

Finance and Audit Scrutiny Panel

Grand Jury Room, Town Hall
28 July 2009 at 6.00pm

The Finance and Audit Scrutiny Panel deals with the review of service areas and associated budgets, and monitors the financial performance of the Council. The panel scrutinises the Council's audit arrangements and risk management arrangements, including the annual audit letter and audit plans, and Portfolio Holder 'Service' decisions reviewed under the Call in procedure.

Information for Members of the Public

Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published 5 working days before the meeting, and minutes once they are published. Dates of the meetings are available at www.colchester.gov.uk or from Democratic Services.

Have Your Say!

The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to meetings, with the exception of Standards Committee meetings. If you wish to speak at a meeting or wish to find out more, please pick up the leaflet called "Have Your Say" at Council offices and at www.colchester.gov.uk.

Private Sessions

Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

Mobile phones, pagers, cameras, audio recorders

Please ensure that all mobile phones and pagers are turned off before the meeting begins and note that photography or audio recording is not permitted.

Access

There is wheelchair access to the Town Hall from West Stockwell Street. There is an induction loop in all the meeting rooms. If you need help with reading or understanding this document please take it to Angel Court Council offices, High Street, Colchester or telephone (01206) 282222 or textphone 18001 followed by the full number that you wish to call, and we will try to provide a reading service, translation or other formats you may need.

Facilities

Toilets are located on the second floor of the Town Hall, access via the lift. A vending machine selling hot and cold drinks is located on the ground floor.

Evacuation Procedures

Evacuate the building using the nearest available exit. Make your way to the assembly area in the car park in St Runwald Street behind the Town Hall. Do not re-enter the building until the Town Hall staff advise you that it is safe to do so.

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Terms of Reference

Finance and Audit Scrutiny Panel

- To review all existing service plans and associated budget provisions against options for alternative levels of service provision and the corporate policies of the Council, and make recommendations to the Cabinet
- To have an overview of the Council's internal and external audit arrangements and risk management arrangements, in particular with regard to the annual audit plan, the audit work programme and progress reports, and to make recommendations to the Cabinet
- To monitor the financial performance of the Council, and to make recommendations to the Cabinet in relation to financial outturns, revenue and capital expenditure monitors
- To scrutinise the Audit Commission's annual audit letter
- To scrutinise executive 'service' decisions made by Portfolio Holders and officers taking key decisions which have been made but not implemented referred to the Panel through the call-in procedure

The panel may a) confirm the decision, which may then be implemented immediately, b) refer the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the Panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

**COLCHESTER BOROUGH COUNCIL
FINANCE AND AUDIT SCRUTINY PANEL
28 July 2009 at 6:00pm**

Members

Chairman : Councillor Dennis Willetts.
Deputy Chairman : Councillor Christopher Arnold.
Councillors Dave Harris, Gerard Oxford, Wyn Foster,
Martin Goss, Theresa Higgins, Jackie Maclean, Jon Manning,
Lesley Scott-Boutell and Nick Taylor.

Substitute Members : All members of the Council who are not Cabinet members or members of this Panel.

Agenda - Part A

(open to the public including the media)

Members of the public may wish to note that Agenda items 1 to 5 are normally brief and items 6 to 9 are standard items for which there may be no business to consider.

Pages

1. Welcome and Announcements

(a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.

(b) At the Chairman's discretion, to announce information on:

- action in the event of an emergency;
- mobile phones switched to off or to silent;
- location of toilets;
- introduction of members of the meeting.

2. Substitutions

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

3. Urgent Items

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent and to give reasons for the urgency.

4. Declarations of Interest

The Chairman to invite Councillors to declare individually any personal interests they may have in the items on the agenda.

If the personal interest arises because of a Councillor's membership of or position of control or management on:

- any body to which the Councillor has been appointed or nominated by the Council; or
- another public body

then the interest need only be declared if the Councillor intends to speak on that item.

If a Councillor declares a personal interest they must also consider whether they have a prejudicial interest. If they have a prejudicial interest they must leave the room for that item.

If a Councillor wishes to make representations on an item on which they have a prejudicial interest they may do so if members of the public are allowed to make representations. In such circumstances a Councillor must leave the room immediately once they have finished speaking.

An interest is considered to be prejudicial if a member of the public with knowledge of the relevant facts would reasonably regard it as so significant that it is likely to prejudice the Councillor's judgement of the public interest.

Councillors should consult paragraph 7 of the Meetings General Procedure Rules for further guidance.

5. Minutes

1 - 3

To confirm as a correct record the minutes of the meeting held on 30 June 2009.

6. Have Your Say!

(a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter not on this agenda. You should indicate your wish to speak at this point if your name has not been noted by Council staff.

(b) The Chairman to invite contributions from members of the public who wish to Have Your Say! on a general matter not on this agenda.

7. Items requested by members of the Panel and other Members

(a) To evaluate requests by members of the Panel for an item relevant to the Panel's functions to be considered.

(b) To evaluate requests by other members of the Council for an item relevant to the Panel's functions to be considered.

8. Referred items under the Call in Procedure

To consider any Portfolio Holder decisions, taken under the Call in Procedure.

The panel may a) confirm the decision, which may then be implemented immediately, b) confirm the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

9. Decisions taken under special urgency provisions

To consider any Portfolio Holder decisions taken under the special urgency provisions.

10. Treasury Management - Annual Report 2008-09 4 - 13

See report from the Head of Resource Management.

11. Risk Management 14 - 37

See report from the Head of Resource Management.

12. Work Programme 38 - 40

See report from the Scrutiny Officer.

13. Exclusion of the public

In accordance with Section 100A(4) of the Local Government Act 1972 and in accordance with The Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 (as amended) to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972).

FINANCE AND AUDIT SCRUTINY PANEL

30 JUNE 2009

Present:- Councillors Foster, Goss, Harris, Maclean, Manning, G.Oxford, Taylor and Willetts

Substitutions:- Councillor Gamble for Councillor T Higgins
Councillor Barlow for Councillor Scott-Boutell

Apologies:- Councillor Arnold

3. Minute

The minute of the meeting of the 20 May 2009 was confirmed as a correct record.

The minute of the meeting of the 28 April 2009 was confirmed as a correct record.

The minute of the meeting of the 19 May 2009 was confirmed as a correct record.

4. Special Urgency

Councillor Willetts confirmed to the panel that he had authorised a decision taken under the special urgency provisions, decision COM-001-09 "Replacement of Existing Roof Structure and Upgrading Building Fabric – Fitness Pool Building, Colchester Leisure World".

Councillor Willetts confirmed that he had been satisfied with the reasons given for the need to invoke the special urgency provision, an imperative need, due to health and safety reasons, to complete this work as soon as possible.

5. Financial Monitoring Report – end of year 2009-10

Mr. Plummer, Finance Manager attended the meeting for this item and introduced the Finance Monitor 2008-09 report.

Councillor Willetts commented that the variance of £272,000, representing less than 1 per cent of the overall budget, was a very acceptable position and applauded the Administration's focus for bringing the year end position in almost on budget.

In response to Councillor Willetts and Barlow, Mr. Plummer said the net underspend for the Council for 2008-09 was £272,000, a broadly similar amount to previous years after taking account of contributions to reserves, but due to the economic downturn there was not as much scope for strengthening reserves as had been the case in previous years.

Mr. Plummer explained that the large net variance for parking services was in the main due to the downturn in car park income of £300,000. Given that this was such a key area, financially,

to the Council, Councillor Willetts believed consideration by the panel in 2009-10 of Car Parking would be a worthwhile review.

Councillor Manning said the panel should consider a task and finish group to complete this review and report back to the panel in due course.

Mr. Plummer confirmed to Councillor Foster that in reference to Planning Services, the mitigating action to offset some of the reduced income was reflected in the position against the corporate salaries target, but this initiative had been about redeployment and freezing vacant posts, not redundancy.

Mr. Warboys confirmed to Councillor Manning that the Estates Asset Management Plan was to be refreshed in 2009, and that a report on the Layer Road site would be reported to the next Cabinet meeting.

RESOLVED that the panel noted the financial performance of General Fund Services and the Housing Revenue Account (HRA) for the year 2008-09.

