Horsham District Council

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ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

THURSDAY 5TH DECEMBER 2013 AT 5.30pm
COMMITTEE ROOM 1, PARK NORTH, NORTH STREET, HORSHAM

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

Tom Crowley
Chief Executive

AGENDA

		Page No.
1.	Apologies for absence	
2.	To approve as correct the minutes of the meeting of the Committee held on 25th September 2013	**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 2012/13	**9**
6.	Treasury Management Strategy 2014/15	**21**
7.	Treasury Management Activity and Prudential Indicators Mid-year report 2013/14	**37**
8.	Internal Audit – Quarterly Update Report	**45**
9.	Risk Management – quarterly update	**53**
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	
11.	To consider the following exempt or confidential information:	

		Reason for exemption
12.	Report of the Chief Internal Auditor	
(a)	Internal Audit – Quarterly Update Report on Audit Follow ups	Paragraph 3

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
25TH SEPTEMBER 2013

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

Apologies: Councillors: Gordon Lindsay (Vice-Chairman), Stuart Ritchie

Also present: Helen Thompson, Audit Director, Ernst & Young
Kevin Suter, Senior Audit Manager, Ernst & Young

AAG/21 **MINUTES**

The minutes of the meeting held on 27th June 2013 were approved as a correct record and signed by the Chairman.

AAG/22 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/23 **ANNOUNCEMENTS**

There were no announcements.

AAG/24 **AUDIT RESULTS REPORT FOR THE YEAR ENDING 31ST MARCH 2013**

Helen Thompson, Audit Director, Ernst & Young, presented the Audit Results Report for 2012/13 and thanked the Council's Finance staff for all their assistance during the audit period.

The Auditor anticipated issuing an unqualified audit opinion and to conclude that the Council had made proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. It was noted that the Auditors had received no questions or objections from members of the public in respect of the 2012/13 financial statements.

It was also noted that the actual audit fee was in line with the agreed fee.

The Committee thanked the Council's Finance staff for their outstanding work, which had resulted in such a good Audit Results Report.

RESOLVED

That the report be noted.

AAG/25 **LETTER OF REPRESENTATION 2012/13**

The Director of Corporate Resources submitted the letter of representation to the External Auditor to Committee for approval.

RESOLVED

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

AAG/26 **STATEMENT OF ACCOUNTS 2012/13**

The Director of Corporate Resources presented the Statement of Accounts 2012/13, on which the External Auditor anticipated issuing an unqualified audit opinion.

The Statement of Accounts had been considered in draft form at the last meeting of the Committee and Members of the Committee had also had the opportunity to raise any questions or issues at a recent workshop.

RESOLVED

That the 2012/13 Statement of Accounts be approved.

REASON

There is a statutory duty for the Council to approve the Statement of Accounts each year

AAG/27 **ANNUAL GOVERNANCE STATEMENT 2012/13**

The Director of Corporate Resources reported that the Accounts and Audit (England) Regulations 2011 required the Council to review, at least once a year, the effectiveness of its governance arrangements and to publish an Annual Governance Statement. The draft Statement had been considered at the last meeting of the Committee, when Members had been invited to submit any comments to both the Director of Corporate Resources and the Chairman of the Committee (Minute No. AAG/15 (27.6.13) refers). The Chairman requested that, in future, if Members made any such comments they should receive some feedback from officers.

The review included information and assurance gathering processes to ensure that the published Annual Governance Statement was correct, as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

AAG/27 Annual Governance Statement 2012/13 (cont.)

The aim of the review process was to ensure that the Council had effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process identified any shortfalls in these arrangements to enable them to be addressed.

It was noted that an additional internal control weakness had been added since the draft Statement had been submitted to the last meeting and action had already been taken to address this issue.

The Chairman of the Committee suggested that, given the references in Core Principles (1) and (3), the Chief Executive and the Leader should give consideration to confirming the morale of the staff and reviewing the current significance of the Horsham District Community Partnership and the Sustainable Community Strategy.

RESOLVED

That the Annual Governance Statement for 2012/13 be approved.

REASON

There is a statutory duty for the Council to approve the Annual Governance Statement each year.

AAG/28 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2012/13**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for 2012/13.

The report confirmed that, during 2012/13, the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit (the Authorised Limit) had not been breached.

The report contained details of the Council's external debts and investments and reviewed the economic background to Treasury Management activity in 2012/13.

RESOLVED

(i) That the treasury management stewardship report for 2012/13 be noted.

AAG/28 Treasury Management Activity and Prudential Indicators 2012/13 (cont.)

(ii) That the actual prudential indicators for 2012/13 be noted.

REASON

The annual treasury report is a requirement of the Council's reporting procedures. The report also covers the actual Prudential Indicators for 2012/13 in accordance with the requirements of the relevant CIPFA Codes of Practice.

AAG/29 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since June 2013.

A summary of audit findings in respect of Fuel Cards, Insurance, Community Link Alarms and Land Charges was submitted and the Committee was pleased to note that these had all achieved an overall audit opinion of substantial assurance.

The Chief Internal Auditor also referred to other work that had been undertaken relating to the development of a 5x5 risk matrix to replace the current 3x3 matrix and a data matching exercise aimed at detecting possible benefits fraud.

It was noted that the Audit Plan for 2013/14 had been reviewed to take account of a number of factors including:

- a temporary shortfall in resources due to long term sickness and a gap between the departure of a member of the audit team and the commencement of the employment of a replacement, and
- the need to respond to new risk areas identified since the Audit Plan had been agreed.

The Chief Internal Auditor gave an update on the current position regarding audits completed or nearing completion and indicated that it was likely that not all planned audits would be achieved in the current year. He would be better able to quantify the likely shortfall at the next meeting of the Committee. The Director of Corporate Resources advised that a decision on the required level of staff resources within the audit team would be made as part of the budget process.

RESOLVED

That the summary of audit work undertaken since June 2013 be noted.

AAG/29 Internal Audit – Quarterly Update Report (cont.)

REASONS

(i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.

(ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/30 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor presented the latest quarterly update in respect of the Corporate Risk Register.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and that risks CRR43 (relating to the provisions of the Infrastructure & Growth Act 2012, whereby the Secretary of State could designate the Council as a poorly performing Council and enable applicants to apply direct to the Planning Inspectorate) and CRR44 (relating to PSN compliance) had been added as new risks. Risk CRR30 (potential financial loss due to new government initiative for the localisation of business rates) had been removed, as agreed at the last meeting of the Committee, as the financial risk had now been quantified as 7.5% and would be limited to a figure of £135,000. Corporate Management Team had recommended that risks CRR21 (formal Cascade system for calling out staff as required to resolve internal incidents); CRR31 (potential financial loss due to new Government initiative to move towards Universal Credit); and CRR39 (low morale of workforce and/or withdrawal of goodwill as a result of the terms and conditions review) should be removed, for the reasons set out in the report.

Members considered that it was premature to remove CRR39, but that it should be amended to refer to other forthcoming changes that would affect staff such as the management restructure, Hay and pay banding reviews and business transformation/commissioning.

RESOLVED

(i) That the updated Corporate Risk Register be noted, subject to the retention of CRR39 in an amended form, as outlined above.

(ii) That the main points of discussion at the recent Operational Risk Management Group meeting be noted.

AAG/30 Risk Management – Quarterly Update Report (cont.)

