



ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
TUESDAY 23RD JUNE 2015 AT 5.30pm
LEWES ROOM, PARKSIDE, CHART WAY, HORSHAM

Councillors: Paul Clarke
Brian Donnelly
Ian Howard
Adrian Lee

Paul Marshall
Godfrey Newman
Stuart Ritchie

Tom Crowley
Chief Executive

AGENDA

	Page No.
1. Election of Chairman	
2. Apologies for absence	
3. Appointment of Vice-Chairman	
4. To approve the time of meetings of the Committee for the ensuing year	
5. To approve as correct the minutes of the meeting of the Committee held on 25 th March 2015	1
6. To receive any declarations of interest from Members of the Committee	
7. To receive any announcements from the Chairman of the Committee or the Chief Executive	
8. To receive an update on the Benefits Audit – Tim Delany, Head of CenSus Revenues and Benefits	
9. Audit Progress Report – to be presented by the External Auditor	9
10. 2014/15 Year end Outturn Report	19
11. Amendments to the Treasury Management Strategy 2015/16	35

- | | | |
|-----|---|----|
| 12. | Internal Audit – Quarterly Update Report | 53 |
| 13. | Annual Internal Audit Report 2014/15 | 59 |
| 14. | Draft Annual Governance Statement 2014/15 | 71 |
| 15. | Risk Management – quarterly update | 91 |
| 16. | 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 | |
| 17. | To consider the following exempt or confidential information: | |

Reason for exemption

Report of the Chief Internal Auditor

Appendix 3 of the Internal Audit – Quarterly Update Report

Paragraph 3

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
25TH MARCH 2015

Present: Councillors: David Holmes (Chairman), John Bailey, Roy Cornell,
Stuart Ritchie

Apologies: Councillors: Leonard Crosbie, Gordon Lindsay (Vice-Chairman),
Jim Rae

Also present: Paul King, Audit Director, Ernst & Young
Hannah Lill, Manager, Ernst & Young
Katharine Eberhart, Director of Corporate Resources
Sue McMillan, Head of Finance
Paul Miller, Chief Internal Auditor

AAG/42 **MINUTES**

The minutes of the meeting held on 7th January 2015 were approved as a correct record and signed by the Chairman.

AAG/43 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/44 **ANNOUNCEMENTS**

There were no announcements.

AAG/45 **ANNUAL CERTIFICATION REPORT 2013/14**

Paul King, Audit Director, Ernst & Young, presented the outcomes of the certification work on the 2013/14 claim and returns. The claim involved was for the Housing Benefits subsidy (£31,747,416).

It was noted that a qualification letter had been issued in respect of the claim due to the identification of errors in the calculation of benefits or compilation of claims, which when extrapolated, suggested that there had been a significant overpayment of subsidy. The Department of Work and Pensions (DWP) had suggested the Council might wish to carry out further work in order to better assess the level of error. The results of this work were agreed with the auditors who reported their revised findings to the DWP. This resulted in the extrapolated overpayment of subsidy being considerably reduced so that the net clawback of subsidy by the DWP was reduced to approximately £6,000.

The original data used for extrapolation had been based on the headline population of cases but the subsequent testing had used the sub-population

AAG/45 Annual Certification Report 2013/14 (cont.)

which enabled a better assessment of the level of error. It was hoped that in the future, the sub-population figures would be available for the auditors to use in their initial testing and extrapolation thereby reducing the need to revisit certification work.

The Audit Director indicated that, whilst it was not unusual to find such errors in benefit claims due to the complex nature of the benefits system, the number of errors in the CenSus authorities' claims were at the more significant end of the spectrum.

However, it was noted that a considerable amount of effort had already been invested in improving the quality of benefits assessments and the preparation of the subsidy claim which should result in improvements over time. An action plan had also been agreed to ensure that the recommendations of the Auditors were addressed. In this respect, the Committee requested that Tim Delany, Head of CenSus Revenues & Benefits be invited to the next meeting to update Members on the progress being made.

The Audit Director advised the Committee that the additional testing work had resulted in the actual fee for 2013/14 being higher than the initial indicative figure, although it was still lower than that for 2012/13.

RESOLVED

That the report be noted.

AAG/46 AUDIT PLAN

Paul King, Audit Director, Ernst & Young, presented the External Auditors Plan in respect of the 2014/15 audit. The Plan set out the audit work the Auditor proposed to undertake for the audit of financial statements; the statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (value for money); and the review of the Whole of Government Accounts return.

The Audit Director drew attention to three risks that had been identified as being relevant to the audit of financial statements and indicated how these areas would be audited:

- Risk of management override (the Audit Director reassured Members that this was not a particular risk at Horsham but one that was identified and responded to on every audit engagement they undertook).
- Accounting for property, plant and equipment
- Disposal of Park North.

AAG/46 Audit Plan (cont.)

With regard to accounting for property, plant and equipment, the Head of Finance advised that testing was currently taking place on a new asset management module that would replace the current spreadsheet system, which produced a complex audit trail. It was intended that the new module would be used to inform the year end accounts. The auditors would therefore focus on reviewing the audit trail; reviewing the migration and testing process and substantively checking entries in the balance sheet and disclosures.

With regard to Economy, Efficiency and Effectiveness, the Audit Director had not identified any significant risks but had identified two key areas they would consider to support the Value for Money conclusion - financial standing due to continued funding challenges from national policies and Council spending in comparison to a group of statistical nearest neighbours.

The Audit Director referred to the definition used by the auditors for materiality when determining whether the financial statements were free from material error. Members discussed this issue and the Audit Director advised that, if the Committee so wished, he could report on both adjusted and unadjusted errors in more detail. Members suggested that the next meeting of the Committee might wish to give further consideration to the level of detail they wished to receive in respect of errors and further discussion regarding the level for materiality.

The planned fee for the 2014/15 audit had been set at the same level as the out-turn fee for 2013/14.

The outcome of the 2014/15 audit would be reported to the meeting of the Committee in September 2015.

AAG/47 **AUDIT PROGRESS REPORT**

Paul King, Audit Director, Ernst & Young, gave an outline of plans for the 2014/15 audit. With regard to the 2015/16 audit fees, it was noted that the scale fees were proposed to be reduced by a further 25%. This was mainly due to the result of a recent procurement exercise to retender the work undertaken under the Audit Commission's older contracts with audit firms and the final winding down of the Audit Commission on 31st March 2015. Members were assured that the level and quality of service would not be reduced.

AAG/48 **REVIEW OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT**

The Director of Corporate Resources advised Members that, following the appointment of a number of new Service Managers, the decision had been

AAG/48 Review of the Council's Internal Control Environment (cont.)

taken to appoint consultants to review the Council's internal risk and control processes. She reported on the work they had carried out so far and further activity planned in the next few weeks, which would result in repopulated Corporate and Service Risk Registers. This work would impact on the Annual Governance Statement, which would also undergo a comprehensive review.

The Director of Corporate Resources indicated that she would circulate an updated action plan for Committee Members' information once it had been considered by the Senior Leadership Team on 7th April 2015.

It was confirmed that Service Managers' role profiles included responsibility for risk management within their departments and that all managers were aware of their responsibility to drive service improvement.

AAG/49 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Director of Corporate Resources 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 Senior Leadership Team.

The Committee noted that many areas on the register were already at their acceptable target risk level and questioned whether they therefore still needed to be amongst the Senior Leadership Team's top concerns. Further, if they were of concern, many had no actions listed against them.

As indicated in the previous minute, the Corporate Risk Register was to be repopulated as a result of the work being undertaken on the review of the Council's internal risk and control processes.

RESOLVED

That the report be noted.

REASON

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

AAG/50 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since December 2014 and seeking approval of the

AAG/50 Internal Audit – Quarterly Update Report (cont.)

Internal Audit Charter; the Internal Audit Strategy; and the Annual Audit Plan for 2015/16.

A summary of audit findings in respect of Section 106 Agreements, which had achieved an overall audit opinion of moderate assurance, and Risk Management; Pensions Auto Enrolment; and Member Allowances, all of which had achieved an overall audit opinion of substantial assurance, was submitted. Members discussed the findings regarding S106 Agreements and welcomed the planned improvements for their control and monitoring.

The Public Sector Internal Audit Standards 2013 required the Head of Internal Audit to produce an internal audit strategy, a high-level statement of how the Internal Audit Service would be delivered in accordance with the terms of reference and how it linked to organisational objectives and priorities. The Internal Audit Strategy 2014/17 had been updated and was submitted for approval. The Chief Internal Auditor confirmed that the current level of staffing in the Internal Audit team was considered to be adequate. Members discussed the plan to allocate 25 days to providing Crawley Internal Audit with resources in return for an income. It was noted that this would help the Council to maintain a strong Internal Audit function. The Chief Internal Auditor was asked to provide the next meeting of the Committee with a report justifying the proposal.

The Internal Audit Plan for 2015/16 was also submitted for approval and included an element of flexibility to enable the audit team to respond to changing risks and priorities of the Council.

The Internal Audit Charter, which was also submitted for approval, had been reviewed and amended to indicate that Public Sector Internal Audit Standards had been adopted. The Chief Internal Auditor drew attention to the definition of internal auditing; the requirement for unrestricted access to records, documents and personnel; independence; lines of responsibility; and the scope of internal audit work.

RESOLVED

- (i) That the summary of audit and project work undertaken since December 2014 be noted.
- (ii) That the Internal Audit Charter be approved.
- (iii) That the Internal Audit Strategy 2014/17 be approved as submitted.
- (iv) That the Internal Audit Plan 2015/16 be approved.

AAG/50 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/51 **URGENT MATTERS**

There were no urgent matters to be considered.

AAG/52 **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/53 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor submitted a report summarising progress since December 2014 on the implementation of actions in respect of audits undertaken in 2014/15, 2013/14, 2012/13 and 2011/12.

The Chief Internal Auditor reported on three areas of concern: Casual Worker Policy & Volunteers Policy; Land Charges; and ICT Hardware.

The Committee requested that the schedule of outstanding agreed actions be updated to ensure that up to date staff names/post titles were used.

The Committee also noted the current position regarding contracts and expressed their concern that “action by” dates had slipped. In particular, the need to update the contracts register was outstanding.

AAG/53 Internal Audit – Quarterly Update Report On Audit Follow Ups (Paragraph 3)
(cont.)

