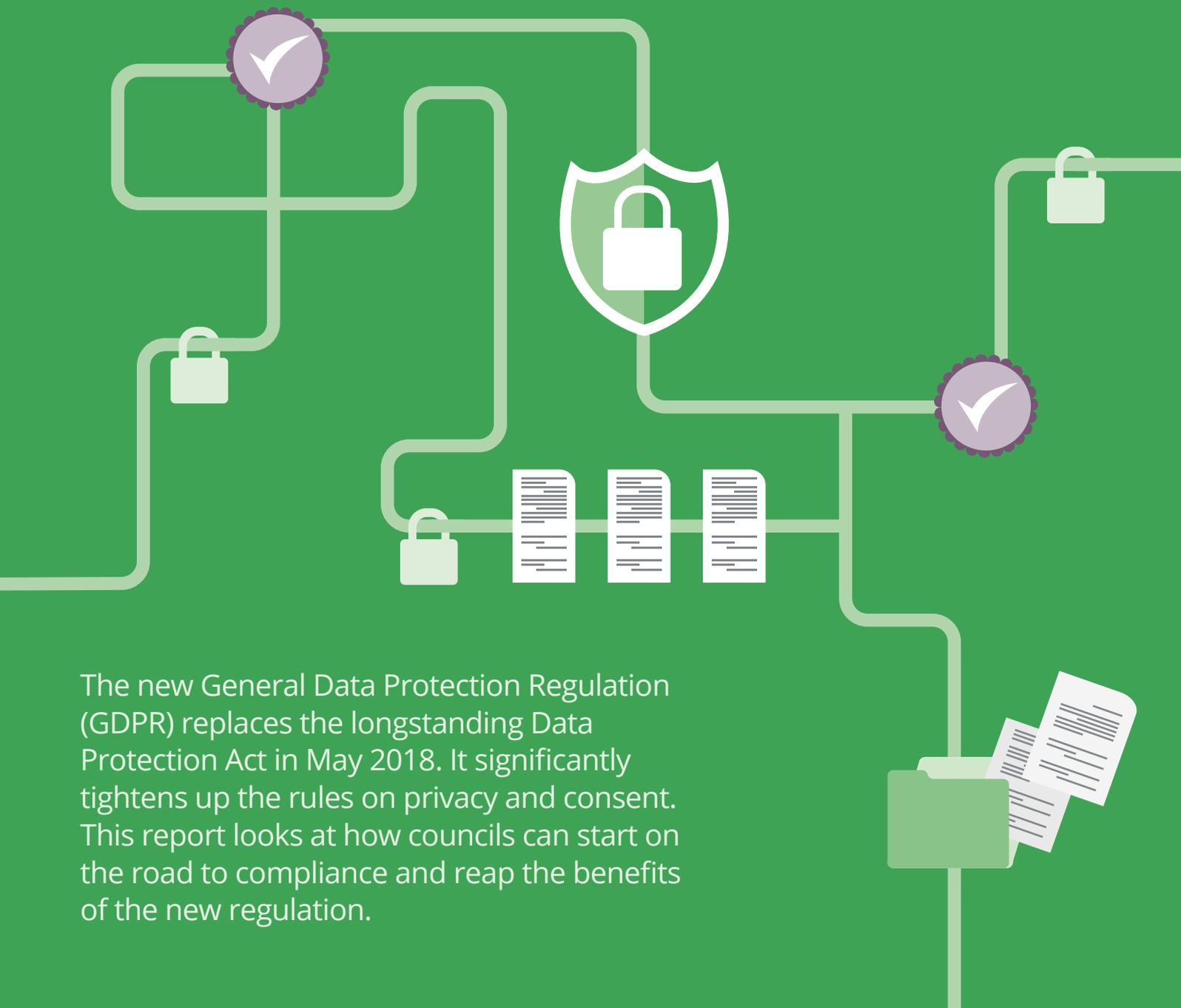
3.3 The data protection principles under GDPR set out the main responsibilities for organisations. The principles are similar to the current DPA principles (fair and lawful, purpose, adequacy, retention, right, security, international), with added detail at certain points and a new accountability requirement.