6. Capital Monitor – pre audit outturn 2008-09

Mr. Steve Heath, Finance Manager, attended the meeting for this item and presented the Capital Monitor pre audit outturn 2008-09 report.

In response to Councillor Willetts, Mr. Heath said the value of capital spending undertaken during 2008-09 at Colchester, £24,900,000, was considerably higher than other Essex districts and gave some comparative figures.

Councillor Taylor congratulated officers for bringing the project on the Town Hall DDA (Disability Discrimination Act) Measures lift project almost to completion and almost within budget.

Councillor Oxford, whilst concurred with Councillor Taylor concerning the Town Hall Lift project, that opened up the Town Hall to many people with mobility impairment, but commented that to suggest that the Old Library was now DDA compliant was not correct, given the inappropriate route within the Town Hall that visitors need to take (via the Town Hall gaol) to enter the Old Library, until this building's ramp is built under phase II of the overall scheme.

RESOLVED that the panel:

- i) Noted the level of capital spending during 2008-09 and the forecasts for future years.
- ii) The Head of Resource Management request that Colchester Borough Homes respond to the panel members by providing a note on the impact of the 2010-11 Decent Homes and Upgrades budget of £4,297,500 on Adaptations and Housing ICT.
- iii) The Head of Corporate Management provides a note to panel members on the future plans during phase II of the Town Hall DDA project up to the completion of works.
- iv) The Head of Resource Management to request the Head of Strategic Policy and Regeneration to provide members with a note on the future plans (a timeline) of the Park and Ride Scheme at the new junction onto the A12 dual carriageway.

6. Work Programme

The panel considered the work programme for 2009-10.

RESOLVED that the panel:

- i) Noted the work programme for 2009-10.
- ii) Requested that the Head of Street Services would provide the panel with a short report on Parking Services (Car Parking), provisionally agreed for the meeting on the 28 July, for the panel to consider if any further work is required.
- iii) Requested that the Head of Life Opportunities would provide the panel with a short report on the Grounds Maintenance Contract(s), given that members have questions around the contract, to be presented to the panel at the earliest convenient meeting.
- iv) Agreed for the Work Programme to be considered as the last item for review on all future agendas.



Finance & Audit Scrutiny Panel

Item

28 July 2009

Report of	Head of Resource Management	Author	Steve Heath ☎ 282389
Title	Treasury Management – Annual Report 2008/09		
Wards affected	Not applicable		

The Panel is invited to review treasury management performance in 2008/09

1. Action required

- 1.1 To note the activities relating to treasury management in 2008/09 and consider performance.
- 1.2 To note the performance of the Council's treasury management advisors.

2. Reason for scrutiny

- 2.1 The CIPFA Code of Practice on Treasury Management and the Council's Treasury Management Policy Statement both require an annual report to be considered.

3. Background information

- 3.1 Treasury management comprises all borrowing and investment activities of the Council. Details of treasury management activities during 2008/09 are provided as a background paper that should be read alongside this report. The key areas in this report are summarised in the following paragraphs.
- 3.2 The 2008/09 year can only be described as unparalleled and extraordinary. The average interest rate view prior to the start of the year was that the UK Bank Rate would remain stable at around 5%. However, the 'credit crunch' had a major downward impact on the levels of interest rates around the world, leaving the Bank Rate at an unprecedented 0.5% by the end of the year.
- 3.3 The Council's strategy was to conclude its borrowing requirement for the Community Stadium, with the trigger point being 4.6%. A total of £4m was borrowed in April 2008 at a rate of 4.01%. This compares well with the average rate for long term PWLB borrowing during the year being 4.44%.
- 3.4 The Council's Prudential Indicators were amended during the year to take account of changes to the Capital Programme. However, due to the uncertain security of investments and the poor returns available, it was decided to 'borrow internally' in respect of this capital expenditure until the situation improves.
- 3.5 The Council's long term debt as at 31 March 2009 stands at £62.4m, with a reduced average rate during the year of 5.72%, compared to 5.92% in 2007/08.
- 3.6 The Council has managed all of its excess surplus funds internally during the year. These range from overnight and short term investments to cover cash flow needs,

through to longer-term investments in respect of 'core' balances. The average rate earned on investments during the year was 5.57%, which is considerably higher than the relevant benchmark. This is mainly due to the high rates that were on offer in the first half of the year.

- 3.7 The Council's outstanding investments at the end of the year total £19.5m. This includes £4m that was invested in Icelandic banks in early September, which suffered a default following the collapse of the Icelandic banking system. This led to the Council reviewing its Investment Policy, which included reductions to investment and duration limits, and the introduction of sovereign debt criteria. This has been taken into account in the 2009/10 policy, which will be subject to further review following the recommendations included with recent published reports, and new guidance from our treasury management advisors.
- 3.8 The Council employ Sector Treasury to provide a consultancy service in respect of treasury management, to include advice on both debt and investments. During the year Sector provided advice on borrowing, investments, counterparty credit details and general capital accounting information.

4. Strategic Plan references

- 4.1 No direct links. However, prudent treasury management underpins the budget required to deliver all Strategic Plan priorities.

5. Publicity considerations

- 5.1 Appendix A to the attached background paper is confidential.

6. Financial implications

- 6.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). Outturn figures for 2008/09 show a budget surplus of £250k for the year. This is principally due to delayed long-term borrowing and high investment returns in the first half of the year.
- 6.2 The CLIA for 2008/09 includes an impairment of £764k in respect of the Council's Icelandic investments, however this has been reversed out of the accounts following Government regulations that allow authorities to delay recognising any losses until 2010/11. The impairment figure is based on the assumption that 95% of the investment will be recovered by 2012. There is clearly some risk attached to this assumption, and the panel will be kept informed of any developments in this area.

7. Risk Management implications

- 7.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 7.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Liquidity.
 - Interest rates.
 - Exchange rates.
 - Inflation.
 - Credit and counterparty.
 - Refinancing.
 - Legal and regulatory.
 - Fraud, error and corruption, and contingency management.

- Markets.

13. Other Standard References

- 13.1 Having considered consultation, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

Background Papers

Annual Report on Treasury Management (as attached)

Appendix A: Temporary Investments 2008/09 (**confidential**)

Annual Treasury Management Report 2008/09

1 Introduction and Background

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by Colchester Borough Council on 18 February 2004 and the Council fully complies with its requirements. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead and an annual review report of the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- 1.2 Treasury management in this context is defined as "The management of the local authority's 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."
- 1.3 This annual treasury report covers:
- The Treasury Management Strategy for 2008/09
 - The treasury position as at 31 March 2009
 - The economy in 2008/09
 - Borrowing
 - Investments
 - Compliance with treasury limits and prudential indicators

2 Treasury Management Strategy 2008/09

- 2.1 Cabinet agreed the Council's Treasury Management Strategy and Annual Investment Strategy for 2008/09 on 30 January 2008. The strategy was as follows:
- To conclude the Council's borrowing requirement in respect of the Community Stadium. The trigger point for new fixed rate long-term borrowing was 4.60%.
 - To review the performance of internally managed investments, following the withdrawal of funds from external managers, to provide greater certainty of returns and maximise investment returns.
 - To review the Council's Treasury Management Practice Schedules.
 - The Council's Treasury advisors forecasted the Bank Rate to fall from 5.5% to 5% in the early part of the year and then remain unchanged. Longer dated PWLB rates were expected to remain in the region of 4.5%.

- 2.2 The “average” City view anticipated that the Bank Rate would be stable in 2008-09 at 5.25% based on a balance of risks around rising inflationary pressures on the one hand and falling growth rates and concerns over the impact of the credit crunch on the other hand. The view on longer-term (50 years) fixed interest rates was that they would remain static around 4.45% for the whole of the year. The 25 year rate would also remain flat around 4.50 - 4.55%.
- 2.3 The investment strategy adopted in the Treasury Management Strategy Report for 2008-09 was subject to major revision during the year due to the unprecedented impact of the credit crunch and the default of the Icelandic banks in October 2008. This included the introduction of sovereign debt criteria, reductions in investment and duration limits, and limiting investments to only the very highest rated banks and building societies. This reduction in the exposure to credit risk, along with the rapid fall in central bank rates both impacted on the level of the Council’s investment returns in the second half of the year.
- 2.4 In the light of the perceived increased risk around holding spare cash as investments and the likely poor rate of return available on such investments following the cuts in the Bank Rate, it was decided to run down cash balances by not undertaking new borrowing to finance capital expenditure. The Council is therefore ‘borrowing internally’ for the foreseeable future in respect of the purchase of Rowan House.