RESOLVED

- (i) That progress in terms of agreed actions implemented since December 2014 be noted.
- (ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

RESOLVED

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

At the conclusion of the meeting, Members noted that Councillor David Holmes would be retiring from the Council at the elections in May and thanked him for his excellent chairmanship of the Committee over the last four years. Councillor Holmes thanked the Members of the Committee for their support during his time as Chairman. He added that he hoped that Group Leaders in the new Council would give careful consideration to the importance of the Accounts, Audit & Governance Committee when allocating Members to it, given its important role.

The meeting finished at 7.27pm having commenced at 5.30pm.

CHAIRMAN

Horsham District Council

Accounts, Audit and Governance Committee Progress Report

June 2015



Building a better
working world



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23 June 2015

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the 2014/15 audit. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Director
For and behalf of Ernst & Young LLP

Contents

Work completed 2014/152
Timetable 2014/15.....4

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 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.

Work completed 2014/15

Financial Statements audit

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we have held a number of meetings with key officers and other stakeholders to ensure the 2014/15 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Where possible we seek to rely on the controls within the Council's financial systems.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls has been completed during February, March and April.

The detailed testing of the controls (where planned) was also completed during these visits. We work closely with internal audit and where possible have placed maximum reliance on their work. We reviewed Internal Audit's testing of financial systems and, where it was appropriate to do so, we undertook procedures to enable us to place reliance upon this testing.

There are no matters arising from our planning work that we need to bring to your attention at this stage.

Post Statements audit

We have discussed the timing of our post statements audit with management and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to carry out our post-statements work in July.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, was presented taken to the Committee in March 2015.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money assessment

We have completed our initial risk assessment for our value for money work against the Audit Commission's specified criteria and areas of focus. Our audit plan details the results of this work.

The Audit Commission detailed guidance for the 2014/15 value for money conclusion which can be found at:

<http://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-02-04-15.pdf>

The arrangements are the same as 2013/14 and focus on corporate performance management and financial management arrangements, with regard to the following criteria and areas of focus, as specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for challenging how it secures economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our work supporting our initial value for money risk assessment, informed by the criteria and our responsibilities under the Code, is ongoing, and more detail was included in our Audit Plan.

2015/16 Audit Fees

The Audit Commission has consulted on the proposed work programme and scales of fees for the audit of the accounts for 2015/16. It is proposing to reduce scale fees by a further 25 per cent from 2015/16 for all principal audits including the Council. It does not plan to make changes to the overall work programme. The final work programme and scales of fees will be published during March 2015. Further information can be found at:

<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/>

The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under the Commission's older contracts with audit firms, and is on top of the 40 per cent cut in fees made in 2012.

2013/14 Grant certification work

We have issued our Certification of claims and returns annual report 2013/14, which summarises the results of our work on the Council's claims and returns for 2013/14. This report was presented to the Committee in March 2015.

The DWP wrote to the Council in response to our qualification letter on the Council's Housing Benefit Claim 2013/14 requesting further work in a number of areas. We undertook this work in February and responded to the DWP by the 28th February deadline set. The results of this work are reflected in the Certification of claims and returns annual report 2013/14.

We have billed the Council £4,365 in respect of this work.

2014/15 Grant certification work

We have not yet started work on the certification of your housing benefit subsidy claim. We plan to start the first part of the work in June 2015.

Timetable 2014/15

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2014/15 Governance and Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Governance Status and Audit Committee	
Notification of audit fee	April 2014	Audit Fee Letter	April 2014	Completed - Reported to the April 2014 Committee
Risk assessment and setting of scope of audit	Feb – April 2015	Audit Plan	March 2015	Completed - Reported to the March 2015 Committee
Testing of routine processes and controls and early substantive testing	Feb – April 2015	Audit Plan	June 2015	Completed - Reported to the March 2015 Committee
Year-end audit	June - August 2015	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	Not yet started
Annual Reporting	October 2015	Annual Audit Letter	November 2015	Not yet started
Grant Claims	June 2015 and September – November 2015	Annual certification report	February 2016	Not yet started

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Report to Accounts Audit and Governance Committee

Date of meeting 23/6/15

By the Director of Corporate Resource

INFORMATION REPORT

Not exempt



Horsham
District
Council

Outturn report for 2014/15

Executive Summary

This report summarises the Council's financial performance for 2014/15.

The Council achieved income in excess of budget from key fees and charges amounting to £366k during the year. Other departmental net spending resulted in an under spend against budget of £437k for the year, making a total underspend of £803k against budget.

The Capital programme spend in 2014/15 was £5.2m against a revised budget of £12.8m. The unused budgets for capital schemes in progress will be carried forward to 2015/16 totalling £7.2m.

Recommendations

The Committee is recommended to note:

- i) The financial position of the Council as outlined in the report
- ii) The revenue budgets carried forwards as approved by the Director of Corporate Resources, as outlined in the report
- iii) The transfers between the general reserves and the earmarked reserves as outlined in the report.

Reasons for Recommendations

- i) Monitoring of the Council's budget is essential, so that action can be taken to safeguard the Council's financial position if required.

Agenda Item 10

Background Papers	Report to Cabinet on the 29th of January 2015 on the Budget 2015/16 and the Medium Term Financial Strategy. Report to the Finance and Performance Working Group on the 18 th February on the Outturn at December 2014
Consultation	N/A
Wards affected	All
Contact	Gillian Bloomfield Group Accountant (Revenue) ext 5450

Background Information

1 Introduction

This report analyses the actual budget outturn for the year ended 31/3/2015 and compares it with the original budget approved by the Council in February 2014. A detailed analysis of budget variances is included in the report. The report covers outturn against the revenue budget and capital budget. The report also covers the movement in the Council's reserves and budgets to be carried forward into the next financial year.

2 Background

2.1 The Council set its 2014/15 net operating budget in February 2014 at £13.350m. The budget has been increased by £1.486m comprised of

- Unspent revenue and repairs and renewals budgets carried forward from 2013/14 of £1.331m
- Supplementary estimate of £60k to promote Horsham Town Centre
- Supplementary estimate of £95k for the Office relocation project

2.2 The Capital programme budget for 2014/15 totals £12.8m. This figure includes unspent budgets carried forward from 2013/14 of £1,473k and supplementary estimates of £625k for Mill Stream Surgery and £1.1m for the Office Move.

2.3 The Council reports on the projected outturn against budget during the course of the financial year to Cabinet, Council and the Finance and Performance Working Group. The last report, at Quarter 3 was to the Finance and Performance Working Group on 18th February 2015.

3 Revenue Outturn for 2014/15

3.1 Since Quarter 3 the predicted outturn has moved from £250k to £803k. The main variances are summarised in the table below:

Movement from Q3 Forecast to 2014/15 Outturn - major items	£000
Housing Benefit Subsidy - impact of 2013/14 review less than first indicated	(250)
Repairs and Maintenance - expenditure less than forecast	(147)
Capitol theatre- net costs greater than forecast at Q3	128
Appeal/counsel costs higher than forecast	140
Development Management - professional costs	122
Development - additional income	(235)
Departmental underspends not forecasted	(263)
Departmental additional income items not forecasted	(149)

Prior year pension adjustment	108
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3.2 **Actual revenue outturn for 2013/14**

The main variances against budget can be seen in **Appendix A**

3.3 Staffing costs were underspent by £213k and is in line with the Quarter 3 forecast. There have been a number of vacant posts during 2014/15 resulting in higher than forecast agency staff costs. Appointments have now been made in a number of service areas. The transition to the new management structure resulted in £131k of the vacancy savings (after allowing for some residual costs and for agency staff covering for vacant management posts).

Departmental staffing details are given in **Appendix B**.

3.4 In addition unspent revenue budgets totalling £914k, intended for projects in 2014/15, have been carried forward to 2015/16 under FR25 of the Constitution. Details of the carried forward budgets are shown in **Appendix C**

3.5 The main income areas are shown below:

Income Monitoring 2014-15

	2014-15 Actual £000	2014-15 Budget £000	2014/15 Variance £000
Development Control & Enforcement	(1,228)	(975)	(253)
Building Control	(531)	(530)	(1)
Land Charges	(152)	(125)	(28)
Garden Waste Collection	(910)	(862)	(48)
Trade Refuse Bins	(795)	(775)	(20)
Car Parks Pay & Display	(2,879)	(2,800)	(79)
Car Parks Season Tickets	(445)	(454)	10
Rental Income from HDC commercial and industrial estate	(3,000)	(3,036)	36
Interest on Investments	(161)	(177)	16
Total	(10,101)	(9,735)	(366)

4 Capital Outturn

4.1 The capital project expenditure for 2014/15 amounted to £5,212k or 41% of the approved budget for the year. Performance against each project is given in **Appendix D**. Budgets of approximately £7.2m will be slipped from 2014/15 for projects not complete.

- 4.2 Some savings were made against the fleet replacement capital budget either by reviewing service delivery or opting for refurbished equipment, with the balance slipping to 2015/16.

5 Key Issues

5.1 Capitol

The final outturn over spend for the Capitol codes was greater than previously forecast. Overspending on overtime, electricity, equipment and tools coupled with under performance on the cinema and most notably the live productions have resulted in a net overspend of £188k.

5.2 Repairs and maintenance

The corporate repairs and maintenance expenditure was significantly below budget in 2014/15. Reactive maintenance came in £17k above budget however planned maintenance was underspent by £363k. Of this latter amount £169k is to be carried forward into 2014/15.

5.3 Appeal Costs

The Council has incurred significant costs dealing with appeals against planning application refusals. These costs include costs awarded against us in cases where the Planning Inspector considered our decisions to have been unreasonable. We have incurred estimated costs of £300k in costs awarded against us in 2014/15.

5.3 Business Transformation

The key projects for the first phase of the Business Transformation Programme are now complete. The projects to date have led a reduction in our budgets of £440k with a further £100k in the pipeline. The cumulative spend of the Business Transformation reserves as at 31/4/15 is shown on the table below.

Project	Cumulative expenditure to 31/3/15 £
Terms and Conditions	119,491
Hay Pay & Grading and Management Restructure	68,596
Customer Contact Project	37,576
Commissioning Project	1,725
EDRMS Project	103,620
Total	331,007
Available Funding	500,000
Balance	168,993

5.4 Business Rates (NNDR)

2014/15 was the second year of operation of the complex Localised Rate Retention Scheme for Business Rates (NNDR). There has been a large increase in the number of appeals lodged against the values included in the current Valuation List before the 31st March 2015 deadline for appeals. As a result it has been considered prudent to increase the provision for refunds on back-dated appeals, since a successful appeal may generate a refund going back to April 2010. Consequently the overall position for 2014/15 is that rates income has achieved the government's baseline figure, but has not generated a surplus. An NNDR reserve was created in 2013/14 to manage the complexities and timing issues associated with this scheme. The reserve also holds sufficient funds to protect the Council against an unforeseen reduction in Business Rates.

