



ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

WEDNESDAY 14TH DECEMBER 2011 AT 5.30pm
COUNCIL CHAMBER, PARK NORTH, NORTH STREET, HORSHAM

Councillors: David Holmes (Chairman)
Gordon Lindsay (Vice-Chairman)
John Bailey Leonard Crosbie
Jonathan Chowen Jim Rae
Roy Cornell

Tom Crowley
Chief Executive

AGENDA

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1. Apologies for absence	
2. To approve as correct the minutes of the meeting of the Committee held on 29 th September 2011	1
3. To receive any declarations of interest from Members of the Committee	
4. To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. Annual Audit Letter 2010/11 - <i>please see separate appendix</i>	
6. Objection (later withdrawn) to the 2008/09 Accounts	7
7. Treasury Management Strategy 2012/13	15
8. Internal Audit – Quarterly Update	30
9. Risk Management – Quarterly Update	39
10. Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	



ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
29TH SEPTEMBER 2011

Present: Councillors: David Holmes (Chairman) Gordon Lindsay (Vice Chairman) John Bailey, Roy Cornell, Leonard Crosbie, Jim Rae

Apologies: Councillor: Jonathan Chowen

AAG/14 **MINUTES**

The minutes of the meeting held on 28th June 2011 were approved as a correct record and signed by the Chairman.

The Committee noted that the action under item AAG/6 of the minutes of the meeting held 28th June 2011 was complete; a reply letter had been sent to the resident who raised objection to the Annual Governance Statement, by the Director of Corporate Resources.

AAG/15 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/16 **ANNOUNCEMENTS**

The Chairman welcomed the training which the Members had recently received on Accounts Audit and Governance; the Committee had found it very useful.

The Chairman requested that the Committee receive a forward plan for the forthcoming year; and asked that this be available at the next meeting.

The Committee discussed its Terms of Reference, and whether they were correct in respect of the Committee's treasury and management role and the Annual Governance Statement. The Director of Corporate Resources would bring some wording from the Council's Constitution to the next meeting.

AAG/17 **ANNUAL GOVERNANCE REPORT 2010/11**

Helen Thompson, the District Auditor, presented the Annual Governance Report 2010/11. The Committee noted that the purpose of the report was to summarise the District Auditor's findings from 2010/11 audit in order to issue an unqualified audit opinion.

The Committee noted that all audit work was complete. However, the District Auditor had received queries and a formal objection from a local elector. His request was for the Auditor to consider issuing a Public Interest Report in relation to various matters, mainly in relation to the Council's proposed arrangements on the Old Town Hall. Many of the matters raised related to years of audit that have been closed. There was therefore no action which

AAG/17 Annual Governance Report 2010/11 (cont.)

the District Auditor could take. However, there were a small number of issues which would be accepted as an objection and then considered.

The District Auditor intended to issue an unqualified audit opinion and an unqualified value for money conclusion. The Auditor had carefully considered whether the matters raised by the local elector prevented her from issuing either the opinion or the value for money conclusion. In terms of the opinion, the value of the matters raised relate mainly to a specific asset, the value of which in relation to the total value of assets (£494k of £76.7m) was not material. The proposed annual income from the contract with potential supplier, had it progressed, would have been some £50k (against 10/11 gross income in net cost of services of £51.7m), the Auditor did not consider this to be material for either the opinion or the value for money conclusion.

In terms of the value for money conclusion, the issues raised by governance were not ones she recognised from her wider work at the Council, either in the current year of audit or in previous years. The issues around procurement – which were reported in the Auditor's letter in December 2010 – were not so significant in the context of all Council activity. Therefore the District Auditor concluded that there was no impact on the 2 specified criteria or the proper arrangements.

The Committee noted the report and was satisfied with the external audit.

RESOLVED

- (i) That the adjustments to the financial statements set out in the District Auditors' report be noted
- (ii) That the letter of representation, on behalf of the Council, be approved
- (iii) That the response to the proposed action plan be agreed

AAG/18 **STATEMENT OF ACCOUNTS 2010/11**

The Director of Corporate Resources presented the Statement of Accounts 2010/11 which the District Auditor would issue an unqualified audit opinion on.

The Committee noted the two items of income and expenditure which did not occur regularly within the ordinary activities of the Council, these related to a VAT refund on sports and recreational activities and the other was past service gain relating to pensions.

AAG/18 Statement of Accounts 2010/11 (cont.)

The Committee acknowledged that the Statement of Accounts were complex and requested that in future draft accounts be provided at an earlier stage. In addition some training was requested for Members to understand more fundamentally the nature of the accounts.

RESOLVED

That the 2010/11 Statement of Accounts be approved.

REASON

- (i) There was a statutory duty for the Council to approve the Statement of Accounts each year
- (ii) The District Auditor would issue an unqualified audit opinion on the financial statements

AAG/19 LETTER OF REPRESENTATION

The Director of Corporate Resources asked the Committee to approve the letter of representation to the District Auditor.

RESOLVED

That the Letter of Representation be approved and signed by the Director of Corporate Resources and the Chairman of the Committee.

AAG/20 TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2010/11 AND PART YEAR 2011/12

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for 2010/11 and part year 2011/12.

The report confirmed that, during 2010/11, the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, had not been breached.

The Committee noted that the actual value of the Council's Capital Financing Requirement was less than estimated due to the capital spend being less than estimated.

AAG/20 Treasury Management Activity and Prudential Indicators 2010/11 and Part Year 2011/12 (cont.)

RESOLVED

- (i) That the actual 2010/11 prudential indicators be approve as reported
- (ii) That the treasury management stewardship report for 2010/11 be noted
- (iii) That the part year review of treasury activity be noted and any changes to the prudential indicators be agreed

REASON

The annual treasury report is a requirement of the Council's reporting procedures. The report also covers the actual Prudential Indicators for 2010/11 and part year 2011/12 in accordance with the requirements of the CIPFA Code of Practice on Treasury Management Prudential Code for Capital Finance in Local Authorities.

AAG/21 **OUTTURN 2010/11**

The Director of Corporate Resources presented the Outturn 2010/11, including summaries by service of outturn expenditure in 2010/11, compared to original and revised budgets for the year, and of expenditure on the Repairs and Renewals Fund, as had been requested by the Committee at its last meeting on 28th June 2011 (Minute No AAG/8 (28.6.11))

The Committee agreed that it would be more appropriate to ask the Budget Review Working Group to consider this report at its next meeting.

RESOLVED

That the comparison of outturn expenditure in 2010/11 compared to the original and revised budget for the year be noted.

AAG/22 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section from June 2011.

The Committee noted the summary of audit findings.

AAG/22 Internal Audit – Quarterly Update Report (cont.)

The Chief Internal Auditor explained that there would be a temporary increase in audit resources in order to achieve the audit plan for 2011/12.

The Committee requested that at the next meeting a statement be produced on what the Chief Internal Auditor felt needed to be achieved in a revised audit plan, against what was achievable, in order for the Committee to make an objective opinion.

Where the Chief Internal Auditor had reported moderate assurance in his audit opinion, the areas would be reviewed and an update would be reported to the Committee at its next meeting on 14th December 2011.

RESOLVED

That the summary of audit and project support work undertaken since June 2011 be noted.

REASON

To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.

AAG/23 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Director of Corporate Resources presented the Risk Management Quarterly Update Report and explained that the Committee was responsible for monitoring the effectiveness of the Council's risk management arrangements.

The Committee noted that the savings and initiatives were being explored to close the budget gap and these were being considered by the Advisory Group and would be presented to Council in October by the Cabinet Member for Efficiency and Taxation.

Members expressed their concern in respect of CCR21: There was no formal system in place for calling out staff if an incident arose. The Director of Corporate Resources explained that this area was under review, following that feedback would be available.

RESOLVED

- (i) That the revised Corporate Risk Register be approved.
- (ii) That the progress made in respect of the departmental risk registers be noted.

AAG/23 Risk Management – Quarterly Update Report (cont.)

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/24 **URGENT MATTERS**

There were no urgent matters to be considered.

The meeting finished at 4.59pm having commenced at 3.00pm.

CHAIRMAN

Annual Audit Letter

Horsham District Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

- I gave an unqualified audit opinion on your financial statements on 29 September 2011.
- 2010/11 was the first year you have had to produce your financial statements under International Financial Reporting Standards (IFRS). As at most councils, this has required a significant amount of additional time and effort. I would like to commend you for meeting this challenge and providing a draft set of accounts by the 30 June 2011 deadline that, in the main, were compliant with the new requirements.

Value for money

- I gave an unqualified value for money conclusion on 29 September, stating that you have proper arrangements in place for securing economy, efficiency and effectiveness.