(iii) That the progress made in respect of departmental risk registers be noted.

REASON

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

AAG/31 **URGENT MATTERS**

There were no urgent matters to be considered.

AAG/32 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/33 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2013/14, 2012/13, 2011/12, 2010/11 and 2009/10, together with details of agreed actions not yet implemented, an update for each item (including an assessment of priority) and a revised implementation date.

Two specific areas of concern were highlighted by the Chief Internal Auditor (Report Nos. 635 and 636).

The Head of Operational Services updated the Committee on the current position regarding Hop Oast Depot (Report No. 636). The Chairman indicated that if Members had any further questions on this matter, he would raise them with the relevant officers and obtain replies.

With regard to Report No.624, Ref No. 3.1, the Head of Financial & Legal Services would ensure that a further explanation was circulated to Members of the Committee.

AAG/33 Internal Audit – Quarterly Update Report on Audit Follow Ups (Paragraph 3) (cont.)

The Head of Financial & Legal Services would ensure that the appropriate officer drew to the attention of relevant Parish Councils the availability of S106 community facilities monies.

The meeting finished at 7.10pm having commenced at 5.30pm.

CHAIRMAN

Horsham District Council

Year ending 31 March 2013

Annual Audit Letter

October 2013

Building a better working world

Building a better
working world

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INVESTOR IN PEOPLE

The Members
Horsham District Council
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25 October 2013

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Horsham District Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Horsham District Council in the following reports:

Audit Results Report for the year ended 31 March 2013	Issued 16 September 2013 and presented to members of the Accounts, Audit & Governance Committee on 25 September 2013

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Horsham District Council for their assistance during the course of our work.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 18 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Horsham District Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 27 September 2013 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 27 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Accounts, Audit & Governance Committee) communicating significant findings resulting from our audit.	On 16 September 2013 we issued our report for the Authority. We presented our report to the 25 September 2013 Committee meeting.
Report to the National Audit Office (NAO) on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the NAO on 27 September 2013. There were no issues to highlight to the NAO.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 27 September 2013 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 27 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Identified risks and key findings:

Accounting for Property Plant and Equipment

- Issue: The Authority uses excel spreadsheets to produce its figures and disclosures for property, plant and equipment. The process in previous years had not produced a clear and easily understandable audit trail.
- Finding: Working with officers in the period before the preparation of the financial statements, we set out our findings from the previous years and our expectations for this year's working papers. This was taken on board by officers, and the audit trail was much improved compared to previous years.

Risk of misstatement due to fraud and error

- Issue: Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.
- Finding: We undertook procedures required by auditing standards, and have no issues to report.

Accounting for CenSus

- Issue: The Authority identified that in previous years it had incorrectly accounted for its participation in the CenSus partnership.
- Findings: We reviewed working papers provided by the Authority to establish the impact of the error in prior years, and agreed that no prior period adjustment was required. We reviewed the accounting within the 2012/13 financial statements, and have no matters to report.

There were no other key issues or findings identified during our audit work, and few amendments required to the draft financial statements.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 27 September 2013.

Areas of focus:	Key findings:
Financial standing	
The Authority continues to experience funding challenges from national policies.	▶ The Authority delivered its 2012/13 budget. ▶ We reviewed the Authority's 2013/14 budget and updated medium term financial projections, and assessed the current assumptions as reasonable. ▶ A significant change for the Authority is that it has implemented a transformation programme, linked to the annual budget and medium term finances. In our judgement this is adequately monitored and managed, to achieve its planned outcomes and efficiency savings.
National Fraud Initiative	
The Authority's response to the National Fraud Initiative in previous years has been unstructured, and recommendations have been made to improve the coordination and follow-up of data matches.	▶ The Authority has improved its response to the National Fraud Initiative. ▶ Although there was no specific project plan or timetable, the review of data matches is on track for completion by the required deadlines, and a number of reports and matches have already been reviewed and closed.
ICT resilience	
The Authority operates the ICT services of the CenSus partnership. One of the partners experienced a significant system failure, resulting in the identification of weaknesses within the service.	▶ We reviewed the Authority's response to the action plan, including taking the views of partners. ▶ It is making good progress in implementing the prioritised action plans. ▶ In our judgement neither the initial failure, nor the additional costs being incurred by the Authority, constitute a significant weakness in corporate arrangements.

2.3 Objections received

We did not receive any objections to the Authority's 2012/13 financial statements from members of the public.

2.4 Whole of government accounts

We reported to the National Audit Office on 27 September 2013 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We completed this work and did not identify any areas of concern.

2.6 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we communicate to those charged with governance at the Authority, as required, significant deficiencies in internal control.

There were no matters that we identified during the 2012/13 audit that we concluded are of sufficient importance to merit being reported.

Looking forward, we note that in 2013/14 the Authority intends to implement its new fixed asset module to produce its accounts. We highlighted the need to ensure this is adequately resourced as changing information systems potentially increases the risk of material error, for example from errors in data transfer, and lack of familiarity with the new system.

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Ernst & Young LLP

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Agenda Item 6

Report to Accounts, Audit and Governance Committee

Date of meeting 5th December 2013

By the Director of Corporate Resources

DECISION REQUIRED/ INFORMATION REPORT

Not exempt

Treasury Management Strategy 2014/15

Executive Summary

This report is an annual statutory requirement setting the strategy for treasury management and specific Treasury Management Indicators for the financial year 2014/15.

Recommendations

The Committee is recommended to recommend that the full Council:

i) approve the Treasury Management Strategy for 2014/15

ii) approve the Treasury Management Indicators for 2014/15

Reasons for Recommendations

i) The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2011 (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

Consultation: ArlingClose 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 which bring with them financial risks including the loss of invested funds and the revenue effect of changing interest rates. It therefore requires an overall strategy as well as sets of practices and procedures to identify, monitor and control those risks. There is a body of statute and other regulation that lays down what a strategy should do. This report sets out a Treasury Management Strategy for 2014/15 that fulfils legal requirement and provides a workable framework for action.

2 Background

Economic background

2.1 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 Arlingclose Ltd. They forecast the Bank Rate will remain flat until 2016. For the purpose of the budget any new investments are expected to be at a premium in the range of 0.2% to 0.3% above bank rate.

2.3 The Treasury Management environment remains difficult. Yields are hit by low interest rates. The finance sector's recovery from crisis is still not complete with Governments acting to avoid a return to the near meltdown of 2008. Appendix 2 gives a more detailed commentary on the economic context and interest rate forecasts.

Statutory background

2.4 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

2.5 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

2.6 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Revised 2011 (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

3 Current Position

3.1 The Council's treasury portfolio at 31st October 2013 was:

Table 1	Principal £m	Interest Rate % Average
Call accounts	2.5	0.44
Money market funds	14.6	0.93
Short-term deposits	11.5	0.71
Long-term deposits	0	
Total Investments	**28.6**	
Long-term PWLB loans	4	3.38
Total Borrowing	**4**	
Net Investments	**24.6**	

3.2 Treasury management operations works within the context of the Council's balance sheet. Below is the current projected analysis of the balance sheet to illustrate the trajectory of Council funds. It will be revised as the budget is finalised and a revised table will accompany the final Budget Report 2014/15.