3 Treasury position as at 31 March 2009

- 3.1 The outturn position for the Central Loans and Investment Account (CLIA) is shown below. This shows a favourable variance of £250k.

3920 CLIA	2008/09 Budget £	Actual £	Variance £
Total Interest Paid	4,327,000	4,100,226	(226,774)
Less: Item 8 debit	(3,118,000)	(3,054,585)	63,415
Total less HRA	1,209,000	1,045,641	(163,359)
Total Investments	(2,101,200)	(2,161,388)	(60,188)
Less: Impairment	763,700	763,694	(6)
Item 8 credit	50,000	23,540	(26,460)
Total less HRA	(1,287,500)	(1,374,154)	(86,654)
Total CLIA	(78,500)	(328,514)	(250,014)

- 3.2 The CLIA comprises the Council’s borrowing costs and investment income. The original net budget was an income figure of £709k, however this was adjusted to account for the net effect of the impairment of Icelandic investments. The CLIA is difficult to predict and can be affected by several factors. The majority of the Council’s debt is on fixed rates reflecting the longer-term nature of the borrowing decisions. Investments are generally made for shorter periods, making returns more variable. This mix is generally more beneficial when interest rates are high or increasing. It is important to add that the exposure to interest rate movements is regularly monitored to minimise risks to changes in returns. There are a number of reasons that have contributed to the above variances:

- The Council has not borrowed the full amount that was envisaged when the budget was set.
- Interest rates were high during the first half of the year, and there has been a beneficial impact from investment decisions made at that time.
- The Item 8 Debit was impacted by the reduction in the average rate of debt as a result of new General Fund borrowing. Whilst the variance against the Item 8 Credit is due to lower levels of HRA balances together with a reduction in the Council's average rate of investments.

4 *The economy in 2008/09*

- 4.1 On 1st April 2008 the Bank Rate was 5% and the Bank of England was focused on fighting inflation. Market fears were that rates were going to be raised as CPI, the Government's preferred inflation target, was well above the 2% target. The money market yield curve reflected these concerns with one year deposits trading well above the 6% level.
- 4.2 This phase continued throughout the summer until the 15th September when Lehman Brothers, a US investment bank, was allowed to file for bankruptcy as no other institution was willing to buy it due to the perceived levels of toxic debt. This event caused a huge shock wave in world financial markets and threatened to completely destabilise them. On 7th October the Icelandic government took control of their banks following the collapse of their banking system.
- 4.3 These events created an environment of fear and the nationalisation and part nationalisation of many financial institutions was necessary to secure the global financial system. Governments commenced a series of stimulus packages aimed at kick starting the global economy and central banks, helped by a downturn in inflation and inflation expectations, and so began an aggressive policy of interest rate cuts that has seen rates falling to record low levels.
- 4.4 The Monetary Policy Committee reduced interest rates by 0.5% in October, and an unprecedented 1.5% in November. In December as the ramifications of the 'credit crunch' became increasingly clear interest rates were cut by 1%, and in the New Year they were reduced again by 0.5% to 1.5%, a record low. Further cuts of 0.5% took place in February and March, leaving the Bank Rate at 0.5%.
- 4.5 The UK Government pumped £37bn into three UK clearing banks (RBS, HBOS, Lloyds) in October as liquidity in the markets dried up. More Government support for the banking sector was announced in January 2009, with discussion about further measures that could kick start lending and economic activity.
- 4.6 The financial year ended with markets still badly disrupted, the real economy suffering from a lack of credit, short to medium term interest rates at record lows and a great deal of uncertainty as to how or when recovery would take place. Investment income returns have been badly hit but lower borrowing rates in short to medium periods had allowed indebted local authorities to benefit.

5 *Borrowing*

- 5.1 The table below sets out new long-term borrowing undertaken during 2008/09. In addition to this amount, the Council undertook temporary borrowing during the

year for cash flow purposes totalling £15.91m from building societies and other local authorities. The interest payable on this borrowing totalled £7k.

Source	Value £	Rate %	Start Date	Maturity Date
LOBO	4,000,000	4.01	30-Apr-08	30-Apr-78
Total	<u>4,000,000</u>			

Note: Call date of 30 April 2013

5.2 The total debt outstanding at 31 March 2009 was £68.33m, which represents an increase on last year of £9.93m. However, this figure includes temporary borrowing totalling £5.93m that was repaid on 1 April. The additional long-term borrowing of £4m has led to additional annual interest payments of £160k, but this compares well with the average rate available for long term PWLB debt during the year (4.44%). The new borrowing has also resulted in the average rate of the Council's debt decreasing by 0.2% to 5.72%, which represents a net decrease of 1.11% over the past three years. The Council's total borrowing at 31 March is summarised in the table below:

Loans O/S	Maturity	March 09 £	%	March 08 £	%
PWLB 475958	5/2055	1,300,000	8.88	1,300,000	8.88
PWLB 482450	11/2038	900,000	4.63	900,000	4.63
PWLB 484275	5/2025	700,000	4.88	700,000	4.88
PWLB 488963	8/2034	2,000,000	4.80	2,000,000	4.80
PWLB 489406	5/2030	3,000,000	4.55	3,000,000	4.55
PWLB 489978	5/2032	2,500,000	4.45	2,500,000	4.45
PWLB 490717	11/2031	1,000,000	4.25	1,000,000	4.25
PWLB 490718	11/2033	2,000,000	4.25	2,000,000	4.25
PWLB 491155	1/2050	1,000,000	3.70	1,000,000	3.70
PWLB 492019	8/2056	2,500,000	4.25	2,500,000	4.25
PWLB 492218	9/2056	2,500,000	4.05	2,500,000	4.05
PWLB 493046	3/2053	5,000,000	4.25	5,000,000	4.25
PWLB 493762	8/2057	3,500,000	4.50	3,500,000	4.50
Bonds - Stock Issue	5/2020	20,000,000	8.79	20,000,000	8.79
LOBO B49	1/2046	2,000,000	3.79	2,000,000	3.79
LOBO B50	1/2066	2,000,000	3.55	2,000,000	3.55
LOBO B51	1/2056	1,500,000	3.53	1,500,000	3.53
LOBO B52	7/2076	5,000,000	4.15	5,000,000	4.15
LOBO B53	4/2078	4,000,000	4.01		
Subtotal		62,400,000	5.72	58,400,000	5.92
Temporary borrowing		5,930,000	1.09		
		68,330,000	5.72	58,400,000	5.92

5.3 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the annual Treasury Management Strategy. The outturn for the Prudential Indicators is shown in Section 7 of this report.

6 Investments

- 6.1 The Council manages investments in-house and invests with institutions in its approved lending list. The Council invests for a range of periods dependent on the Council's cash flows, its interest rate view and the interest rates on offer. In-house managed investments can be analysed as follows:
- Temporary investments are made for a period of more than one day and are usually arranged in the money market through brokers.
 - Overnight investments are placed for one night, and are made with the Council's bank and other institutions.
 - Deposit accounts are either used as an alternative to overnight deposits or for a longer period in place of temporary investments in the money markets.
 - High Interest Business Accounts (HIBA) are used for small surplus balances that have not otherwise been invested. These are kept to a minimum through the various other investment options.
- 6.2 The proportion by value of investments made over the past two years is shown in the table below. This shows that the majority of investment activity has been carried out in temporary investments rather than using deposit accounts. However the reduction in the percentage when compared to 2007/08 reflects the reduction in investment options available, the change in investment policy during the year, and the reduction in cash balances as a result of the decision to 'borrow-internally' to finance capital expenditure.

Analysis	2008/09	2007/08
	%	%
Temporary Investments	87.8	89.9
Overnight and Deposit Account	11.5	9.2
HIBA	0.7	0.9
Total	100.0	100.0

- 6.3 Temporary investments have been made in respect of 'core' balances and to cover regular cash flow movements. A total of seven new investments of a year or more were made during the year. However, one of these was withdrawn early following concerns over the sovereign rating for this counterparty. The table below shows that on average the Council invested amounts for a similar period to the previous year, although their use reduced in the second half of the year.