Audit Certificate

- I have received correspondence from a local elector which I have accepted as a valid objection. I cannot issue the certificate and close the audit for 2010/11 until I complete my work on the objection.

Financial statements and annual governance statement

Your financial statements and annual governance statement are an important means by which you account for your stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified audit opinion on your financial statements on 29 September 2011. 2010/11 was the first year you produced your financial statements under International Financial Reporting Standards (IFRS). Restating the accounts to comply with the requirements of IFRS was a complex task, which caused significant difficulties for some councils. You completed the restatement work to a good standard early in the year. You provided draft accounts for audit by 30 June deadline. I identified two material misclassification errors and some presentation and disclosure errors in the draft financial statements. None of these errors affected your overall financial position and they were corrected before I gave my opinion. I reported on the detailed findings of my audit to the Accounts, Audit and Governance Committee on 29 September 2011.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements. Internal financial controls within the Council are generally working as intended however I identified a small number of areas where you could strengthen controls. I reported these, along with associated recommendations, within my annual governance report in September 2011. Your officers have agreed actions in response and I will follow up these issues as part of my 2011/12 audit.

National fraud initiative

The national fraud initiative (NFI) is a data matching exercise carried out by the Audit Commission every two years. It compares information held by and between about 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments, all hosted on a secure website. When there is a match, there may be something that warrants investigation.

You are responsible for providing the initial data and investigating the matches produced from the data analysis. I use the results from the exercise to help me assess the arrangements that you have in place to prevent and detect fraud. I am also required to complete a risk assessment of your progress in completing the investigation by January 2012.

The Audit Commission's central NFI team assessed progress in August 2011. This identified you were not progressing matches as quickly as the Audit Commission expected, and a member of the national team visited your key contact in November. He found that:

- you have only worked on the housing and council tax benefits matches to date, other reports have not been reviewed;
- there has been limited progress on previous years' matches; and
- resourcing NFI and fraud work has been balanced against other demands. You have chosen to focus on key systems audits and special investigations.

You need to review the NFI data received, taking into account both competing priorities and the need to comply with the NFI statutory requirements. I understand your officers will do this in the New Year.

Value for money

I considered whether you are managing and using your money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that you have adequate arrangements to secure, economy, efficiency and effectiveness in your use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>I focussed my work on the changes made to the 2011/12 budget and medium term financial strategy (MTFS) to accommodate reductions in funding following the comprehensive spending review (CSR). In particular I considered the realism and achievability of those changes, and the impact of funding reductions on your priorities.</p> <p>I found that you planned well for cuts in funding before CSR. You undertook scenario planning before the settlement announcement and, although reductions in funding exceeded your expectations, you responded quickly to revise the 2011/12 budget accordingly.</p> <p>You plan to rely on a small amount of reserves, approximately £0.1 million, to balance the 2011/12 budget. An agreed reserves strategy is part of your medium term financial strategy and this requires a minimum level of reserves at £4 million. The financial plans show that this will be maintained through the period of the medium term financial strategy to 2013/14. However, you are facing a revised budget gap of £1.3 million for 2012/13 that you will need to address.</p>

Criterion	Key messages
	<p>I noted that members receive reports that highlight variances and provide explanations for them. However, members do not receive budget monitoring reports that provide detailed income and expenditure information. You should consider revising the format of the budget reports to show income and expenditure and variances in a standard format each quarter.</p> <p>In July 2010, the Cabinet received a report showing a significant overspend on operational services and the Acorn Plus waste collection service. In response you approved a revised budget for this service. I identified this as risk to my VFM conclusion and I reviewed the action you took in response.</p> <p>It is clear that you acted swiftly to identify and address the causes of the overspend in Operational Services and oversaw the financial position closely during the latter part of the 2010/11 financial year. You also identified a number of actions to address the organisational issues arising from your review of the causes of the overspend. However, I identified two issues for you to consider.</p> <ul style="list-style-type: none"> ■ you should continue to focus on the accuracy of forecasting, including how you report this to members, aiming for consistency to make it easier to track progress over a period of time; and ■ you should bring the action plans together to form a single monitor of progress to ensure all actions are managed effectively, and agree who will receive reports on progress against the actions agreed. <p>In October, the Business Improvement Working Group, a working group of the scrutiny and overview committee, received a report from the Chief Internal Auditor which identified the issues to learn from following the overspend. As a result, you have established a Project Assurance Core Team. This team should identify any risks or problems at an early stage and escalate them to the Corporate Management Team.</p>

Criterion	Key messages
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>I reviewed costs and other aspects of your finances using the Audit Commission's value for money profiles. I also considered some of the actions you have taken to improve efficiency and productivity.</p> <p>From my discussions with the leadership team, I can see that you clearly understand the scale of cuts and efficiencies required to address the financial settlement post CSR.</p> <p>The Corporate Plan ran until March 2011. This set out your priorities from 2008-2011. You undertook a review of the outcomes of the Corporate Plan at the end of the year showing progress against each of the key priorities. Where these areas have remained priorities, the outcomes link to the new District Plan 2011-15.</p> <p>You developed the District Plan alongside the budget for 2011/12 to ensure these were integrated. It is underpinned by service plans which are available on your website. These annual plans for each department set out how it will help to achieve the priorities in the Plan. These were agreed with portfolio holders and heads of service to ensure 'buy-in' throughout the Council. Clear links exist between the District Plan, service plans and the budget for the year.</p> <p>The value for money profiles for 2010 show you continue to drive down costs. For example, running costs as a proportion of total net expenditure have decreased by 5% over the last 4 years. You have also reduced the corporate and democratic core costs over the last four years and this places you in the lowest percentile of your neighbour group.</p> <p>You have a good history of looking at alternative and improved methods of service provision. For example, the CENSUS partnership for benefits and ICT provision and the joint procurement partnership with Crawley Borough Council and Mid Sussex District Council. In addition, you are planning further savings of £200,000 from the CENSUS partnership in 2012/13.</p>

Current and future challenges

You have performed well in recent years but, like other councils, you face significant challenges because of the economic downturn. Current and future challenges facing the Council are set out in the table below.

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains difficult. Since taking office in May 2010 the Coalition Government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding.

You face significant challenges in the context of this economic downturn and increased pressure on the public sector. These include reducing budgets, increasing demographic pressures and demand, and rising customer expectations. You will need a continued focus on improving the value for money of the services you deliver.

In 2010/11 you responded quickly to in-year grant reductions and other decreases resulting from CSR. You plan to rely on a small amount of reserves, approximately £0.1 million, to balance the 2011/12 budget and are on track to achieve this based on the last report to the Budget Review Working Group in October. However, you are facing a budget gap of £1.3 million for 2012/13 that increases to £2.2 million for 2014/15. You are aware of the pressure this puts on the medium term financial strategy and are putting plans into place to address this.

You have introduced the ASPIRE toolkit to develop and implement your medium term financial strategy and have used this as a framework for savings decisions. ASPIRE ensures that you are thinking in the broadest sense about the services that you deliver and how they are delivered. This includes considering shared services, procurement, income generation, economising, service redesign and your vision and priorities. You have applied this robustly and analysed all savings proposals against the ASPIRE categories.

Changes to legislation

The Coalition Government has announced a significant number of wide-ranging reforms to the public sector since taking office in May 2010. The Localism Bill is advanced in its parliamentary progress and if passed will have a significant impact on local government. Key aspects of the bill are:

- the abolition of the Standards Board regime;
- introducing a general power of competence for local authorities;
- introducing rights for communities to buy local assets threatened with closure and challenge the way services are provided;
- substantial reforms of the planning system; and
- changes to allow local authorities to keep locally collected business rates that could increase the financial risks faced in the future.

In addition other government reforms are planned to the welfare system, which will impact on your future work in administering housing and council tax benefits.

You will need to continue to monitor and forecast the impact of these changes to fully assess the challenges and opportunities they create.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Corporate Resources. I will present this letter at the Accounts, Audit and Governance Committee on 14 December 2011 and will provide copies to all members.

I have included detailed findings, conclusions and recommendations in the areas covered by my audit in the reports issued during the year.

Report	Date issued
Fee letter	March 2010
Opinion plan	June 2011
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual Audit Letter	November 2011

You have taken a positive and constructive approach to our audit. I wish to thank your staff for their support and cooperation during the audit.

