

Finance and Audit Scrutiny Panel

Town Hall, Colchester
24 July 2012 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 reviews Portfolio Holder 'Service' decisions referred to the Panel under the Call in procedure.

Information for Members of the Public

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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 refer to Attending Meetings and "Have Your Say" at www.colchester.gov.uk

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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

**COLCHESTER BOROUGH COUNCIL
FINANCE AND AUDIT SCRUTINY PANEL
24 July 2012 at 6:00pm**

Members

Chairman : Councillor Dennis Willetts.
Deputy Chairman : Councillor Marcus Harrington.
Councillors Cyril Liddy, Jon Manning, Gerard Oxford,
Ray Gamble, Glenn Granger, Scott Greenhill, Julia Havis
and Theresa Higgins.

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 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 interests they may have in the items on the agenda. Councillors should consult Meetings General Procedure Rule 7 for full guidance on the registration and declaration of interests. However Councillors may wish to note the following:-

- Where a Councillor has a disclosable pecuniary interest, other pecuniary interest or a non-pecuniary interest in any business of the authority and he/she is present at a meeting of the authority at which the business is considered, the Councillor must disclose to that meeting the existence and nature of that interest, whether or not such interest is registered on his/her register of Interests or if he/she has made a pending notification.
- If a Councillor has a disclosable pecuniary interest in a matter being considered at a meeting, he/she must not participate in any discussion or vote on the matter at the meeting. The Councillor must withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.
- Where a Councillor has another pecuniary interest in a matter being considered at a meeting and where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Councillor's judgment of the public interest, the Councillor must disclose the existence and nature of the interest and withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.
- Failure to comply with the arrangements regarding disclosable pecuniary interests without reasonable excuse is a criminal offence, with a penalty of up to £5,000 and disqualification from office for up to 5 years.

5. Minutes

1 - 3

To confirm as a correct record the minutes of the meeting held on 26 June 2012.

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

4 - 5

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

At the June meeting, Councillor Gerard Oxford requested a review of the High Woods Country Park charges. Panel members agreed to requesting a scoping report detailing all the income and expenditure, and with this information would then decide whether to undertake a full scrutiny review.

See the scoping report from Mr. Bob Penny, Parks and Recreation Manager, Life Opportunities, setting out information that shows the impact of the introduction of car parking charges from April 2012 on income and expenditure at High Woods Country Park.

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

Members of the panel may use agenda item 'a' (all other members will use agenda item 'b') as the appropriate route for referring a 'local government matter' in the context of the Councillor Call for Action to the panel. Please refer to the panel's terms of reference for further procedural arrangements.

8. Decisions taken under special urgency provisions

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

9. Referred items under the Call in Procedure

To consider any decisions taken under the Call in Procedure.

10. Audit Commission Update

6 - 20

See report from the Head of Resource Management.

Mr. Gary Belcher, Engagement Manager, Audit Commission, will attend the meeting to present the Audit Commission report.

11. 2011/12 Internal Audit Report	21 - 28
See report from the Head of Resource Management.	
12. 2011/12 Year End Review of Risk Management	29 - 56
See report from the Head of Resource Management.	
13. 2011/12 Annual Report - Treasury Management	57 - 67
See report from the Head of Resource Management.	
14. Work Programme	68 - 69
See report from the Head of Corporate Management.	
15. 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

26 JUNE 2012

Present :- Councillor Dennis Willetts (Chairman)
Councillors Ray Gamble, Glenn Granger,
Scott Greenhill, Marcus Harrington, Julia Havis and
Gerard Oxford

Substitute Members :- Councillor Lesley Scott-Boutell
for Councillor Theresa Higgins
Councillor Michael Lilley for Councillor Cyril Liddy
Councillor Nick Cope for Councillor Jon Manning

3. Minutes

The minutes of the meetings held on the 28 February 2012 and 23 May 2012 were confirmed as a correct record.

4. Work Programme

Mr. Robert Judd, Democratic Services Officer, presented the draft Work Programme for 2012/13, explaining that the majority of items schedule are periodical and annual financial performance, audit, capital expenditure and risk reports reviewed by the Panel on a regular basis.

The exception was the Service Level Agreement to manage Abbots Centre, scheduled for the September meeting and following on from the review of the original decision in November 2011. Mr. Judd confirmed that the item Localising Council Tax Support, scheduled for a July review had now been withdrawn from the work programme, and would be reviewed by the Policy Review Panel before being submitted to the Strategic Overview and Scrutiny Panel for pre-Cabinet scrutiny.

Mr. Judd confirmed that following the briefing on the previous Thursday, he would carry forward from 2011/12 the uncompleted review of the financial impact of a new Park and Ride Scheme. Mr. Judd said he would inform the Panel once a review date was confirmed.

The Panel was informed of a call-in to the decision on 'Proposals for the Council to support Colne Housing in the establishment of "Hythe Forward" with a £30,000 funding contribution'. The hearing would hopefully be held within the next two weeks by a scrutiny Panel and at a venue to be agreed. The likely date was the 11th of July, but Mr. Judd would confirm this to all Members later this week.

Members discussed the item raised by Councillor Gerard Oxford, the review of the High Woods Country Park charges. Councillor Oxford agreed with Councillor Willetts that officers should provide advance information, a scoping report detailing all the income and expenditure, for Panel members to decide if the information warrants full scrutiny at a Panel meeting. Members would take a view once the information is to hand, though it was envisaged that a review would not be undertaken until early 2013.

Councillor Greenhill asked the Panel to consider a review of the contractual arrangements for the development of Firstsite now the legal action had been concluded. Following lengthy discussion between Councillor Smith, Portfolio Holder for Business and Resources, Mrs Ann Hedges and Panel Members it was concluded that Mrs Hedges would speak to Mr. Ian Vipond about the possibility of bringing an item around Firstsite to FASP, and to see if it was possible to include information not previously discussed at any of the many scrutiny reviews. Officers would consider a review taking in 'a summary of previous scrutiny', 'the possibility of including partners' and a 'comparison of the experience with the first contractor and the second, and the lessons learnt. Officers agreed to report back to the Panel once a proposal could be put to the Panel.

RESOLVED that the Panel agreed to the draft Work Programme for 2012/13, the suggested amendments and additional items for review.

5. Financial Monitoring Report - End of year 2011/12

Mr. Sean Plummer, Finance Manager, introduced the Financial Monitoring Report for 2011-12, an overview of the financial performance of the General Fund Services and the Housing Revenue Account.

The year-end account may still be subject to some minor changes and all figures are reported prior to the external audit process. The accounts were due to be signed off by the 30 June 2012. Details of this report are reflected in the Statement of Accounts.

Mr. Plummer spoke about the General Fund – End of Year position as shown in paragraph 4 which showed a net underspend of £196k after allowing for approved carry forward requests and other adjustments shown in. Mr. Plummer said the 2011/12 Budget included almost £3.6m of savings or additional income which had been required mainly due to Government spending cuts.

The Housing Revenue Account was a separate account to the General Fund, and showed an adverse variance of £77,000, slightly worse than forecasted.

Members and officers discussed in length Car Parking Charges, given the large variance in car parking income. Councillor Harrington did suggest that the variance could be attributed to the charges being too high, and that these could be reduced until the Park and Ride Scheme was introduced.

Councillor Smith said car parking charges are under constant review. The actual number of people using car parks is constant, so the loss of revenue was in the main due to the fall in contributions, with many motorists taking up the special offers. As part of addressing congestion busting, motorist visitors are encouraged to visit the town centre during off-peak times, but this is less profitable. Councillor Smith said this was a tactic now being used by National Car Parks (NCP). Mr. Plummer said Car Parking Charges are a risk item, reviewed on a regular basis. Councillor Smith confirmed to Councillor Granger that the Council does undertake regular formal modelling on price

sensitivity. In general this modelling is accurate though it can be distorted by unpredicted spells of bad weather.

Given the high level of interest in the modelling work, the Panel agreed to Councillor Willetts suggestion that if it proved possible, this work should be included as part of a joint review, with the Financial Impact of Park and Ride, provided both items could be reported within a reasonable timeframe.

Mr. Plummer confirmed to Councillor Cope that Community Alarms was basically the Helpline Service. This item showed a large net variance, however, this was now subject to a new marketing campaign to try to increase the take-up of the service.

RESOLVED that the Panel noted the financial performance of the General Fund Services and the Housing Revenue Account for the year 2011/12.