- 3.4 The accountability principle requires that the organisation put in place comprehensive but proportionate governance measures. Good practice tools that the ICO has championed for a long time such as privacy impact assessments and privacy by design are now legally required in certain circumstances.
- 3.5 The following procedures, policies and frameworks will become a requirement under GDPR and should minimise the risk of breaches and uphold the protection of personal data:
- Information Audit
 - Establish an information asset register
 - Privacy Impact Assessments
 - Documented procedures for Subject Access Request
 - Privacy by design
- 3.6 GDPR also creates some new rights for individuals and strengthens some that currently exist under the Data Protection Act.
- The right to be informed
 - The right of access
 - The right to rectification
 - The right to erasure
 - The right to restrict processing
 - The right to data portability
 - The right to object
 - Rights in relation to automated decision making and profiling
- 3.7 A duty is placed on all organisations to report a data breach to the Information Commissioner's Officer (ICO) within 72 hours of the organisation becoming aware of it and to inform affected subjects as soon as possible.
- 3.8 The ICO will be supervisory authority for the UK. Under GDPR the ICO will have the power to spot audit organisations with little prior notice. If the ICO find that an organisation is not compliant to GDPR they have the power to fine and/or stop the organisation from processing personal data
- 3.9 Under the Data Protection Act the ICO could apply fines of up to £500,000. Under GDPR lesser incidents could expect fines of up to £7.9 million or 2 per cent of the organisations global turnover (whichever is greater). More serious violations could result in fines of up to £16 million or 4 per cent of turnover (whichever is greater).
- 4 CONCLUSION
- 4.1 The new GDPR requirements will apply in the UK from 25 May 2018.
- 4.2 There is a high level of workload in the short to medium term to ensure that we are compliant with the new requirements. It is possible that this high level of workload **may** continue longer term under GDPR.

HEAD OF FINANCIAL SERVICES
AA8-18/LO/AC
3 April 2018

DIRECTOR OF RESOURCES

Guide to GDPR for Local Government



Why the time to take action is now

The new General Data Protection Regulation increases individuals' rights on personal data and will be fully enforceable by May 2018.

The implications for councils are widespread. Soon, all UK public sector organisations will need to have consent or one of five other specific legitimate reasons to hold and process individuals' data, including all legacy data. GDPR also stipulates the right of citizens:

- to be forgotten
- to make subject access requests at any time
- to have their data protected by processes of encryption or pseudonymisation
- to prevent direct marketing
- to prevent automated decision-making and profiling, and
- to obtain and reuse any data held.

It's worth noting that these obligations are applicable to both data controllers and processors.

Time is now short. Among many other challenges, councils are facing a huge task auditing legacy data to find out where it all is and identify whether consent was granted correctly. They also need to delete records where it wasn't or where new consent can't be obtained. These are time consuming processes. Going forward, local authorities will also need to ensure that privacy is designed into processes and services by default. Overall,

this could significantly change the way councils want use personal data as part of the way they manage, analyse and deliver local services in the future.

However, this should not be seen as a bad thing.

In fact, councils should take the opposite view, because the changes that will need to be made will ultimately prove to be positive. GDPR, if implemented correctly and in the right spirit, will help councils to foster the public's trust in the way they work.

In the following pages, we explain how.



Sound, well-formulated and properly enforced data protection safeguards help mitigate risks and inspire public trust and confidence in how their information is handled by businesses, third sector organisations, the state and public service.