Table 2 All figures £m	**Estimate 13/14 Year-end**	**Estimate 14/15 Year-end**	**Estimate 15/16 Year-end**	**Estimate 16/17 Year-end**	**Estimate 17/18 Year-end**
CFR	12.9	19.1	27.3	29.4	30.7
Less external borrowing	4.0	9.0	9.0	9.0	9.0
Internal borrowing	8.9	10.1	18.3	20.4	21.7
Useable reserves, receipts, contributions held	16.0	18.7	32.8	43.0	32.7
Working capital/other bal.	2.7	2.5	2.3	2.0	1.8
Estimated investments	9.8	11.1	16.8	24.6	12.8

3.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's strategy has been to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Authority has an increasing CFR due to the capital programme, and the projection assumes some borrowing in the year 2014/15 in order to reduce reliance on internal borrowing.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Authority expects to comply with this recommendation during 2014/15.

4 Borrowing Strategy

4.1 The Council currently has a £4m 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 for capital purposes) as at 31st March 2014 is expected to be £12.9m, and is forecast to rise to £19.1m by March 2015 as capital expenditure is incurred.

4.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

4.3 Members may recall that a number of projects were set up with the explicit acknowledgment that they could be covered by borrowing and the borrowing costs were part of the cost benefit analysis of whether the project should proceed. These included Steyning Health Centre, Side Loading Waste Collection Vehicles, House Purchases for Temporary Accommodation, Arun House Purchase, Oakhurst Business Park Phase 3. The Council has only so far borrowed externally for the first project of Steyning Health Centre but the underlying need to borrow has been mounting as projects were completed. Effectively the Council has borrowed from its own internal funds sometimes termed internal borrowing.

4.4 The benefits of internal borrowing is being monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Internal borrowing has been achievable up until the present but the CFR will continue to rise and during 2014/15, based on present capital spend plans, the Council plans for the option of borrowing. It is felt that the Council should then borrow longer term. Although short term rates are now low the Council will have to refinance short term rates and there is a risk that rates then will be higher. At the moment the Council can borrow longer term at 4% which, although higher than current short term rates, will mean the council does not have the interest rate risk at refinancing. The proposed strategy will therefore envisage a £5m twenty year loan being taken out in 2014/15.

4.5 Before any borrowing the Director of Corporate Resources will consult its advisers on its actual borrowing tactics.
The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Council's own Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

4.6 The Authority has previously raised its long-term borrowing from the Public Works Loan Board (PWLB), effectively UK Central Government, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

4.7 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

4.8 Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the Treasury Management Indicators below.

4.9 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

5 Investment Strategy

5.1 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 £14.8m and £39.5m, and although level of reserves is gradually reducing there will still be times when temporary cash flows lead to larger sums being held than the core reserves of the Council would indicate.

5.2 Both the CIPFA Code and the CLG Guidance require the Authority 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. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

5.3 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 below.

		Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	*£4m* each *(highest limit)* of which no more than *£4m in total* over 1 year	10 years
	AA+		5 years
	AA		4 years
	AA-		3 years
	A+		2 years
Note A group of banks under the same ownership will be treated as a single organisation for limit purposes.	A-	*£4m* each	1 year
The council's current account bank *(NatWest plc)* if it falls below A-		*£4m*	next day
UK building societies whose lowest published long-term credit rating is BBB+ or BBB and societies without credit ratings with assets greater than £250m		*£1m* each *and £8m in total*	1 year
Money market funds[1] and similar pooled vehicles whose lowest published credit rating is AAA		*£5m* each	1 year
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£4m	10 years[3]
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£2m	5 years[3]
UK Central Government (irrespective of credit rating)		unlimited	10 years
UK Local Authorities[2] without credit ratings		*£4m* each	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
[2] as defined in the Local Government Act 2003, and similar authorities in Scotland
[3] the time limit is doubled for investments that are secured on the borrower's assets

5.4 There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive are implemented.

5.5 In addition, the Council may invest with organisations without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

5.6 **Current Account Bank**: The Council's current accounts are held with NatWest Bank plc which is currently rated at the minimum A- rating. Should the credit ratings fall below A-, the Council may continue to deposit surplus cash providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- .

5.7 **Building Societies:** The Council takes 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. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The minimum asset size has been relaxed from £500m to £250m on the basis that the analysis now used increases our knowledge of the risk in smaller societies.

5.8 The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

5.9 **Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority.

5.10 Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes (termed Variable net asset value) with market prices and/or have a notice period will be used for longer investment periods.

5.11 **Registered Providers:** Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

5.12 This is an additional category of investment which has been increasingly used by other Local Authorities. There are no immediate plans to use this category but the Council's treasury management advisers have suggested it is included so that the option can be investigated. Before any decision the Director of Corporate Resources will undertake with the Council's advisers a thorough analysis of the risks of any investment.

5.13 **Long Term investments**: Projections of the longer term cash flows of the Council indicate there will a flow of developer payments in the next few years that will increase cash balances as they pass through the accounts into relevant schemes. The long term limit is therefore being raised to £4m for the medium term.

5.14 **Risk Assessment and Credit Ratings**: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are monitored by the Council's treasury advisers, who will notify changes in ratings as they occur.

5.15 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.

5.16 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 may fall below the approved rating criteria, then no investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.17 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.

5.18 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.

5.19 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

Specified and Non-specified Investments

5.20 The CLG Guidance that the Council must follow uses the terms "specified" and "non-specified" investments. The 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".

5.21 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. 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 and investments with bodies and schemes not meeting the definition on high credit quality. The limits on non-specified investments are shown below

	Cash limit
Total long-term investments	£4m
Total investments without credit ratings or rated below A-	£12m

Investment limits

5.22 In order that to reduce risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Each money market fund will be limited to £5m.

Approved Instruments

5.23 The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits where the Authority may demand repayment at any time (with or without notice),
- callable loans where the borrower may demand repayment at any time, certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

5.24 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Cash flow management

5.25 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.

6 Treasury Management Indicators

Security benchmark: average credit rating

6.1 The Council has adopted a security benchmark based on weighted average historic default rates. The benchmark for 2014/15 will be an average credit rating of A-.

Liquidity benchmark

6.2 The liquidity benchmark for 2014/15 will continue as a weighted average life between 0.3 and 0.7 years as well as the maintenance of £0.5m overdraft facility.

Yield benchmark

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

Interest rate exposures

6.4 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. Investments count as negative borrowing.

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposures	£15m	£15m	£15m
Upper limit on variable interest rate exposures	£0m	£0m	£0m

Maturity structure of borrowing

6.5 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 may have another so will set limits to allow 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

6.6 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:

	2014/15	2015/16	2016/17
Limit on investment over a year	£4m	£4m	£4m

7 Other Treasury Management issues

Policy on Use of Financial Derivatives

7.1 The Localism Bill 2011 included 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 CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

7.2 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.

7.3 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.

7.4 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

7.5 The Council's treasury management adviser is Arlingclose Limited. Arlingclose provide advice and information on the Council's 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 and relevant analysis,
- 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

7.6 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 Arlingclose and other expert bodies. Relevant staff are also encouraged to study relevant professional qualifications.

Investment of money borrowed in advance of need

7.7 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.

7.8 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.

8 Other Courses of Action Considered but Rejected

8.1 The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Resources, having consulted the Cabinet Member for Efficiency and Taxation, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

8.2 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.