Temporary Investments	2008/09	2007/08
Total Invested (£'000)	102,909	182,891
Number of Investments	58	101
Average Investment (£'000)	1,774	1,811
Average Length (Days)	96	95
Investments by Counterparty (%)		
Clearing Banks	14.6%	15.6%
Foreign Banks	41.6%	47.7%
Building Societies	43.8%	36.7%

- 6.4 Investment performance can be assessed though comparison of the Council's average return for the year with a suitable benchmark. In this instance this is the

7-Day LIBID Index (London Interbank Bid Rate – the rate charged by one bank to another for a deposit). The table below shows that the Council has once again exceeded this benchmark at an increased margin to the previous year.

Details	2008/09 %	2007/08 %
Temporary Investments	5.76	5.90
Overnight and Deposit Account	4.26	5.88
HIBA	3.84	5.13
Total	5.57	5.89
Benchmark (7 day LIBID)	3.69	5.58
Return as a % of the Benchmark	150.9%	105.5%

- 6.5 The Council had temporary investments totalling £19.5m outstanding as at 31 March 2009 (see **Appendix A** – confidential). Of this £4m are long-term investments that are due to mature in 2010/11. Of the remainder, £11.5m is due to mature during 2009/10 and £4m relates to the investments that are currently frozen in Icelandic banks. The details of these investments are shown below.

Bank	Date Invested	Maturity Date	Amount Invested	Interest Rate
Landsbanki Islands	02/09/2008	02/12/2008	3,000,000	5.82
Landsbanki Islands	10/09/2008	10/12/2008	1,000,000	5.80
			4,000,000	

- 6.6 The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The UK Government is working with the Icelandic Government to help bring this about. At the current time it is not possible to say with certainty that we will recover the entirety of our investments or when reimbursements will be made to the Council. The Local Government Association is coordinating the efforts of all UK authorities with Icelandic investments. Members will be periodically updated on the latest developments on these efforts.
- 6.7 The English Government, the National Assembly of Wales and the Scottish Parliament have all issued regulations to allow local authorities to delay recognising any loss on these investments that may eventually be incurred until the financial year 2010-11.
- 6.8 The carrying amounts of the investments included in the Council's draft Statement of Accounts have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate. Current indications are that recovery of between 90-100 % could be achieved. The Council has taken a mid point position, assuming recovery at 95% by 2012.

7 **Compliance with treasury limits and prudential indicators**

- 7.1 The Council's Treasury Management Policy Statement sets out various limits on how much may be invested in various organisations and sources and types of borrowing. The Policy was reviewed during the year in line with recent guidance and reported to the Finance and Audit Scrutiny Panel. All the investments and borrowing detailed within this report complied with the policy.
- 7.2 The Council's Prudential Indicators for 2008/09 were agreed by full Council on 20 February 2008. These were subsequently amended to take account of the decision to purchase Rowan House, as well as the additional funding for the Visual Arts Facility. The changes to the Capital Programme and the Prudential Indicators were all approved by Cabinet on 3 December 2008.
- 7.3 The table below shows the Council's performance against the agreed treasury management prudential indicators. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary as it reflects the position at one point in time.

	2007/08 Actual £'000	2008/09 Original £'000	2008/09 Updated £'000
Authorised limit for external debt			
Borrowing	71,643	72,750	81,750
Other long term liabilities	5,000	5,000	5,000
Total	76,643	77,750	86,750
Operational boundary for external debt			
Borrowing	65,130	66,500	75,500
Other long term liabilities	3,000	3,000	3,000
Total	68,130	69,500	78,500
Upper limit for fixed interest rate exposure	100%	100%	100%
Upper limit for variable rate exposure	50%	50%	50%
Upper limit for total principal sums invested for over 364 days	10,000	15,000	15,000
Maturity structure of new fixed rate borrowing during 2008/09			
	Upper	Lower	Actual
< 12 months	10%	0%	0%
12 - 24 months	50%	0%	0%
24 months - 5 years	75%	0%	0%
5 - 10 years	75%	0%	0%
> 10 years	100%	0%	100%



Finance & Audit Scrutiny Panel

Item
11

28 July 2009

Report of

Head of Resource Management

Author

Hayley McGrath
Tel. 282387

Title

2008/09 Year End Review of Risk Management

Wards
affected

Not applicable

This report reviews the Risk Management work undertaken for the period 1 April 2008 to 31 March 2009.

1. Actions Required

- 1.1 Consider and note the risk management work undertaken during 2008/09, including the quarter 4 Strategic risk register.
- 1.2 Consider and comment on the proposed risk management strategy for 2009/10.
- 1.3 Consider and note the intended work plan for 2009/10.
- 1.4 Endorse the submission of this report to Cabinet.

2. Reason for Scrutiny

- 2.1 The Risk Management Strategy, which forms part of the policy framework, identifies the Finance and Audit Scrutiny panel as being responsible for reviewing the effectiveness of the risk management process and reporting critical items to cabinet as necessary.
- 2.2 Quarterly progress reports, detailing work undertaken and current issues, are provided to assist with this responsibility.

3. Key Messages

- A risk management culture continues to be developed throughout the authority with the embedding of the programmed reporting structure.
- Risk Management has been developed to form an integral part of the Corporate Governance framework.
- Training for officers and members is progressing which has led to an increased awareness of risk issues.
- The key strategic risks relate to : Effectiveness in responding to changes in the Borough economy and protection of public funds and resources.
- Whilst the operational risks are being adequately controlled, the operational registers need to be reviewed now that all of the Heads of Service are in post.

4. Supporting Information

- 4.1 The aim of the Council is to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks across all processes to ensure that risks are properly considered and reduced as far as practicable.
- 4.2 In broad terms risks are split into three categories:
 - Strategic – those risks relating to the long term goals of the Council
 - Operational – risks related to the day-to-day operation of each individual service
 - Project – consideration of the risks occurring as a result of the Council's involvement in specific initiatives

- 4.3 Strategic risks are essentially those that threaten the long term goals of the Council and therefore are mainly based around meeting the objectives of the Strategic Plan. They may also represent developing issues that have the potential to fundamentally effect service provision, such as proposals to dramatically change the corporate assessment process. Strategic risks are owned by members of the Senior Management Team.
- 4.4 Operational risks are those that threaten the routine service delivery of the Council. Each service area has their own operational risk register that details the risks associated with providing the service. These registers are reported, in summary format, to the Senior Management Team and committee on an annual basis. High risks and the success in controlling them are reported to Senior Management Team on a quarterly basis, as these assist in the formulation of the strategic risk register.
- 4.5 Project risks are those that relate solely to the successful delivery of that specific project. They tend to be quantifiable issues, such as resource or time related, and constantly change and develop over the course of the project as each stage is completed. The lead on the project is responsible for ensuring that there is an appropriate risk register and high level issues are reported to the senior management team.

5. Summary of 2008/09

- 5.1 The primary focus for 2008/09 was to ensure that risk management was embedded across the authority and that the areas identified for improvement in the internal and external audit reports issued in 2007/08 were strengthened.
- 5.2 There were no fundamental changes to the risk management function, or the processes used to identify and control risk, during 2008/09.
- 5.3 An internal audit report regarding the annual review of risk management was issued in January 2009. This highlighted five, level two, recommendations centring on the reporting processes and ensuring the operational registers were brought in line with the revised management structure. All of these recommendations were agreed with and the areas that were not completed during 2008/09, or required further evidence, have been included as part of the work plan for 2009/10.
- 5.4 The Use of Resources assessment for 2008/09 has been carried out by the Audit Commission however the scores for the assessment have yet to be released. The format of the assessment changed significantly for the 2008/09 review. Previously risk management was scored according to a set criteria, however from 2008/09 risk management forms part of KLOE 2.4 - 'Does The Organisation Manage Its Risk And Maintain A Sound System of Internal Control?' This requires the Council to give a self assessment showing how the organisation has an effective risk management process which covers partnership working. The results of the risk management assessment will be reported to this committee in due course
- 5.5 The key achievements during 2008/09 were:
- The successful embedding of the reporting process - with regular reports to both the performance Management Board and this committee.
 - The revision of the strategic risk register which has created a more dynamic, focused approach to controlling the highlighted risk issues.
 - The adoption of a partnership strategy that provides a robust framework for managing risks across all partnerships.
 - Development of the links between the Council and Colchester Borough Homes in respect of risk management - sharing good practice on training and access to C.B.H.'s strategic risk register.