Information Commissioner's Office

The GDPR to-do list

GDPR compliance can at first seem daunting, but it becomes a lot easier with a clear view of what needs to be done and why. While this list is not exhaustive, these are the key areas that councils need to prioritise:

✓ Dealing with consent

One of the most pressing task for councils is the need to deal with the issue of consent. The regulation stipulates that anyone councils hold information on must give their explicit and 'informed' consent for their data to be retained for a set period of time and processed, which means the individual must be made aware of how their information is protected, what it's used for, and what the risks are.

There are a number of other hurdles to leap, because:

- this doesn't just apply to current or future data, which means councils are going to have to carry out a hefty data cleansing and consolidation programme.
- GDPR states that consent has to be specific, informed, unambiguous and freely given, which means that individuals cannot be chased or unduly pressed for their consent (councils will need to apply much rigour to this process, because records also need to

be kept to evidence that consents have been properly secured).

- they also need to consider the position of minors, because children under the age of 16 cannot give consent
- there are issues with 'sensitive personal data', which includes data revealing racial or ethnic origin, political opinions and so on. Councils, like any other organisation, will need explicit and specific consent for the exact purpose or purposes for which any of this sensitive personal data will be used.

Recommended action

It's clear that the issue of consent is the most labour intensive element of GDPR. As such, it should be your starting point.

✓ New privacy policy agreements

GDPR makes organisations responsible for giving people clear and adequate information about how their information will be protected. This means most will need to develop a new, much more user friendly Privacy Policy Agreement that is written in plain English.

Recommended action

Engage a combination of legal, digital and content expertise to ensure you deliver a policy in a format and language that is clear and compliant.

✓ The right to be forgotten

Under GDPR people have more power to withdraw their consent and get their data amended or deleted. In other words, they have the 'right to be forgotten'.

Recommended action

If you have cleansed and consolidated your data in order to manage consent better, this task will be easier. Councils should check as soon as possible whether the IT systems they use will actually allow the right to be forgotten to happen. Many systems don't, even some from leading vendors. If this is the case, councils should put pressure on their IT providers to include a 'right to be forgotten' facility in future upgrades.

✓ Subject access requests

GDPR gives individuals the right to make a subject access request at any time and get a response within one month. There's a big incentive to get this right, because it will make data management processes more efficient. If councils don't get this right, however, there is risk of considerable financial penalty.

Recommended action:

Look at ways to make the process efficient through automation or self-service ([see page 9](#)).

✓ Pseudonymisation and anonymisation of data

When councils are going through their data cleansing process, they will find that some of those records can't be deleted even if the subject has asked to 'be forgotten'. This might be for reasons of financial regulatory compliance, or for a number of other reasons where organisations can show they have 'legitimate' reason for retaining and processing the data. GDPR recommends that you will need to pseudonymise or anonymise the data you can't legitimately delete to be compliant.

Recommended action:

Pseudonymisation and anonymisation are time consuming, specialised processes. Many councils will probably need new systems or external help to carry them out.

✓ Appointing a DPO

GDPR will require councils to appoint a Data Protection Officer (DPO) to achieve compliance. GDPR specifies that DPOs are responsible for activities including monitoring compliance, educating staff on their responsibilities, providing advice on privacy impact assessments and co-operating wherever necessary with the relevant supervisory authority.