8.3 Delaying borrowing was considered but it was felt that the need to borrow was set to increase and longer term rates would at some point increase.

9 Staffing Consequences

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

10 Financial Consequences

10 .1 The budget for investment income in 2014/15 is £0.177m, based on an average investment portfolio of £24m at an interest rate of 0.7%. The budget for debt interest paid in 2014/15 is £0.336m, based on an average debt portfolio of £9m at an average interest rate of 3.7%.

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 – Arlingclose Economic Background and Interest Rate Forecast

Economic background

The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, which implies an unchanged rate for up to two more years although there are many uncertainties in any attempt to forecast rate rises.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.2% in October 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and an initial estimate of 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

On the inflation side CPI for October fell more than expected from 2.7% to 2.2% but it is expected that regulated and administered prices are likely to keep CPI above target in the near term. In the medium term inflation is expected to come back towards the target 2%.

House price inflation is likely to rise due to the government's Help to buy scheme, where it will guarantee up to 15% of purchasers' 95% mortgages. This could lead to a housing bubble, which in turn could come under pressure if rates were to rise quickly.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

In Europe the situation seems to have calmed. The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.

Credit outlook:

The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will likely suffer a haircut on its conversion bail-in to alternative securities and/or equity.

There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast

Arlingclose's forecast is for the Bank Rate to remain flat until 2016. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk				-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80
Arlingclose Central Case	**0.45**	**0.45**	**0.50**	**0.55**	**0.55**	**0.55**	**0.55**	**0.60**	**0.65**	**0.70**	**0.80**	**0.80**	**0.80**
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	**0.90**	**0.95**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**1.20**	**1.25**	**1.30**	**1.40**	**1.40**
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**	**1.85**	**1.95**	**2.10**	**2.30**	**2.50**	**2.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**3.00**	**3.10**	**3.30**	**3.50**	**3.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**	**3.65**	**3.75**	**3.85**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.45**	**3.50**	**3.55**	**3.60**	**3.65**	**3.70**	**3.75**	**3.80**	**3.85**	**3.95**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Report to Accounts, Audit and Governance Committee

Date of meeting 5th December 2013

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt

Treasury Management and Prudential Indicators mid-year report 2013/14

Executive Summary

This report covers treasury activity and prudential indicators for the first half of 2013/14. During the period the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 30th September 2013, the Council's external debt was £4m (£4m at 31/3/13) and its investments totalled £28.1m (£14.9m at 31/3/13) including call accounts and money market funds.

During the first half of 2013/14 the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.113m was earned on investments, an average return of 0.9% (1.8% 2012/13).

Recommendations

The Committee is recommended to:

i) Note the treasury management stewardship report at the mid year 2013/14
ii) Note the mid year prudential indicators for 2013/14

Reasons for Recommendations

i) This mid year report is a requirement of the Council's reporting procedures
ii) This report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

Background Papers
"Treasury Management Strategy 2013-14" – A.A.G Committee 12th December 2012
"Budget 2013/14 and Medium Term Financial Strategy" Council 13th February 2013

Consultation: Arlingclose. Council's Treasury management advisers

Wards affected: All **Contact:** Julian Olszowka Ext. 5310

Background Information

1 Introduction

The purpose of this report

1.1 This report covers treasury management activity and prudential indicators for the first half of 2013/14. It meets the requirements of the 2011 editions of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. The Code recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

Background

1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to show that capital spending is prudent, affordable and sustainable and that treasury practices are low risk. The original indicators for 2013/14 together with Treasury Management Strategy 2013/14 were agreed by Council on 13th February 2013. The Treasury Management Strategy 2013/14 had been approved by this Committee on 12th December 2012.

2 The Council's Capital Expenditure and Financing 2013/14

2.1 This is one of the required prudential indicators and shows total capital expenditure for the year and how this is financed. The estimated indicator is shown below.

2013/14	Original Estimate £000	Current projection £000
Total capital expenditure	7,942	4,980
Resourced by:		
Capital receipts	(554)	(1077)
Capital grants and contributions	(428)	(1584)
Revenue reserves	(2,363)	(414)
Unfinanced capital expenditure (additional need to borrow)	4,597	1,905

2.2 The capital spend and commitment at the end of the first half year was £1.29m, well below expected level. The final financing at the year end should be well within the estimates. A projection is shown above: it assumes an acceleration of capital spend in the second half of the year.

3 The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.2 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2013/14 MRP Policy (as required by CLG Guidance) was approved on 13th February 2013 as a part of the 2013/14 Budget report.

3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. There is a decrease in the expected CFR as unfinanced capital spend is below estimate. No increase in borrowing is projected this financial year so external debt remains as in the original estimate.

Capital Financing Requirement and External Debt Year end 2013/14	Original estimate £000	Current projection £000
CFR	15,553	12,859
External debt	4000	4000

3.4 External borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and next two financial years. The Director of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this Prudential Indicator.

The ratio of financing costs to net revenue stream

3.5 This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The indicator for the year was 7%; the current estimate is slightly lower at 5% due to interest paid being under budget.

4. Mid Year Treasury Management Monitoring Report

Economic Background

4.1 The economic background to treasury management remains uncertain with the economy and financial system still recovering from the 2008 financial crisis. Arlingclose, the Councils treasury management advisers have provided a commentary on the year so far in Appendix 1.

4.2 The Treasury Management position at 30 September was

	Principal £m	Average Interest Rate %
Call accounts	2.1	0.4
Money market funds	14.5	0.9
Short-term deposits	11.5	0.7
Long-term deposits	0	
Total Investments	**28.1**	
Long-term PWLB loans	4	3.38
Total Borrowing	**4**	
Net Investments	**24.1**	

Interim Performance Report

4.3 Investment income was £0.113m equalling the budget. Although cash balances were higher than expected, lower interest rates relative to the budget cancelled this out. The average return was 0.9% against a budget of 1% and the adopted yield benchmark 7 day LIBID of 0.43%.

4.4 The UK Bank Rate has been maintained at 0.5% since March 2009 and not expected to rise until 2016. Short-term money market rates have remained at very low levels so yields will remain low. At the same time the financial crisis of 2008 has reduced acceptable counterparties so at times the Council has invested with UK central government with a yield of 0.25%.

4.5 No additional longer term borrowing was taken out, so the only loan was PWLB loan of £4m at 3.38% repayable in 2019. Although borrowing need in terms of the Capital Finance Requirement has risen as unfinanced expenditure continues, capital spend is below estimates and no longer term borrowing is expected in the last months of 2013/14. As the budget assumed borrowing there is a half year saving of £0.10m.

Treasury Management Indicators

4.6 The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return. The Council adopts security and liquidity benchmarks in its annual strategy.

4.7 **Security benchmark - average credit rating** – The Council set a security benchmark rating of A-. The rating met or exceeded the benchmark during the first half of the year.

4.8 **Liquidity benchmark** – The Council sets minimum liquidity facilities and a benchmark to maintain a bank overdraft facility of £0.5m and use a Weighted Average Life of investments benchmark of 0.5 years, with a maximum of 0.8 years. The Director of Corporate Resources reports that liquidity arrangements were within benchmark during the year to date. The maximum value of Weighted Average Life up to the end of September was 0.36 years.

4.9 **Interest rate exposures** - This indicator is set to control the Council's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed were as the table below. Fixed rate investments and borrowings are 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.