Helen Thompson

District Auditor

November 2011

Appendix 1 – Fees

	Actual fee	Planned fee	Variance
Audit fee ⁱ	£115,620	£115,620	£0
Inspection fee ⁱⁱ	£0	£9,152	£(9,152)
Additional work ⁱⁱⁱ	TBC	TBC	TBC
Total	£115,620	£124,772	£(9,152)

ⁱ During 2010/11, the Commission issued a rebate to the Council of £6,916 against the one-off cost of work relating to the first year implementation of international financial reporting standards (IFRS). In addition, the Commission made a further rebate of £1,734, reflecting the changed approach to local VFM work and a further decrease for IFRS.

ⁱⁱ Inspection activity was cancelled following the abolition of Comprehensive Area Assessment (CAA).

ⁱⁱⁱ Audit and legal fees in connection with dealing with receipt of an objection to 2010/11 accounts prior. Due to the unpredictable nature of the work involved these fees are not part of the fixed fee for audit. As the work is ongoing at this time, I cannot confirm the final amount.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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- any director/member or officer in their individual capacity; or
- any third party.



Report to Council Accounts, Audit & Governance Committee

14th December 2011

By : Head of Financial & Legal Services

INFORMATION REPORT

Not exempt



Objection (later withdrawn) to the 2008/09 Accounts

Executive Summary

In response to an objection by a local elector, (subsequently withdrawn), to the 2008/9 accounts, relating to the future of the Town Hall, the District Auditor wrote to the Council confirming that she was satisfied the Council had acted within the law.

However, the process for dealing with the Town Hall has been drawn out and the District Auditor has asked that the Council consider whether it could have acted differently to avoid this and to implement any learning for future decisions.

This report sets out the Council's response.

Recommendations

The Committee is asked to note the Council's response to the District Auditor.

Background Papers:

Consultation:

Wards affected:

None

Contact:

Sue McMillan Ext. 5302

Background Information

1 Introduction

- 1.1 The District Auditor received an objection, which was later withdrawn, to the 2008/09 accounts. The objection related to expenditure relating to the future of the old Town Hall. The Auditor was also asked to consider issuing a public interest report into the marketing of the Town Hall, the evaluation of the bids received and any decisions made by the Council as a result.
- 1.2 Although the objection was withdrawn in September 2010, the District Auditor had completed much of the work necessary and this cost was met by the Council. She, therefore, wrote to the Council with her observations. This letter is attached.

2 Details

- 2.1 The District Auditor confirmed that the Council had acted within the law. She noted that the process for dealing with the Town Hall had been drawn out and recommended that the Council adopt a formal process with stronger controls for any future major procurement or asset disposal exercises.
- 2.2 The Chief Executive has responded to the District Auditor:-

“As your report said, the Council has not acted illegally in any of the processes it has followed. It is important to distinguish between what are lawful and valid decisions by the Council and the attempts to discredit these processes for a particular end. We want to avoid, if possible, any such disputes in future but we reject any implication that we have acted improperly.

It is necessary to distinguish between Advisory and Working groups and in this case the future of the Town Hall was originally discussed by an Advisory Group. Advisory Groups have no constitutional remit in the decision making processes of the Council. They are a collection of Members who are asked by a Cabinet Member to advise and to act as a “sounding board” on certain matters. There is no requirement on the Cabinet Member or the Cabinet to accept any guidance from an Advisory Group, they clearly though can help a Cabinet Member in formulating policy. I can see how the impression was given that the Advisory Group had more power than was actually the case and that is regretted. I will ensure that there is clarity over the respective roles of the Advisory and Working Groups at the time they are set up in future.

The Council has a long history of engaging with community groups in a number of different areas of activity. However, whilst we seek their views it does not mean they will always be accepted and implemented. A good analogy is the Council may seek views on its budget proposals but it clearly cannot implement or agree all of the comments received.

The Council procures goods and services in line with its Standing Orders. Final decisions are, where required, made following a competitive tendering or bidding exercise, as was the case with the Town Hall. These processes protect the Council

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against any undue influence. Nevertheless, it is accepted that in future, where used, agents should be asked to declare any potential conflict of interest.

The Council does operate a formal process for procurement or asset disposal and will ensure this is followed. This includes establishing how bids or tenders can be valued prior to advertising so that there is a transparent basis for the eventual decision. A recent major tendering exercise on the Leisure Management contract is following just such a robust process.

The Council has adopted a Prince II Approach Methodology for all significant projects in the future. A separate group of senior officers (the Project Assurance Core Team – which includes the Chief Internal Auditor) reviews progress of major projects on a regular basis and reports monthly into the Corporate Management Team as part of its performance management remit.”

3 Next Steps

- 3.1 The Council has taken note of the District Auditor’s comments and has taken steps to strengthen procedures where necessary.

4 Outcome of Consultations

- 4.1 Not applicable

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable

6 Staffing Consequences

- 6.1 No staffing resources are required as a result of this report.

7 Financial Consequences

- 7.1 No financial resources are required as a result of this report.

Appendix 1

Consequences of the Proposed Action

<p>What are the risks associated with the proposal?</p> <p>Risk Assessment attached /No</p>	<p>Risks will be minimised by adhering to Council procedures for asset acquisitions and disposals.</p>
<p>How will the proposal help to reduce Crime and Disorder?</p>	<p>There are no implications for Crime and Disorder.</p>
<p>How will the proposal help to promote Human Rights?</p>	<p>Adherence to Council procedures will ensure compliance with The Human Rights Act</p>
<p>What is the impact of the proposal on Equality and Diversity?</p> <p>Equalities Impact Assessment attached /Not relevant</p>	<p>Council procedures on tendering ensure that equality and diversity issues are assessed.</p>
<p>How will the proposal help to promote Sustainability?</p>	<p>Council procedures on tendering ensure that sustainability issues are assessed.</p>

Our reference HT

17 December 2010

Tony Higgins
Director of Corporate Resources
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Horsham
West Sussex RH12 1RL

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0844 798 1790

Email

helen-
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— Dear Tony

Old Town Hall - Horsham

You will recall that following Mr Mayfield's decision to withdraw his objection to the 2008/09 accounts of Horsham District Council I said I would draw together my observations from the work I have done.

Mr Mayfield made an objection on 26 November 2009 to three items of account on the Council's spending relating to the future of the Old Town Hall in Horsham. He also asked me to consider issuing a public interest report into marketing the Old Town Hall, evaluating the bids received and any decisions made by the Council as a result. Mr Mayfield appointed Mr Jeremiah as his representative for this matter. I accepted the objection on 9 December 2009. Since then I have had various conversations, email exchanges and meetings with Mr Mayfield, Mr Jeremiah and Council officers.

Mr Mayfield withdrew his objection on 27 September 2010. As a result, I will not be determining the objection as this withdrawal brings the objection to an end. However, I have completed much of the work that would have been necessary to do so, and the cost of this has been met by the Council. I believe it is in the interest of council taxpayers that as much value and learning is gained from that work as possible.

Time taken to make a decision

The process for dealing with the Old Town Hall has been drawn out. I believe the Council should consider whether it could have acted differently to avoid this and to implement any learning for future decisions.

Mr Mayfield and Mr Jeremiah first raised their concerns and objections to the Council's plans in 2006 when they felt badly treated and let down by the Council. Mr Mayfield and Mr Jeremiah represented a community group (Folk Arts Centre) who were invited by the Council's Town Hall Advisory Group in April 2005 to present detailed proposals for the future use and management of the Town Hall. Mr Jeremiah and Mr Mayfield did this, and in March 2006 their proposal became the preferred choice of that Advisory Group. However, from that point onwards the Council started to move away from the Folk Arts Centre proposal. The Council was acting legally when it did this, but Mr Mayfield and Mr Jeremiah continued to object.

When presented with the Advisory Group's recommendation in 2006, the Cabinet initially deferred its consideration of the matter. After a short time, it then decided to examine an alternative of a commercial lease to a restaurant operator. At the same time it continued to look in more detail at community use options including the Folk Arts Centre proposal. Considering those alternatives inevitably took more time and the Council formed a second Advisory Group. This considered various matters such as adaptations under the Disability Discrimination Act and the cost of necessary repairs which it then estimated at £750,000. After the second Advisory Group completed their review they reported to Council where the Group's work was noted and endorsed in October 2007. The matter then passed to the Cabinet Member for Finance and Assets to consider at his Asset Management Advisory Group in the context of the budget and Council's financial strategy. The Asset Management Advisory Group examined the possibility of community groups obtaining external funding to meet the cost of refurbishment and considered that it was not a realistic prospect. In February 2008, the Cabinet Member recommended, primarily on financial grounds, to Council that expressions of interest be sought from restaurant operators. A process to select a restaurant then followed.

It took the Council almost three years to decide that it did not want to continue with a community use option. This seems to be a lengthy period of time, and is partly attributable to the Council not having provided the first Advisory Group with clear guidance and limits within which to work. The potential cost of refurbishment was not identified as being relevant to the scope of the first Advisory Group's consideration, but it became the main factor.