Recommended action

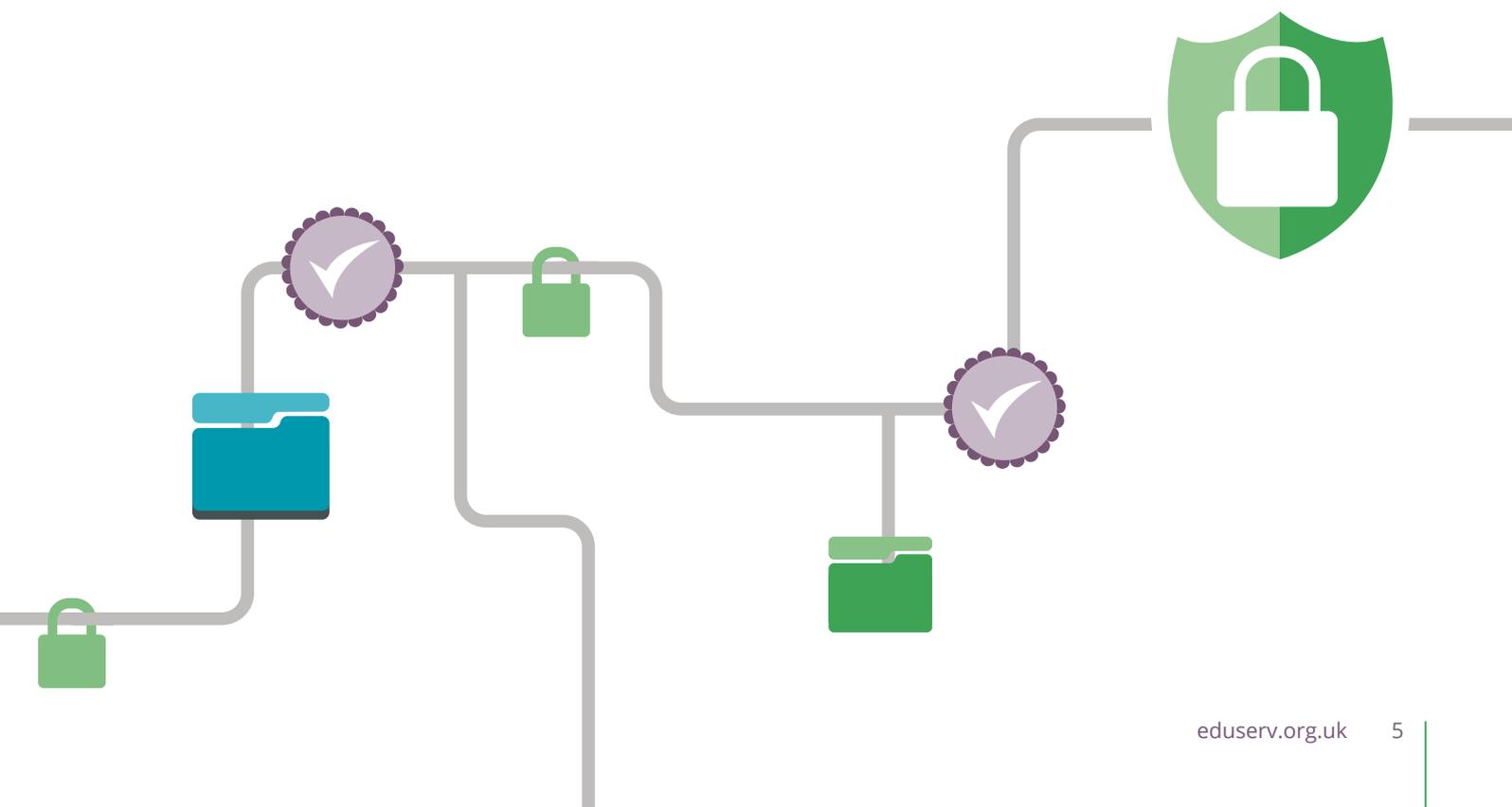
Although it is not a requirement, councils should check if potential DPOs are cyber security aware and trained. GDPR compliance implies implementing Cyber Security Regulations, so your DPO will need to be up to speed with the latest thinking on cyber security and broader organisational resilience. If they are, they will help to guarantee your data's security, integrity and accessibility by disseminating cyber security best practice throughout your organisation.

✓ Reviewing relationships with suppliers

It's not on many people's radar yet, but GDPR is also going to affect councils' relationships with IT suppliers. This is because by enhancing the rights of data subjects, GDPR not only increases the responsibilities for data 'controllers' (i.e. your organisation), but also for data processors (i.e. your IT service provider or cloud provider).