5.5 Introduction of ANPR

The only significant area of overspending within the capital programme related to the introduction of the new parking system. The additional spend of £48k was the result of the need to supply more pay stations than was envisioned in the original proposal to cope with customer throughput and some unforeseen additional costs to control flow of vehicles in car parks

5.6 The Big Move

The most significant additional work agreed by the Council in 2014/15 is the Office Move Project. The costs incurred in delivering this project is spread over two financial years and it is anticipated that the move will be delivered within the allocated budget.

6 Reserves

The movements between the general fund and ear marked reserves are given in **Appendix E**.

6.1 The Council holds a number of ear marked reserves which may be used in year to fund associated expenditure. Where grants and contributions are received in year but not spent the unused portion may be transferred to ear marked reserves for use in future years. The Council can also chose to move funds from the general fund reserve to ear marked reserves to cover future costs.

6.2 In 2014/15 planned revenue expenditure previously met from the R&R Fund has been provided through the revenue account and the residual balance on the fund has been transferred to the general fund reserve.

6.3 A new NNDR reserve was established last year up to mitigate the risks of the localised Business Rate Retention Scheme, and to deal with timing differences created by the required accounting entries for the scheme. A sum of £135k has

Agenda Item 10

been transferred to this reserve in 2014/15 to offset potential future losses which would arise if rate income falls below baseline levels, up to the government safety net trigger. A further £824k of grants has been transferred to the new reserve to meet future liabilities arising from the operation of the scheme.

Appendix 1

Consequences of the Proposed Action

<p>What are the risks associated with the proposal?</p> <p>Risk Assessment attached Yes/No</p>	<p>no</p>
<p>How will the proposal help to reduce Crime and Disorder?</p>	<p>Managing finance and performance will help identify areas where the Council can provide better crime and disorder reduction initiatives.</p>
<p>How will the proposal help to promote Human Rights?</p>	<p>Service and performance improvements will ensure that our work reaches out to more local residents and meet the requirements as set out by the Equality Act 2010.</p>
<p>What is the impact of the proposal on Equality and Diversity?</p> <p>Equalities Impact Assessment attached Yes/No/Not relevant</p>	<p>No Equality Impact Assessment (EIAs) required at this level (EIAs will be carried out at more strategic opportunities for greater impact)</p>
<p>How will the proposal help to promote Sustainability?</p>	<p>Sustainability Performance against sustainability issues are reviewed regularly through Performance Management Working Group</p>

Appendix A

		2014/15
		£000s
Original Budget		13,350
Adjust for non-operational budgets		
Capitalised salaries		153
MRP		(875)
Financing adjustment		24
Add budgets carried forward from 2013/14		1,331
Add supplementary budgets approved in year		155
Less budgets to be carried forward into 2015/16		(914)
Outturn Budget		13,224
Actual Outturn		12,421
Underspend		(803)

Main Variances		
CORPORATE		
Staffing	Permanent staff including overtime	(1,718)
	Casual staff	123
	Agency staff	1,382
Prior year pension adjustment		108
Planned and Reactive maintenance	All departments	(176)
Revenue and Benefits		(80)
Contract car hire and insurance	All departments	(77)
Borrowing Costs	for Capital Programme	(200)
VAT	Net recovery of prior year payments	(40)
Cash collection costs	Following change of provider	29
Bad Debt Provision	Additional provision	61
Insurance	All departments	42
Training	All departments	(28)
Recruitment and relocation	All departments	51
DEPARTMENT		
Commissioning	Reduction in contribution from other LA's reflecting lower salary costs	37
	Legal and democratic	Professional Services

Agenda Item 10a

		2014/15
		£000s
	Legal Expenses recovered	(37)
	Postage and mailing - election services	(26)
Human Resources and Organisational development	Grant payments	(28)
HDC IT	Photocopier/printer operational leases	(34)
CENSUS ICT	Project budget underspend - offsets staffing costs overspend	(144)
Community and culture - Capitol Theatre	Films - net income	27
	Professional productions	88
	Amateur productions	26
	Commission	(38)
Community and culture - Leisure Services	High Ropes - not implemented	32
	Recharges from other LAs	(26)
	Additional Rent	(30)
Community and culture - Parks and Countryside	Burial Income	(14)
	General works and landscaping	(18)
Street Scene and Fleet	Vehicle maintenance	88
	Fuel	(163)
Waste and Recycling	Acorn plus - green gate fee	(44)
	Recycling support	(45)
	Green waste Income	(48)
	Trade waste income - inc recycling income	(33)
	Savings on green waste renewal - printing	(24)
Car parks	Urban car park income	(73)
Environmental Services and Licenses	Income	(57)
Housing	Temporary accommodation rent	27
	Work on temporary accommodation	47
Development	Planning fee income	(253)
	Pre applications and conditions discharge income	78

		2014/15
		£000s
	Legal expenses reclaimed	59
	legal/court/appeal costs	350
	Consultants and professional fees	104
	Land charges income	(140)
	Personal Searches - settlement including interest	177
Property and Facilities	Millstream Surgery - costs arising following purchase of new property	46
	Land Draining - unbudgeted grant	(37)
	General works (excluding planned maintenance)	(32)
Economic Development	Funding received to offset unbudgeted staffing costs	(110)

Salaries Monitoring 2014/15 April 2014 to March 2015

Appendix B

Department	Total actual	Total Budget	Variance	Salaries and Wages inc Super		Overtime		Casual Staff		Temporary Staff	
				Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
CORPORATE MANAGEMENT	579,205	640,620	(61,415)	577,805	640,620					1,400	0
BUSINESS TRANSFORMATION	230,043	220,930	9,113	199,163	220,930	279	0			30,601	0
COMMUNICATIONS	267,895	276,450	(8,555)	244,295	276,450	643	0	128	0	22,829	0
AUDIT	178,410	176,510	1,900	178,410	176,510						
COMMISSIONING	212,849	283,550	(70,701)	212,849	283,550	0	0			0	0
LEGAL & DEMOCRATIC	866,658	856,400	10,258	785,403	836,400	3,480	0	14,057	20,000	63,717	0
FINANCE ACCY	678,063	719,430	(41,367)	670,296	717,430	7,767	0	0	2,000		
CENSUS ICT*	1,610,775	1,319,910	290,865	1,258,803	1,313,910	9,691	6,000	18	0	342,263	0
HDC ICT	647,898	648,600	(702)	613,110	648,600	24,468	0	83	0	10,237	0
HUMAN RESOURCES & ORG DEVELOPMENT	382,348	413,380	(31,032)	362,768	398,380	1,394	0			18,186	15,000
COMMUNITY & CULTURE	2,135,536	2,190,330	(54,794)	1,885,445	2,038,890	39,111	4,000	210,981	147,440		
STREET SCENE & FLEET	881,214	948,200	(66,986)	723,732	898,511	47,929	49,689	30,591	0	78,962	0
WASTE & RECYCLING	2,515,729	2,512,730	2,999	2,195,909	2,327,854	54,853	78,179	18,182	0	246,785	106,697
PARKING SERVICES	540,262	565,930	(25,668)	398,893	565,930	2,090	0	683	0	138,596	0
ENVIRONMENTAL SERVICES/LICENSING	862,862	894,160	(31,298)	858,339	894,160	2,347	0	2,176	0		
CUSTOMER SERVICES	338,730	380,030	(41,300)	303,238	372,030	8,874	8,000	9,182	0	17,436	0
HOUSING	575,276	601,520	(26,244)	574,841	601,520	435	0				
BUILDING CONTROL	635,652	633,230	2,422	578,449	633,230	1,173	0	2,200	0	53,830	0
DEVELOPMENT	1,554,700	1,577,730	(23,030)	1,062,598	1,577,730	4,119	0	0	0	487,983	0
SPATIAL PLANNING	522,212	474,270	47,942	507,134	474,270	7,727	0	2,449	0	4,903	0
PROPERTIES & FACILITIES	652,352	845,420	(193,068)	642,622	825,420	3,287	0	0	0	6,443	20,000
ECONOMIC DEVELOPMENT	334,249	283,300	50,949	325,797	281,700	5,727	300	2,725	1,300		
OBSOLETE	33,805	0	33,805	33,805	0	82	0	0	0	0	0
CORPORATE FINANCE - NON DEPARTMENT	12,926	820	12,106	12,926	820						
	17,249,648	17,463,450	(213,802)	15,206,628	17,004,845	225,476	146,168	293,455	170,740	1,524,171	141,697
CENSUS REVS AND BENS	947		947			947					
	<u>17,250,595</u>		<u>(212,855)</u>			<u>226,422</u>					

Budget carry forwards from 2014-15 to 2015-16

Appendix C

	Code Description	Carry Forward	Justification for Request
Business transformation	The big move	68,612	Ongoing requirement
Business transformation	Digital Horsham	25,827	Ongoing requirement
Capitol	Capitol - service planned maintenance	25,000	Ductwork cleaning. The works were scheduled but not carried out.
Capitol	Drill Hall - service planned maint	7,000	Ductwork cleaning. The works were scheduled but not carried out.
Census ICT	SQL strategy	9,762	On Going project
Census ICT	Redhat Linux	4,650	Project has yet to commence
Community Safety	Installation of CCTV cameras	23,400	Delays in preparatory building works outside HDC control at Market Square
Economic Development	Leisure events marketing	15,368	Cobb PR for new ANPR , resulting from delay in launch of scheme
Economic Development	Town Centre MGT	5,000	Additional names for war memorial
Horsham ICT	IT projects	64,900	Project has yet to commence
Horsham ICT	Systems integration	50,000	Project has yet to commence
Leisure Services	BBHLC-Repairs	50,060	Legacy repairs
Leisure Services	Pavilions LC-repairs	117,378	Legacy repairs
Leisure Services	Steyning LC- repairs	112,450	Legacy repairs
Leisure Services	Billingshurst LC- repairs	91,865	Legacy repairs
Leisure Services	Loss of income claims at Pavilions, Steyning & Billingshurst Leisure Centres	40,000	Unspent loss of income claims relating to ongoing pool works
Museum	Museum WWI grant	2,100	Residual WW1 memorial grant
Operational portfolio	Bus Station-planned maint	9,990	New floor tiling
Operational portfolio	Lighting and footway lighting - service planned maint	5,000	Works to a footpath
Operational portfolio	PARK HOUSE- services maint	20,000	For isolating the access system and IT data system
Parking	Swan Walk CP	13,900	H&S risk
Parking	The Forum MSCP- planned maint	33,368	Works to the lift lobbies
Parking	Piries Place MSCP- planned maint	35,000	Upgrade of the lift lobbies/staircases
Parks and Countryside	Cemeteries - planned maint	11,750	Water main repair
Parks and Countryside	Childrens Playgrounds play equipment	62,507	Delay with contractor completing works
Parks and Countryside	Childrens Playgrounds play equipment	2,500	Delay with contractor completing works
Parks and Countryside	Childrens Playgrounds play equipment	7,000	Delay with contractor completing works
Total		914,387	