For a further two and a half years, the Council dealt with complaints, Freedom of Information requests and the Local Government Ombudsman. Finally it faced a judicial review application by Mr Mayfield over the planning decisions. Although the application was refused, the judicial review proceedings record that Mr Mayfield has a genuine and real interest in the use of the Town Hall for community use.

As local authority budgets come under increasing pressure from cuts in central government funding, the Council will be expected to consider how best to engage with and help community groups to support and deliver services. This should include assisting groups to facilitate their interactions with the Council, its decision making and business processes.

Weakness in documentation and the tender process

As part of my review I have read Council minutes, committee reports and a large volume of correspondence. The Council's minutes are an important means through which local residents and interested parties can understand the nature of Council business and therefore need to present an accurate summary of any debate or decision-making.

The minutes and reports dealing with the tendering of the Old Town Hall for restaurant use refer consistently to formal bids and imply that formal tendering was being followed. In fact this was done informally. Officers pursued the sale through a private treaty route.

In contrast to formal tendering, a private treaty route has no controls to show that bids are sought and handled fairly. For example:

- there is no requirement for sealed bids to be received by a fixed date; and
- no controls over opening and recording bids.

A private treaty sale does offer flexibility to agree particular terms without being committed to accept any offer at any point in time. In this case, bids were received in various formats over time. They were openly discussed, including naming one bidder (Bills) in a Cabinet report on 12 February 2009 as the Council's preferred choice. This was based on a meeting and notice of a verbal offer on 7 January 2009. At that stage no other bids had been received.

The Council appointed an agent to deal with the tendering to provide market knowledge and expertise. But in selecting an agent, the Council did not check the agent was free from any conflicts of interest before engaging him. Where the Council appoints agents it should have processes in place to satisfy itself that the agent is acting in the best interest of the Council by requiring the agent to declare any potential conflict of interest before they are appointed.

Although there were some formal elements to the process for evaluating bids, it was not strong enough for the Council to be able to show that it reached an unbiased decision. The bids were scored against a bidder evaluation score-sheet. The Council shared this with the bidders as part of a best and final offer request in April 2009, but it was designed after the offer from Bills was already known, and before any other bids had been received. I would have expected the criteria to have been decided and agreed before any bids were sought.

Although minutes and reports refer to a formal process, my view is that this was not the case. There was no clear project plan, with clear milestones and accountabilities, to manage the decision taken by the Cabinet in February 2008. The documentation for decision-making, including the receipt and evaluation of bids, was inadequate. For example, I did not see a signed bid from Bills on headed paper. Therefore the Council cannot show there were controls to prevent abuse from occurring, or detect it if this happened.

I recommend the Council adopts a formal process with stronger controls for any future major procurement or asset disposal exercises. The Council needs to ensure that it can show that it is obtaining 'best consideration' in asset disposals, sales by private treaty make this more difficult to demonstrate. Also, more attention is needed to ensure that Council minutes accurately describe the nature of the process being followed when assets are being disposed.

I note that officers have said they will seek future bids in a specific format to address the points made above.

Current position

In November 2010, Bill's announced that they were withdrawing their plans to develop the Town Hall as a restaurant. The Council has issued a press release confirming that it intends to continue to seek a restaurant operator for the site.

Draft heads of terms concerning the lease had been agreed with Bill's in May 2009, although these remained 'subject to contract'. Final agreement of the contract was then held up, while the planning permissions for the Town Hall were subject to legal dispute. Despite these being resolved in the Council's favour in October 2010, the delay prompted Bill's to withdraw in November 2010.

Overall conclusion

Overall I am satisfied the Council has acted within the law, but the time taken to achieve its objective was long and costly. It has also led to additional audit charges dealing with the objection.

I note that officers have agreed to review the process for future disposals and I am happy to provide comments on these arrangements if you think this would be helpful.

Yours sincerely

Helen Thompson
District Auditor

**Report to Accounts, Audit and
Governance Committee**

14th December 2011

By the Head of Financial Services

DECISION REQUIRED

Not exempt



Treasury Management Strategy 2012/13

Executive Summary

This report is an annual statutory requirement setting the strategy for treasury management for the 2012/13. This includes a revised Treasury Management Policy Statement. It also sets out specific treasury management indicators that are required by regulations.

Recommendations

The Committee is recommended to recommend that the full Council:

- i) adopt the 2011 version of the CIPFA Treasury Management Code of Practice
- ii) adopt the revised Treasury Management Policy Statement
- iii) approve the Treasury Management Strategy for 2012/13
- iv) approve the Treasury Management Indicators for 2012/13

Reasons for Recommendations

- i) The Council has previously adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2009 (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year
- ii) The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year

Background Papers: CIPFA Treasury Management Code of Practice

Consultation: Sterling Consultancy Services

Wards affected: All

Contact Julian Olszowka ext 5310

Background Information

1 Introduction

The purpose of this report

- 1.1 The Council has significant investments and borrowing and must manage its cash flow in the short and long term. It therefore requires an overall strategy as well as sets of practices and procedures. There is also a significant array of statute and other regulation that lays down what a strategy should do. This report sets out the Council's Treasury Management Strategy for 2012/13.
- 1.2 Statute and associated regulation also stipulate specific treasury management indicators which this report presents for approval.

Background

- 1.3 The Council's Treasury Management Strategy must take account of expectation of the general economy and the global financial system. The Council receives advice on this from Sterling Consultancy Services. Appendix 2 gives a commentary on the economic context and interest rate forecasts. For the purpose of the budget new investments are expected to be at a premium of approximately 0.3% to bank rate.

2 Statutory and Policy Background

Statutory background

- 2.1 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance

Relevant Government policy

- 2.2 The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

Relevant Council policy

- 2.3 In February 2010 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2009 (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

3 Details

Adoption of CIPFA code

- 3.1 The Chartered Institute of Public Finance and Accountancy published a revised version of its Code in November 2011 in light of the additional financial freedoms available to local authorities in the Localism Act 2011. The Council is therefore asked to formally adopt the Treasury Management in the Public Services: Code of Practice 2011 Edition. The new Code of Practice requires some amendments to the Council's Treasury Management Policy Statement, and the Council is asked to formally adopt the new policy statement in Appendix 3.

Current and Expected Treasury Portfolios

- 3.2 The Council's treasury portfolio at 30th November 2011 was

	Principal £m	Interest Rate %
Call accounts	1.9	0.7-0.8
Money market funds	3	0.6-0.8
Short-term deposits	11.5	0.90-2.65
Long-term deposits	1	11.5
Total Investments	17.4	
Long-term PWLB loans	4	3.38
Total Borrowing	4	
Net Investments	13.4	

- 3.3 According to current cash flow forecasts, net investments are expected to reduce to approximately £1m by 31st March 2012 due to capital expenditure and use of reserves. The projected net investment will again be approximately £1m by 31st March 2013.
- 3.4 The budget for investment income in 2012/13 is £0.19m based on an average investment portfolio of £13m at an interest rate of 1.4%. The budget for debt interest paid in 2012/13 is £0.13 million, based on an average debt portfolio of £4m at an average interest rate of 3.4%.
- 3.5 In November 2012 a long term investment of £1m yielding 11.5% will come to an end. This investment had buoyed up investment income significantly with other returns close to 1%. Future year's investment income will be suffer without this investment contributing to the general pressure on the revenue budget.

4 Next Steps

Investment Strategy

- 4.1 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £10m and £26m, and although level of reserves is gradually reducing there will still be times when similar levels are expected in the forthcoming year. The CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

Investment criteria and limits

- 4.2 The Council defines several categories of financial institutions as being of “high credit quality” (as per the CLG Guidance), subject to the monetary and time limits. These are listed in Appendix 4
- 4.3 The criteria used for 2012/13 are substantially the same as for the current year although the overall total for unrated Building Societies has been increased to £5m. This reflects discussions with the Council's treasury advisers after which the Council took additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. Investments in lower rated and unrated building societies will be reviewed if the insolvency regime is amended in future.
- 4.4 The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.
- 4.5 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's criteria.
- 4.6 When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.
- 4.7 If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 4.8 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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- 4.9 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it is likely to fall below the Council’s criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

Non-specified investments

- 4.10 The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.
- 4.11 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement. The total limit on long-term investments and thereby the total limit on non-specified investments is £3m.