6. 2011-12 Capital Expenditure Management Report

Mr. Steve Heath, Finance Manager, introduced the report on the 2011-12 Capital Expenditure, requesting Members to note the level of capital spending during 2011/12 and forecasts for future years.

The report identified a rolling programme of major capital projects that can take more than one year to complete. The programme had significantly increased since it was last reported in February 2012, which was mainly as a result of the HRA reform payment. Mr. Heath confirmed that excluding this amount capital spending had totalled £14.2m representing 91% of the projected spend for 2011/12.

Mr. Heath brought the projected variances against current schemes to Members attention. The variances, as identified in paragraph 4.5 of the report, will be reported to Cabinet in July 2012.

Aside from the capital report, Mr. Heath confirmed to the Panel that the Council had received a further payment of £500,000, from the Icelandic Investments. The overall repayments now represent around 40% of the original claim. Mr. Heath reiterated that these payments did not amount to new money and had been accounted for within the Council's accounts.

It was confirmed that as a result of the new Housing Investment Programme (HIP) 2012/13, the substantial loan of £73m would be paid over a period of 25-30 years at an interest rate of approximately 3.5%, and this would equate to a positive net result to the Council.

Councillor Smith confirmed to Councillor Oxford that the Town Hall DDA Sensory Project would commence in 2012 and would progress to a completion sometime towards the end of 2012.

RESOLVED that the Panel noted the level of capital spending during 2011/12 and forecasts for future years.

Item 7(a)

Information requested from Panel Members

High Woods Country Park

Impact of the introduction of car parking charges from April 2012 on income and expenditure at High Woods Country Park

Arising from the discussion at FASP on 26 June 2012 a request was made for a scoping report detailing the income and expenditure at High Woods Country Park for Panel members to decide if the information warrants full scrutiny at a Panel meeting.

The information provided below sets out comparisons of the visitor numbers to High Woods Country Park visitor centre, the income being generated from the Visitor Centre and the income being generated from car park charges since the introduction in April 2012 to demonstrate the impact that the introduction of car park charges has had on visitor numbers and in particular income at the High Woods Country Park Visitor Centre.

Annual comparisons are a little crude as attendance figures are very dependent on weather conditions. In 2011/12 the new play area was opened which created a surge in demand and the spring weather was exceptionally good.

The first 3 months figures are available for 2012 since the car park charges have been introduced. With only 3 months figures available and seasonal variations to be considered it is difficult to make many conclusions. The figures show that the average spend per visitor is increasing, visitor attendance has increased beyond the 2010 figures and car parking is generating income averaging £1,700 per month.

There will be an annual management fee of £2,500 by the Parking Partnership which will cover parking ticket machine maintenance, enforcement, back office processing and cash collection and an additional annual payment of £500 per annum for coin processing. There is a one off fee in the first year of £8,000 for the purchase of pay and display machines and another of £1,000 for advertising of the fees and charges.

Car parking income	Transactions	Income
April	2764	£1,709.40
May	2662	£1,710.50
June	2648	£1,659.70

3 month total	8074	£5,079.60
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Number of visitors recorded in High Woods Country Park Visitor Centre

Month	2010	2011	2012
April	3551	7149	3167
May	2304	5144	3404
June	2483	4385	2825
July	3206	5592	
August	3658	6810	
September	1839	3462	
October	1610	2312	
November	620	1137	
December	359	665	
January	447	1129	
February	799	1317	
March	1074	1752	
Total	21950	40854	9396

3 month total	8338	16678	9396
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Income Comparison for High Woods Country Park Visitor Centre

Month	2010	2011	2012
April	2,683.73	5,802.75	2,640.37
May	1,926.00	4,267.25	3,080.28
June	2,512.08	3,256.82	3,121.57
July	3,619.42	3,596.47	
August	2,753.86	6,506.38	
September	2,869.89	5,556.64	
October	1,007.81	1,494.51	
November	1,072.40	917.22	
December	765.90	694.93	
January	275.89	633.84	
February	404.24	976.11	
March	1,546.84	1,923.93	
Total	£21,438.06	£35,626.85	£8,842.22

3 month total	£7,121.81	£13,326.82	£8,842.22
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Spend per visitor	£0.85	£0.80	£0.94
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Finance & Audit Scrutiny Panel

Item
10

24 July 2012

Report of	Head of Resource Management	Author	Steve Heath
Title	Audit Committee Update		 282389
Wards affected	Not applicable		

This report concerns the Audit Committee Update from the Audit Commission

1. Action Required

- 1.1 To consider and note the contents of the progress report from the Audit Commission.

2. Reasons for Action

- 2.1 The report provides the Panel with an update on the Audit Commission's progress in delivering their responsibilities as external auditors, as well as highlighting matters that may be of interest to Members.

3. Supporting Information

- 3.1 Officers from the Audit Commission will make a brief presentation in relation to the progress report.
- 3.2 The report details the following information:
- Progress with the audit of the financial statements and grant claims, as well as the VFM conclusion.
 - An update on the outsourcing of audit work and the future of the Audit Commission. The report.
 - Further matters of interest including 2012/13 audit fees, the National Fraud Initiative, Public Sector Internal Audit Standards, Payment by Results, and the rights of local electors.

4. Strategic Plan References

- 4.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2011/12.

5. Financial Implications

- 5.1 The fee scales for 2012/13 are within the budgeted amounts for the year.

6. Standard References

- 6.1 Having considered publicity, consultation, equality, diversity and human rights, community safety, health and safety and risk management implications, there are none that are significant to the matters in this report.

Audit **Committee** **update**

Colchester Borough Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

1 The purpose of this paper is to provide the Finance and Audit Scrutiny Panel (FASP) with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the FASP. The paper concludes by asking a number of questions which the Panel may wish to consider in order to assess whether it has obtained sufficient assurance on emerging issues.

3 If you require any additional information regarding the issues included within this briefing, please contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign up to be notified of any new content that is relevant to your type of organisation.

Debbie Hanson

District Auditor

5 July 2012

Progress report

5 This report summarises progress against the audit plan for 2011/12 for the 24 July 2012 meeting of FASP.

Financial statements

6 My pre-statements work has identified a small number of minor issues/good practice points, all of which have already been identified and reported by Internal Audit. As such, I am not planning to report these separately. I did not identify any instances of significant control weaknesses that would alter my planned testing strategy.

7 The final accounts audit commences on the week commencing the 30th July 2012, and I plan to present the findings from my audit to the 25th September meeting of FASP.

Grant claims

8 Work on the housing and council tax benefits scheme is ongoing. There are no significant issues to note from the work to date.

9 The three remaining claims that require to be audited in 2011/12 are the pooling of housing capital receipts return, the national non-domestic rates return and the HRA subsidy return. I am on track to complete the audit of these claims by their respective submission deadlines.

VFM conclusion

10 I have completed my initial review of the value for money (vfm) arrangements in place at the Council, and will finalise this review together with the final accounts audit in September 2012. I have not identified any issues or concerns at this stage which would adversely impact my vfm conclusion.

Update on outsourcing the work of the Audit Practice

11 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies. Ernst and Young were awarded the contract for the Eastern area, which includes Thurrock Council, and the meeting with clients was held on 14 May.

12 The Commission has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

13 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously.

14 I do not anticipate that there will be any such part-completed work in respect of my audit of Colchester Borough Council.

Update on the residual Audit Commission

15 The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

16 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

17 More recently, the Board of the Audit Commission has announced the appointment of Marcine Waterman as Controller of Audit with effect from 1 September 2012. Marcine is currently the Commission's Director of Audit Policy and Regulation.

18 Eugene Sullivan will continue as the Audit Commission's Chief Executive until the outsourcing project has been successfully completed.

Other matters of interest

2012/13 audit fees

Fee scales for 2012/13 audits of local government and NHS bodies

19 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on 11 April 2012.

20 As a result of the savings achieved from the procurement exercise and the Commission's own internal efficiencies, the scales of fees local government bodies will now be reduced by 40 per cent for 2012/13. The scale fee for Colchester for the 2012/13 audit is £79,543 compared to a fee of £132,573 for 2011/12.