CAPITAL BUDGET MONITORING Full year 2014/15

Capital Projects	Department	Net Expenditure	Budget	Spend as % of budget
Existing Leisure Centres	Property & Facilities	478,063	908,442	53%
Broadbridge Heath Leisure Centre - new build	Property & Facilities	51,372	1,150,000	4%
Other Community and Culture projects	Community and Culture	340,778	909,510	37%
Waste and Recycling projects	Property & Facilities	-	65,000	0%
Hop Oast depot development	Waste & Recycling	11,088	996,200	1%
Vehicle Fleet	Streetscene & Fleet	194,793	1,128,000	17%
Grants - Environmental health	Envir Health & LM	703,502	838,000	84%
Housing Enabling Grants	Housing	700,000	1,500,000	47%
ICT projects - HDC	Resources ICT	253,096	489,019	52%
ICT projects - Census	Resources ICT	174,793	672,759	26%
Car Parks Fabric and Equipment	Property & Facilities	29,474	617,697	5%
New Parking payment system	Parking Services	273,030	225,000	121%
Office move	Property & Facilities	442,255	1,098,000	40%
Town centre improvements	Property & Facilities	141,436	358,171	39%
Miscellaneous properties spend	Property & Facilities	734,349	1,208,939	61%
Warnham Millpond Reservoir	Property & Facilities	683,632	648,420	105%
Total		5,211,661	12,813,157	41%

Net expenditure excludes Capitalised Salaries that are apportioned to capital schemes have a separate budget.

Appendix D

Comment
Significant part of the centres' works slips to next year
Cost in this year are only preparatory work
Number of projects - budget will be slipped to next year
Security works and waste pods - carried forward to 2015/16
Major works profiled into future years
Replacement programme reduced significantly relative to budget. Unspent budget will be moved into 2015/16
Grants payment under budget.
Spend dependent on available appropriate housing schemes. Spend will be profiled into future years.
Number of projects - budget will be slipped to next year
Number of projects - budget will be slipped to next year
Preliminary work done but major spend in next year
Extra spend due to additional pay stations and unforeseen engineering costs
Budget in 2014/15 is the total spend so major items will occur in 2015/16 and unspent budget will be carried forward.
Improvements progress into next year.
Includes a number of projects and unspent budgets will slip
Overspend in 2014/15 as complete cost of scheme accounted for in 2014/15. An additional budget of £117,000 is held in 2015/16 which will not be required.

2014/15 Movements between General Fund Reserve and Ear Marked Reserves

Appendix E

Ear Marked Reserve	Opening Balance	Movement to/(from ear marked reserve)	Closing Balance	Comments
Repairs and Renewals fund	(533,141)	533,141	0	Repairs and renewals now budgeted within revenue accounts
NNDR Provision	(475,615)	(958,583)	(1,434,198)	To mitigate risks of localised business rates retention scheme and to deal with timing differences arising from operation of scheme
Council Tax & Housing Benefit Reserve	(162,393)	(95,990)	(258,383)	Local burden grants available for use in spend in future years
New Homes Bonus	(1,148,185)	(776,463)	(1,924,648)	Grant received
Neighbourhood Planning Grant	(34,500)	(284,442)	(318,942)	Reserve to fund neighbourhood planning grants and other related costs
District Local Plan	(68,090)	68,090	(0)	
Weekly Waste Collection	(264,677)	(69,888)	(334,565)	Grants and contributions received to fund future expenditure
Chesworth Farm - UK Power	(8,320)	5,743	(2,577)	Grants and contributions received to fund future expenditure
Anti Social Behaviour Reserve	(85,653)	(10,358)	(96,011)	Grants and contributions received to fund future expenditure
Crime Disorder Reduction Partnership - Local Action	(48,865)	1,259	(47,606)	Grants and contributions received to fund future expenditure
West Sussex Arts Partnership Reserve	(107,016)	50,310	(56,706)	Grants and contributions received to fund future expenditure
Aiming High Project	(90,380)	(7,879)	(98,259)	Grants and contributions received to fund future expenditure
Health & Wellbeing	(279,540)	23,102	(256,438)	Grants and contributions received to fund future expenditure
Chichester Festival Theatre	(22,814)	14,225	(8,588)	Grants and contributions received to fund future expenditure
Hls Grant Countryside	(1,670)	(992)	(2,662)	Grants and contributions received to fund future expenditure
Rural West Sussex Partnership	(55,000)	20,324	(34,676)	Grants and contributions received to fund future expenditure
District Election Provision	(40,000)	(36,515)	(76,515)	To be used to offset expenditure in 2015/16
From General Fund Reserve to Ear Marked Reserves		1,524,916		NET MOVEMENT ON RESERVE
TOTAL		0		

Report to Accounts, Audit and Governance Committee

Date of meeting 23rd June 2015

By the Director of Corporate Resources

DECISION REQUIRED



**Horsham
District
Council**

Not exempt

Amendment to Treasury Management Strategy 2015/16

Executive Summary

This report amends the Treasury Management Strategy for the current financial year. A previous decision of this committee had restricted the range of investments originally proposed for the current year. However, the limits in the range of the other allowed investments had not been increased to compensate for the restriction.

This report requests increases in the amounts that can be invested in Money Market Funds.

Recommendations

The Committee is recommended to recommend that the full Council approve an amendment to the Treasury Management Strategy for 2015/16 to increase the overall limit for Money Market Funds to £30m while leaving the individual fund limit unchanged.

Reasons for Recommendations

The Council is required to approve a Treasury Management Strategy before the start of each financial year, which was done at the Council meeting of 25th February 2015 following the recommendation by the meeting of this committee of 7th January 2015. This amendment to the strategy, which increases investment options, must be recommended to the Council for approval.

Consultation: Arlingclose Limited – Council's Treasury Management Advisers

Wards affected: All

Contact: Julian Olszowka ext 5310

Background Information

1 Introduction

The purpose of this report

- 1.1 The Council has significant investments which bring with them financial risks including the loss of invested funds and the 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 an amendment to the currently adopted Treasury Management Strategy for 2015/16.

2 Background

Economic background

- 2.1 The Treasury Management environment remains difficult with yields hit by low interest rates and the aftermath of the financial crisis of 2008.

Relevant Council policy

- 2.2 The Council approved the Treasury Management Strategy before the start of the financial year at the Council meeting of 25th February. The Treasury Management Strategy as amended is attached in Appendix 2.

3 Details

- 3.1 The originally proposed strategy was amended by this committee on the 7th January, following consultation with all Committee Members, with the deletion of use of Pooled Funds (other than Money Market Funds). This deletion led to a restriction on the proposed range of investments available to the Council limiting the investment options available. It is felt prudent to increase the limit on another investment type for the rest of 2015/16 to ensure the Council has adequate options available.
- 3.2 The proposed amendment is to increase the limit on 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. The current overall limit is £20m with a limit of £5m on each fund. It is proposed to increase the overall limit to £30m while leaving the individual fund limit unchanged.

4 Staffing Consequences

- 4.1 There are no staffing consequences.

5 Financial Consequences

- 5.1 The budget for investment income will remain at £0.249m as the new limit is not expected to affect overall investment returns.

Appendix 1

Consequences of the Proposed Action

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

Appendix 2



**Horsham
District
Council**

Report to Accounts, Audit and Governance Committee

Date of meeting 7th January 2015

By the Director of Corporate Resources

DECISION REQUIRED

Not exempt

Treasury Management Strategy 2015/16

Executive Summary

This report is an annual statutory requirement setting the strategy for treasury management and specific Treasury Management indicators for the financial year 2015/16.

Recommendations

The Committee is recommended to recommend that the full Council:

- i) approve the Treasury Management Strategy for 2015/16
- ii) approve the Treasury Management Indicators for 2015/16

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 2011 Edition (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 Limited

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 2015/16 that fulfils legal requirement and provides a workable framework for day-to-day operations.

2 Background

Economic background

- 2.1 The Council's Treasury Management Strategy must take account of expectation of the general economy. The Council receives advice on this from Arlingclose Ltd and Appendix 2 is a commentary by them on the economic background.
- 2.2 The forecast for the first rise in Bank Rate is 0.25% in Summer/Autumn 2015 with a subsequent 0.25% in early 2016. For the purpose of the budget any new investments are estimated to be on or about the bank rate.
- 2.3 The Treasury Management environment remains difficult with yields hit by low interest rates and the aftermath of the financial crisis of 2008. Governments and regulators have put in place measures prompted by the crisis. These have prompted a reappraisal of local authorities' strategies across the sector. This year's strategy reflects a modified approach less reliant on single institutions and their credit rating and more reliant on diversification.

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 Department for Communities and Local Government 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 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

3 Current and Position and Projection

- 3.1 The Council's treasury portfolio at 31st November 2014 was:

Type of investment or borrowing	Principal £m	Interest Rate % Average
Call accounts	6.9	0.44
Money market funds	14.6	0.80
Short-term deposits	8.5	0.67
Total Investments	30	0.68
Long-term PWLB loans	4	3.38
Total Borrowing	4	3.38
Net Investments	26	

- 3.2 Treasury management operations work 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 should be noted that the end of year cash balances are usually the low points in the year. The potential £7m loan to Saxon Weald is included at the very end of 2015/16. The projection will be revised as the budget is finalised and a revised table will accompany the final Budget Report 2015/16.