Recommended action

Under GDPR, both controllers and processors are under a similar duty to ensure that the regulations are properly implemented. Contracts will need to be reviewed so that both parties comply with the regulations.



Timeline

What do you need to do and when? A phased approach that prioritises the heavy lifting first will help you achieve compliance effectively.

Raise awareness of GDPR among leadership and get their support

Be positive and explain the business benefits of GDPR to get full backing for your programme.

1

Understand the legal grounds on which you currently collect and use data

In particular, examine how consent and 'legitimate' interests are used as the basis for processing personal data and document these. Where it's not obvious, contact the ICO for clarification.

3

2

Identify and map processes that involve personal data

Audit all your personal data to find out where it is, where consent was granted, technical measures for ensuring its security and who controls it (you or a third party).

Also assess existing organisational processes (or lack of them) for data protection, including scenario based exercises, security and vulnerability testing.

4

Review skills and start recruitment of your DPO

Make sure you carry this out early, because people with the relevant skills and DPOs with the right knowledge of local government are going to be in short supply in the run up to May 2018.

Prioritise your plan of action

Once you know what data you have and the condition it's in, it's time to focus on building the systems and processes you're going to implement. Key areas include:

- cleansing and consolidation of legacy data
- pseudonymisation and anonymisation of data you are legally obliged to retain
- subject access requests
- the right to be forgotten
- privacy by design for collection of all future data.

5

Check the current IT systems you use are up to the job

Assess whether your IT systems will work under GDPR – some, for example, currently make it very difficult to implement the right to be forgotten.

7

Update leadership and the rest of the organisation

Celebrate success and reinforce the business benefits your organisation is likely to achieve as a result of GDPR. Remind everyone that they share equal responsibility for data protection in their day to day roles.

9

8

Review and update privacy policies

Rework all privacy policy statements to ensure they are in plain English and present a friendly face to the public.

6

Review relationships with your IT suppliers

Assess how your working relationship will change and review and redraft contracts where necessary.

10

Implement processes

In the run up the compliance deadline, ensure any new processes (and education programmes) you are implementing are embedded as business usual.

Opportunities to improve practice

As well as improving data protection and fundraising practice, there are opportunities under GDPR for councils to improve the way they operate.

Cyber security and resilience

James Mulhern, Chief Information Security Officer for Eduserv.

Right now, councils are being threatened by cyber-attacks and data theft more than ever before.

This is especially true in areas of council work that involve social care or any area where they might need to gather 'sensitive' data covering health, sexual orientation, race, gender and so on. Indeed, evidence gathered via the dark web suggests that personal information like this – such as a stolen care record – is now more valuable for cyber criminals than financial information like credit card details.

Reducing your attack surface

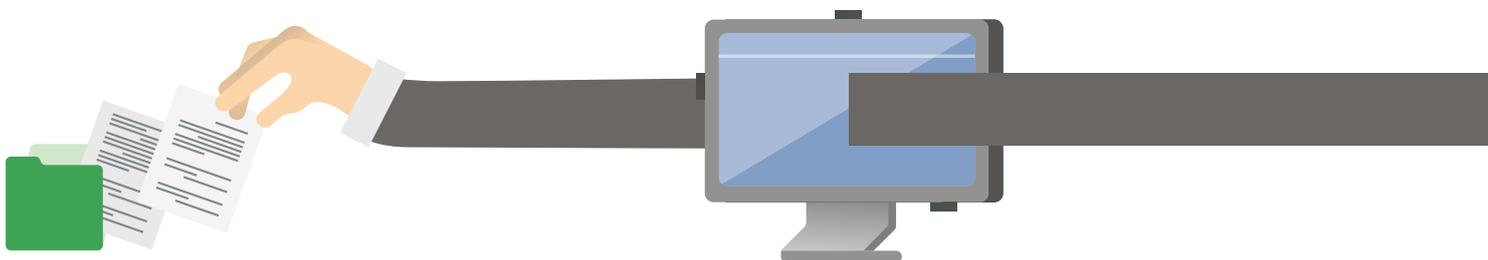
This is why GDPR is a good thing. If you're responsible for cyber security, GDPR is actually a golden opportunity to get a firmer grip on this key area where attacks are increasing. For a start, the process of retrospectively cleansing, pseudonymising or anonymising data that is key to GDPR compliance provides an opportunity to reduce the value and sensitivity of data currently exposed to cyber criminals. Put simply, you can use GDPR to reduce your overall 'attack surface'.