21 As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation.

Fee scales for 2012/13 National Fraud Initiative

22 The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

23 The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

24 In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

2010/11 National Fraud Initiative

25 In May 2012, the Audit Commission published the results of the NFI for 2010/11.

26 The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

27 When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

28 The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

29 The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

30 The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

31 Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

Public Sector Internal Audit Standards

32 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

33 This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

34 The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices

Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

Payment by results

35 The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

36 PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

37 What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

38 National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

39 The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

40 The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

41 The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

The rights of local electors

42 The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

43 The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

44 Members of the Panel may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

NAO role in local VFM studies

45 The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

46 A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

47 The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

48 Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

CIPFA's brief guide to Local Government Finance reforms

49 As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

50 CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

51 The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

Key considerations

52 The Panel may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Panel asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Panel satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?
- Are members of the Panel familiar with the rights of local electors in relation to the external audit of the accounts?

Contact details

53 If you would like further information on any items in this briefing, please contact either your District Auditor or Audit Manager.

54 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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July 2012



Finance & Audit Scrutiny Panel

Item
11

24 July 2012

Report of

Head of Resource Management

Author

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Title

Year End Internal Audit Assurance Report 2011/12

Wards
affected

Not applicable

This report summarises the performance of internal audit during 2011/12 and details internal audit work undertaken between 1st October 2011 – 31st March 2012.

1. Actions Required

- 1.1 To note and comment on the Council's performance relating to:
- Executing the internal audit plan for 2011/12
 - Internal audit activity for the period 1st October 2011 – 31st March 2012
 - Performance of internal audit by reference to national best practice benchmarks;

2. Reason for Scrutiny

- 2.1 The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective system of internal audit.
- 2.2 Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- The Council continued to provide an effective internal audit service during the second half of the 2011/12 financial year
- No recommendations were raised in relation to the regularity audit of Creditors.
- The assurance ratings for the Rechargeable Works audit have improved from 'Limited' to 'Substantial'
- 10 priority 1, 43 priority 2 and seven priority 3 recommendations have been made. All recommendations have been accepted by management
- There continues to be good progress made in implementing and verifying outstanding recommendations

4. Summary of 2011/12

- 4.1 There continues to be a very positive relationship between officers of the Audit and Governance Team and the internal audit provider and regular meetings take place to discuss various issues, including internal audit briefs, recommendations and audit planning.
- 4.2 There are also regular meetings with the external audit provider. This helps to ensure that the work of the internal and external auditors is complementary.

5. Supporting Information

5.1 This report has been designed to show:

- Summary information concerning audits finalised in the period receiving a 'Full' or 'Substantial' assurance rating and more detailed information on those audits receiving a 'Limited' or 'No' assurance rating
- The effectiveness of the Internal Audit provider in delivering the service

5.2 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits. Only systems audits generate an assurance level and these are categorised as follows:

- Full Assurance – there is a sound system of internal control.
- Substantial Assurance – while there is a basically sound system of internal control, there are some weaknesses
- Limited Assurance – weaknesses that may put the systems objectives at risk
- No Assurance – control processes are generally weak leaving the processes/systems open to significant error or abuse

5.3 Internal Audit categorises recommendations according to their level of priority as follows:

- Priority 1 – issues for the attention of senior management
- Priority 2 – Important issues to be addressed by management in their areas of responsibility
- Priority 3 – Minor issues

5.4 Internal audit categorise the tracking of recommendations as follows:

- Implemented and verified
- Implemented awaiting verification
- Not implemented – not due
- Not implemented – overdue

6. Internal Audit Performance

6.1 Use of Audit Resources:

	Days	%
Audit days delivered April - September	205	58%
Audit days delivered October 2011 – March 2012	147	42%
	352	100%

Eight days were carried forward to 2012/13 at the request of the client.

6.2 Summary of Audits Finalised During the Period

During the period a total of 15 audits have been finalised. The assurance rating improved in 9% of the systems audits carried out, remained the same in 73% and declined in 18%.

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
610 - Parking Services Income	Limited	►	0	11	0	11
611 – Housing Rents	Substantial	►	0	1	1	2
614 – Off-Site Working	Substantial	►	1	4	1	6
625 – Corporate Debt	Limited	▼	2	4	1	7
627 – Rechargeable Works	Substantial	▲	0	1	0	1
629 – Corporate Governance	Substantial	►	0	0	1	1
630 – Creditors	Regularity	N/A	0	0	0	0
631 – Debtors	Regularity	N/A	0	0	1	1
632 – Payroll	Substantial	►	0	4	0	4
633 – General Ledger	Regularity	N/A	0	5	0	5
634 – Leisure World	Substantial	►	1	3	0	4
635 – Asset Register	Substantial	►	0	2	0	2
637 – Museum Merged Services	Substantial	►	0	4	2	6
638 – Vehicle Workshop	No	▼	6	4	0	10
639 – Single Data Set	Regularity	N/A	0	0	0	0

Please see Appendix 1 for a summary of the audits receiving a ‘Limited’ or ‘No’ assurance rating.

	Total No. of Reports		Level of Assurance – Systems Audits*				Change in Assurance Level – compared to last audit		
	Other	Systems	Full	Substantial	Limited	No	▲	► (or 1 st Audit)	▼
Audits Finalised April 2011 – September 2011*	6	17	1	15	1	0	3	14	0
Audits Finalised October 2011 – March 2012*	4	11	0	8	2	1	1	8	2

*Only systems audits are given an assurance level.

During 2011/12 a total of 38 audits have been finalised. The assurance rating improved in 14% of the systems audits carried out, remained the same in 79% and decreased in 7%.

7. Status of all recommendations as at 31st March 2012:

- 7.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management’s response to those recommendations.

7.2 The table below provides a breakdown of the outstanding recommendations as at the 31st March 2012.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
31/03/12	98	42	92	2

7.3 During the period internal audit have been monitoring 234 recommendations. At the end of the period 98 recommendations (42%) had been implemented and verified, 41 (18%) had been implemented and were awaiting verification from internal audit 92 (39%) were not due, and 3 (1%) were overdue. 11 of the recommendations awaiting verification relate to managed audits and in accordance with the agreed protocol will be followed up at the time of the next annual audit.

7.4 Progress in implementing overdue recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating and / or those that have been outstanding the longest. Progress will continue to be reported to the panel.

8. Performance of Internal Audit 2011/12 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
<i>Efficiency:</i>		
Percentage of annual plan completed (to at least draft report stage)	100%	100%
Average days between exit meeting and issue of draft report	10 max	5
Average days between receipt of management response and issue of final report	10 max	1
<i>Quality:</i>		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	8.3
Percentage of all recommendations agreed	96%	100%

8.1 The key performance indicators show that the internal audit provider is exceeding the standards set.

9. Colchester Borough Homes Limited

9.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered by Deloitte and Touche Public Sector Internal Audit Limited, who are also the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and in general the audits do not affect the systems operated by the Council.

9.2 However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.

9.3 There has been one joint audit carried out during the period. The audit was in relation to Housing Rents. The audit received a substantial assurance rating and 2

recommendations were made, 1 priority 2 and 1 priority 3. Both recommendations were accepted by management.

10. Proposals

To note and comment upon the Council's progress and performance relating to:

- Executing the Internal Audit plan for 2011/12
- Internal Audit activity during the second half of 2011/12
- Performance of Internal Audit by reference to national best practice benchmarks

11. Strategic Plan Implications

The audit plan has been set with due regard to the identified key strategic risks to the Council. The strategic risk register reflects the objectives of the strategic plan. Therefore, the audit work confirms the effectiveness of the processes required to achieve the strategic objectives.

12. Risk Management Implications

The failure to implement recommendations may have an effect on the ability of the Council to control its risks and therefore the recommendations that are still outstanding should be incorporated into the risk management process.