All figures at year-end £m	Actual 13/14	Estimate 14/15	Estimate 15/16	Estimate 16/17	Estimate 17/18
CFR	10.9	12.0	20.4	22.5	25.6
Less external borrowing	4.0	4.0	4.0	4.0	4.0
Internal borrowing	6.9	8.0	16.4	18.5	21.6
Useable reserves, receipts, contributions held	26.2	23.2	31.8	34.0	33.3
Working capital/other bal.	3.6	3.0	3.0	3.0	3.0
Estimated Investments	22.9	18.2	18.4	18.5	14.7

- 3.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable 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 expects to continue to rely 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. The table above shows that the Authority expects to comply with this recommendation during 2015/16.

4 Borrowing Strategy

- 4.1 The Council currently holds a £4m long-term Public Works Loan Board (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 2015 is expected to be £12m, and is forecast to rise to £20m by March 2016 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 The Council's borrowing strategy continues to address the key issue of present affordability without compromising the longer-term debt position. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. The Council has only so far borrowed externally following its first unfinanced 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 will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Councils' advisor Arlingclose will assist the Authority with the decision as to whether it will be advantageous to borrow additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. At the moment the analysis does not indicate that long term borrowing is advisable.
- 4.5 Before any borrowing the Director of Corporate Resources will consult the Council's advisors on its actual borrowing tactics. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except West Sussex County Council Pension Fund)
 - capital market bond investors
 - Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues.

- 4.6 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- operating and finance leases
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
- 4.7 The Authority has previously raised its long-term borrowing from the PWLB, 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.
- 4.8 The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a report to this Committee.
- 4.8 In addition to any long term borrowing, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.
- 4.9 Short-term and variable rate loans leave the Council 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.
- 4.10 **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 £21.0m and £42.3m, and although level of reserves is expected to reduce in the longer term there will still be significant short to medium-term cash flow surpluses leading 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 of 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.

Credit Rating	Banks Unsecured	Banks Secured	Government	Registered Providers
AAA	£2.5m 5 years	£4m 20 years	£4m 50 years	£4m 20 years
AA+	£2.5m 5 years	£4m 10 years	£4m 25 years	£4m 10 years
AA	£2.5m 4 years	£4m 5 years	£4m 15 years	£4m 10 years
AA-	£2.5m 3 years	£4m 4 years	£4m 10 years	£4m 10 years
A+	£2.5m 2 years	£4m 3 years	£4m 5 years	£4m 5 years
A	£2.5m 13 mons	£4m 2 years	£4m 5 years	£4m 5 years
A-	£2.5m 6 mons	£4m 13 months	£4m 5 years	£4m 5 years
BBB+	£2.5m 100 days	£2.5m 6 months	£4m 2 years	£2.5m 2 years
BBB or BBB-	£2.5m next day only	£2.5m 100 days	£2.5m 1 year	n/a
None	£1m 6 months	n/a	n/a	£2m 1 year
UK Govt	Central govt £unlimited 50 years Local Authority £4m 10 years			
Pooled funds	£5m per Money Market Fund			

- 5.4 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority’s current account bank NatWest plc which is currently rated at BBB+.

- 5.5 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
- 5.6 **Building Societies:** Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from the building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. A minimum asset size of £250m is used to avoid investment with very small societies.
- 5.7 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and UK local government up to £4m for up to 10 years. The use of foreign government bonds is an addition to the list this year.
- 5.8 **Pooled Funds - 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.
- 5.9 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. In previous years the Council stipulated a AAA-mf rating, however discussion with the Council's advisors have concluded that the rating adds little value as the funds are well diversified and will be vetted by the Council's advisors.
- 5.10 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

- 5.11 The categories for investment have been reviewed in consultation with Arlingclose in response to the post financial crisis environment. The emphasis has shifted from unsecured bank investments to other sectors and diversified investments. This adds the category of foreign sovereign debt.
- 5.12 Where banks are used the strategy makes a distinction between secured investments where a bank failure would be covered to a large extent. The rating acceptable for a secured bank investment is therefore lower than for an unsecured 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 Council's accounts into relevant schemes. The cash receipt for the Council's offices will also increase long term balances. The long term limit is therefore being raised to £8m.
- 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 advisors, 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 other than call 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 The Authority defines “high credit quality” organisations and securities 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. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.
- 5.22 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

- 5.23 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. A special category has been added for Money Market Funds to account for the possibility that regulatory change will lead to ratings no longer being used in the sector.

	Cash limit
Total long-term investments	£8m
Total investments without credit ratings or rated below A-	£20m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m
Total Money Market Funds should regulatory changes cause them to lose AAA rating	£20m
Total	£58m

Investment limits

- 5.24 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. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below:

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£10m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£8m in total
Money Market Funds	£20m in total

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 2015/16 will be an average credit rating of A-. Unrated investments will be assigned an equivalent rating, while pooled funds under external management will be excluded from the measure.

Liquidity benchmark

- 6.2 The liquidity benchmark for 2015/16 is a change to the previous benchmark of a weighted average life between 0.3 and 0.7 years as well as the maintenance of £0.5m overdraft facility. Instead the benchmark, following advice from Arlingclose, will be the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2015/16 the benchmark amount available is £3m.

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.

	2015/16	2016/17	2017/18
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:

	2015/16	2016/17	2017/18
Limit on investment over a year	£8m	£8m	£8m

7 Other Treasury Management issues

- 7.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives

- 7.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 7.3 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, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Treasury management advisors

- 7.5 The Council's treasury management advisor 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. 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. Some alternative strategies, with their financial and risk management implications, are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain

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 2015/16 is £0.249m, which equates to an average investment portfolio of £25m at an interest rate of 1%. The budget for debt interest paid in 2015/16 is £0.136m, based on a debt of £4m at an average interest rate of 3.38%.

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

23rd June 2015

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



**Horsham
District
Council**

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since March 2015.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since March 2015.

Reasons for Recommendations

- i) To comply with the requirements set out in the 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 March 2015.

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 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 Green Waste

OVERALL AUDIT OPINION: **FULL ASSURANCE**

The charging system for Green Waste collection was introduced in 2013/14 and the systems and interfaces were developed in-house. The cost of operating the charging system has been kept to a minimum. Individual customer accounts are well maintained and renewal processes operate smoothly with the minimum of officer intervention needed. Audit testing identified only a very few minor issues, and appropriate remedial action has been agreed.

3.2 Council Tax

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

There is a sound system of control in place for the collection and recording of Council Tax. The level of compliance within the areas tested was found to be good. A few weaknesses were identified relating to write-off submissions and declarations of interest, and actions have been agreed to further strengthen the control framework.

3.3 Business Rates (CenSus) **SUBSTANTIAL ASSURANCE** (*previously "Substantial Assurance"*)

Whilst there is basically a sound system of internal control in place, a few control weaknesses were identified. In particular, concerns were raised about the frequency of quality control checks. These are now being undertaken on a regular basis.

3.4 Treasury Management

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

The system of control is generally sound. The main area of concern related to a few lapses with internal procedures concerning the approval and checking of investment deals due to inadequate resources being available. It was agreed that officers would be reminded of the need to ensure deals are properly certified.

3.5 Creditors

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

The auditor was satisfied that there is a sound system for the processing creditor payments, including financial controls and maintenance of records. There are a few weaknesses that may place the Council at risk. These relate to non-order invoices and the need to review invoice summary reports. Appropriate remedial action is being explored and longer term solutions will be specified as part of the FMS (Financial Management System) implementation in 2017.

3.6 Payroll

OVERALL AUDIT OPINION: MODERATE ASSURANCE (*previously "Substantial Assurance"*)

- The auditor found that there were no formal checks to ensure that all payroll amendments sent by H.R. are received by the Payroll Controller for processing. This has resulted from a recent change to a long-standing control process. Remedial action has been agreed which will tighten up the procedure.
- The auditor identified some overtime claims and casual worker timesheets that had not been correctly authorised. In addition it was found that one manager had destroyed completed casual worker timesheets due to limited storage space in the new premises. A reminder will be issued to all relevant managers of the expected controls.

Agenda Item 12

- Following a move to a new electronic process, the reconciliations between the Payroll system (SAP) and the Council's Finance system (Total) were not being signed off by a senior officer. An auditable process has now been agreed that will provide evidence that the required checks have been undertaken.

3.7 Pest Control

OVERALL AUDIT OPINION: MODERATE ASSURANCE

Whilst the auditor found a number of areas that were being effectively controlled, control weaknesses were identified exposing the Council to risk in a number of areas. The main control weaknesses were as follows:

- It was identified that there hasn't been a proper stock check of poisons and chemicals at the Hop Oast pest control store since 2008. A stock take has now been undertaken and a formal control procedure will be introduced shortly.
- A serious issue was identified regarding the maintenance of one of the pest control vehicles. Appropriate remedial action was taken.
- It was identified that although COSHH assessments and general risk assessments have been undertaken, these are out of date and in need of review. Once completed, these will be held centrally.
- Site visit inspection forms are not always signed by both the customer and pest control officer. Furthermore, one pest control officer did not have a receipt book. Remedial action was agreed to rectify these shortcomings.

4. Audit Plan 2014/15 ~ Progress Update

85% of the audit plan has been achieved. More detail is contained in the Annual Audit Report.

5. Next Steps

5.1 Not applicable.

6. Outcome of Consultations

6.1 Not applicable.

7. Other Courses of Action Considered but Rejected

7.1 Not applicable

8. Staffing Consequences

8.1 There are no direct staff consequences.

9. Financial Consequences

9.1 There are no financial consequences.

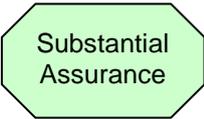
Appendix 1

Consequences of the Proposed Action

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

Appendix 2

Categorisation of Audit Opinions

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

Report to Accounts, Audit and Governance Committee

23rd June 2015

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



Horsham
District
Council

Annual Internal Audit Report 2014/15

Executive Summary

This report has been compiled to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards.
- Summarise the effectiveness of internal audit work.
- Summarise the work undertaken by Internal Audit during 2014/15 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.

Recommendations

- To note the statement of compliance with the Public Sector Internal Audit Standards.
- To note the performance of internal audit against performance targets.
- To note the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems.

Reasons for Recommendations

- To comply with the requirements set out in the Public Sector Internal Auditing Standards 2013.
- The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers: Internal Audit Reports and Quality Assurance and Improvement Programme self assessment document.