	Limit	Actual	Met?
Upper limit on fixed rate exposures	£15m	£4m	✓
Upper limit on variable rate exposures	£0m	-£11m	✓

4.10 **Maturity Structures Of Borrowing** – These gross limits are set in order to reduce the Council's exposure to large fixed rate loans - those instruments which carry a fixed interest rate for the duration of the instrument - falling due for refinancing. As the Council only has one such debt it has freedom to refinance the debt. The table below shows the estimates and current position.

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	100%	0	0	✓
12 months and within 24 months	100%	0	0	✓
24 months and within five years	100%	0	0	✓
Five years and within 10 years	100%	0	100%	✓
10 years and above	100%	0	0	✓

4.11 **Principal sums invested for periods longer than 364 days** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. The total principal sums invested to final maturities beyond the period end were:

	Original Indicator	Maximum Position
Maximum principal sums invested > 364 days	£3m	£0m

4.12 **Borrowing limits** - The Council approved these Prudential Indicators as part of the Capital Programme report.

	Limit	Actual	Met?
Operational boundary – borrowing	£9m	£4m	✓
Operational boundary – other long-term liabilities	£0m	£0m	✓
Operational boundary – TOTAL	£9m	£4m	✓
Authorised limit – borrowing	£14m	£4m	✓
Authorised limit – other long-term liabilities	£1m	£0m	✓
Authorised limit – TOTAL	£15m	£4m	✓

5 Outcome of Consultations

5.1 Arlingclose, the Council Treasury management advisers, have made comments which have been incorporated into the report.

6 Staffing Consequences

6.1 There are no direct staff resourcing consequences, however, the risks in the investment environment highlights the continuing need for staff training

7 Financial Consequences

7.1 Interest earned is on budget, there is a saving of £0.1m from debt interest budget.

Appendix 1

Economic Background to the midpoint of 2013/14

Growth: The UK economy showed some improvement, with consumer spending boosting growth. GDP growth for the first quarter of the calendar year 2013 was revised up to +0.4% and for the second quarter was +0.7%. The initial estimate of quarter three GDP growth was a stronger still, at +0.8%. Revisions by the Office of National Statistics of historic GDP data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. GDP is still more than 2.5% below its peak in 2007.

The recovery appears to be largely consumer led, but the outlook for household spending remains uncertain. Consumer confidence improved, probably on the back of the pickup in house prices, which have been boosted by government initiatives. However, the deterioration in real earnings growth (I.e. earnings less inflation) continued, which implied continued erosion of purchasing power. This raises questions about the sustainability of the recovery at the above rates of growth.

Inflation: Annual CPI for September was 2.2% falling from 2.7%. Inflation is falling in line with expectations and is expected to remain close to this level throughout the autumn. Further into the future, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. Amongst the external inflationary pressures the oil price (Brent Crude) climbed above $100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

Monetary Policy: There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

In his testimony to Congress on 22nd May the US Federal Reserve Chairman Ben Bernanke stated that, if the nascent recovery in the US economy became established, the Fed would reduce its $85bn monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. As a consequence, government bond yields spiked. There had been a growing expectation that the Federal Reserve would seek to commence 'tapering' in September but they took markets by surprise and maintained asset purchases at the existing level.

Global: Whilst the outlook for the global economy appeared to have improved over the first half of 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy.

The US recovery appeared to be in progress, but a lack of agreement on the federal budget by the end of September caused a government shutdown at the start of October, which could have some effect on GDP growth. Despite the resolution of the immediate crisis political risks still remain with politicians likely to draw the battle-lines once more in early 2014.

Agenda Item 8

Report to Accounts, Audit and Governance Committee

5th December 2013

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since September 2013.

Recommendations

The Committee is recommended to:

i) Note the summary of audit and project work undertaken since September 2013.

Reasons for Recommendations

i) To comply with the requirements set out in the new Public Sector Internal Audit Standards 2013.

ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers:	Public Sector Internal Audit Standards & Internal Audit Reports
Consultation:	N/A
Wards affected:	All
Contact:	Paul Miller, Chief Internal Auditor.

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 2013, and to provide an update on progress against the internal audit plan.

2. Statutory and Policy Background

Statutory Background

2.1 The Accounts and Audit (England) Regulations 2011 state that "a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." This responsibility is discharged through the Council's Internal Audit Section.

Relevant Government Policy / Professional Standards

2.2 Internal Audit follows the new mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

Relevant Council Policy

2.3 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 work 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.

3. Summary of Audit Findings

3.1 Budgetary Control

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE *(previously assessed as "Substantial Assurance")*

Reporting of revenue budget monitoring has improved since the previous audit in 2011/12. Monthly budget monitoring reports to the Corporate Management Team now include a clear forecast of the expected outturn for the year and explanations for variations by department. Budget holders understand their responsibilities and are well supported by service accountants in Accountancy.

The auditor identified a few areas for improvement:

- Reports showing capital expenditure against budget for each scheme are prepared monthly, but do not always form part of the appendices submitted to

Corporate Management Team meetings with the monthly Budget Progress Report. It has been agreed that detailed reports will be submitted monthly to ensure there is senior management oversight of progress being made against the Capital Budget for the year.

- The monthly budget monitoring process includes a requirement for budget holders to undertake a 'sign off' in the Total system to evidence that they have completed their review. This part of the process is not always adhered to. Budget holders will be reminded of the requirement to 'tick the box' to formally acknowledge that the task has been completed.

3.2 Office Security (Physical)

OVERALL AUDIT OPINION: MODERATE ASSURANCE *(previously assessed as "Moderate Assurance")*

- The auditor identified numerous control issues regarding the administration of the "Siteguard" system which controls access to the Council's main buildings. For example, there was a lack of official paperwork received / completed for starters and leavers. Of particular concern is that there are approximately 1,000 active cards in the system. Furthermore, the management information available from the system is poor, and therefore it is not possible to generate any reports that contain date fields. A number of actions have been agreed to address these issues, however, some of the agreed actions are dependent upon a successful budget bid to procure a new system.

- Although a review of keys was undertaken in December 2012, and some progress has been made, this piece of work has not yet been completed. It was also identified that there is no official key holder list for the Council's main buildings and there are no procedures in place which detail the process for issuing, borrowing and replacing keys. It has now been agreed that the key review carried out in 2012 will be completed and an official key holder list and procedures will be drawn up.

- A review of the internal CCTV operation was carried out. From inspection it was identified that the main doors to Park North / North Point offices are not covered by the cameras. In addition there are no signs displayed in reception notifying the public that CCTV cameras are in operation (which is a statutory requirement). It was also identified that there is no periodic review of the CCTV recordings to ensure that the cameras are working and that the quality of recordings are satisfactory. A number of actions have been agreed to remedy the control weaknesses identified.

3.3 Car Parks

OVERALL AUDIT OPINION: MODERATE ASSURANCE *(previously assessed as "Moderate Assurance")*

At the time of the audit, it became evident that income collected by Coin Co (the cash collection company) was not being reconciled against Council records. There is a risk, therefore, that not all money collected by Coin Co was being banked. On a positive note, the Support Services Manager (Operational Services) had identified a methodology for reconciling income recorded by 'Metric' (on and off-street pay and display) using some newly developed automated reports. A number of discrepancies have been identified which are currently being investigated. Reconciling income collected for the Swan Walk and Forum car parks is more difficult to achieve as the information is held on a database on a standalone PC in the Parking Services Office, and a practical solution for extracting relevant data is currently being investigated. A work request was submitted in September 2012 which is now receiving attention.