13. Other Standard References

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

Summary of Audits with a Limited or No Assurance Rating:

610 – Parking Services Income	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		0	11	0	11

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Income Collection;
- Banking and Reconciliation, including Variance Reporting;
- Management Information; and
- Security Arrangements

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Policies and Procedures relating to both cash collection and parking permit services should be approved independently and be subject to a periodic review. All policy and procedure documents should state the owner/creator of the document, the independent reviewer and should be fully dated, including the current and next review dates. The policy should be placed on the Hub for the benefit of staff. (2)
- Risk Assessment and Health and Safety Action Plans should be updated on an annual basis. (2)
- The Council should review and upgrade its security arrangements for vehicles used for cash collection, ensuring they include the full specifications required for a cash collection van. (2)
- Daily cash collections should be carried out by two officers to provide security to the lone officer and thus making the whole process more secure. (2)
- A review of the Parking Services team's keys access logs should be conducted and updated to take account of staff leavers. (2)
- All penalty charge notices, season tickets and permit sales should be reconciled independently and signed off to evidence its review. (2)
- Quarterly reports should be provided to the Portfolio Holder detailing performance, income generated etc. (2)
- The Car Parking Services Duty Officer should monitor PCN reports to confirm duplicate payments are not received. These reports should be signed off as evidence of review. (2)
- All debts to be written off following unsuccessful recovery action should be reviewed and authorised. (2)
- A sample review of cancelled PCNs should be undertaken to confirm that the processing of the cancellation was appropriately supported. (2)
- Supporting documentation should be retained and added to the system for all PCN cancellations. (2)
- A culture of openness and transparency should be promoted within the organisation. It should be made clear to staff who the responsible officer is and how to go about making an allegation of fraud or corruption. (2)

625 – Corporate Debt	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		2	4	1	7

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Arrangement for Monitoring Levels of Corporate Debt;
- Collation of Information and Assurance Gained that it is Accurate;
- Reporting Arrangements;
- Write-Offs;

- Appointment of Bailiffs;
- Remuneration of Bailiffs; and
- Collection Rates and Management Information in Respect of Bailiffs.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The Debt Management Policy should include a version history section which clearly states the responsible officer for the policy and the planned date for next review. (3)
- A regular reporting process should be put in place whereby senior management is provided with a breakdown of the total corporate debt level across the Council. Such updates should be tabled at an appropriate management meeting. (2)
- All write-offs should be actioned in accordance with the requirements of the Debt Management Policy and Constitution. (1)
- The Car Parking function should implement a more robust system for documenting the approval of all write-offs. Some additional training may be required for this service so that practices fall in line with the Council's formalised approach to write-offs. (2)
- The ability to write-off amounts owed for Penalty Charge Notices (PCNs) within Chipside should be restricted to a select number of authorised staff, with restrictions in place to prevent a single officer completing a write-off without a segregation of duty. (2)
- Consideration should be given to whether there would be value in trying to implement a more holistic approach to the appointment of bailiffs so that there can be consistency across the Council. Legal Services should be consulted to determine whether the Council's Standing Orders and EU Procurement Rules should be followed in the appointment of bailiffs to the Council. (1)
- Similar control processes, as in place for Rossendales and Jacobs, should be put into effect for the bailiff companies currently used by the Car Parking function (Newlyn, Equita and Marstons). This should include the documenting of formal contracts with each bailiff, holding quarterly meetings, and receipt of regular reporting to enable benchmarking activity. (2)

638 – Vehicle Workshop	Days	Assurance No	Priority of Recommendations			Agreed
			1	2	3	
	12		6	4	0	10

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Income Collection;
- Banking and Reconciliation, including Variance Reporting;
- Management Information; and
- Security Arrangements

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The discounted rate charged to members of staff for MOT tests should be included within the Council's scale of fees which is subject to a formal approval process. (2)
- Staff should be reminded to charge the correct discounted rate for MOT tests to applicable contractors in accordance with the Council's approved scale of charges. (2)
- New procedures should be developed in relation to the booking in and recording of works undertaken. The procedures should include the following:-
 - A. All works should be booked in by the Technical Administration Assistant and the details entered into the diary;
 - B. The Technical Administration Assistant should check that all diary entries appear on job sheets; and
 - C. The reasons for any 'no shows' should be confirmed with the customer and the details documented. (1)
- Management should undertake random checks to verify that all works completed have been correctly recorded and the costs charged. The checks should include:-

- A. Obtaining a report of MOT certificates issued and checking this against the job sheets and payments received;
- B. Sample checking of job sheets to the Roadbase system to confirm that invoices have been raised for all works/materials and that income has been received. (1)
- Documented procedures should be developed to guide staff in the operation of the vehicle workshop particularly in relation to income collection and banking procedures. (2)
 - Debtor reports should be obtained from the Accounts Receivable team and reviewed on a regular basis to verify that all invoices requested have been raised. (2)
 - The disposal register should be subject to regular management review with checks being undertaken to ensure that all disposals have been fully recorded and that any disposal income received has been correctly recorded. Management should also undertake regular stock checks of the vehicles. (1)
 - Disposals should be the subject of an authorisation process which is in accordance with the Council's scheme of delegation. (1)
 - Regular stock checks of spares/parts etc. used for Council owned vehicles should be undertaken. (1)
 - A routine asset verification exercise should be carried out at regular intervals to confirm the assets / equipment held at the workshop. (1)



Finance & Audit Scrutiny Panel

Item
12

24 July 2012

Report of

Head of Resource Management

Author

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Title

2011/12 Year End Review of Risk Management

Wards
affected

Not applicable

This report reviews the Risk Management work undertaken for the period 1 April 2011 to 31 March 2012.

1. Actions Required

- 1.1 Consider and note the risk management work undertaken during 2011/12.
- 1.2 Consider and comment on the current strategic risk register.
- 1.3 Consider and comment on the proposed risk management strategy for 2012/13.
- 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 Regular progress reports, detailing work undertaken and current issues, are provided to assist with this responsibility.

3. Key Messages

- The economy and cuts in public spending continue to have had a significant impact on the key risks during the year. The highest risk on the year end strategic register remains the potential impact of future central government decisions to reduce public funding, including that of the Council's partners.
- As well as having a direct effect on resources, cuts in public spending are also influencing non-financial risk areas, such as staff motivation, as a result of implementing required savings.
- Risk Management principles continue to be reinforced and embedded in the organisation. The 2010/11 Annual Governance Report, issued by the Audit Commission in September 2011, stated that "Good systems, processes and controls are in place, including effective risk management systems". This is demonstrated by the 2011/12 internal audit review which only raised one recommendation.

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 relating to 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 2011/12

- 5.1 The requirement to raise the profile of the Council's anti-fraud and corruption processes was identified on the Annual Governance Statement for 2010/11. Therefore a significant focus for 2011/12 has been to work with the Monitoring Officer to revise the relevant policies and embed them throughout the organisation. This has included the creation of the Ethical Governance Framework, providing training sessions for all managers, developing access to information and the creation of an Ethical Governance Group. The group consists of relevant officers who have an input into the governance arrangements including the Monitoring Officer and the Audit Manager. The interim Director of Finance for CBH and the Independent chair of the Standards Committee also sit on the group. For the first time the Leader of the Council and the Chief Executive have issued an Ethical Governance Statement that sets out the Council's stance against fraud and corruption.
- 5.2 Work has been ongoing during the year to ensure that risk management processes continue to be embedded in the organisation. The Risk and Resilience Manager has attended at least one Group Management Team meeting for each service to discuss current risk issues and review their operational risk register. An information area has also been created on the Hub. This provides details of all the Council's risk management processes, including copies of the strategic risk register. It also provides templates and guidance to enable officers to review risks themselves.
- 5.3 There were no fundamental changes to the risk management function, or the processes used to identify and control risk, during 2011/12.
- 5.4 An audit of the risk management function was carried out in January 2012. Because it was a regularity audit there was no assurance rating given however there was only one level two recommendation raised. This related to the Risk and Resilience Manager checking the operational risk registers for accuracy.
- 5.5 The risk registers for the Joint Museum Service and the North Essex Parking Partnership both continue to be produced and reported to the joint committees.

5.6 The layout of the strategic risk register has been reformatted, from landscape to portrait, so that the action plan for each group of risks is clearly defined.

6. Strategic Risk Register

6.1 During 2011/12 the strategic risk register was reviewed by senior management every quarter and reported to the Finance and Audit Scrutiny Panel every six months. During April 2012 PMB carried out a fundamental review of the strategic risks and have approved the quarter 1 register for 2012/13, attached at appendix 1. These risks have been mapped onto a risk chart as shown at appendix 2.

6.2 The review has confirmed that the issues relating to the uncertainties around the economic climate and the impact that this is having on staff morale continue to be the highest risks.

7. Risk Management Strategy for 2012/13

7.1 The Council's current approach to managing risk was introduced in 2006/07. A requirement within the strategy, and also of the annual audit assessment, is to review the approach each year to ensure that it is still appropriate to the Council's needs.