- Development of the training programme, with courses designed for members and officers. The first course for members was due to be provided on 21st July.
- Integration of risk management in the Corporate Governance framework. Management of risk is now an integral part of Corporate Governance and the Risk and Resilience Manager works closely with the Monitoring Officer to ensure that all the necessary control processes are in place and up to date. This includes the completion of the Annual Governance Statement, updating the Code of Corporate Governance and reviewing the Code of Conduct.

5.6 There are however some areas that still need to be strengthened and these are shown in detail in the work plan for 2009/10.

5.7 During 2008/09 the strategic risk register was reviewed every quarter and reported to this committee. The quarter 4 review for 2008/09 was carried out in March 2009 and PMB have approved the register attached at appendix 1 as being the position at 31 March 2009. These risks have been mapped onto a risk chart as shown at appendix 2.

6. Risk Management Strategy for 2009/10

6.1 The Council's approach to managing risk was fundamentally reviewed in 2006/07 and a revised strategy was produced. A requirement within the strategy, and also under the Use of Resources assessment, is an annual review of the strategy to ensure that it is still appropriate to the Council's needs. Therefore a review has been undertaken and the strategy has been updated for 2009/10. The revised strategy is attached at appendix 3. There are no fundamental changes proposed to the risk process with amendments only to the areas of external review comments and work plans.

7. Work plan for 2009/10

7.1 With regard to the comments made in the internal audit review, and the self assessment, the following areas will be the primary focus for developing risk management further in 2009/10:

- Completion of the operational risk registers. All of the Heads of Service are now in post and the primary objective for 2009/10 will be the review of the operational registers to ensure that they reflect the risks of the service areas.
- Development of a risk register for members. This will build on the training recently undertaken with members and review the issues that we highlighted during the session.
- Setting of performance indicators for the service and regular review against them.
- Review of the guidance available to officers and members – ensuring that there is a standard approach to identifying and controlling risk, and making this available on the Hub.

7.2 Detailed progress against these areas will be provided quarterly to this panel during the year.

8. Proposals

8.1 To note and comment upon the Councils progress and performance in managing risk during 2008/09, the revised risk management strategy and work plan for 2009/10 and endorse the submission of this report to Cabinet.

9. Strategic Plan Implications

- 9.1 The strategic risk register reflects the objectives of the strategic plan and the actions have been set with due regard to the identified key strategic risks. Therefore the risk process supports the achievement of the strategic objectives.

10. Risk Management Implications

- 10.1 The failure to adequately identify and manage risks may have an effect on the ability of the Council to achieve its objectives and operate effectively.

11. Other Standard References

- 11.1 There are no direct Publicity, Financial, Consultation, Human Rights, Community Safety or Health and Safety implications as a result of this report.

**Colchester Borough Council – Corporate Strategic Risk Register
Quarter 4 2008/09 - May 2009**

Key points this update:

Risk 1a: Failure to redirect strategic vision- score has reduced from 12 to 6 due to controls in place.

Risk 6b: No corporate approach to Repairs & Renewals – score has increase from 9 to 12 due to reassessment of the risk

Specific Risks		Score	Consequence	Action	Owner	Timing
1. AMBITION						
1.a	Failure to adequately redirect the strategic vision and move the resources required to support it.	2	Desired strategic outcomes are not achieved and improvements are not delivered.	Ensure that there is a structured regular review process for the Strategic plan, and corresponding action plan, so that it continues to deliver the strategic vision.	E.D. People & Performance	Ongoing annual review process.
1.b	Unrealistic expectations (both internally and externally) regarding speed of delivery.	3	Failure of one or more of the strategic projects.	Develop a structured reporting process to ensure that direction and priorities from Cabinet are communicated effectively to relevant officers.	Chief Exec	Ongoing
1.c	The Council is unable to effectively respond to changes in the Borough economy both internally and externally.	3	Financial or reputational loss by the Authority.	The desired 'place shape' needs to be formalised and clearly communicated to all staff.	E.D. Place Shaping	
1.d	Over reliance on a limited number of key personnel to deliver the ambition.	2	Inability to attract key partners / investment. Key staff difficult to retain leading to loss of knowledge and inability to maintain momentum of the change process.	Ensure that the Strategic Plan is central to the decision making processes and is reflected in the resource allocations supporting Service Plus areas.	Chief Exec / Head of Resource Management	Annual Budget Process
		3		Ensure that there is a structured use of the 'People Strategy' to ensure skills / capacity are appropriately based and to identify priority areas for improvement.	E.D. Customer Excellence	

2. CUSTOMERS			ACTION PLAN – CUSTOMERS			
Specific Risks	Score		Consequence	Action	Owner	Timing
	P	I O				
2.a The Council fails to understand and consult its customers.	1	2	The Authority fails to manage / understand expectations from its customers.	Ensure that there is a structured corporate wide process to develop a good understanding of our customers which drives service improvement.	E.D. Customer Excellence	Ongoing
2.b A lack of political awareness amongst officers could lead to a failure to support our elected members.	3	4	Councillors not engaged with staff to deliver political priorities and fulfil role as community / ward champion.	A programme to improve levels of political awareness has been developed and will be implemented shortly. This will enhance relationship between officers and elected members.	E.D. Customer Excellence	July 09
2.c The Council fails to enhance the skills of its people to deliver customer excellence.	1	3	Staff become disengaged with the customer excellence programme and the link to service improvement.	Ensure that the learning and development strategy supports the customer excellence programme.	E.D. Customer Excellence	Ongoing
19 2.d The Council fails to develop and align the customer excellence programme, in phase four, with the Way We Work.	1	3	Customer Excellence will become irrelevant to the Way We Work and loses its priority to drive improvement.			

3. GENERAL MANAGEMENT			ACTION PLAN – GENERAL MANAGEMENT			
Specific Risks	Score		Consequence	Action	Owner	Timing
	P	I O				
3.a	3	2	Service delivery failure. Financial and reputational loss.	Develop capacity planning and monitoring plans to anticipate needs.	Head of Corporate Management	Autumn 2009
3.b	2	4		Personal liability of Officers and Members.	Ensure effective communications strategy and execution.	Head of Corporate Management
3.c	2	4	Disengaged and demotivated staff.	Ensure people strategy is developed and executed effectively	Head of Corporate Management	Strategy agreed April 2009
20			Legal action against the Council.	Ensure Organisational Development is clearly defined and monitored within WWW. Programme/	Executive Director Customer Excellence	
3.d	3	4	Loss of stakeholder confidence in the Borough leading to reduced partnership involvement in delivery.	Ensure performance management process is effectively implemented and monitored to include development needs and plans.	Head of Corporate Management	Ongoing
3.e	4	3	High staff turnover, high cost of delivery.	Active promotion and use of Colchester Learning Managers programme and development to meet evolving needs.	Head of Corporate Management	Ongoing
3.f	3	4	Efficiency and productivity reduction.			
3.g	2	3	Inability to meet changing requirements and needs. Enforcement action by regulators.	Ensure ICT strategy is developed in conjunction with Service plans and promote industry best practice in IT service management in internal organisation.	Head of Corporate Management	ICT strategy agreed. Service plans under preparation
				Ensure the Performance Dashboard process is used effectively to monitor and remediate performance.	Head of Corporate Management	Ongoing