Planned investment strategy for 2012/13

- 4.12 The primary objectives of the Council’s investment strategy is safeguarding the repayment of the principal and interest of its investments followed by the ensuring of adequate liquidity. Only after those considerations is the investment return addressed. In the current investment climate there continues to be one over-riding risk consideration; that of counterparty security risk.
- 4.13 In line with the CIPFA Code the Council has previously adopted security and liquidity benchmarks. These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting explanation in the Mid-Year or Annual Report.

Security benchmark: average credit rating

- 4.14 The Council previously adopted a security benchmark based on weighted average historic default rates. This was expressed as a percentage. After discussions with the Council’s new advisers the benchmark will be expressed as an average credit rating rather than a percentage. The benchmark for 2012/13 will be an average credit rating of A which is the equivalent of the current year’s benchmark.

Liquidity benchmark

- 4.15 The liquidity benchmark for 2012/12 will continue as a weighted average life between 0.5 and 0.8 years as well as the maintenance of £0.5m overdraft facility. Additionally a benchmark for funds available within 3 months has been set at £3m.

Yield benchmark

- 4.16 The yield benchmark will remain at the 7 day London Interbank bid rate.

Liquidity management

- 4.17 The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial plan.

Borrowing Strategy

- 4.18 The Council currently holds a £4m of long-term PWLB loan, as it did in the previous year, as part of its strategy for funding previous years' capital programmes. The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2012 is expected to be £13m, and is forecast to rise to £14m by March 2013 as capital expenditure is incurred.
- 4.19 The Council has therefore not borrowed externally but rather used internal funds. It may be more cost effective to defer borrowing until later years, and to temporarily reduce the size of the Council's investment balance instead. In addition, the Council may borrow for short periods of time (normally some weeks) to cover unexpected cash flow shortages. Short term rates are currently much lower than long term.
- 4.20 The Director of Corporate Resources, under delegated powers, will take the most appropriate form of borrowing depending on the interest rates at the time and forecasted rates. If there is a need to borrow for capital spend the Director of Corporate Resources will report this to the Council and seek to revise the relevant indicators from this report at the earliest opportunity. The Cabinet Member for Efficiency and Taxation is kept abreast of such activity and comments as he sees fit
- 4.21 The approved sources of long-term and short-term borrowing will be:
- Public Works Loan Board
 - any institution approved for investments above
 - any other bank/building society approved by the Financial Services Authority
 - capital market bond investors
 - special purpose companies enabling joint local authority bond issues

Policy on Use of Financial Derivatives

- 4.22 The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
- 4.23 The Council has no plans to use any financial derivative but in principle it will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they clearly reduce the overall level of risk. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 4.24 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Treasury Management Indicators

- 4.25 The CIPFA Treasury Management Code sets a number of indicators the Council must set and these are dealt with in the following five paragraphs.

Interest rate exposures

- 4.26 This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed are shown below. Fixed rate investments and borrowings are defined here as those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

	2012/13	2013/14	2014/15
Upper limit on fixed interest rate exposures	£15m	£15m	£15m
Upper limit on variable interest rate exposures	£0m	£0m	£0m

Maturity structure of borrowing

- 4.27 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown below. The Council only has one such debt at present and has the flexibility to change the terms and maturity date as it sees fit.

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than 364 days

- 4.28 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2012/13	2013/14	2014/15
Limit on investment over a year	£3m	£3m	£3m

Gross and net debt

- 4.29 The upper limit on net debt indicator was introduced in 2011 and is intended to highlight where the Council borrowing in advance of need. Since net debt does not change when loans are borrowed and the proceeds re-invested, it is not yet clear how this indicator will work. CIPFA has not yet produced guidance on its use, and so the Council is being asked to set a deliberately high limit this year. The limit has been set in line with the Council's Authorised Limit. When further guidance is available this limit may have to be revised.

	2012/13	2013/14	2014/15
Upper limit on net debt	£15m	£15m	£15m

Borrowing limits

- 4.30 The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are repeated here for completeness.

	2012/13	2013/14	2014/15
Operational boundary - borrowing	£4m	£4m	£4m
Operational boundary – other long term liabilities	£0m	£0m	£0m
Operational boundary - Total	£4m	£4m	£4m
Authorised limit – borrowing	£14m	£14m	£14m
Authorised limit – other long-term liabilities	£1m	£1m	£1m
Authorised limit – Total	£15m	£15m	£15m

Other Matters

- 4.31 The CLG Investment Guidance requires the Council to note the use of Treasury management advisers, staff training arrangements and its policy on investment of money borrowed in advance of need each year as part of the investment strategy:

Treasury management advisers

- 4.32 The Council contracts with Sterling Consultancy Services to provide advice and information relating to its investment and borrowing activities. However, responsibility for final decision making remains with the Council and its officers. The Director of Corporate Resources in liaison with the Head of Financial services will monitor the quality of service. The services received include:
- advice and guidance on relevant policies, strategies and reports,
 - advice on investment decisions,
 - notification of credit ratings and changes,
 - other information on credit quality,
 - advice on debt management decisions,
 - accounting advice,
 - reports on treasury performance,
 - forecasts of interest rates, and
 - training courses.

Staff training

- 4.33 The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Sterling Consultancy Services and CIPFA. Relevant staff are also encouraged to study relevant professional qualifications.

Investment of money borrowed in advance of need

- 4.34 The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.
- 4.35 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

5 Outcome of Consultations

- 5.1 The Council's advisers Sterling Consultancy Services have been consulted throughout the formulation of this strategy.

6 Other Courses of Action Considered but Rejected

- 6.1 The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Financial Services, having consulted the Cabinet Member for Efficiency and Taxation, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.
- 6.2 A narrower definition of “high credit quality” was considered but this would significantly reduced interest income. A wider definition would increase interest income but increase credit risks. The balance adopted in this report attempts to reflect the Council’s risk appetite.
- 6.3 Early borrowing was considered but it was felt that reducing the balance of investments at a time of credit risk and low interest was preferable.

7 Staffing Consequences

- 7.1 There are no staffing consequences apart from the need for training.

8 Financial Consequences

- 8.1 The financial consequences of the report are discussed in the body of the report. The decisions above affect the interest income of the Council as they determine the risk the Council is prepared to consider.

Appendix 1

Consequences of the Proposed Action

What are the risks associated with the proposal?	Risks such as security of funds, liquidity, interest rate risk are considered in the report.
How will the proposal help to reduce Crime and Disorder?	There are no crime and disorder implications as a result of this report.
How will the proposal help to promote Human Rights?	This report does not infringe human rights or promote convention rights
What is the impact of the proposal on Equality and Diversity? Equalities Impact Assessment attached Yes/No/Not relevant	There are no equality and diversity implications as a result of this report.
How will the proposal help to promote Sustainability?	There are no sustainability implications as a result of this report.

Appendix 2

Commentary on Economic context of the strategy and interest rate forecast

Economic context

The UK economy is continuing its weak recovery from the 2008/09 recession, with GDP growth forecast to be around just 1.0% in 2011 and likely to remain sluggish throughout much of 2012. Government spending cuts, rising unemployment and uncertain export markets are conspiring to keep demand low, and a “double dip” recession cannot be ruled out. Consumer price inflation, which peaked at 5.2% in September, is expected to fall sharply as one-off factors like 2010’s VAT increase and fuel price rises fall out of the annual comparison.

In these circumstances, the Bank of England is unlikely to raise Bank Rate for several months, and additional quantitative easing is seen by many as being more likely than rate increases in the near future. However, once a more robust recovery appears to be taking root, the Bank is likely to prefer to gradually raise interest rates earlier, rather than waiting too late and needing to make a sharp correction.

The Eurozone sovereign debt crisis remains a major driver of market sentiment and with the UK seen as a safe haven, gilt yields and hence PWLB rates have fallen markedly this year. Assuming that there is some resolution to the crisis, long-term rates are likely to climb back to more normal levels in 2012/13.

A second UK recession or a European sovereign default would see short and long term interest rates remaining lower for longer, while a faster economic recovery and a bold solution to the Eurozone crisis would likely see rates rise more quickly.

Interest rate forecasts

Sterling Consultancy Services central interest rate forecast – November 2011

	Bank Rate	1 month LIBOR	3 month LIBOR	12 month LIBOR	25 year PWLB
Current	0.50	0.73	1.01	1.79	4.06
Q1 2012	0.50	0.70	1.00	1.75	4.20
Q2 2012	0.50	0.70	1.00	1.70	4.40
Q3 2012	0.50	0.75	1.00	1.80	4.50
Q4 2012	0.75	0.85	1.05	1.90	4.50
H1 2013	1.00	1.10	1.25	2.00	4.60
H2 2013	1.50	1.60	1.75	2.50	4.70
H1 2014	2.00	2.10	2.25	3.00	4.80
H2 2014	2.50	2.60	2.75	3.50	4.90

HM Treasury Survey of Forecasts – November 2011

	Average annual Bank Rate %			
	2012	2013	2014	2015
Highest	1.1	2.6	3.0	3.7
Average	0.6	0.9	1.7	2.7
Lowest	0.5	0.5	0.9	1.4

Appendix 3

Treasury Management Policy Statement

The Council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities.