7.2 Therefore a review has been undertaken and the strategy has been updated for 2012/13. The revised strategy is attached at appendix 3. There are no fundamental changes proposed to the risk process with amendments only to external review comments and the recognition of key partners and contractors in the risk management process.

8. Proposals

8.1 To note and comment upon the Council's progress and performance in managing risk during 2011/12, the updated strategic risk register and the revised risk management strategy 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. Equality, Diversity and Human Rights Implications

10.1 Whilst there are no direct equality, diversity or Human Rights implications from this report, the risk management process recognises the impact of the legislation and controls have been implemented, including the completion of Equality Impact Assessments, to mitigate the risk.

11. Risk Management Implications

11.1 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.

12. Other Standard References

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

**Quarter1 2012/13
Colchester Borough Council – Corporate Strategic Risk Register
April 2012 – June 2012**

1. AMBITION								
Specific Risks		SCORE						Consequence
		Current			Previous			
		P	I	O	P	I	O	
1a	In a period of public sector resource reductions the ability to have ambition and to deliver on that ambition.	3	2	6				Major changes needed to the town of Colchester would not be delivered thus affecting the quality of life of its residents and businesses.
1b	Unrealistic internal and external expectations on the speed of delivery.	3	3	9				Major economic downturn in public sector resourcing over the next few years will hamper the speed of delivery across the services provided.
1c	The Council is unable to effectively influence changes in the Borough economy.	3	4	12	2	4	8	Poorer external assessments by independent agencies and loss of Council reputation.
1d	Over reliance on a limited number of people limits ability to deliver our ambition.	3	3	9	2	3	6	The Borough Council loses its status and influencing ability at sub-regional, regional and national levels.
1e	The resource implications of the UCC FSR are greater than anticipated.	2	4	8				The review does not achieve its full potential and anticipated improvements are not realised, resulting in Customers not receiving an improved level of service.

ACTION PLAN – AMBITION

Action	Owner	Review
Constantly challenge the ambition shown by the Council and look for new and innovative ways of delivering that ambition.	Chief Executive / Executive Directors / Heads of Service	July 2012
To make the most of Information and Communication Technology; continue the process of Fundamental Service Reviews	Executive Management Team	July 2012
Continue internal assessment of service effectiveness and seek external assessments as appropriate for continuous improvement purposes.	Senior Management Team	July 2012
Consider longer term impacts of staffing reductions.	Senior Managers and Human Resources function	July 2012
There should a continual process of monitoring the resource requirements both during the review and during the implementation phase, and any variances reported formally as soon as they occur. Each key stage report should include an honest challenge of assumptions .	ED Customer Excellence	July 2012

2. CUSTOMERS								
Specific Risks		SCORE						Consequence
		Current			Previous			
		P	I	O	P	I	O	
2a	The increasing expectations of our customers, set alongside the financial challenges to service delivery, may pose some challenges to customer excellence, service and delivery and the reputation of the authority.	4	3	12	3	3	9	The Authority fails to deliver the high standards of service and delivery which our customers expect, especially in relation to self service and the reliance on IT capabilities.
2b	There is increasing expectation that the Council will step in to deliver services when other providers either fail or reduce service provision	4	3	12				The Council suffers from a loss of reputation as customers expectations are not met. There is increased demand on existing services leading to a reduction in standards of delivery

ACTION PLAN – CUSTOMERS

Action	Owner	Timing
A programme of engagement and consultation is put in place to ensure customers are able to inform service priorities and delivery	ED Customer Excellence	July 2012
Front line services need to ensure that customers are fully aware of the level of service that can be expected and details should be made available to sign post customers to other relevant organisations.	ED Customer Excellence	July 2012

3. PEOPLE									
Specific Risks		SCORE						Consequence	
		Current			Previous				
		P	I	O	P	I	O		
3a	Unable to update skills at a time when we need a changing skill set to deliver in a different economic climate	3	3	9				Decline in service performance	
3b	Failure to sustain adequate resource to support Training and Development because of the financial situation	3	3	9				Disengaged and demotivated staff	
3d	Failure to provide effective and visible political and managerial leadership.	3	3	9				Efficiency and productivity reduction	
3e	Staff motivation declines with impact of fundamental service reviews and implementation of other budget efficiencies	4	4	16				Inability to meet changing requirements and needs	
								Customer perceptions decline as we deliver less	
								Loss of key staff	

ACTION PLAN – PEOPLE		
Action	Owner	Timing
Ensure effective communications strategy around budget implications with staff	ED People & Performance	July 2012
Ensure people strategy is updated to reflect changing needs as appropriate	ED People & Performance	July 2012
Continue to recognise the importance of training and development budgets and use more innovative methods to keep skills up to date	ED People & Performance	July 2012
Ensure performance management process is effectively implemented and monitored to include development needs and plans	ED People & Performance	July 2012
Active promotion and use of Colchester Learning Managers programme and development to meet evolving needs	ED People & Performance	July 2012
Ensure outcomes of fundamental service reviews reflect training and development needs to support changes in services.	ED Customer Excellence	July 2012

4. HORIZON SCANNING

Specific Risks	SCORE						Consequence	
	Current			Previous				
	P	I	O	P	I	O		
4a	To continuously assess future challenges to ensure Council is fit for future purpose	2	4	8				If not properly managed then either the Council will lose the opportunity to develop further or will have enforced changes to service delivery. Adverse impact on local residents / resources. Missed opportunities to boost local economy. Conflict between Council / Government agendas. Reduction in levels of service provision and potential withdrawal of services.
4b	Not taking or creating opportunities to maximise the efficient delivery of services through shared provision, partnerships or commercial delivery	4	3	12				
4c	Failure by the Council to spot / influence at an early stage the direction of Central Government policies / new legislation.	3	3	9	2	3	6	
4d	Potential impact of future central government decisions to reduce public funding, including that of our partners	4	5	20	3	5	15	

ACTION PLAN – HORIZON SCANNING

Action	Owner	Timing
Ensure organisational readiness to respond to external challenges through the Way We Work programme strands: - People - Transformation - Customer Excellence - Leadership of Place	EMT	July 2012
Supported by a robust Medium term Financial strategy and organisational development strategy.	EMT	July 2012
Continuous review of strategies and policies to reflect changing context.	EMT	July 2012
The budget situation is under constant review, including the impact of decisions from central government. Additional actions and areas for spending reviews are being identified.	EMT	July 2012

5. PARTNERSHIPS										
Specific Risks		SCORE						Consequence		
		Current			Previous					
		P	I	O	P	I	O			
5a	Failure or inappropriate performance management of one or more strategic partnerships or key contracts E.g. Haven Gateway, Growth Cities Network, CAPITA, CBH	4	3	12						<p>The cost of service delivery is increased however quality decreases.</p> <p>Failure to deliver key priorities.</p> <p>Reputational and financial loss by the Authority.</p> <p>Failure to deliver expected outcomes through partnerships</p>
5b	Change of direction / policy within key partner organisations and they revise input / withdraw from projects.	4	3	12	3	3	9			<p>Requirement to repay external funding granted to partnership – taking on the liabilities of the ‘withdrawn’ partner.</p> <p>External assessment of the Councils partnerships are critical and score poorly.</p>
5c	Potential inability to agree shared outcomes/ agendas with partners and the Council’s ability to influence partner’s performance.	3	4	12	3	3	9			

ACTION PLAN – PARTNERSHIPS		
Action	Owner	Timing
Assess proposed strategic partnerships to ensure that they will satisfy the Council’s objectives before commitment to new partnerships is made.	EMT	July 2012
Define a relationship / performance management process for partnerships	ED People & Performance	July 2012
Ensure that there is a mechanism to review partnerships and assess the value added.	ED People & Performance ED Leadership of Place	July 2012

6. ASSETS & RESOURCES									
Specific Risks		SCORE						Consequence	
		Current			Previous				
		P	I	O	P	I	O		
6a	Failure to protect public funds and resources – ineffective probity / monitoring systems	3	4	12	2	4	8	Service delivery failure Financial and reputational loss by the Authority	
6b	Risk that Asset Management is not fully linked to strategic priorities and not supported by appropriate resources	3	4	12				Personal liability of Officers and Members. Legal actions against the Council	
6c	Inability to deliver the budget strategy in the current economic climate	3	4	12	3	5	15	Loss of stakeholder confidence in the Borough Inability to sustain costs	
6d	Failure to set aside sufficient capital funds for strategic priorities	3	4	12	3	2	6	Failure to deliver a balanced budget Required to use Reserves & Resources to fund services and capital priorities Severe impact on cash-flow leading to negative effect on performance targets	
6e	Increased risk to ICT resilience with migration to new supplier and ever increasing demands around information security	2	5	10					