Consultation: N/A

Wards affected: All

Contact: Paul Miller, Chief Internal Auditor, Ext 5319

Background Information

1. Introduction

1.1 Purpose of Report

The main purposes of the report are to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance improvement programme.
- Comment on the performance of the Internal Audit Section during the year.
- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

It should be emphasised that internal audit work can provide reasonable, not absolute, assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based primarily on the audit work undertaken.

1.2 Quarterly Reports

The Accounts, Audit and Governance Committee receives quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

1.3 Strategic Audit Plan

The Internal Audit Team works to a four year strategic audit plan, prepared by the Chief Internal Auditor, and aims to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan was developed using a risk-based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or that are considered to be high risk, are normally reviewed on an annual basis.

1.4 Staffing

During 2014/15, the audit team operated with 3.6 members of staff (three full time employees and one part-time). All auditors have the requisite experience to effectively fulfil their responsibilities, and three members of staff are professionally qualified.

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 standards set out in the Public Sector Internal Audit Standards 2013.

Relevant Council Policy

- 2.3 The Council's Constitution supports the statutory requirements outlined above. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the results of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

3. Compliance with the Public Sector Internal Audit Standards

The Council’s Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1st April 2013.

The standards require the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report. There are a few areas of non-conformance which are detailed in Appendix 4. The only significant issue relates to the requirement for the internal audit function to be reviewed by an external organisation on at least a five yearly basis. A programme of reviews has been agreed between the heads of Internal Audit throughout Sussex which will be undertaken during 2016/17.

The Internal Audit Team has maintained its independence throughout 2014/15 in accordance with the Audit Charter.

4. Effectiveness of Internal Audit

4.1 Performance against the Annual Internal Audit Plan

The Internal Audit team uses a risk based approach when determining the annual audit plan and undertaking audit assignments. In order to respond to new risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken.

During the year, 85% of audits were completed against a target of 85%. A summary is given below:

	<u>No. of Audits</u>
Original Audit Plan	39
(Less) audits not completed	<u>(6)</u>
	<u>33</u>

Reviews of the following areas were not undertaken:

- Backup and Recovery (c/f to 2015/16 audit plan)
- Data Access Management (c/f to 2015/16 audit plan)
- Performance Management (c/f to 2015/16 audit plan)
- Declarations of Interest (c/f to 2015/16 audit plan)
- Elections (will be subject to a post implementation review)
- Development Action Plan (work undertaken by the Scrutiny Committee)

The following pieces of work were also undertaken:

Asset Management	System testing (b/f from 2013/14)
Special Investigation	Missing laptop computers
Special Investigation	Fuel theft
Audit review	Car Park Cloud Tablets
Housing Benefit Subsidy	Testing on behalf of Ernst & Young
New Financial System	Involvement in project work
Office Sweeps (old buildings)	Checks for confidential information

4.2 Implementation of agreed actions within the agreed timescale

The percentage of agreed action items implemented is one of the measures used to demonstrate the effectiveness of the section, although the actual implementation of agreed actions is a management responsibility. This area has continued to improve. From a review of 175 agreed actions for 2013/14, 165 have been implemented (94%). Details continue to be reported to the Accounts, Audit & Governance Committee who monitor progress on a quarterly basis.

4.3 Reporting

“Draft” audit reports and working papers are subject to a quality review undertaken by the Chief Internal Auditor before the final report is issued. There is a performance indicator which measures the percentage of audit reports issued within 15 days of the final audit meeting. The target for 2014/15 was set at 85%, and 95% has been achieved. The average timescale for all reports issued was 8 days.

A new performance indicator was introduced in 2014/15 to measure the number of days between receiving the points arising from the auditor (for review) and issuing the points arising. The standard set is to issue points arising within 15 days. The target for 2014/15 was 85%, and 89% was achieved. The average timescale was 11.5 days.

4.4 Management Feedback

On completion of each audit assignment, the Chief Internal Auditor consults management formally as to their opinion on the approach and value of the audit work. 12 replies were received, expressing 120 constituent opinions, and these are summarised as follows:

<u>Opinion</u>	<u>2014/15</u>
Very Satisfied	83
Satisfied	37
Unsatisfied	0

The percentage of “very satisfied” and “satisfied” responses achieved was 100% against a target of 95%.

5. Opinion on the Control Environment

5.1 This section of the report draws attention to any issues the Chief Internal Auditor considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.

5.2 The overall opinion is that “**Substantial**” assurance can be given that there is generally a sound system of internal control designed to meet the Council’s objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year. The number of outstanding agreed action items from audit follow ups has also been taken into account.

Assurance Areas:	
Governance	<p>The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice.</p> <p>Following a management restructure, a number of new service managers have been appointed and a programme of induction training has been rolled out. Corporate communications have been improved, particularly with the introduction of directorate meetings. The relocation of all staff to Parkside will provide opportunities to improve the working culture of the organisation.</p>
Risk Management	<p>The Council's risk registers have been converted onto a 5x5 matrix, and external consultants were subsequently appointed to review the Council's risk management arrangements. The Corporate Risk Register has been completely reviewed via facilitated workshops and new risks have been added. The risk escalation process has also been improved.</p>
Internal Control	<p>There are no significant weaknesses to report which haven't been previously identified. A number of key control weaknesses were identified during the year, but remedial action has been taken on a timely basis in accordance with the Council's risk management strategy. Key control weaknesses were identified in the following audits (Section 106, BACS, Pensions Auto Enrolment, Pest Control, and special investigations into fuel theft and missing laptop computers).</p> <p>The table of internal audit assurance opinions, in Appendix 2, shows the balance of substantial and moderate audit opinions from individual audit reports. Where significant control weaknesses have been identified when undertaking audit assignments, remedial action is programmed (where possible) to be implemented within three months. This is in accordance with the Council's risk appetite as stated in the Risk Management Strategy.</p>

5.3 Qualification to the Opinion

The audit opinion is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and controls relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2014/15. Opinions

for individual audits are detailed in Appendix 2 of this report, and definitions of the opinions can be found in Appendix 3 of this report.

6. Next Steps

Not applicable.

7. Outcome of Consultations

Not applicable.

8. Other Courses of Action Considered but Rejected

Not applicable.

9. Staffing Consequences

There are no direct staffing consequences.

10. Financial Consequences

There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

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

Appendix 2

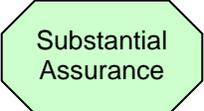
AUDITS	INTERNAL AUDIT ASSURANCE OPINIONS			
	FULL	SUBSTANTIAL	MODERATE	NONE
Cemeteries		✓		
Sickness Absence		✓		
Fees and Charges		✓		
Training			✓	
Contract Management			✓	
Section 106			✓	
Housing Rent Management		✓		
BACS			✓	
Health and Safety			✓	
Debtors		✓		
Cash & Bank		✓		
Pensions Auto Enrolment		✓		
Council Tax		✓		
Members Allowances		✓		
Risk Management		✓		
Treasury Management		✓		
Pest Control			✓	
Creditors		✓		
NNDR		✓		
Green Waste	✓			
Payroll			✓	
Housing Benefits <i>Note*¹</i>				

Note: Internal audit at Horsham audited the Council Tax system on behalf of Horsham, Mid Sussex and Adur District Councils (the CenSus Partnership). The opinions for Council Tax and NNDR have been provided by the Internal Audit teams working on behalf of Mid Sussex District Council and Adur District Council respectively, and reliance has been placed on this work.

¹ The Housing Benefits audit is being undertaken by Mazars (the internal auditors used by Adur/Worthing). The audit has not yet been completed and therefore it has not been possible to record an audit opinion.

Appendix 3

Categorisation of Audit Opinions

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

Appendix 4

PSIAS Quality Assurance & Improvement Plan ~ Results of Self Assessment

Standard	Requirement	Explanation / Actions
1110	<p>Organisational Independence</p> <p>The Chief Internal Auditor (CIA) should report “functionally” to the Board.</p>	<p>At Horsham, the CIA reports functionally to the Accounts, Audit and Governance Committee which is responsible for:</p> <ul style="list-style-type: none"> • Reviewing and approving the Internal Audit Charter. • Reviewing and approving the Internal Audit Strategy. • Reviewing and approving the Annual Internal Audit Plan. • Receiving communications from the Chief Internal Auditor on the Internal Audit activity’s performance relative to its plan and other matters. • Making appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impedes the ability of the internal audit activity to execute its responsibilities. <p>As stated in the Internal Audit Charter, full Council is responsible for the following:-</p> <ul style="list-style-type: none"> • Approving the internal audit budget. • Approving decisions regarding the appointment and removal of the Chief Internal Auditor. • Approving the remuneration of the Chief Internal Auditor. <p>The Director of Corporate Resources is responsible for approving the resource plan.</p>
1312	<p>External Assessments</p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the Board.</p>	<p>A cost-effective, collaborative arrangement for external reviews has been agreed amongst local heads of audit within Sussex. Further information will be provided in the next quarterly update report in September.</p>

Agenda Item 13

<p>1321</p>	<p>Use of “Conforms to the International Standards for the Professional Practice of Internal Auditing”.</p> <p>The Chief Internal Auditor may only state that internal audit activity “conforms” if the results of the Quality Assurance and Improvement Programme (QAIP) support this statement.</p>	<p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p>
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Report to Accounts Audit & Governance Committee

Date of Meeting: 23rd June 2015

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Horsham
District
Council

“Draft” Annual Governance Statement 2014/15

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2014/15. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

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

Recommendations

- i) The Committee is asked to consider the “draft” Annual Governance Statement for 2014/15 so that comments can be incorporated prior to the formal approval of the statement. This will take place with the Statutory Financial Statements at the September meeting of this Committee.

Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by Members of the Accounts, Audit and Governance Committee.

Background Papers: Supporting evidence and Annual Internal Audit Report

Consultation: The Senior Leadership Team, Monitoring Officer, Head of Community & Culture, Head of Finance, Human Resources & Organisational Development Manager, and Performance Manager.

Wards affected: All

Contact: Paul Miller

Background Information

1 Introduction

- 1.1 The Accounts and Audit (England) Regulations 2011 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.

Background/Actions taken to date

- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.
- 1.3 The Accounts Audit and Governance Committee is asked to consider the “draft” Statement to enable their comments to be incorporated prior to the formal approval of the statement. This will take place with the Statutory Financial Statements at the September meeting of this Committee.