4. HORIZON SCANNING			ACTION PLAN – HORIZON SCANNING			
Specific Risks	Score			Action	Owner	Timing
	P	I	O			
4.a Requirements of Local Government reorganisation (opportunity & threat)	2	4	8	<p>Ensure organisational readiness to respond to external challenges through the Way We Work programme strands:</p> <ul style="list-style-type: none"> - People - IT/ flexible working - Customer Excellence - Place Shaping <p>Supported by a robust Medium term Financial strategy and organisational development strategy.</p>	E.M.T.	
4.b Failure to respond to current economic recession appropriately, to assess its full extent or adapt services including plan for recovery and future needs.	4	3	12			
4.c Underestimation of impact / potential of the Olympic games.	2	2	4			
4.d Failure by the Council to spot / influence at an early stage the direction of Central Government policies / new legislation.	2	3	6			
				<p>If not properly managed then either the Council will lose the opportunity to develop further or will have enforced changes to service delivery.</p> <p>Adverse impact on local residents / resources. Missed opportunities to boost tourism / economy.</p> <p>Conflict between Council / Government agendas.</p>		

5. PARTNERSHIPS			ACTION PLAN – PARTNERSHIPS			
Specific Risks	Score		Consequence	Action	Owner	Timing
	P	I				
5.a Failure or inappropriate performance management of one or more strategic partnerships or key contracts E.g. Haven Gateway, RCE, Serco, CBH	4	3	The cost of service delivery is increased however quality decreases. Failure to deliver key priorities. Reputational and financial loss by the Authority.	Assess proposed strategic partnerships to ensure that they will satisfy the Council's objectives before commitment to new partnerships is made.	EMT	Ongoing as part of partnership strategy.
	3	2				
5.b Change of direction / policy within key partner organisations and they revise input / withdraw from projects.	3	2	Requirement to repay external funding granted to partnership – taking on the liabilities of the 'withdrawn' partner. External assessment of the Councils partnerships are critical and score poorly.	Ensure that there is a mechanism to review partnerships and assess the value added.	ED People & Performance	
5.c Potential inability to agree shared outcomes/ agendas with partners and the Council's ability to influence partner's performance, particularly in relation to CAA and LAA requirements.	3	2				

6. ASSETS & RESOURCES			ACTION PLAN – ASSETS & RESOURCES			
Specific Risks	Score		Consequence	Action	Owner	Timing
	P	I O				
6.a	2	5 10	Service delivery failure. Financial and reputational loss by the Authority. Personal liability of Officers and Members. Legal actions against the Council.	Ensure that there is a robust system of internal control that encompasses all assurance systems including Internal Audit, Risk Management, Budget process, Corporate Governance and performance management. This must be reported to senior officers and members on a regular basis to ensure that it is fully embedded.	EMT / Head of Resource Management	There is an ongoing cycle of reviewing and reporting including internal Audit, Risk management and the AGS
6.b	4	3 12				
6.c	3	2 6	Loss of stakeholder confidence in the Borough Inability to sustain costs	Continue to ensure that the budget monitoring process is reflective of finances across the whole Council not just individual service areas.	Head of Resource Management	Monthly reports to PMB. Quarterly reports to FASP
6.d	3	2 6	Failure to deliver a balanced budget. Required to use Reserves & Resources to fund services and support Renaissance programme without ability to 'top-up'. Severe impact on cash-flow leading to negative effect on performance targets.	Develop the annual budget strategy to ensure it has controls built in to be able to respond to changes in the strategic objectives.	Head of Resource Management	Annual exercise. Council approves the final budget in February
				Review the medium term financial outlook and capital programme processes to ensure they are kept up to date and realistic.	Head of Resource Management	MTFS is part of the budget strategy & considered during the process. Capital programme reported to FASP quarterly.

RISK MATRIX QUARTER 4 2008/09 - MAY 09

Low Risks Medium Risks High Risks

Scoring 1-5

Risk Tolerance Line

Probability of Occurrence	5 Very High					
	4 High			3e 4b 5a 6b		
	3 Medium		3a 5b 5c 6c 6d	1b	2b 3d 3f	
	2 Low		4c	1a 1d 3g 4d	3b 3c 4a	
	1 Very Low		2a	2d 2c		
		1 Very Low	2 Low	3 Medium	4 High	
		Severity of Impact				
					5 Very high	

RISK MANAGEMENT STRATEGY

This document outlines the Council's commitment to managing risk in an effective and appropriate manner. It is intended to be used as the framework for delivery of the Risk Management function and provides guidance on developing risk management as a routine process for all services.

INTRODUCTION

The Council undertakes that this strategy will promote and ensure that:

1. The management of risk is linked to performance improvement and the achievement of the Council's strategic objectives.
2. Members and the Senior Management Team own, lead and support on risk management.
3. Ownership and accountability are clearly assigned for the management of risks throughout the Council.
4. There is a commitment to embedding risk management into the Council's culture and organisational processes at all levels including strategic, programme, project and operational
5. All members and officers acknowledge and embrace the importance of risk management as a process, by which key risks and opportunities are identified, evaluated, managed and contribute towards good corporate governance.
6. Effective monitoring and reporting mechanisms are in place to continuously review the Council's exposure to, and management of, risks and opportunities.
7. Best practice systems for managing risk are used throughout the Council, including mechanisms for monitoring and reviewing effectiveness against agreed standards and targets.
8. Accountability to stakeholders is fully demonstrated through periodic progress reports and an annual statement on the effectiveness of and the added value (benefits) from the Council's risk management strategy, framework and processes.
9. The Council's approach is regularly assessed by an external, independent body against other public sector organisations, national standards and Best Practice.
10. The Risk Management Strategy is reviewed and updated annually in line with the Council's developing needs and requirements.

Endorsement by Adrian Pritchard, Chief Executive

“Colchester Borough Council is committed to ensuring that risks to the effective delivery of its services and achievement of its overall objectives are properly and adequately controlled. It is recognised that effective management of risk will enable the Council to maximise its opportunities and enhance the value of services it provides to the community. Colchester Borough Council expects all officers and members to have due regard for risk when carrying out their duties.”

A handwritten signature in black ink that reads "A. R. Pritchard." The signature is written in a cursive style with a long, sweeping underline.

WHAT IS RISK MANAGEMENT

Risk Management is the control of business risks in a manner consistent with the principles of economy, efficiency and effectiveness. It is an essential performance management process to ensure that both the long and short term objectives of the Council are achieved and that opportunities are fully maximised.

Risk Management is not about eliminating risk, as this would limit the ability of the organisation to develop and deliver its ambitions. Its purpose is to recognise the issues that could effect the achievement of our objectives and develop actions to control or reduce those risks. Acknowledgement of potential problems and preparing for them is an essential element to successfully delivering any service or project. Good management of risk will enable the Council to rapidly respond to change and develop innovative responses to challenges and opportunities.

‘The Good Governance Standard for Public Services’ issued by The Independent Commission on Good Governance in Public Services states that there are six core principles of good governance including ‘Taking informed, transparent decisions and managing risk’. The document goes on to state ‘Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective’.

BACKGROUND

Current Position

The first Risk Management Strategy was adopted by the Council in September 2003 and incorporated in the Council's policy framework. This introduced the concept of risk and identified the process to be followed.

In broad terms risks are split into three categories:

- Strategic – those risks relating to the long term goals of the Council
- Operational – risks related to the day-to-day operation of each individual service
- Project – consideration of the risks occurring as a result of the Council's involvement in specific initiatives

A significant amount of progress has been made in managing the risks to the Council. The following are some of the achievements since the adoption of the strategy:

- Creation of an overall strategic register.
- Creation of operational risk registers for all service areas.
- Consideration of risk in Committee reports.
- Development of a comprehensive risk register for the regeneration programme and consideration of risk as a project management tool.
- Successful internal and external assessment.
- Provision of advice to other authorities regarding our management of risk.

The CPA score was an endorsement that we have devised a practical and workable approach to managing risk. This has resulted in the Council becoming more risk aware and actually taking more risks, as demonstrated by the comprehensive risk register for the renaissance projects. Colchester is also highly regarded for managing risk by both our insurers and other authorities.

The Audit Commission, in the 2007/08 Audit and Inspection Letter, stated that "*Risk management arrangements continue to be embedded. A risk strategy is in place and approved by members. A corporate risk register is regularly updated, and contains specific and generic risk in respect of partnerships. The Finance and Scrutiny Panel who are responsible for risk management regularly review the corporate risk register. Project initiation contains a risk assessment*".