Definition

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

Risk management

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

Value for money

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

The Council greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy

The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Council will have regard to the *Communities and Local Government Guidance on Local Government Investments* and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Appendix 4

Investment Criteria

1. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.
2. **Banks Category 1– Good Credit Quality** - The Council will only use banks which:
 - i) Are UK banks; or
 - ii) Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA

For investments up to a year the Council will use banks which have at least the following Fitch, Moody's and Standard and Poors ratings (where rated):

Short Term F-1/P-1/A-1;

Long term A-/A3/A;

For investments over a year the long term rating required is: up to 2 years A+/A1; up to 3 years AA-/Aa3; up to 4 years AA/Aa2; up to 5 years AA+/Aa1; up to ten years AAA/Aaa.

Banks Category 2 - Guaranteed Banks with suitable Sovereign Support

The Council will also use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

- (a) wholesale deposits in the bank are covered by a government guarantee;
- (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors);
- (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

Banks category 3 – Council's own bank

The Council will also include its banker NatWest as a counterparty even if it falls below the above criteria. Investments will be up to £5m and will be in a call account as long as the bank's ratings are below the criteria.

Limits common to all Bank categories

The limit with any one institution is £5m although the Director of Corporate Resources can reduce this within the year.

For investment over 1 year and up to 5 years only category 1 banks would be used. No investment over 5 years is envisaged.

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

3. **Unrated Bank Subsidiary and Treasury Operations** – the Council will use these for investments under a year where the parent bank has the necessary short term ratings outlined above. There will be a limit of £1m on each institution and £5m maximum for all institutions including any amounts with Building Societies that are unrated or have rating lower than a category 1 bank above.
4. **Building Societies** – the Council will use societies that are rated as it does banks in category 1 above and use societies with assets in excess of £0.5bn.

For societies that are unrated or having a rating lower than a bank in category 1 above there is a limit of £1m on each institution and £5m maximum for all institutions including any amounts with unrated Bank subsidiaries will apply. Any investments will be one year or less.
5. **Money Market Funds** – Any AAA rated up to £5m in any one fund
6. **UK Government** (including gilts and the DMO) - unlimited investments up to 10 years
7. **Local Authorities, Parish Councils, etc.** - investments up to 5 years maturity £5m maximum for any one investment
8. **Supranational institutions** - investments up to 5 years maturity £5m maximum for any one investment

Report to Accounts, Audit and Governance Committee

14th December 2011

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



Internal Audit – Quarterly Update Report

Executive Summary

This report summarises work completed by the Internal Audit Section since September 2011.

Recommendations

The Committee is recommended:

- i) To note the summary of audit and project support work undertaken since September 2011.
- ii) To note the revised audit plan for 2011/12.

Reasons for Recommendations

- i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.
- ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers:	CIPFA Code of Practice 2006 and Internal Audit Reports.
Consultation:	N/A
Wards affected:	All
Contact:	Paul Miller, Chief Internal Auditor, Ext 5139

Background Information**1. Introduction****The purpose of this report**

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since September 2011.

2. Summary of Audit Findings**2.1 Performance Indicators****OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE**

This area has improved since our review last year. Comprehensive performance management procedures have been developed and processes are now well embedded. Audit testing of a sample of performance indicators confirmed that they are being accurately calculated and recorded within Covalent, and good monitoring and reporting procedures are in place. However, the auditor identified that targets are not always being set and there is a lack of supporting documentation within Covalent to explain how performance indicator data has been derived. These issues will be brought to the attention of Heads of Service.

2.2 The Capitol**OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE**

The auditor was satisfied that a sound system of control is in place for the financial and management arrangements at the Capitol. The main area of concern relates to the locking up of the building at night and response to emergency callouts. This is currently left to one person placing them at risk, and a number of actions have been agreed with the Capitol Theatre Manager to minimise the level of risk. Other areas of weakness identified included a lack of procedures in certain areas and out of date risk assessments. It has been agreed that procedures will be written and risk assessments will be brought up to date.

2.3 Purchase Cards**OVERALL AUDIT OPINION: MODERATE ASSURANCE**

The controls introduced for the operation of purchase cards are generally working effectively, but the auditor found weaknesses within the control process in relation to the management review of purchase card spending. In particular, there have been occasions when purchase card logs have not been submitted by the due date. It has been agreed that the control process will be tightened which will include the removal of purchase cards from anyone who perpetually delays returning their logs. It has also been agreed that the feasibility of using an e-form will be explored which will improve the authorisation process and accuracy of coding.

2.4 Transparency Agenda

OVERALL AUDIT OPINION: **MODERATE ASSURANCE**

Financial Services has introduced an effective system for the publication of expenditure over £500 which has ensured that the relevant data is available on the Council's Website each month in accordance with the Government's requirements.

Whilst the Council has been compliant in publishing details of expenditure over £500, there has been no focus on trying to address the Council's wider obligations outlined in the Code of Recommended Practice for Local Authorities on Data Transparency. At the commencement of the audit, overall responsibility for the publication of Council data had not been formally assigned. It has been agreed that, until a replacement for the Director of Corporate Resources has been appointed, the Head of Financial and Legal Services will create a project team that will consider how the Council will ensure that it publishes sufficient data to meet the requirements of the Transparency Agenda and statutory obligations.

2.5 Transport & Plant

OVERALL AUDIT OPINION: **MODERATE ASSURANCE**

The controls in place over accounting for vehicles and plant, their maintenance, certification and insurance are generally working effectively. However, a number of control weaknesses were identified, concerning security arrangements, vehicle disposals, procurement of fuel, and documented procedures. There is also a need to develop a business continuity plan in accordance with the Council's guidelines and timetable. A number of remedial actions have been agreed to address the issues raised.

2.6 Staff Loans (Car Loans, Season Ticket Loans, Pavilions Membership, Cycle to Work Scheme).

OVERALL AUDIT OPINION: **MODERATE ASSURANCE**

Audit sample testing confirmed the accuracy of calculations, and no accounting errors were found on any of the loan repayment schedules or deductions from pay. However, the auditor identified a significant area of non-compliance in the current car loan approval process, as loan agreements are not being signed prior to the loan being advanced (in accordance with the procedure). Remedial action has been agreed to prevent further occurrences.

3. Special Investigation

- 3.1 Internal Audit has been involved in a recent lengthy special investigation. As with any special investigation, Internal Audit has undertaken a full review of a number of control processes, and a lessons learnt report has been produced for the Chief Executive. There is also a comprehensive action plan which has been partially reviewed by CMT. A further session with CMT will be scheduled during the coming weeks so that this document can be finalised. The main outcomes will be reported to this Committee in March 2012.

4. Project Support Work

4.1 Information Security Project

Internal Audit is continuing to actively support the joint Information Security Project, an initiative designed to ensure all Councils participating in the CenSus Partnership are implementing an acceptable level of control over information held. In my September summary to this Committee, it was reported that an officer had been recruited whose role was to include acting as the ISM for Horsham. Unfortunately, although the Council's offer of employment was accepted, the successful candidate has changed his mind and will not be coming to HDC.

So that the ISM position is covered, it was agreed in November that the Principal Internal Auditor would provide some assistance. The period of assistance will now need to be extended until the ISM position has been filled. This may impinge on the internal audit plan, although contingency arrangements have been agreed to minimise the impact.

4.2 Project Assurance Core Team

As previously reported, the Chief Internal Auditor is a member of the recently formed Project Assurance Core Team (PACT). This group oversees key Council projects (as identified by CMT) and produces a monthly update report highlighting any areas for concern using a 'traffic light' system. In addition, the group has improved the 'draft' procedure guide incorporating PRINCE Lite principles and lessons learnt from the Acorn Plus Scheme. This document has now been published on the Council's Intranet. Additional work is currently underway to further improve project management processes, and a review of staff training will be included.

5 Audit Plan

5.1 As reported in September, Internal Audit resources have been significantly stretched during the current financial year due to the incidence of special investigations and also due to one member of the audit team being on long-term sick leave. Resources have been temporarily increased to help ensure that all the key financial systems are audited during 2011/12, and progress is now being made.

5.2 As agreed at the September meeting, the audit plan has been revised (see Appendix 2). The plan includes some additional areas for review which have been brought forward in response to areas of weakness identified. The following audits will be deferred until 2012/13: Use of Consultants, Section 106 Agreements, Facilities Management and Reprographics.