A number of other control weaknesses were identified which are summarised below:

- Control records for season tickets and resident / visitor parking permits were found to be inconsistent and confusing, and therefore reliance could not be placed on the accuracy of these records. A number of actions have been agreed to improve record keeping, and the introduction of management controls will help to improve the integrity of data.

- Although there is an Enforcement and Discretions Policy which forms part of the Traffic Management Act 2008 and is used to inform decisions regarding PCNs (Parking Control Notices), it was noted that there are no written internal procedures which detail the processes involved in administering PCNs. It has been agreed that procedures will be written.

- A review of cash handling procedures at Swan Walk car park was carried out. It was identified that cash taken for the sale of parking dispensation tickets is taken up to Park North for processing. It was also identified that large amounts of cash are removed from the change machine in Swan Walk Car Park and taken up to Park North for processing. Cash is now being collected by Coin Co from Swan Walk Car Park and is being banked in the normal way.

3.4 ICT Hardware

OVERALL AUDIT OPINION: MODERATE ASSURANCE

- A report produced by Socitm (Society of IT Managers) Consulting, which was commissioned by the Director of Corporate Resources, included a recommendation to introduce appropriate ITIL controls. ITIL (IT Infrastructure Library) is the recognised industry standard for ICT service management. The auditor identified that there is a lack of a robust approach to “Service Asset and Configuration Management” which is one of the key components of ITIL. It has been agreed that the ITIL controls will be adopted by HDC.

- There is a need to improve the information held within the Council’s Hardware Asset Inventory in order to establish an effective configuration management database. Currently there is no record maintained of major components such as data and application servers. There are also discrepancies between the categories of information held by each of the CenSus partners. A list of orders and non-order invoices that relate to ICT hardware asset categories such as servers and other key components has been sent to the ICT Purchasing Manager to enable him to update the system. The Interim CenSus IT Manager has agreed to meet with the key staff who are responsible for the acquisition of hardware within each of the CenSus authorities to discuss what information is required within the "House on the Hill" system (Service Management System) and to agree what categories of information should be recorded.

- The auditor identified that the records held in the House on the Hill system (*HOTH)* were incomplete. When testing was carried out to compare the records held within *Snow*[1] and *HOTH,* it was identified that some equipment that had been "discovered" by *Snow* was not appearing within *HOTH.* The ICT Purchasing Manager informed the auditor that there was an issue with the software and remedial action has now been taken.

4. Audit Plan ~ Progress Update

4.1 A total of 8 out of 30 audits have now been completed. The following audits are currently nearing completion: Licensing, Data Protection and Staff Travel Claims. The audit of CenSus Benefits is well underway, and audits of Operational Services (management controls) and contracts have recently commenced. Progress against the audit plan will continue to be tightly monitored over the next few months, and a progress update will be provided in March. As previously reported, there is likely to be some slippage in the audit plan. The main focus for January to March will be the Council's key financial systems.

4.2 At the last meeting of the Accounts, Audit and Governance Committee, concerns were expressed that one of the reasons for slippage in the audit plan was attributed to a time delay between a member of the audit team leaving and a new auditor being appointed. The new auditor had been appointed on a temporary contract. As part of the budget process, it has been agreed that a permanent contract will be offered to the newly appointed auditor. This will secure continuity of employment for the post holder increasing the resilience of the section during a period of significant organisational change.

5. Project Work

5.1 Risk Management

Since the last report, the Chief Internal Auditor has consulted widely on the new 5x5 risk matrix and has updated the Council's Risk Management Strategy which has been reviewed by the Operational Risk Management Team and Corporate Management Team. The Corporate Management Team has approved the new model and the Corporate Risk Register has been re-plotted on the new 5x5 risk matrix (see Appendix 2 of the Risk Management Report).

6. Next Steps

6.1 Not applicable.

7. Outcome of Consultations

7.1 Not applicable.

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[1] The "Snow client" is a small computer program installed on new PCs which allows Snow to collect information about the device. Whilst the client permits Snow to discover desktop PCs, laptops and other computing devices that are connected to the network, it cannot detect other devices such switches.

8. Other Courses of Action Considered but Rejected

8.1 Not applicable

9. Staffing Consequences

9.1 There are no direct staff consequences.

10. Financial Consequences

10.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

Consequences of the proposed action on:	
Risks Risk Assessment attached Yes/No	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). No
Crime and Disorder	This report has no effect on Crime & Disorder issues.
Equality and Diversity/ Human Rights Equalities Impact Assessment attached Yes/No/Not relevant	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values. Not relevant.
Sustainability	This report has no effect on sustainability.

Appendix 2

Categorisation of Audit Opinions

Full Assurance	**System of Control**: There is a sound system of control in place which minimises risk to the Council; and **Compliance with Controls**: Audit testing identified that all expected controls are being consistently applied.
Substantial Assurance	**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 **Compliance with Controls**: Audit testing identified a lack of compliance with controls in a few areas.
Moderate Assurance	**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 **Compliance with Controls**: Audit testing identified a lack of compliance with two or more key controls.
No Assurance	**System of Control**: The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or **Compliance with Controls**: Audit testing identified a high number of key controls which are not being complied with.

Agenda Item 9

Report to Accounts, Audit and Governance Committee

5th December 2013

By the Director of Corporate Resources

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. The report also provides a summary of the main points of discussion from the Operational Risk Management Group meeting which took place on 31st October 2013.

Recommendations

The Committee is recommended to:

1) Consider the updated version of the Corporate Risk Register (see Appendix 2).

2) Note the main points of discussion at the October 2013 Operational Risk Management Group meeting.

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 and the Minutes of the Operational Risk Management Group Meeting
Consultation:	The Corporate Management Team and Chief Internal Auditor
Wards affected:	All
Contact:	Paul Miller, Ext 5319

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 report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers. Feedback from the Operational Risk Management Group meeting held in October 2013 is also provided for information.

2. Risk Management Update

2.1 Corporate Risk Register

The Corporate Management Team (CMT) has reviewed all outstanding actions on the Corporate Risk Register, and the impact and likelihood scores have been reassessed using the new 5x5 risk matrix. Comments have been updated to reflect the current position for each risk.

The following risks have been removed as agreed at the last AAGC meeting:

- CRR21 ~ *"Formal Cascade system" for calling out staff as required to resolve internal incidents.*
- CRR31 ~ *"Potential financial loss due to new government initiative to move towards the Universal Credit".*

2.2 Operational Risk Management Group (ORMG)

The Operational Risk Management Group (ORMG) met on 31st October, and the main points from the meeting are summarised below:

- The Council's Corporate Health and Safety Adviser gave an update on the work undertaken during the last three months. This included the setting up of a "Contact with Caution" on-line system; improvements to the accident reporting database; routine inspections; policy updates and health and safety training.
- A stress management survey is currently in progress within the Planning Department.
- The Corporate Health and Safety Adviser summarised incidents for the period January to September 2013. There have been 66 incidents, including 7 reportable cases. The majority of incidents relate to manual handling and slips, trips and falls. Improved reporting on near misses is needed and more training on manual handling.
- The Council's Insurance Officer provided details of public liability and motor claims for the period April to October 2013. The majority of motor claims (56

in total) relate to vehicles hitting fixed objects. These are classed as ‘avoidable’. However, it was reported that there are slightly less claims for this period compared to the same period last year. It was also reported that the number of claims being received is significantly less than two or three years ago which is a success story. There are no significant insurance claims pending.