2 Statutory and Policy Background

Statutory background

- 2.1 Regulation 4 of The Accounts and Audit (England) Regulations 2011 requires that:-
- 4(1) the Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council’s functions and which includes arrangements for the management of risk; and
 - 4(2) the Council shall conduct a review at least once in a year of the effectiveness of its system of internal control; and
 - 4(3) a) the findings of the review must be considered by the Members of the Council meeting as a whole or by a committee
b) following the review the body or committee must approve an Annual Governance Statement prepared in accordance with proper practices in relation to internal control; and
 - 4(4) the Annual Governance Statement shall accompany the Statement of Accounts.
- 2.2 In 2007 CIPFA/SOLACE published a framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update to the original Framework and follows the six core principles of good governance outlined in the Good Governance Standard for Public Services (2004) which was developed by the Commission on Good Governance in Public Services. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remains “fit for purpose”. The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

3 Details

3.1 The Annual Governance Statement for 2014/15 is attached in Appendix 2.

4 Next Steps

4.1 The Committee is asked to review, note and comment on the Annual Governance Statement. The final version of the document will be presented to the September meeting for approval.

5 Outcome of Consultations

5.1 A number of key officers have been consulted (see front page of this report) and comments have been incorporated into the Annual Governance Statement.

6 Other Courses of Action Considered but Rejected

6.1 None.

7 Staffing Consequences

7.1 There are no direct staffing consequences arising from this report.

8 Financial Consequences

8.1 There are no direct financial considerations arising from this report.

Appendix 1

Consequences of the Proposed Action

<p>What are the risks associated with the proposal?</p> <p>Risk Assessment attached Yes/No</p>	<p>There are no risks associated with this proposal.</p>
<p>How will the proposal help to reduce Crime and Disorder?</p>	<p>There is not impact on Crime and Disorder</p>
<p>How will the proposal help to promote Human Rights?</p>	<p>There is no impact on Human Rights</p>
<p>What is the impact of the proposal on Equality and Diversity?</p> <p>Equalities Impact Assessment attached Yes/No/Not relevant</p>	<p>There is no impact on Equality and Diversity</p>
<p>How will the proposal help to promote Sustainability?</p>	<p>This report has no effect on sustainability.</p>



**Horsham
District
Council**

**Horsham District Council
Annual Governance Statement 2014-15**

1. SCOPE OF RESPONSIBILITY

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law, regulations and proper standards, and that public money is safeguarded from waste, extravagance or misappropriation. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the exercise of its responsibilities.

In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, and include arrangements for the management of risk.

Horsham District Council has approved and adopted a Local Code of Corporate Governance (11th December 2013) which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. The Local Code of Corporate Governance is included within Part 5F of the Constitution. A copy of the Local Code is available on our website or can be obtained from Council offices. This statement explains how Horsham District Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) regulations 2011 regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Horsham District Council's policy aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Horsham District Council for the year ended 31 March 2015 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2014/15 financial year.

3. THE GOVERNANCE FRAMEWORK

The Council's Governance Framework encompasses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The structures and processes, risk management and other internal control systems are in place to monitor and manage the delivery of the Council's aims and objectives:

The core principles of the Council's Governance Framework are set out below:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of Members and officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust accountability.

4. VISION AND OBJECTIVES

The Council published the last District Plan In February 2011. It covers the period 2011-2015. The District Plan outlines the Council's vision, aims and objectives and is aligned to the Corporate Governance Framework.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's District Plan for Horsham 2011–2015 which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. The District Plan sets out the Council's vision for working in partnership over the longer term and is formally reviewed and updated each year. An interim District Plan is in place to cover the period from April 2015 to end September 2015 until implementation of a new District Plan to run from October 2015 to 2019.
- The District Plan is available to local people on paper or on the Council's website.
- The District Plan is supported by the Medium Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and service plans are developed annually to support the delivery of the District Plan. They explain in detail how each department contributes to the delivery of the overall aims and objectives of the District Plan.
- The Council's Performance Management Framework includes key performance indicators associated with the District Plan. Performance on a basket of key corporate indicators against targets is reported to the Senior Leadership Team, the Cabinet Portfolio Holders and to the Scrutiny and Overview Committee. The results of the performance against target for each

indicator are published on the Council's website in the Performance Indicator End of Year Report. Explanations for poor performance have to be provided by the responsible manager. This process helps to ensure that performance statements and other published information is accurate and reliable.

- The Council's Annual Performance Report, which is published on the Council's website, provides an annual summary of the year's progress against the stated District Plan priorities.
- Every report submitted to the Cabinet or regulatory committee must outline how the recommended action helps to achieve one or more of the District Plan priorities.

5. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers, and the Scheme of Delegation is periodically reviewed. The Constitution also includes a Member/Officer Protocol. During 2013/14 the Council re-organised its management structure as part of its transformation programme in order to ensure that the authority has the right skill sets at the right levels within the organisation.

The Leader, Cabinet Members, and Chairmen and Vice Chairmen of standing committees receive briefings from senior management on a regular basis and Members receive training as part of the induction process.

A number of Cabinet advisory groups meet periodically on significant areas of business to ensure there is engagement with back bench Councillors on strategic direction.

An "away day" for Members and senior officers took place on the 29th January 2015 which was run by external consultants. The theme for the day was "Leading Together", and part of the focus was improving working relations and understanding the differing perspectives of officers, Members and other stakeholders.

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits and ICT services are delivered by the CenSus (**Central Sussex**) Partnership. The Council also engages in local community development work with other local public bodies.

6. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The organisation has developed with its staff core values of 'customer focus', 'achieving excellence' and 'our people' (working together, investing in people, training and encouraging responsibility). Desired behaviours are set out in the staff and manager's capabilities which form part of the annual appraisal.

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities.

The Council has the following policies and procedures in place which aim to prevent or deal with any instances of fraud, dishonesty or malpractice.

- Anti-fraud and Corruption policy
- Confidential Reporting Code
- HR Disciplinary Policies

- Council's Equality Scheme
- Information Security Policies

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. Member's Registers are available on the Council's website. Members are asked to review their registers annually. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has also appointed an Independent Person in accordance with the Localism Act 2011.

7. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

The Council's Constitution sets out how the Council operates and the process for policy and decision making.

The Council's Risk Management arrangements are reviewed for effectiveness by the Accounts Audit and Governance Committee to ensure the process is embedded in the culture of the authority. All major projects incorporate a full risk assessment prior to commencement and at key decision points.

All service managers are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.

Internal Audit provides an opinion on the effectiveness of the risk management framework annually in the end of year report published in June.

8. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

There are training opportunities for new officers. Training programmes for Council employees are identified from regular 1-2-1s, team meetings, staff appraisals and personal development programmes.

New Members to the Council receive induction training, which includes the Constitution, decision-making processes and the Council's Code of Members' Conduct. There is also ongoing training covering specific issues in a variety of areas.

Members of the Council have recently received a survey covering a range of issues including inductions, training, information and support. Responses have been largely positive. However, significant comments were made about a lack of information and this is being addressed via induction and ongoing training.

9. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council conducts a wide range of service specific surveys to ascertain the views and needs of its residents. A priority within the District Plan is "the customer is at the heart of what we do" and a key element of that priority is to consult residents, businesses and staff, all of whom regularly provide feedback. The Council has conducted Residents' Surveys in the Autumn of 2011 and 2013 using the Horsham District News magazine which goes to every home in the District as a means of

disseminating the survey, supported by various measures to encourage participation. Survey analysis is used as a resource to inform the Council when setting and reviewing policies and reinforcing priorities for the District Plan. The results of the 2013 Resident's Survey will inform the District Plan for 2015-2019.

The Council has a Community Engagement Strategy and works hard to communicate (and to receive feedback on) its aims for the District. The Council considers the views of a number of focus groups including the Youth Panel, 'HYPER', the Senior Persons' Council, and the Access Forum. Additionally it consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). Finally, it is a leading partner within the Community Safety and Health and Wellbeing Partnerships within which all partners (NHS, Clinical Commissioners, GPs, Police, County Council, etc) share feedback from their own stakeholder consultation.

These groups help the Council to assess the priorities of different sections of the community that have different needs. A wide range of service specific surveys are conducted to ascertain the views and needs of residents, particularly in areas such as Think Family Neighbourhoods where resources are being targeted. Compliments and complaints received are monitored and a quarterly report is submitted to the Finance and Performance Working Group.

10. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in Appendix 3.

11. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

Horsham District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment. Independent assurance is provided in the Chief Internal Auditor's annual audit opinion, and also comments are made by external auditors, review agencies and inspectorates.

Mechanisms for maintaining and reviewing the effectiveness of the Council's governance arrangements throughout the year include:

- The Council comprises 44 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the District Plan.
- The Cabinet is responsible for considering overall financial and performance management. Budget Monitoring Reports are received on a quarterly basis.
- The Scrutiny and Overview Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Accounts, Audit and Governance Committee meets quarterly to review the Council's risk management arrangements and reports prepared by the Chief

Internal Auditor on the control environment. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.

- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
- An annual audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Internal Audit team to respond to changing risks and priorities of the organisation.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully.
- The Council's internal management processes are reviewed regularly and any changes are communicated through staff development sessions and any management training that is undertaken.

12. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2014/15:

- A new asset management system (Elf) has been purchased and is due to be fully implemented by September 2015 which will improve management information used for decision-making.
- Reports to the quarterly meetings of the Finance and Performance Working Group have been revised to show financial and performance information together for each of the Council's service areas with a commentary by each of the Council's Service Managers. This has been well received by Members, enabling better Member understanding of corporate performance
- The Council's Contract Standing Orders and Procurement Code have been updated to reflect the new EU Procurement Regulations.
- The office move from Park North to Parkside will reduce the Council's running costs and provides an opportunity to improve the working culture of the organisation
- The Council's risk registers have been converted from a 3x3 matrix to a 5x5 model. Consultants have been employed to provide an independent health check of the Council's risk management arrangements, and areas for improvement have been identified which form part of a new action plan. New service plans have been developed by all service managers following the management restructure.
- A complete review of performance indicators has been undertaken to ensure that these are meaningful and useful in helping services to achieve their objectives.
- Service Managers have been provided with training in budget forecasting and are required to approve monthly outturn forecasts for their departments.
- The Council's complaints process has been reviewed and revised for the purpose of improving speed of response and making efficiency savings.

13. SIGNIFICANT GOVERNANCE ISSUES

The 2013/14 Annual Governance Statement included an Action plan for 2014/15. Progress against the risks identified is reported in Appendix 4.