ACTION PLAN – ASSETS & RESOURCES		
Action	Owner	Timing
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 cycle of reviewing and reporting including internal Audit, Risk management and the AGS Review July 2012
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	Regular reporting to PMB. & FASP. Review July 2012
Develop the annual budget strategy to ensure it has controls built in to be able to respond to changes in the strategic objectives and is innovative to reflect the current climate and emerging options	Head of Resource Management	Annual exercise. Council approves budget in Feb 2013
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 Review January
Regular reviews with new ICT supplier Ensure IT policies comply with information security requirements and that staff are aware of the correct procedures.	ED People & Performance	From beginning of new contract and ongoing

SCORE DEFINITIONS	1 Very Low	2 Low	3 Medium	4 High	5 Very High
Impact	Insignificant effect on delivery of services or achievement of Strategic Vision & Corporate Objectives.	Minor interruption to service delivery or minimal effect on Corporate Objectives.	Moderate interruption to overall service delivery/effect on Corporate Objectives or failure of an individual service.	Major interruption to overall service delivery or severe effect on Corporate Objectives.	Inability to provide services or failure to meet Corporate Objectives
Probability	10% May happen – unlikely	10 -25% Possible	26 – 50% Could easily happen	51 – 75% Very likely to happen	Over 75% Consider as certain

KEY OPERATIONAL RISKS – For Information

SERVICE	RISK	CONSEQUENCE	CONTROLS	RESPONSIBILITY
Corporate Management	Loss of all Land Charges income	<ul style="list-style-type: none"> Financial loss to the Council Guidance required by Govt 	<ul style="list-style-type: none"> Ensure income streams are maximised as much as possible and action taken to re-engineer service through a mini review. Reduce costs where possible to mitigate impact of loss of income. 	Legal Services Manager and Land Charges Manager
Corporate Management	FSR – Capacity issues of business partners / HR Service Centre and challenges of ICT capacity.	<ul style="list-style-type: none"> Inability to effectively provide strategic and HR transactional support to the FSRs. ICT solutions identified in FSRs cannot be achieved in the required timescales. 	<ul style="list-style-type: none"> FR to be a core objective for Business Partners and prioritised and planned accordingly. Dedicated resource to support consultation and assessment processes for Rev and Bens and Street Services identified to be paid for by services. ICT solutions to be fully scoped and business cases to be completed. 	Strategic HR Manager ICT Manager
Corporate Management	Lack of Project Mgt principles in procuring software in services	<ul style="list-style-type: none"> Lack of joined up approach and continued purchase of systems that do not match or integrate effectively with corporate systems 	<ul style="list-style-type: none"> ICT Strategy to include new approach to project mgt and new controls going forward. Business partner approach with more contact and awareness of activities in services in relation to systems and requirements. 	ICT Manager
Enviro & Protect Servs	Reduction in investment in services	<ul style="list-style-type: none"> Cuts in service provision, negative impact on image / reputation. 	<ul style="list-style-type: none"> Financial planning and reporting to Members / CMT / SMT Ensure services meet community needs and Strategic Plan objectives Measure to Increase on external income 	Head of EPS
Enviro & Protect Servs	Income targets not met	<ul style="list-style-type: none"> EPS generates a net income to the Council, supporting other services therefore a decrease in income has a detrimental effect on all services. 	<ul style="list-style-type: none"> Regular monitoring in use and income. Ensure that the business case for increasing capacity is agreed and implemented. 	Head of EPS
Life Opportunities	Inadequacy of Repairs and Renewals provision.	<ul style="list-style-type: none"> Reduction or closure of services due to failure of plant, equipment or infrastructure. 	<ul style="list-style-type: none"> Funding programmes presented during budget setting process. 	Head of Life Opportunities
Life Opportunities	Impact of national downturn in the economy and housing market (due to the 'credit crunch') on the community.	<ul style="list-style-type: none"> Changes to housing benefit legislation. 	<ul style="list-style-type: none"> Ensure that money advice and debt counselling via CAB and County Court desk for possession hearings via Shelter continues to be available. Investigate the possibility of introducing a mortgage rescue package. 	Head of Life Opportunities

SERVICE	RISK	CONSEQUENCE	CONTROLS	RESPONSIBILITY
Resource Management	Loss of key members of staff	<ul style="list-style-type: none"> Lack of expertise Impact on service provision Impact on other staff 	<ul style="list-style-type: none"> Identification of key staff and roles Succession planning Documented procedures Establishment of training for customer focused, vulnerable service and roles 	Head of Resource management & HRBP
Strategic Policy & Regeneration	Lack of focus on governance issues	<ul style="list-style-type: none"> Poorly informed business processes Lack of focus on critical issues 	<ul style="list-style-type: none"> Clear information and expectations are required as part of the management process. SSP to allow focus on priorities FSR to tackle process in Housing Project management in regen 	Head of SPR
Street Services	Effect of implementing FSR changes, including new technology and working procedures.	<ul style="list-style-type: none"> Temporary decrease in service delivery quality. Personal impact on staff wellbeing. Increased costs in short term. 	<ul style="list-style-type: none"> Ensure that there is a detailed implementation plan Develop monitoring procedures 	Head of Street Services
Street Services	Car park income targets not met	<ul style="list-style-type: none"> 10% shortfall in takings equates to over £400k reduction in income that supports other services. 	<ul style="list-style-type: none"> Regular monitoring in use and income. 	Parking Services Manager.

RISK MATRIX QTR 1 2012/13

Low Risks	Medium Risks	High Risks
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Scoring 1-5

Risk Tolerance Line

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

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 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

A process for managing risks was first adopted by the Council in 2003 and since then has been developed to ensure that it continues to be an effective management system. This strategy defines Colchester Borough Council's definition of risk and the processes 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

The following are some of the practical ways that risks are managed and how effectiveness is measured.:

- 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 Audit Commission, in their 2010/11 Annual Governance Report stated that the Council has "Good systems, processes and controls in place, including effective risk management systems".

This is 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 regeneration projects. Colchester is also highly regarded for managing risk by both our insurers and other authorities.

The 2010/11 internal audit of risk management gave a substantial assurance opinion. Some recommendations were raised during this audit and these mainly related to how the information was shown on the risk registers.

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 & Heritage – 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 – People & Performance – 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 control environment.

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. Previously the Audit Commission assessed the function as operating at level 3 as part of their 'Use of Resources' review.. However, the Use of Resources assessment is no longer carried out but the criteria laid down for each assessment level , set out in Appendix C, still provides a robust framework for delivering an effective service.

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.
- Developing risk management links with key partners and contractors, to ensure that principles are adopted in all areas of service delivery.
- 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

- The strategic risk register needs to be reviewed on a quarterly basis by P.M.B.
- Six monthly review of the operational risk registers and a summary report of these reviews to P.M.B.
- A six monthly 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.
- 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		Review of strategic risk register		
6 Monthly	Review of operational risk register	Summary of operational review from services	Progress report of strategic & high level operational risks	
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

Audit Commission Key Line of Enquiry 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.T'ss		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 & Audit Scrutiny Panel

Item
13

24 July 2012

Report of	Head of Resource Management	Author	Steve Heath
Title	Treasury Management – Annual Report 2011/12		
Wards affected	Not applicable		

The Panel is invited to review treasury management performance in 2011/12

1. Action required

- 1.1 To note the activities relating to treasury management in 2011/12 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 2011/12 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 strategy for 2011/12 anticipated that interest rates would begin to rise by the end of the year, and there would continue to be relatively low returns from investments due to continued uncertainty in this area. In this scenario the borrowing strategy was to continue to 'borrow internally' to maximise short-term savings and reduce the Council's exposure to interest rate and credit risk. The investment policy reflected the Council's low appetite for risk, using counterparties with only the highest credit ratings, and was to avoid longer term deals while investment rates were at such low levels.
- 3.3 The Council's long-term debt as at 31 March 2012 increased to £136.1m, as a result of making a payment to the Department of Communities and Local Government as part of housing finance reform. The average rate of the new borrowing was 3.5% as a result of the lower margins available from the PWLB for housing reform borrowing. This resulted in the average rate of the Council's debt falling to 4.56% from 5.80% at the end of 2010/11.
- 3.4 The Council has managed all of its excess surplus funds internally during the year. These mainly consist of overnight and short-term investments to cover cash flow needs and in respect of 'core' balances. The average rate earned on investments during the year was 0.70%, which was higher than the benchmark.
- 3.5 The Council's investments outstanding at the end of the year totalled £19m. This excludes the carrying value of the amount invested in Icelandic banks in September 2008, which suffered a default following the collapse of the Icelandic banking system.