- The Chief Internal Auditor presented the revised Risk Management Strategy to take account of the new 5x5 risk matrix. The revised document will be presented to the Chief Executive and Cabinet Member for Resources for sign-off.
- The Departmental Risk Registers for Property Services, Personnel Services and Business Services were reviewed, and a number of amendments were agreed.

2.3 **Departmental Risk Registers**

A total of 18 out of 20 departmental risk registers had not been completed by the cut-off date. The two which were outstanding have now been reviewed and signed off.

3. Next Steps

3.1 Not applicable.

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 Risk Assessment attached ~ No	The report provides an update on the Council's corporate risks and how these are being managed by the Corporate Management Team. 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 Equalities Impact Assessment attached Yes/No/Not relevant	Effective risk management helps to ensure that the Council achieves its objectives within this area. Not relevant.
Sustainability	This report has no effect on sustainability.

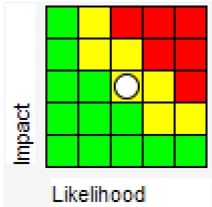
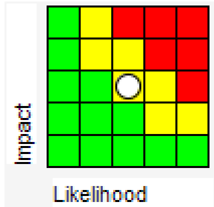
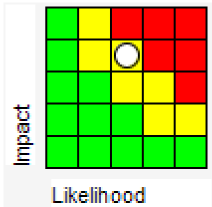
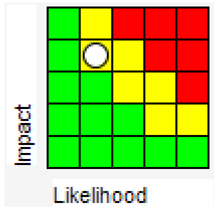
Statutory and Policy Background

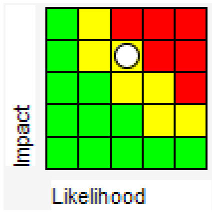
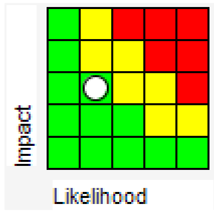
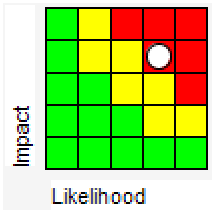
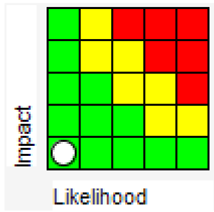
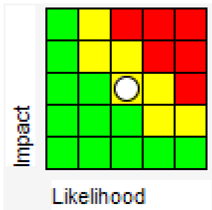
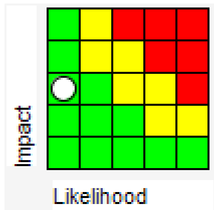
Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective 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 2012/15 has been published on the Council's Intranet. The 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 Council's project management methodology.

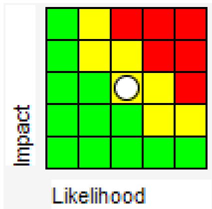
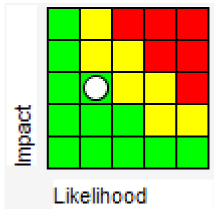
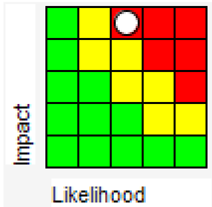
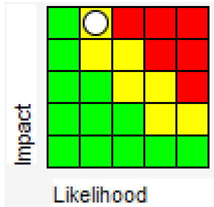
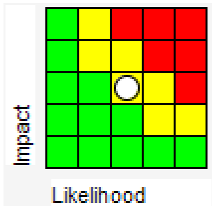
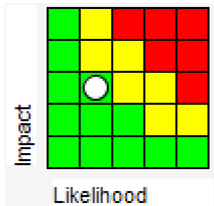
Corporate Risk Report 5x5 Matrix Nov 2013 V3

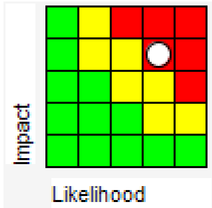
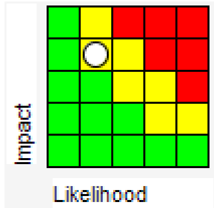
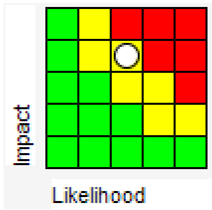
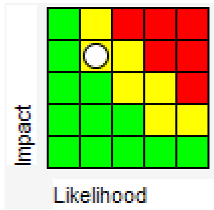
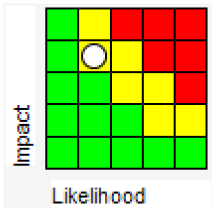
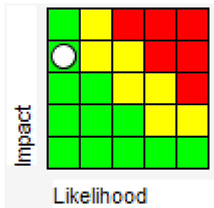
Generated on: 18 November 2013

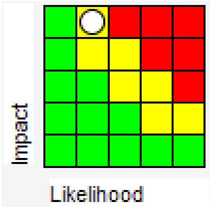
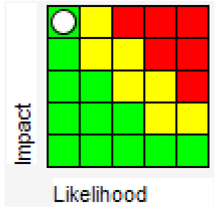
Horsham District Council