6 Audit Follow ups

6.1 The Chief Internal Auditor was asked to provide an update on progress at the December meeting in terms of the percentage of agreed action items implemented during 2010/11. This data is currently being collected, and the latest position will be provided at the meeting.

7 Next Steps

7.1 Not applicable.

8. Outcome of Consultations

8.1 Not applicable.

9. Other Courses of Action Considered but Rejected

9.1 Not applicable

10. Staffing Consequences

10.1 There are no direct staff consequences.

11. Financial Consequences

11.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action


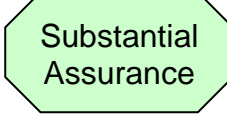


Consequences of the proposed action on:	
Risks	All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions).
Risk Assessment attached Yes/No	No
Crime and Disorder	This report has no effect on Crime & Disorder issues.
Equality and Diversity/ Human Rights	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.

Statutory and Policy Background

Statutory Background	The Accounts and Audit Regulations 2003 (as amended in 2006) made under Section 23 of the Local Government Act 1982. These state that the relevant body (the Council) shall "maintain an adequate and effective system of internal audit of its accounting records and system of internal control in accordance with proper internal audit practices." This responsibility is discharged through the Council's Internal Audit Section.
Relevant Government Policy / Professional Standards	Internal Audit follows the standards set out in the " <i>Code of Practice for Internal Audit in Local Government</i> " published by the Chartered Institute of Public Finance and Accountancy known as CIPFA.
Relevant Council Policy	Internal Audit is conducted in accordance with the Council's Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the results of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

Appendix 2

Categorisation of Audit Opinions

 <p>Full Assurance</p>	<p>System of Control: There is a sound system of control in place which minimises risk to the Council; and</p> <p>Compliance with Controls: Audit testing identified that all expected controls are being consistently applied.</p>
 <p>Substantial Assurance</p>	<p>System of Control: Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with controls in a few areas.</p>
 <p>Moderate Assurance</p>	<p>System of Control: There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with two or more key controls.</p>
 <p>No Assurance</p>	<p>System of Control: The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or</p> <p>Compliance with Controls: Audit testing identified a high number of key controls which are not being complied with.</p>

Appendix 3

REVISED INTERNAL AUDIT PLAN 2011/12

HORSHAM DISTRICT COUNCIL INTERNAL AUDIT PLAN 2011/12		Original Estimated Days	Revised Estimated Days	Progress Update	NOTES TO EXPLAIN VARIANCES
	KEY FINANCIAL SYSTEMS				
Annual Audits	Audit Commission Key Controls (ISA)	13	21	In Progress	Redesign testing. Number of tests has doubled in volume.
	Asset Management	21	5		Remaining 16 days c/f to 2012/13 to complete the audit.
	Cash Receipting	20	23	Report Stage	
	Council Tax	0	44	In Progress	CenSus Audit. Will also pick up access controls for HB & NNDR.
	Creditors	18	26		Additional days allowed re testing of automated new invoice matching.
	Debtors	19	19		
	Housing Benefits	37	0	N/A	Audit to be undertaken by Adur D.C. (ADC) internal auditors.
	Business Rates	0	0	N/A	Audit to be undertaken by Mid Sussex DC internal auditors.
	Payroll	19	22	In Progress	7 days work undertaken for 2010/11 in current year.
	Treasury Management	19	19	In Progress	
	<i>Sub Total</i>	<i>166</i>	<i>179</i>		
	OPERATIONAL & SYSTEMS AUDITS				
	Risk Management (Assurance)	12	10		
	ICT	29	28	In Progress	
	Budgetary Control	0	13	In Progress	Annual Audit from 2011/12 (formerly on 4 Yr Audit Plan)
	Contracts	24	23		
	Partnerships	22	10		CenSus review undertaken by ADC auditors. Review recharges.
	Performance Management	15	13	✓	
	Corporate Governance	13	13	✓	Transparency Agenda & Hospitality.
	<i>Sub Total</i>	<i>115</i>	<i>110</i>		
Audits - Four Yearly Cycle	Car Parks	12	15	✓	
	Public Health ~ Premises Inspections	20	16		
	Planning Fees	10	10	In Progress	
	Project Management	20	20		
	Use of Consultants	18	0		Defer to 2012/13.
	The Capitol	23	26	✓	
	Facilities Management	19	0		Defer to 2012/13.

Appendix 3

HORSHAM DISTRICT COUNCIL INTERNAL AUDIT PLAN 2011/12		Original Estimated Days	Revised Estimated Days	Progress Update	NOTES TO EXPLAIN VARIANCES
	Transport & Plant	26	26	✓	
	Reprographics	19	0		Defer to 2012/13.
	Rookwood Golf Course	9	12	✓	
	Parks and Countryside Services	18	7		Remaining 12 days to be undertaken in 2012/13
	Recruitment	13	13	In Progress	
	Planning Section 106 Agreements	20	0		Defer to 2012/13.
	Housing (Allocations)	14	16		
	Business Continuity	16	10		Business Continuity process is currently under development.
	Casual Workers	10	10	In Progress	
	Purchase Cards	0	25	✓	Reactive work.
	Staff Loans	0	10	✓	Reactive work.
	Follow-ups	10	8	Ongoing	
	Miscellaneous	0	5		
	<i>Sub Total</i>	<i>277</i>	<i>229</i>		
Annual Work	VALUE ADDED / REPORTING				
	Annual Governance Statement	8	3	Ongoing	
	Sussex Audit Group & IS Sub-Group	8	6	Ongoing	
	Audit Advice (e.g. Corporate Issues)	29	7	Ongoing	
	Audit Commission	4	3	Ongoing	
	Committee Representation	12	9	Ongoing	
	Investigations/Proactive Fraud Work	29	115	Ongoing	Special Investigations.
	Project Work	32	26	Ongoing	ICT Project / Risk Management / PACT / New Payroll Personnel System.
	<i>Sub Total</i>	<i>122</i>	<i>169</i>		
	TOTAL	680	687		

Report to Accounts, Audit and Governance Committee

14th December 2011

By the Head of Financial & Legal Services

INFORMATION REPORT

Not exempt



Risk Management – Quarterly Update Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration, and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

The Committee is recommended to:

- 1) Consider the updated version of the Corporate Risk Register.
- 2) To approve the removal of Risk CRR18 from the Corporate Risk Register.
- 3) Note the progress which has been made with the departmental risk registers.

Reasons for Recommendations

As part of good governance, it is important that these documents are considered by Members.

Background Papers:	Management Information obtained from Covalent
Consultation:	Chief Internal Auditor
Wards affected:	All
Contact:	Sue McMillan, Ext 5302

Background Information

1. Introduction

The Purpose of this Report

- 1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The deadline for completing the first quarter review of departmental risk registers has now passed, and feedback on progress is summarised in this report.

2. Risk Management Update

2.1 Corporate Risk Register

- It is recommended that CRR18 is removed from the Corporate Risk Register, as all actions have now been completed.
- There are concerns over health and safety across the organisation following the recent retirement of the Council's part-time Health and Safety Officer. The Corporate Management Team (CMT) has added health and safety to the Corporate Risk Register (see CRR27), and a consultant has been employed who is currently undertaking a comprehensive review of the Council's health and safety arrangements by way of a gap analysis.
- CMT has reviewed outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk.

2.2 Departmental Risk Registers

A total of 11 out of 18 departmental risk register reviews (61%) were completed and signed off by the 21st November cut-off date (compared to 67% in August and 50% in May). As at 2nd December, all reviews had been undertaken with the exception of one.

3. Next Steps

- 3.1 A meeting of senior officers has been arranged for 9th January 2012 to undertake a detailed review of Corporate Risk Management and how this will operate in future. This meeting will also review the Risk Management Strategy which is due to be updated.

4. Outcome of Consultations

- 4.1 Not applicable.

5. Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6. Staffing Consequences

- 6.1 There are no direct staff consequences.

7. Financial Consequences

- 7.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action


















Consequences of the proposed action on:	
Risks	The report provides an update on the Council's corporate risks and how these are being managed by the Corporate Management Team.
Risk Assessment attached Yes/No	See Appendix 2 for the latest version of the Council's Corporate Risk Register.
Crime and Disorder	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equality and Diversity/ Human Rights	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.