Improving organisational resilience

Of course, we should also recognise that organisational and human factors are just as important as any technical barriers you put in place to prevent attack. The General Data Protection Regulation confirms this, stating that in order to achieve compliance, organisations are going to need to demonstrate that they have robust processes in place for regularly testing, assessing and evaluating the effectiveness of not only technical measures but also the organisational measures for ensuring 'security'.

That means they'll need to think about providing security and GDPR awareness sessions that improve understanding of personal and sensitive data across the organisation. In addition, they should consider performing security incident response planning, red teaming and advanced resilience testing, based on both covert and overt scenarios.

These activities should not be seen as a burden. Rather, they should be seen as the opportunity to introduce best practice that many organisations – especially those who hold really sensitive data – should have introduced years ago.



Digital services, websites and apps

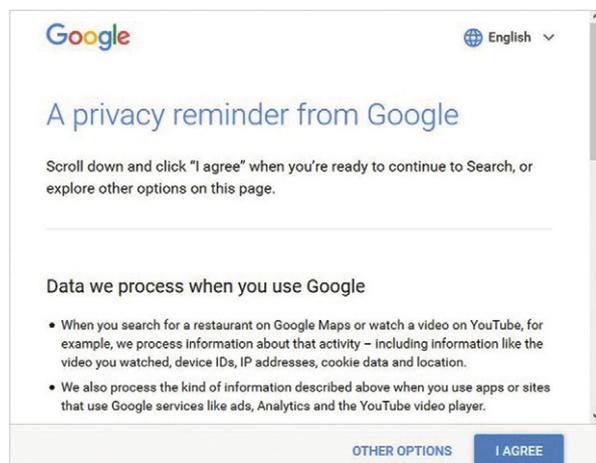
Vee Rogacheva, User Experience (UX) Designer for Eduserv.

On the face of it, GDPR's more stringent requirements for gathering personal data appear to have the potential to make digital services much clunkier to develop and engage with.

I take the opposite view. Digital leads in councils should in fact be looking at GDPR as a way to improve the user experience. Take the way Privacy Policies are handled and the requirement to use plain English. There are some great examples out there already of how the tone of voice is changing.

Organisations that are already using GDPR to improve user experience

Major data-gathering organisations like Google and media outlets like the Guardian, have recently take a lead on this by developing new privacy policy pages and content (a video, in the case of The Guardian) that present a much friendlier and transparent face to their organisations. Digital departments in councils that want to inspire public trust in digital services are looking for inspiration or guidance when they come to revamp their own policies would be well advised to look at these as examples of very good practice.



Google's new privacy policy presents a friendly welcome to users that want to learn more

Digital can also help new GDPR related processes run smoothly

There are many other ways that digital can help GDPR compliance to run smoothly and boost efficiency. Consider Subject access requests, for example, which gives users the right to check the data you hold on them and what you do with it at any time.

The danger is that this process, if handled badly, could become very laborious for both the users making the requests and the organisations that need to respond to them. However, digital specialists have an opportunity to make a difference here by following one of the GDPR's key best practice recommendations. This states that organisations should try to provide a secure online self-service system that provides the individual with direct access to his or her information.