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 5x5 Continued reduction in government funding will result in a reduction in services.	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.	Katharine Eberhart		CRR.01.08 Develop & Deliver a new Medium Term Financial Strategy (to Council 19/12/12).	CMT			November 2013 Update: A CMT Risk Workshop was held on 28th October to remap the corporate risk register from a 3x3 matrix onto a 5x5 risk matrix. The risk description for CRR01 was changed from "Failure to identify appropriate actions to deal with reduced funding" to “Continued reduction in government funding will result in a reduction in services”. A new control was added: CRR.01.11 ~ "Maintain sufficient reserves for any unforeseen reduction in government funding".
				CRR.01.09 Develop and deliver Business Transformation Programme (Ongoing).	CMT			
				CRR.01.10 Scope key projects and identify timelines, together with dependencies and critical resource requirements (Ongoing).	CMT			
				CRR.01.11 Maintain sufficient reserves for any unforeseen reduction in government funding.	CMT			
CRR05 5x5 Inadequate "information security"	Financial penalties & damage to reputation.	Peter Dawes		CRR.05.1 Develop an ICT Security Policy (by 30/09/12)	Peter Dawes			November 2013 Update: Information Security training is now provided to all staff as part of induction and ongoing development. Sessions have been arranged for Members and those who were unable to attend are being seen on a 121 basis. The requirements of PSN have tightened up on the use of e-mails for Members and staff.
				CRR.05.2 Develop processes & procedures which underpin the IT Security Policy (by 31/12/14, then annual review).	Peter Dawes			
				CRR.05.4 Provide a programme of training on Information Security to all staff (by 31/12/13, then ongoing).	Peter Dawes			
				CRR.05.8 Member training will be provided to ensure the use of HDC e-mail only (or emails received / sent from private email boxes are copied to HDC email box).	Peter Dawes			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR06 5x5 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		CRR.06.1 Develop corporate business continuity plan and regular review (to be completed by 30/11/13).	Trevor Beadle			November 2013 Update: Following a CMT risk workshop on 28th October, the risk description for CRR06 was changed from "Lack of a tested business continuity plan" to “Failure to effectively implement the Council's business continuity plan”.
				CRR.06.2 Develop departmental business continuity plans and regular review (by 30/11/13).	Trevor Beadle			
				CRR.06.4 Explore feasibility of reciprocal arrangements with other authorities (by 31/03/14)	Trevor Beadle			
CRR24 5x5 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.24.02 Explore partnership opportunities.	Peter Dawes			November 2013 Update: Following the CMT risk workshop on 28th October, the date of control action CRR.24.04 was amended from 30/11/13, to 31/01/14.
				CRR.24.03 Consider acquisition of new system - options report will be produced by December 2012.	Peter Dawes			
				CRR.24.04 Complete installation of new telephone system (by 31/01/14)	Peter Dawes			
CRR34 5x5 Poor performance / decision-making, and loss of staff, during a time of organisational change.	Failure of business objectives. Loss of staff knowledge, capability and potential.	Tom Crowley		CRR.34.1 Regular 1-2-1's with Directors and Heads of Service (Monthly)	Chief Executive & Directors			November 2013 Update: Following the CMT Risk Workshop, the risk description was changed from "Poor performance and/or decision-making following a reduction in the number of directors, increasing work pressures on Directors, Heads of Service and Line Managers" to "Poor performance / decision-making, and loss of staff, during a time of organisational change". Additional consequences added: "Loss of staff knowledge, capability and potential". Three additional control actions added (CRR34.4 to CRR34.6) to help reduce the likelihood of the risk occurring.
				CRR.34.2 Review at CMT (Bi-Monthly)	Chief Executive & Directors			
				CRR.34.3 Review of performance statistics (Monthly)	Chief Executive & Directors			
				CRR.34.4 Review officer performance via the performance appraisal process.	Chief Executive & Directors			
				CRR.34.5 Ensure Service Plans for 2014/15 and beyond are prioritised and resourced and development and training needs identified and delivered.	Chief Executive & Directors			
				CRR.34.6 Ensure that consultation processes on organisational restructure is robust and effective and subsequent recruitment exercises are handled in a timely and effective manner and where necessary interim support is put in place.	Chief Executive & Directors			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR37 5x5 The challenge of delivering the day job and projects against a background of business transformation & new initiatives increases pressure on staff and stress-related absences	Disruption of service	Tom Crowley		CRR.37.1 Develop Business Transformation Project Plan (30/6/12)	Tom Crowley			November 2013 Update: Launch of consultation on Organisational Restructure has added to pressures on senior staff. Opportunities for dialogue and support throughout this process are in place. Decision on structure scheduled for 22nd January and if approved implementation needs to be as rapid as possible to minimise uncertainty and ensure right capacity and expertise.
				CRR.37.2 Member Advisory Group will set clear priorities (31/7/12)	Tom Crowley			
				CRR.37.3 Monitor performance statistics (Monthly)	Tom Crowley			
CRR38 5x5 Failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2015, due to delay in preparing the District Planning Framework	Failure of business objectives, substantial financial loss and damage to reputation	Tom Crowley		CRR.38.1 Raise Member awareness of the impact of further delays to the adoption of the District Planning Framework (Ongoing)	Jill Scarfield			November 2013 Update: It was agreed at the CMT Risk Workshop that the description of the risk should be changed from "Failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2014, due to delay in preparing the District Planning Framework to "Failure to adopt the Horsham District Planning Framework & Community Infrastructure Levy (CIL) Scheme by April 2015, due to delays in preparing the District Planning Framework".
				CRR.38.2 Explore options available for condensing the CIL policy implementation timescales (by 31/05/14)	Jill Scarfield			
CRR39 5x5 Low morale of workforce and / or withdrawal of goodwill as a result of the Management Restructure and Hay & Banding Reviews.	Failure of business objectives, non-compliance with statutory requirements, financial business loss, loss of good staff, disruption of service & damage to the Council's reputation	Tom Crowley		CRR.39.01 Satisfactory outcomes from negotiations with the Union and timely conclusion of the management restructure and the Hay / Pay & Banding reviews	Tom Crowley			November 2013 Update: Risk description slightly amended to exclude the terms and conditions review (which has now been completed) and business transformation (which is covered by CRR37).
				CRR.39.02 Regular consultations and meetings	Tom Crowley			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR40 5x5 The Council loses planning application appeals due to a shortfall in the Five Year Land Supply.	Failure of business objectives Financial business loss Damage to reputation	Tom Crowley		CRR.40.01 Identify five year land supply via the Planning Development Framework (by 30/06/13)	Barbara Childs			November 2013 Update: New control action added (CRR.40.03). Member training programme being prepared.
				CRR.40.02 Continue to raise awareness with Members (Ongoing)	Barbara Childs			
				CRR40.03 Member training (by 31/1/14)	Barbara Childs			
CRR41 5x5 Increased risk of loss of IT services through unforeseen circumstances due to the lack of a tested Disaster Recovery Plan.	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Katharine Eberhart		CRR.41.01 Develop Disaster Recovery Plan for HDC / CenSus (by 30/11/13)	Ian Henderson			November 2013 Update: Plans are being developed for the recovery of IT in a number of different scenarios.
				CRR.41.02 Build Disaster Recovery Plan (by 31/12/13)	Ian Henderson			
				CRR.41.03 Test Disaster Recovery Plan (by 30/03/14)	Ian Henderson			
CRR43 5x5 Under the Infrastructure & Growth Act 2012 the Secretary of State could designate HDC as a poorly performing Council and enable applicants to bypass HDC and apply direct to the Planning Inspectorate due to delays in processing major applications.	Failure of business objectives, non compliance with statutory requirements, Financial business loss and damage to reputation.	Tom Crowley		CRR.43.1 Introduce new P.I. for major planning applications, to include extension of time (by 30/9/13).	Rod Brown			November 2013 Update: o Business Improvement Working Group's review reported to S&O Committee 11/11/13. Recommendations agreed with minor additions. Cabinet to consider on 21/11/13. o CE's proposals for structure embrace key matters covered in 4 of the recommendations. Other recommendations supported by Cabinet Member. o Report on Interim Manager's actions, proposals and performance improvements on Cabinet agenda 21/11/13 o Interim Manager's contract extended to 31/3/14
				CRR.43.2 Regular monitoring of new P.I. (Ongoing)	Rod Brown			
				CRR.43.3 Initiate process to secure agreement to extend determination period when necessary	Rod Brown			
				CRR.43.4 Appoint an Interim Development Management Improvement Manager	Tom Crowley			
				CRR.43.5 Prepare improvement plan	Tom Crowley			
				CRR.43.6 Implement improvement plan (by April 2014)	Tom Crowley			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR44 5x5 Failure to obtain PSN CoCo accreditation leading to disconnection of secure link to PSN systems in turn leading to being unable to process core services.	Failure of business objectives, non compliance with statutory requirements, financial business loss, disruption of service & damage to reputation.	Katharine Eberhart		CRR.44.1 Take action to deal with high level vulnerabilities. Reliant 3rd Parties.	Ian Henderson			November 2013 Update: The team is currently working through the actions required to obtain PSN accreditation.