The annual Use of Resources assessment for 2007/08 highlighted areas of Risk Management that were performing well but by the same token highlighted areas where further development is required, including:

- Continue to roll out awareness training for Members
- Development of the senior officer and member risk champion roles
- Further embed risk management into business processes
- Ensure that reports to support strategic policy decisions include a risk assessment, including a sustainability impact appraisal.
- Consideration of opportunity risk in the successful delivery of major innovative and challenging projects.

The issues of awareness and training and further embedding into the business process have also been highlighted in the 2008/09 Internal Audit assessment of the risk management system.

OWNERSHIP

The responsibility to manage risk rests with every member and officer of the Council however it is essential that there is a clearly defined structure for the co-ordination and review of risk information and ownership of the process.

Appendix D is from the CIPFA/SOLACE risk management guide, Chance or Choice. It is a generic map of responsibility for each part of the risk management process.

The following defines the responsibility for the risk management process at Colchester:

Cabinet – Overall ownership of the risk management process and endorsement of the strategic direction of risk management.

Portfolio Holder for Resources & Business – Lead member for the risk management process

Finance & Audit Scrutiny Panel (FASP) – Responsible for reviewing the effectiveness of the risk management process and reporting critical items to cabinet as necessary.

Performance Management Board (PMB) – Ownership of the strategic risks and overview of the operational risks. Actively support the Risk Management Strategy and framework.

Executive Director – Lead officer for the risk management process, demonstrating commitment to manage risk

Head Of Resource Management – Responsible for co-ordination of the risk management process, co-ordinating and preparing reports and providing advice and support.

Heads of Service – Ownership, control and reporting of their service's operational risks. Contribute to the development of a risk management culture in their teams.

All Employees – To understand and to take ownership of the need to identify, assess, and help manage risk in their individual areas of responsibility. Bringing to the management's attention at the earliest opportunity details of any emerging risks that may adversely impact on service delivery.

Internal Audit, External Audit and other Review Bodies – Annual review and report on the Council's arrangements for managing risk throughout the Council, having regard to statutory requirements and best practice. Assurance on the effectiveness of risk management and the controls environment.

THE WAY FORWARD

Aims & Objectives

The aim of the Council is to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks across all processes to ensure that risks are properly considered and reduced as far as practicable.

The risk management objectives of Colchester Borough Council are to:

- Integrate risk management into the culture of the Council
- Ensure that there are strong and identifiable links between managing risk and all other management and performance processes.
- Manage risk in accordance with best practice
- Anticipate and respond to changing social, environmental and legislative requirements
- Prevent injury, damage and losses and reduce the cost of risk
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services.
- Ensure that opportunities are properly maximised through the control of risk.
- Reduce duplication between services in managing overlapping risks and promote 'best practise'.

Risk Management forms an important part of the Council's system of Internal Control and is therefore one of the Use of Resources Key Lines of Enquiry. The Risk Management function has achieved assessment at level 3 from level 2 last year. The objectives outlined above have been set to ensure that the function can maintain this assessment level. The approach of the Use of Resources assessment was changed for the 2008/09 year and the authority is now required to provide a broad self assessment review of the function as opposed to meeting set performance criteria. However Appendix C outlines the 2007/08 Use of Resources criteria for Risk Management which provides a basis for service delivery.

Strategic Risk Management

Strategic risks are essentially those that threaten the long term goals of the Council and therefore are mainly based around meeting the objectives of the Strategic Plan. They may also represent developing issues that have the potential to fundamentally effect service provision, such as proposals to dramatically change the corporate assessment process.

Strategic risks will be controlled using a register that will detail the risks and associated controls. The register will be owned by the Senior Management Team, with ownership for risks being assigned to individual officers, and will be reviewed every quarter. The strategic risks will be reported to F.A.S.P. every quarter.

Operational Risk Management

Operational risks are those that threaten the routine service delivery of the Council. Each service area will have their own operational risk register that details the risks associated with providing the service. These registers will be reported, in summary format, to the Senior Management Team and committee on an annual basis. High risks and the success in controlling them will be reported to Senior Management Team on a quarterly basis, as these will help in the formulation of the strategic risk register.

Links

It is essential that risk management does not operate in isolation to other management processes. To fully embed a risk management culture it has to be demonstrated that risk is considered and influences all decisions that the Council makes. It is essential that there is a defined link between the results of managing risk and the following:

- The Strategic Plan
- Service Plans
- Revenue and Capital Budgets
- Annual Internal Audit Plan

Action Required

The following actions will be implemented to achieve the objectives set out above:

- Considering risk management as part of the Council's strategic planning and corporate governance arrangements.
- Ensuring that the responsibility for risk management is clearly and appropriately allocated
- Maintaining documented procedures for managing risk
- Maintaining a corporate approach to identify and prioritise key services and key risks across the Council and assess risks on key projects.
- Maintain a corporate mechanism to evaluate these key risks and determine if they are being adequately managed and financed.
- Establish a procedure for ensuring that there is a cohesive approach to linking the risks to other management processes
- Including risk management considerations in all committee reports
- Providing risk management awareness training to both members and officers.
- Developing risk management performance indicators.
- Establishing a reporting system which will provide assurance on how well the Council is managing its key risks and ensures that the appropriate Members and officers are fully briefed on risk issues.
- Preparing contingency plans in areas where there is a potential for an occurrence to have a significant effect on the Council and its business capability.
- Regularly reviewing the risk process to ensure that it complies with current national Governance Standards and Best Practice.
- Creation of an annual 'Action Plan' that details particular areas of development for the coming year, including details of the value added and how they will be embedded.

REVIEW

To ensure that the risk management process is effective it will need to be measured and reported to P.M.B., F.A.S.P. & Cabinet. As well as a structured reporting process of risks and controls during the year there will need to be an annual review demonstrating the success of the following:

- The inclusion of risk management principles within Service Plans and budgets.
- The development of the Internal Audit plan based on the risk issues.
- Achievement against identified performance indicators.
- Members consistently ensuring managing risk is considered as part of the decision making processes within the Council.
- Service managers making recommendations that regard risk as an opportunity as well as a threat .
- Risk management principles being considered in service reviews, for example in areas such as options for change and service improvements.
- Changes in risk being independently identified and assessed by Service Managers
- Compliance with the use of resources criteria and self assessment requirements.

Suitable opportunities to benchmark the risk management service against other organisations should also be explored to ensure that it is effective and the work carried out by the Council conforms to best practise.

The four appendices attached give greater detail of key issues:

Appendix 1 – Outline of the risk management process

Appendix 2 – Details of how Risk Management will be reported.

Appendix 3 – The 2007 Use of Resources Criteria for Risk Management

Appendix 4 – CIPFA guidance on Risk Management Responsibilities

APPENDIX A

The Risk Management Process

Risk Management is a continual process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling them and / or responding to them. The risks faced by the Council are constantly changing and the continual process of monitoring risks should ensure that we can respond to the new challenges. This process is referred to as the risk management cycle.

Stage 1 – Risk Identification

Identifying and understanding the hazards and risks facing the council is crucial if informed decisions are to be made about policies or service delivery methods. There is detailed guidance available on how to identify risks which includes team sessions and individual knowledge. Once identified a risk should be reported to the Head of Service who will consider its inclusion on the relevant risk register. If the risk is identified in between register reviews then it is reported to the Risk & Resilience Manager for information and the Head of Service is responsible for managing the risk.

Stage 2 – Risk Analysis

Once risks have been identified they need to be systematically and accurately assessed. If a risk is seen to be unacceptable, then steps need to be taken to control or respond to it.

Stage 3 – Risk Control

Risk control is the process of taking action to minimise the likelihood of the risk event occurring and / or reducing the severity of the consequences should it occur.

Stage 4 – Risk Monitoring

The risk management process does not finish with the risk control procedures in place. Their effectiveness in controlling risk must be monitored and reviewed. It is also important to assess whether the nature of the risk has changed over time.

APPENDIX B

Reporting

No matter how good the process to identify and control risks is, it will not be effective unless the information gained from it is reported and used to influence other management issues / processes. Therefore it is essential that there is a defined process and timetable for reporting the results of the risk management process to both members and officers.