This kind of 'Manage your privacy settings' system is only a recommendation and not compulsory, but it could be well worth exploring if your council is committed to digital transformation. In effect it could be a new digital service that organisations can develop to streamline potentially time consuming processes. It will also provide a better user experience. Getting there will require investment and technical development, but the incentive is that over time this kind of service could become a clear demonstration of your council's overall commitment to transparency and creating trust in online public services.

The main job for digital departments with regard to GDPR will be to ensure that no app or service is left unturned in the drive to make sure that all digital data entry points are compliant. But perhaps just as importantly, it's crucial that they consider the user experience at every stage. By doing so, they can not only build and maintain services that meet the requirements of GDPR, but also ones that will make citizens feel more engaged and protected.

Preparing to reap the benefits

A number of forward looking councils are already well under way with their preparations for GDPR. They are doing so by looking positively at the benefits it will bring.

Rob Miller, CIO for Hackney Council, for example, says he's "hoping to use GDPR as an opportunity to put good data quality and insight at the heart of driving service improvement, rather than simply seeing it as a compliance exercise."

This is a view echoed by Lynn Wyeth, who is Head of Information Governance & Risk at Leicester City Council and is also Chair of the Leicestershire and Rutland Strategic Information Management Group.



We see a real opportunity to identify where personal data is held in service areas... This will enable us to make sure robust contract clauses are in place and look for any gaps where written information sharing agreements may not have been implemented.

"We see a real opportunity as part of the GDPR work to identify, through an up to date information audit, where personal data is held in service areas," said Wyeth. "We will get a full picture of what conditions are used for processing (especially identifying where it is purely consent-based), where personal data is being processed as part of contracts and where information sharing is taking place. This will enable us to make sure robust contract clauses are in place and look for any gaps where written information sharing agreements may not have been implemented. Other benefits could include a refresh of retention and deletion schedules and some housekeeping undertaken to ensure that data are not being kept longer than necessary."

To make this happen the Leicestershire and Rutland Strategic Information Management Group has established a GDPR Task and Finish Group that has several work streams. This ensures that the GDPR preparation work is fairly spread out throughout all members in the county, so no one need 'reinvent the wheel' individually. It is hoped that this collaborative approach will also ensure consistency across the partner organisations within the Group when it comes implementation in May 2018.



Conclusion

John Simcock, Head of Business Development for Eduserv

Currently, when you speak with CIOs you may find that compliance with GDPR is not always high on their priority list. Often, they are focused on transforming operations to deal with increasing demand for public services that need to be more despite shrinking budgets.