Statutory and Policy Background

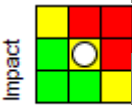






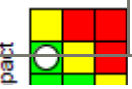
Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk".
Relevant Government Policy / Professional Standards	Risk management is an essential element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements.
Relevant Council Policy	The Council's Risk Management Strategy 2008 to 2011 is published on the Council's Intranet. A Corporate Risk Register is managed by the Council's Corporate Management Team, and each Head of Service is responsible for managing one or more departmental risk registers. When undertaking major projects, a risk log is maintained which is a requirement of the PRINCE 2 Lite methodology adopted by the Council.











Corporate Risk Report with Actions December 2011 V2

Generated on: 05 December 2011

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 Pressure on the Council's budget & future impact on HDC finances	Job losses, reduced income, capital receipts reduced or not realised, service cuts (non-statutory functions, increased workload (e.g. debt recovery), and possible damage to reputation. Loss of discretionary services impacting on quality of life.	Sue McMillan		CRR.01.1 Prudent budgeting / robust reporting. (October Annually).	HOS			December 2011 Update: The 2012/13 budget process is in progress. Council agreed 19/10/11 to consult with the public on proposed savings / increased income of £1m for 2012/13.
				CRR.01.2 Increase the regularity and level of budget monitoring throughout the year (Monthly).	HOS			
				CRR.01.3 Focus on corporate priorities through the corporate & departmental service planning processes (Monthly).	CMT			
				CRR.01.4 Organisational restructure.	CMT			
				CRR.01.5 Continuous review of costs and income (Ongoing).	CMT			
				CRR.01.6 Identify future development opportunities to generate additional capital receipts and revenue streams (Ongoing).	Ray Lee			
				CRR.01.7 Explore opportunities for further shared services (Ongoing).	Directors			
				CRR.01.8 Develop & Deliver a new Medium Term Financial Strategy (Ongoing).	CMT			
CRR05 Inadequate "information security"	Financial penalties & damage to reputation.	Peter Dawes		CRR.05.1 Develop an ICT Security Policy (by 31/12/11)	Peter Dawes			December 2011 Update: Work delayed due to late withdrawal of newly appointed member of staff.
				CRR.05.2 Develop processes & procedures which underpin the IT Security Policy (by 31/12/11).	Peter Dawes			
				CRR.05.3 Provide training to GCSx (Government Connect Secure Extranet) users.	Graham Crossingham			
				CRR.05.4 Provide a programme of training on Information Security to all staff (by 31/12/11).	Peter Dawes			
				CRR.05.5 Appoint a Senior Information Risk Officer	Peter Dawes			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
				(SIRO).				
				CRR.05.6 Set up a Corporate Governance Group which will cover information security.	Peter Dawes	✓		
				CRR.05.7 Develop an Information Risk Methodology for CenSus.	Peter Dawes	✓		
				CRR.05.8 Stop Members from using personal email addresses.	Peter Dawes	✗		
CRR06 Lack of a tested Business Continuity Plan	Disruption to service, legislative breaches (if critical paperwork lost), loss of income & failure to achieve objectives.	Natalie Brahma-Pearl	Impact Likelihood	CRR.06.1 Develop corporate business continuity plan and regular review (30/11/11 - then quarterly review).	Greg Charman	✗	Impact Likelihood	December 2011 Update: No change.
				CRR.06.2 Develop departmental business continuity plans and regular review (by 30/9/11 & then quarterly Review).	Greg Charman	✗		
CRR11 Project problems due to inadequate project management.	Project fails to meet desired outcomes, increased costs, delays in implementation, loss of income, & damage to reputation.	Ray Lee	Impact Likelihood	CRR.11.1 Ensure that "critical" projects are managed by officers who have proven project management skills (ongoing).	HOS	✓		
				CRR.11.2 A robust business case should be written and approved prior to the commencement of a project (Ongoing).	HOS	✓		
				CRR.11.3 Use PRINCE Lite methodology for projects over £50k and/or where the total man-day allocation exceeds 20 days (Ongoing).	HOS	✓		
				CRR.11.4 Ensure that specifications are widely circulated prior to submission to prospective tenderers to reduce variations / change control requests (Ongoing).	HOS	✓	Impact Likelihood	December 2011 Update: The Business Improvement Working Group were briefed in October 2011 about improved project management processes and independent monitoring of key projects.
				CRR.11.5 As part of the PRINCE Lite 2 methodology, a post implementation review should be undertaken and lessons learnt should be fed back to CMT, Heads of Service & the Chief Internal Auditor (Ongoing).	HOS	✓		
				CRR.11.6 Set up an independent project assurance team to oversee key projects undertaken by the council.	Tony Hill	✓		
CRR18 The Hop Oast and Hurston Lane depots are not	The Council may be in breach of Health and Safety regulations in terms of space requirements, and	Ray Lee	Impact Likelihood	CRR.18.1 Erect temporary structures at Hurston Lane to accommodate the new vehicles.	Ian Jopling	✓		December 2011 Update: Work has been completed on the modifications to
				CRR.18.2 A feasibility study will be undertaken for relocation of resources to a new depot site.	Ian Jopling / Chris Carey	✓	Impact Likelihood	

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
large enough to accommodate the waste refuse vehicles	maintenance of the new vehicles cannot be undertaken in the workshop.			CRR.18.3 Temporary structure to be replaced by changes to workshop at Hop Oast Depot.	Ray Lee	✓		the workshop doors. Discussions being held with WSCC re joint depot proposal. Therefore the HDC proposal is currently on hold.
				CRR.18.4 Changes to be made to accommodate operations at Hop Oast.	Ray Lee	✓		
CRR21 There is currently no formal system in place for calling out staff	An incident which cannot be resolved causing service interruptions at HDC Offices or other buildings for which we are responsible	Natalie Brahma-Pearl		CRR.21.1 Review Duty Officer and Out of Hours system (by 1/4/12)	Natalie Brahma-Pearl	▶		December 2011 Update: This work is still ongoing. A system is in place in some departments but goodwill continues to be relied upon in others.
				CRR.21.2 Review appropriate Role Profiles to ensure that Out of Office cover is addressed (by 1/4/12)	Natalie Brahma-Pearl	▶		
CRR23 Loss of ICT & Telephone Service due to failure in the Data Centre	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Tom Crowley		CRR.23.01 Risk controlled by implementation of mitigation and controls/alerts	Graham Crossingham /Tony Appleby	✓		December 2011 Update: The relocation of the server room to County Hall North has taken place, and the current risk score has therefore been downgraded from "high" to "medium".
				CRR.23.02 Capital Project to review Data Centre Services	Peter Dawes	✓		
				CRR.23.03 Council has agreed a budget for a new data centre in Park North providing computing and telecommunications systems for both HDC and its CenSus partners.	Peter Dawes	✓		
CRR24 Loss of Telephone System due to hardware failure	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Peter Dawes		CRR.24.01 Spare CPU card purchased	Graham Crossingham	✓		December 2011 Update: A report will be issued by 31st March 2012 to identify the new system that is required. A spare CPU card has been purchased which has reduced the level of risk.
				CRR.24.02 Explore partnership opportunities (by 31/3/12)	Graham Crossingham	▶		
				CRR.24.03 Consider purchase of new system - report will be produced shortly (by 31/3/12).	Graham Crossingham	▶		
CRR25 Potential lack of compliance with	Non compliance with statutory requirements and damage to reputation.	Natalie Brahma-Pearl		CRR.25.01 Safeguarding Policy Cabinet.	Natalie Brahma-Pearl	✓		December 2011 Update: In view of the actions already

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
Children Act 2004 (Section 11)				CRR.25.02 Staff training including designated officer training (Ongoing)	Natalie Brahma-Pearl			undertaken, the level of risk has been downgraded from "high" to "medium".
				CRR.25.03 Member Training. (Further training due May 2011 & then 4 yearly).	Natalie Brahma-Pearl			
				CRR.25.04 CRB Register ~ Recruitment and Selection (Ongoing)	Natalie Brahma-Pearl			
				CRR.25.05 Revise Procurement Documents	Natalie Brahma-Pearl & Roger Dennis			
				CRR.25.06 Establish Officer Safeguarding Working Group	Natalie Brahma-Pearl			
				CRR.25.07 Section 11 Audit (March Annually)	Natalie Brahma-Pearl			
CRR27 Failure to comply with Council Policy & Procedures and Legislative requirements	Death/serious injury/injury Non compliance with statutory requirements Financial business loss Damage to reputation	Tom Crowley	 Likelihood	CRR.27.01 Appoint Health and Safety Consultant to undertake a full Health & Safety review	Peter Dawes		 Likelihood	December 2011 Update: New Risk. Consultant appointed and work is underway.
				CRR.27.02 Analysis of current Health and Safety Risks (By 31/1/12)	Peter Dawes			
				CRR.27.03 Develop Action Plan to address risks identified (By 31/1/12)	Peter Dawes	