Types of Report

- A quarterly report to P.M.B., detailing the *high level* operational risks along with comment from the Services regarding the progress that they have made in controlling the risk.
- The strategic risk register needs to be reviewed on a quarterly basis by P.M.B.
- A quarterly report needs to be provided to Committee (F.A.S.P.) detailing the current strategic and high level operational risks and the progress made in controlling them.
- Six monthly review of the operational risk registers and a summary report of these reviews to P.M.B.
- An annual report reviewing Risk Management activity and an action plan for the coming year - taking into account changes in methodology and results of internal and external reviews. Going to P.M.B., FASP and Cabinet. This needs to cover all of the three areas of risk
- Ad-hoc reports need to be provided to P.M.B. when new, significant risk issues arise.

The reports can be summarised as follows:

	Service's	P.M.B.	F.A.S.P.	Cabinet
Quarterly		Progress of high level operational risks Review of strategic risk register	Progress report of strategic & high level operational risks	
6 Monthly	Review of operational risk register	Summary of operational review from services		
Yearly		Scrutiny of annual progress report to cttee on R.M. & action plan for coming year.	Endorsement of annual progress report on R.M. & action plan for coming year	Summary of past years work on R.M. and agreement of action plan for the coming year.

Appendix C Use of Resources Criteria

4. INTERNAL CONTROL How well does the council's internal control environment enable it to manage its significant business risks?		
Key line of enquiry 4.1 The council manages its significant business risks		
Audit Focus Evidence that: the council has a risk management process in place the risk management system covers partnership working		
Criteria for Judgement		
Level 2	Level 3	Level 4
<p>* The council has adopted a risk management strategy/policy that has been approved by members.</p> <p>* The risk management strategy/policy requires the council to:</p> <ul style="list-style-type: none"> • identify corporate and operational risks • assess the risks for likelihood and impact • identify mitigating controls • allocate responsibility for the mitigating controls. <p>* The council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigns named individuals to lead on the actions identified to mitigate each risk.</p> <p>* Member responsibility for corporate risk management is identified in the terms of reference of one or more committees as appropriate.</p> <p>* Reports to support strategic policy decisions, and project initiation documents, include a risk assessment.</p>	<p>1.1.2</p> <p>* The risk management process is reviewed and updated at least annually.</p> <p>* The risk management process specifically considers risks in relation to significant partnerships and provides for assurances to be obtained about the management of those risks.</p> <p>* All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment.</p> <p>* The members with specific responsibility for risk management have received risk management awareness training.</p> <p>* Members with responsibility for corporate risk management receive reports on a regular basis and take appropriate action to ensure that corporate business risks are being identified and effectively managed, including reporting to full council as appropriate.</p>	<p>* A senior officer and member jointly champion and take responsibility for embedding risk management throughout the council.</p> <p>* The council can demonstrate that it has embedded risk management in its business processes, including:</p> <ul style="list-style-type: none"> • strategic planning • financial planning • policy making and review • performance management <p>* All members receive risk management awareness training appropriate to their needs and responsibilities</p> <p>* The council considers the opportunity side of innovative and challenging projects.</p> <p>* Reports to support strategic policy decisions, and initiation documents for all major projects, require a risk assessment including sustainability impact appraisal.</p>

Appendix D Risk Management Responsibilities – CIPFA / SOLACE Guidance

	Framework, Strategy and Process	Identifying risk	Analysing Risk	Profiling risk	Prioritising action based on risk appetite	Determining action on risk	Controlling risk	Monitoring & Reporting	Reporting to external stakeholders.
Members	Agreeing the Framework, Strategy and Process Determined by Officers	Identifying risk	Analysing Risk	Profiling Risk	Determining the risk appetite and prioritising risk. Agreeing the priorities determined by officers			Reviewing the effectiveness of the risk management process.	Reporting to external stakeholders on the framework, strategy, process and effectiveness .
Risk Management Team	Providing advice And support to the executive Management Team and Members	Providing advice and support.	Providing Advice and support	Providing advice and support	Providing advice and support			Co-ordinating the results for reporting to the corporate management team and members	
Senior Management Team	Determining the framework, Strategy and Process	Identifying strategic and cross-cutting issues	Analysing Strategic and cross-cutting issues.	Profiling strategic and cross-cutting issues.	Determining the risk appetite and prioritising strategic and cross-cutting issues	Determining action on strategic and cross-cutting issues. Delegating responsibility for control.		Monitoring progress on managing strategic and cross-cutting risks and reviewing the implementation of the risk management framework, strategy and process. Reporting to members.	Reporting to external stakeholders on the framework, strategy, process and effectiveness.
Head of Resource Management	Providing Advice and Support	Providing advice and support	Providing advice and support	Providing advice and support	Providing advice and support	Providing advice and support	Providing advice and support	Co-ordinating the results for reporting to the executive management team and members	Preparing draft reports for the corporate management team and members to issue.
Service Managers / G.M.'s		Identifying service Risks	Analysing Service risks.	Profiling service risks.	Prioritising action on service risks.	Determining action on service risks. Delegating responsibility for control.		Monitoring progress on managing service risks. Reporting to the group management team	
Employees, contractors And partners		Maintaining awareness of risks and feeding these into the formal process.	Maintaining awareness impact of risks and feeding information into the processes				Controlling risk in their jobs.	Monitoring progress on Managing job related risks Reporting to the service manager.	



Finance and Audit Scrutiny Panel

Item
12

28 July 2009

Report of	Scrutiny Officer	Author	Robert Judd
Title	Work Programme 2009-10		Tel. 282274
Wards affected	Not applicable		

This report sets out the rolling 2009/10 Work Programme for the Finance and Audit Scrutiny Panel

1. Action Required

1.1 The Panel is asked to consider and comment on the rolling 2009-10 work programme.

2. Reason for Action

2.1 This function forms part of the Panel's Terms of Reference in the Constitution.

3. Alternative Options

3.1 This forms part of the Panel's Terms of Reference in the Constitution, and there are no alternative options.

4. Standard References

4.1 There are no policy plan references or financial, human rights, community safety and risk management implications in this matter.

4.2 The work of the Finance and Audit Scrutiny Panel is a key function to ensure probity in financial, audit and risk management, and is in line with the aims of the strategic plan.

Finance and Audit Scrutiny Panel

Incorporating Accounts and Regulatory Committee (A&R)

WORK PROGRAMME 2009-10 (last updated 14 July 2009)

To be scheduled

1. Review of Firstsite:Newsite project and business plan – date to be arranged
2. VFM review of Council funding to Firstsite, The Mercury and Arts Centre – date to be arranged
3. Progress report on the Free Freighter Service – date to be arranged in 2010

30 June 2009

1. 2007-08 Annual Audit and Inspection Letter (A&R)
 2. 2008-09 External Audit Report (A&R)
 3. 2008-09 Internal Audit Report (A&R)
 4. Annual review of the Governance Framework and Statement (A&R)
 5. 2008-09 Annual Governance Statement (A&R)
 6. Draft Annual Statement of Accounts (A&R)
1. 2008-09 Revenue Expenditure pre-audit outturn (FASP)
 2. 2008-09 Capital pre audit outturn (FASP)

28 July 2009

1. Annual Report on Treasury Management
2. 2008-09 Risk Management Summary

18 August 2009

1. 2008-09 Revenue Expenditure, period April to June
2. 2008-09 Capital Monitor

22 September 2009

1. 2009-10 Internal Audit Monitor, period April to June
2. 2009-10 External Audit Monitor, period April to June
3. Annual Governance Audit Report (A&R)
4. Annual Statement of Accounts (A&R)
5. Review of Parking Services (Portfolio Holder and Head of Service to attend)

20 October 2009

1. Report Publication of Audited Statement of Accounts (A&R)
2. Risk Management period April to September
3. Annual Business Continuity Progress report

17 November 2009

1. 2009-10 Internal Audit Monitor, period April to September
2. 2009-10 Revenue Expenditure, period April to September
3. 2009-10 Capital Monitor

26 January 2010

1. 2010-11 Budget Strategy
2. Treasury Management - Investment Strategy

23 February 2010

1. Risk Management, period April to December
2. 2009-10 Revenue Expenditure, period April to December
3. 2009-10 Capital Monitor

23 March 2010

1. 2009-10 Internal Audit Monitor, period April to December
2. Annual Governance Statement briefing paper
3. Internal Audit Annual Plan 2010-11
4. Supplementary opinion audit plan
5. Use of resources statement 2009