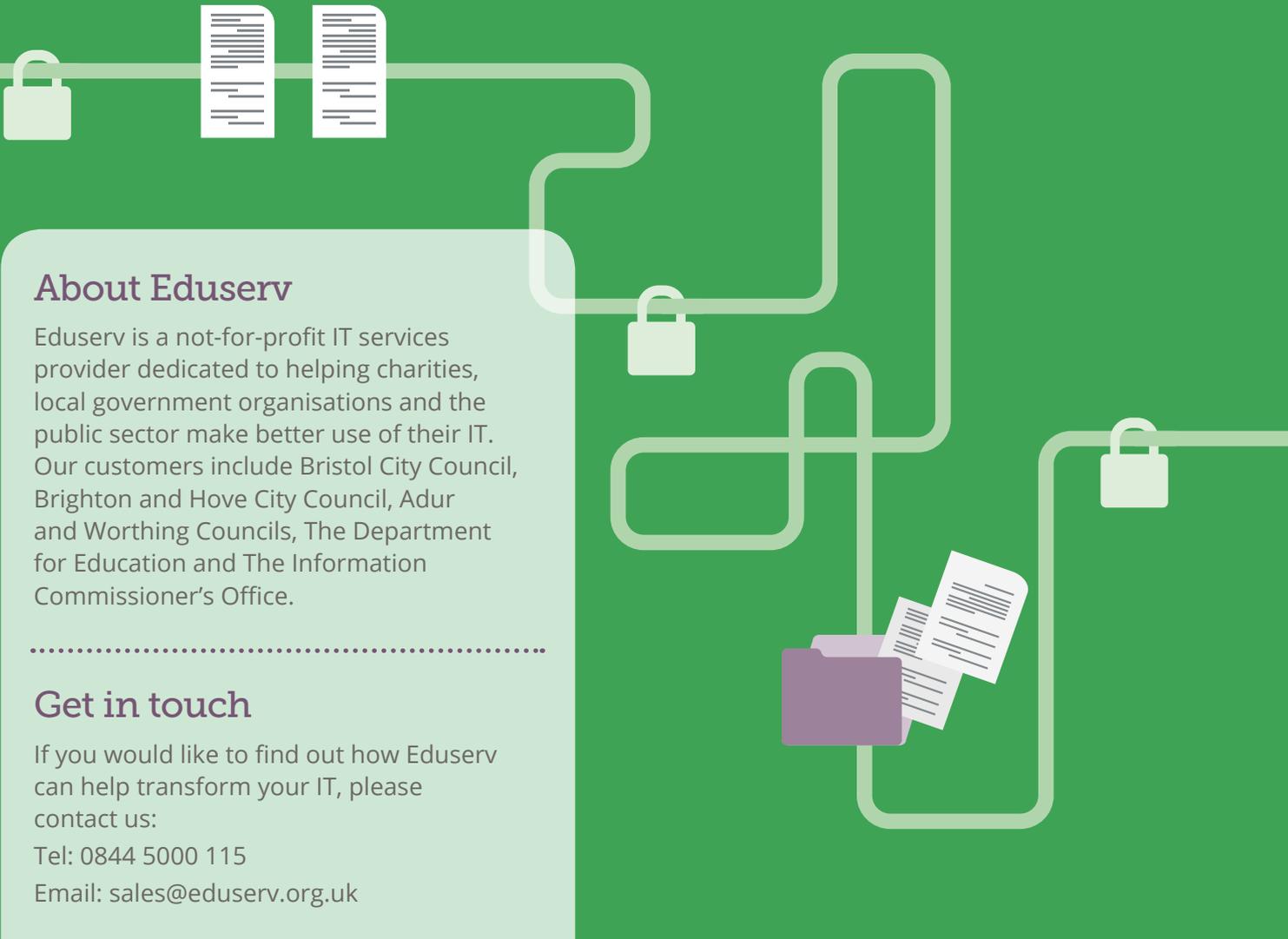
In some ways this is understandable. It's also a mistake, and it's because many commentators have so far been guilty of talking about GDPR only in a negative way. GDPR is being seen as a burden that has to be dealt with under duress, and only because you might get a larger fine if you don't comply.

This isn't the right way to look at things. GDPR needs to be far higher on council leadership agendas simply because it is the right and proper thing to do. As we've seen in this report, it could even make organisations more efficient and inspire trust in more efficient digital public services that could be the key to future success.

I firmly believe councils need to see GDPR as an opportunity and grasp it as such. GDPR will ultimately make all much more effective in the way they manage, process and protect personal data. It could also help them use data more usefully for their own ends. In fact, I would go as far as saying that if organisations say they are intent on 'transforming' for a digital data-driven age, then GDPR can and should be a cornerstone of that effort.

Eduserv and data

Eduserv provides a comprehensive range of cloud, digital development services, managed infrastructure, application and data services for the public sector and charities across the UK. We have in-depth knowledge of the way organisations need to manage and protect data in all these contexts and are actively helping our customers to prepare for GDPR compliance. For more information, visit www.eduserv.org.uk/services.



About Eduserv

Eduserv is a not-for-profit IT services provider dedicated to helping charities, local government organisations and the public sector make better use of their IT. Our customers include Bristol City Council, Brighton and Hove City Council, Adur and Worthing Councils, The Department for Education and The Information Commissioner's Office.

Get in touch

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