- 3.6 All of the borrowing and investment activity during the year was in accordance with the Prudential Indicators approved by Council in February 2011, which were revised in February 2012 to reflect the impact of housing finance reform.
- 3.7 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. Financial implications

- 5.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). Outturn figures for 2011/12 show a budget deficit of £305k for the year. This is principally due to investment rates being at historically low levels throughout the year. Action was taken to minimise the impact by continuing to 'internally borrow' funds.

6. Risk Management implications

- 6.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 6.2 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.

7. Other Standard References

- 7.1 Having considered consultation, publicity, 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)

Annual Treasury Management Review 2011/12

1 Introduction

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2011/12 the minimum reporting requirements were as follows:
 - an annual treasury strategy in advance of the year (Council 16 February 2011)
 - a mid year (minimum) treasury update report (FASP 23 November 2011)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
- 1.3 In addition full Council approved revised Prudential Indicators for 2011/12 on 22 February 2012 as a result of the capital payment that the Council made to the Department of Communities and Local Government as part of the implementation of housing finance reform.
- 1.4 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.5 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to the annual treasury strategy by the Finance and Audit Scrutiny Panel before it was reported to the full Council.
- 1.6 This report summarises:
 - Capital financing activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - Reporting of the required prudential and treasury indicators;
 - The overall treasury position;
 - The Treasury Management Strategy for 2011/12;
 - The economy and interest rates;
 - Borrowing activity; and
 - Investment activity.

2 Capital expenditure and financing 2011/12

- 2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2010/11 Actual £'000	2011/12 Estimate £'000	2011/12 Actual £'000
Non-HRA capital expenditure	13,860	6,701	7,910
HRA capital expenditure	5,809	9,326	80,040
Total capital expenditure	19,669	16,027	87,950
Resourced by:			
· Capital receipts	2,708	3,763	0
· Capital grants	9,230	2,341	6,023
· Capital reserves	5,773	7,923	6,963
· Revenue	361	0	642
New borrowing requirement	1,597	2,000	74,322

3 The Council's overall borrowing need

- 3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2011/12 new borrowing requirement (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Accountancy team organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.
- 3.3 The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

- 3.4 The Council's 2011/12 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/12 on 16 February 2011.
- 3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.
- 3.6 Housing finance reform has abolished the housing subsidy system financed by central government and consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council has made a capital payment to the Department of Communities and Local Government of £73.694m. This has resulted in an increase in the CFR and total borrowing at the end of the year which was financed by new external borrowing. There has been no impact on HRA revenue finances in 2011/12 due to compensating adjustments being made in the HRA determination.

	31-Mar-11 Actual £'000	31-Mar-12 Estimate £'000	31-Mar-12 Actual £'000
CFR			
Opening balance	74,129	76,867	74,689
Add unfinanced capital expenditure (as above)	1,502	1,100	74,104
Add adjustment for the inclusion of on-balance sheet leasing schemes	95	0	218
Less MRP/VRP	562	656	656
Less finance lease repayments	475	0	37
Closing balance	74,689	77,311	148,318

- 3.7 Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.
- 3.8 In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31-Mar-11 Actual £'000	31-Mar-12 Estimate £'000	31-Mar-12 Actual £'000
Net borrowing position	50,264	64,222	115,110
CFR	74,689	77,311	148,318

- 3.9 The authorised limit is the 'affordable borrowing limit' required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

- 3.10 The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 3.11 The actual financing costs as a proportion of net revenue stream indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2011/12 Pre HRA reform £'000	2011/12 Post HRA reform £'000
Authorised limit	86,203	165,884
Maximum gross borrowing position	62,400	136,094
Operational boundary	78,403	137,040
Average gross borrowing position	62,400	63,205
Financing costs as a proportion of net revenue stream	8.01%	8.01%

4 **Treasury position as at 31 March 2012**

- 4.1 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2011/12 the Council's treasury position was as follows:

	31 March 2011		31 March 2012	
	Principal £'000	Rate/ Return %	Principal £'000	Rate/ Return %
Fixed rate funding:				
PWLB	27,900	4.58%	101,594	3.80%
LOBO	14,500	4.04%	14,500	4.04%
Stock Issue	20,000	8.79%	20,000	8.79%
Total debt	62,400	5.80%	136,094	4.56%
CFR	74,689		148,318	
Over/ (under) borrowing	(12,289)		(12,224)	
Investments:				
- In house (excl. impaired)	9,020	1.33%	19,059	0.86%
Total investments	9,020	1.33%	19,059	0.86%

- 4.2 The maturity structure of the debt portfolio was as follows:

	31-Mar-11 Actual £'000	31-Mar-12 Actual £'000
Under 12 months	5,000	5,000
12 months and within 24 months	0	5,500
24 months and within 5 years	5,500	4,000
5 years and within 10 years	24,000	20,000
10 years and above	27,900	101,594
	62,400	136,094

- 4.3 All investments were for a period of less than one year, and there was not any exposure to variable rates of interest.
- 4.4 The outturn position for the Central Loans and Investment Account (CLIA) is shown below. This shows an adverse variance of £305k.

CLIA	Budget £'000	Actual £'000	Variance £'000
Total Interest Paid	3,910	3,965	55
Less: Item 8 debit	(2,687)	(2,797)	(110)
Total less HRA	1,223	1,168	(55)
Total Investments	(562)	(200)	362
Less: Item 8 credit	20	18	(2)
Total less HRA	(542)	(182)	360
Total CLIA	681	986	305

4.5 The CLIA comprises the Council’s borrowing costs and investment income. It 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:

- Investment rates have continued to be at historically low levels during the year, and the requirements of the strategy have reduced the scope for investing. Steps have been taken to try to minimise the impact of the reduced investment income such as through deferral of new borrowing in favour of disinvestment, which is known as ‘internal borrowing’.
- The Item 8 Debit was impacted adversely by a reduction in the consolidated rate of interest as a result of the decision to borrow internally. However, this has been mitigated by the proportion of the CFR that relates to finance leases being charged at their implicit rates of interest, together with the recharge of the additional interest costs arising from the new borrowing undertaken for housing reform.
- The variance against interest payments relates to amounts payable to other accounts, the effect of bank overdrafts, and additional interest costs relating to housing reform.

5 The strategy for 2011/12

5.1 The expectation for interest rates within the strategy for 2011/12 anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

- 5.2 In this scenario, the treasury strategy was to continue to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk, by 'borrowing internally'.
- 5.3 The investment policy reflected the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy were that the Council will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies, and always using the lowest rating from all the agencies (i.e. the lowest common denominator). Investment decisions also took into account other market data including Sector Treasury's creditworthiness service, which combines data from credit rating agencies with credit default swaps and sovereign ratings.
- 5.4 The Council would only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK, including the institutions that have been nationalised or part-nationalised, or those that are covered by the UK Government's support package. The Council would also continue to avoid longer term deals while investment rates are at such low levels.
- 5.5 The actual movement in gilt yields meant that PWLB rates fell sharply during the year and to historically very low levels. This was caused by a flight to quality into UK gilts from EU sovereign debt and from shares as investors became concerned about the potential for a Lehman's type crisis of financial markets if the Greek debt crisis were to develop into a precipitous default and exit from the Euro.
- 5.6 The strategy adopted in the original Treasury Management Strategy Report for 2011/12 approved by the Council on 16 February 2011 was subject to revision during the year due to the impact of the borrowing required for HRA reform on the CFR, Authorised Limit and Operational Boundary for the year.

6 *The economy and interest rates*

- 6.1 The original expectation for 2011/12 was that Bank Rate would start gently rising from quarter 4 2011. However, economic growth (GDP) in the UK was disappointing during the year due to the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The EU sovereign debt crisis grew in intensity during the year until February when a refinancing package was eventually agreed for Greece. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2%, finishing at 3.5% in March, with further falls expected to below 2% over the next two years.
- 6.2 Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

- 6.3 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.
- 6.4 The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.

7 Borrowing

- 7.1 The Council's total debt outstanding at 31 March 2012 was £136.094m, with the increase over the figure for 2010/11 being due to the impact of HRA reform.
- 7.2 On 26 March 2012 the Council borrowed £73.694m at an average rate of 3.5% as a result of making a payment to the Department of Communities and Local Government in respect of the housing debt it was taking on. This new debt consisted entirely of fixed rate maturity loans of between 25 and 50 years duration, taking into account the maturity profile of the Council's existing debt.
- 7.3 This has also led to the average interest rate on the Council's debt during the year remaining at 5.77% due to the timing of the new borrowing. However, the average rate for all borrowing at the end of the year has now fallen to 4.56%, compared to 5.80% at the end of 2010/11.
- 7.4 The approach during the year was to use cash balances to finance new capital expenditure so as to run down cash balances and minimise counterparty risk incurred on investments. This also maximised treasury management budget savings as investment rates were much lower than most new borrowing rates. No new short-term borrowing for cash flow purposes was undertaken during 2011/12.
- 7.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8 Investments

- 8.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. The ECB's actions to provide nearly €1 trn of 1% 3 year finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in the quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of the start

of monetary tightening was gradually pushed further and further back during the year to the second half of 2013 at the earliest.

- 8.2 Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in a second rescue package for Greece in quarter 1 of 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.
- 8.3 The Council manages its investments in-house, and its cash balances comprise revenue and capital resources and cash flow monies. The Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 16 February 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).
- 8.4 The investment activity during the year conformed to the approved strategy, the Council had no liquidity difficulties, and no institutions in which investments were made during 2011/12 had any difficulty in repaying investments and interest in full.
- 8.5 The Council's internally managed funds earned an average rate of return of 0.70%. The comparable performance indicator is the average 7-day LIBID rate (London Interbank Bid Rate – the rate charged by one bank to another for a deposit) (uncompounded), which was 0.480%.

Details	2010/11 %	2011/12 %
Temporary Investments	0.73	0.70
Overnight and Deposit Account	0.68	0.72
Total	0.73	0.70
Benchmark (7 day LIBID)	0.43	0.48
Return as a % of the Benchmark	168.6%	145.8%

- 8.6 The Council had temporary investments totalling £19m outstanding as at 31 March 2012, excluding the carrying value of impaired Icelandic investments. Of this, £13.5m relates to fixed-term deposits that are due to mature during 2012/13, £3m is held in a 'AAA' rated money market fund, and the remaining £2.5m is held in a 35 day notice account. All of the deposits are with counterparties within 'AAA' sovereign rated countries, and there is no direct exposure to the Eurozone.

9 Icelandic bank defaults

9.1 The Council currently has the following investments frozen in Icelandic banks

Bank	Date Invested	Maturity Date	Amount Invested £'000	Interest Rate	Carrying Amount £'000
Landsbanki Islands	02/09/2008	02/12/2008	3,000	5.82	1430
Landsbanki Islands	10/09/2008	10/12/2008	1,000	5.80	477
			<u>4,000</u>		<u>1,907</u>

9.2 The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. The Local Government Association is co-ordinating the efforts of all UK authorities with Icelandic investments.

9.3 At the current time, the process of recovering assets is still ongoing with the administrators. Investments outstanding with the two Iceland domiciled banks (Glitnir Bank hf and Landsbanki Islands hf) have been subject to decisions of the Icelandic Courts. Following the successful outcome of legal test cases in the Icelandic Supreme Court in late-2011, the Administrators have now commenced the process of dividend payments in respect of both of these banks.

9.4 The Landsbanki winding up board made a distribution to creditors in a basket of currencies in February 2012, which amounted to approximately 30% of the total claim. A small element of this distribution was in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

9.5 A further distribution in Sterling was received in May 2012, making the total distribution around 42% of the claim. The current position on estimated future payouts is as shown in the table below, which is based on recovering 100p in the £. Members will be kept updated on the latest developments on these efforts.

Date	Total
Received Feb 2012	30.0%
Received May 2012	12.2%
Dec 2012	7.0%
Dec 2013	7.0%
Dec 2014	7.0%
Dec 2015	7.0%
Dec 2016	7.0%
Dec 2017	7.0%
Dec 2018	7.0%
Dec 2019	8.8%
	100.0%



Finance and Audit Scrutiny Panel

Item
14

24 July 2012

Report of	Head of Corporate Management	Author	Robert Judd Tel. 282274
Title	Work Programme 2012-13		
Wards affected	Not applicable		

This report sets out the 2012-13 work programme for the Finance and Audit Scrutiny Panel and Accounts and Regulatory Committee

1. Action Required

1.1 The Panel is asked to consider and note the 2012-13 work programme.

2. Reason for Action

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

3. Outstanding items for scrutiny, with dates to be confirmed

3.1 **The financial impact of a new Park and Ride Scheme** - To include a presentation on parking charges modelling. In hand, and the Panel to be notified of a future review date.

High Woods Country Park Charges

A scoping report to members detailing income and expenditure before members determine if a full scrutiny review at a Panel meeting is warranted.

firstsite

To consider a review taking in 'A summary of previous scrutiny', 'the possibility of including partners', 'a comparison of the experience with the first contractor and the second, and the lessons learnt'. In-hand, and the Panel to be consulted on any future review.

4. Work Programme

4.1 **26 June 2012**

1. Honorary Alderman (A&R)
2. Myland Community Governance Review (A&R)
3. Annual review of the Governance Framework and 2011-12 Statement (A&R)
4. 2011-12 Revenue Expenditure Monitoring Report
5. 2011-12 Capital Expenditure Monitoring Report

4.2 **24 July 2012**

1. Draft Annual Statement of Accounts (A&R)
2. 2011-12 Internal Audit Report
3. Annual Report on Treasury Management
4. 2011-12 Risk Management Summary & Strategy Review

4.3 **21 August 2012**

1. 2012-13 Revenue Expenditure Monitoring Report, period April to June
2. 2012-13 Capital Expenditure Monitoring Report, period April to June

- 4.4 **25 September 2012**
1. Service Level Agreement to manage the Abbots Centre
(In ref. to review of decision COM-004-11 Activity Centres – 23-Nov-11)
 2. Annual Statement of Accounts (A&R)
Briefing, 6pm Thursday 20 September 2012
 3. Annual Governance Report (AC)
 4. Audit Commission Progress report (AC)
- 4.5 **16 October 2012**
1. Report Publication of Audited Statement of Accounts (A&R)
 2. Annual Audit Letter (AC)
 3. Annual Business Continuity Year-end
- 4.6 **20 November 2012**
1. 2012-13 Risk Management, period April to September
 2. 2012-13 Revenue Expenditure Monitoring Report, period April to September
 3. 2012-13 Capital Expenditure Monitoring Report, period April to September
 4. Treasury Management – 6-monthly update
 5. Interim Annual Governance Statement review (A&R)
 6. 2012-13 Internal Audit Monitor, period April to September
- 4.7 **22 January 2013**
1. Audit Opinion Plan (AC)
 2. Audit Commission Progress report (AC)
 3. 2013-14 Revenue Budget
 4. Treasury Management - Investment Strategy
 5. Housing Revenue Account Estimates and Housing Investment Programme
- 4.8 **26 February 2013**
1. 2012-13 Revenue Expenditure Monitoring Report, period April to December
 2. 2012-13 Capital Expenditure Monitoring Report, period April to December
- 4.9 **26 March 2013**
1. Annual Governance Statement Process
 2. Certificate of Claims and Returns (AC)

A&R = Accounts and Regulatory Committee // AC = Audit Commission

5. Standard and Strategic Plan References

- 5.1 The Council recognises that effective local government relies on establishing and maintaining the public's confidence, and that setting high standards of self governance provides a clear and demonstrable lead. Effective governance, of which scrutiny is a part, underpins the implementation and application of all aspects of the Council's work.
- 5.2 Scrutiny is a key function to ensure decisions have been subject to full appraisal and that they are in line with the Council's strategic aims. The role of scrutiny is also an important part of the Council's risk management and audit process, helping to check that risks are identified and challenged.
- 5.3 There is no publicity, equality and diversity, human rights, community safety, health and safety, risk management or financial implications in this matter.