New significant governance issues are reported to the Accounts, Audit and Governance Committee. At the current time no significant governance issues have been identified but a number of recommendations for improvement are set out in Appendix 5.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council.

Signed

.....

Leader of the Council

on behalf of the Members and senior officers of the Council.

.....

Chief Executive

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

- a) The Council will exercise strategic leadership by developing and clearly communicating our purpose and vision and the intended outcome for citizens and service users.
- b) The Council will ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning.
- c) The Council will ensure that we make best use of resources and that tax payers and service users receive excellent value for money.

The Council's District Plan for 2011/15 consists of six key areas covering:

- Economic Development: Plan for a successful local economy with high levels of employment.
- Efficiency and Taxation: Delivering excellent value and high performance.
- Arts, Heritage and Leisure: Build an arts, leisure and culture reputation that also supports our economy.
- Living, Working Communities: Working together to support the life of local communities.
- Environment: A better environment for today and tomorrow.
- Safer and Healthier: Improving health and well-being.

Annual Departmental Service Plans are derived from the aims and objectives set out in the District Plan.

The Council has a Medium Term Financial Strategy which links the Council's finances to the Corporate priorities and sets out the strategic financial policies, a medium term financial forecast and budget guidelines for the forthcoming year.

The Council's Budget, which is developed from the Medium Term Financial Strategy, is approved annually to provide appropriate resources to enable the achievement of the Council's District Plan.

The Council has a performance management framework to monitor progress against the Council's aims and objectives. This includes a set of Performance Indicators which are monitored regularly by officers and Members.

The Council publishes an Annual Report which provides an update on progress being made against Council aims and objectives. This is published on the Council's website.

A resident's survey was undertaken in 2011 which was used to develop the aims and objectives of the 2011/15 District Plan.

The Residents Survey undertaken in 2013/14 will assist in the development of the new District Plan for the period October 2015 to April 2019 which is currently under development.

The Council's Corporate Procurement Strategy and Procurement Code ensure that value for money is achieved when money is spent.

The Council has a formal complaints procedure which is published on its website or is accessible from the Council offices. It encourages residents to contact the Council and feedback is welcomed. Quarterly reports summarising complaints and compliments are submitted to the Finance and Performance Working Group (a working group of the Scrutiny and Overview Committee). This has been reviewed and revised for 2015 for the purpose of improving speed of response and making efficiency savings.

<p>2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.</p> <p>a) The Council will ensure effective leadership throughout the authority and be clear about Executive and non-Executive functions and of the roles and responsibilities of the Scrutiny function.</p> <p>b) The Council will ensure that a constructive working relationship exists between Council Members and officers and that the responsibilities of Members and officers are carried out to a high standard.</p> <p>c) The Council will ensure that our relationships with our partners and the public are clear so that each knows what to expect from each other.</p>
<p>The Council's Constitution sets out how the Council operates, how decisions are made and which Codes of Conduct are followed.</p> <p>Member roles are set out in Part 2 of the Council's Constitution.</p> <p>The Constitution includes a Member / Officer protocol which is contained in Part 5G.</p> <p>The Constitution is published on the Council's website.</p>
<p>The Council has rules which officers are expected to comply with, for example, Financial Regulations, Contract Standing Orders and the Procurement Code which are included in the Constitution.</p>
<p>The Chief Executive is responsible and accountable to the authority for all aspects of operational management.</p>
<p>The Council has a Monitoring Officer to fulfil those duties specified by legislation, to report on any contraventions of any enactment or rule of law and to advise on the probity and policy framework (as set out in the Constitution).</p>
<p>The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.</p>
<p>The Council has a Performance Management Framework which reports on a set of key Performance Indicators to officers and Members.</p>
<p>Partnership agreements are in place for each of the Council's strategic partnerships setting out the partnership principles and objectives, roles and responsibilities and setting out clear accountability for proper financial administration.</p> <p>The Council's Constitution includes a Partnership Protocol (section 5H).</p>
<p>3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.</p> <p>a) The Council will ensure that Members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.</p> <p>b) The Council will ensure that organisational values are put into practice and are effective.</p>
<p>Member and Officer Codes of Conduct which are included in the Constitution set out the values and behaviours that the Council expects Members and officers to adopt. These have been revised to fulfil the requirements of the Localism Act 2011.</p>
<p>The Constitution includes Rules of Procedure governing the meetings of the Council. These describe the expected conduct at meetings.</p>
<p>The Council has an Anti-Fraud and Corruption Policy designed to encourage the prevention and promote the detection of fraud.</p>

Member and Officer Registers of Interest, Gifts and Hospitality are maintained to safeguard both Members and officers against conflicts of interest.
The Standards Committee has put in place arrangements to consider complaints or allegations made against Councillors, as required by the Localism Act 2011.
Core competences have been defined for officers. The Council has a performance appraisal process in place which ensures officers are monitored against these.
Member and officer training sets out the standards of behaviour expected.
The Council has a Confidential Reporting Code (Whistleblowing Policy) in place which forms part of the Officer Code of Conduct.
<p>4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.</p> <p>a) The Council will be rigorous and transparent about how decisions are taken and listen and act on the outcome of constructive scrutiny.</p> <p>b) The Council will use good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.</p> <p>c) The Council will ensure that an effective risk management system is in place.</p> <p>d) The Council will use its legal powers to the full benefit of its citizens and communities in their area.</p>
The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
The Council has a Scrutiny and Overview Committee which reviews the Council's decision making processes and monitors the internal and external delivery of services.
The Agendas and minutes of the committee are published on the Council's website and contain evidence of improvements resulting from reviews undertaken.
The Council's Constitution sets out decision making protocols. Decisions are recorded in Council/Committee minutes together with details of any professional advice sought.
An effective Internal Audit section is maintained which reports to the Accounts, Audit and Governance committee. The Chief Internal Auditor is a fully qualified member of the Chartered Institute of Internal Auditors and follows the Public Sector Internal Audit Standards. One of the key roles of Internal Audit is to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to Members.
The Accounts, Audit and Governance Committee meets quarterly and reviews the effectiveness of the control environment and risk management framework. The committee reviews reports from the Chief Internal Auditor at each meeting presenting the outcomes of his work programme and highlighting any areas of concern.
There are formal procedures for dealing with complaints. Details are available on the Council's website.
The Council's Chief Finance Officer (S 151 Officer) complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
On an annual basis the Council publishes the Annual Statement of Accounts which is audited by the Council's external auditors, Ernst & Young LLP and is approved by the Accounts, Audit and Governance Committee.
The Council has a Risk Management Strategy which was formally adopted in April 2012 and is reviewed and updated on a regular basis.

The Council's Senior Leadership Team reviews the Corporate Risk Register and a quarterly report is also submitted to the Accounts, Audit and Governance Committee.
The Council's Monitoring Officer is responsible for advising the Council if any proposal would give rise to unlawfulness or maladministration. This is a key function in ensuring lawfulness and fairness in the operation of the Council's decision making process. Committee reports are reviewed by the Council's senior lawyers to identify potential problems. There is also legal involvement in report development and legal advisors are present at decision making committees, as and when required.
The Council has a Confidential Reporting Code (Whistleblowing Policy) in place which forms part of the Officer Code of Conduct.
5. Developing the capacity and capability of Members and officers to be effective.
<ul style="list-style-type: none"> a) The Council will make sure that Members and officers have the skills, knowledge, experience and resources they need to perform well in their roles. b) The Council will develop the capability of people with governance responsibilities and evaluate their performance, as individuals and as a group. c) The Council will encourage new talent for membership of the authority so that the best use can be made of individuals' skills and resources in balancing continuity and renewal.
An Induction Programme is in place for both Members and employees.
Officers are provided with the training required for them to perform their roles effectively. Training needs are identified through the Council's Performance Development Appraisal system.
Role profiles set out officer roles and responsibilities for all posts. These are reviewed and updated annually as part of the staff appraisal process.
The Officer Performance Review system ensures appraisals are undertaken annually for all staff. Staff development plans are reviewed and updated as part of this process.
The Standards Committee deals with issues relating to Member performance.
The Council offers a number of opportunities as part of the National Apprenticeship Programme. Those who take part gain valuable experience and a nationally recognised qualification.
The Council organises Manager's conferences enabling managers to meet to consider current issues affecting the Council and work together to identify solutions.
6. Engaging with local people and other stakeholders to ensure robust accountability.
<ul style="list-style-type: none"> b) The Council will exercise leadership through a robust Scrutiny function, which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships. c) The Council will take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service. d) The Council will make best use of human resources by taking an active and planned approach to meet responsibilities to staff.
The Constitution sets out how the Council operates, how decisions are made and

the procedures and codes of conduct that are followed.
The Council has a Scrutiny and Overview Committee which reviews the Council's decision making processes and monitors the internal and external delivery of services.
The Accounts, Audit and Governance Committee is independent of Cabinet and Scrutiny functions. It received reports on the work of Internal and External Audit and Risk Management.
The Council undertakes a Residents Survey every three years which informs the development of the District Plan.
The Council supports local communities who produce their own Neighbourhood Plans providing a vision for their area.
The Council engages with the public in a number of public consultations. These are publicised on the Council's website and the feedback informs the Council's decision making process.
The majority of the Council's meetings are open to the public. Agendas, papers and minutes are published on the Council's website.
The Council facilitates a number of focus groups (the Youth Panel, Older People's Panel, Access Group) which provide feedback on issues concerning these groups.
The Council communicates with staff by means of regular information cascade meetings organised by the Senior Leadership Team; director's meetings; team meetings; Chief Executive Talks; and update messages on the Staff Intranet.
The Performance Appraisal system provides opportunities to review employee performance and consider personal development needs in relation to the employee's role.

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2014/15

No.	Area for Improvement	Actions	Responsible Officer	Outcomes
1.	The Constitution needs to be updated to take account of the new management structure.	The Constitution is currently being reviewed by the Legal Services Department.	Director of Corporate Resources	Document is ready for approval, but a further review is now required following the District Election in May 2015.
2.	Member and Officer registers of Interests are completed in paper format. Electronic forms should be developed to enable information to be recorded and collated more efficiently.	On line forms will be developed for the Registers of Interests.	Director of Corporate Resources	Electronic forms have been developed and are now in use.
3.	Members' allowances should be reviewed by an Independent Remuneration Panel.	An Independent Remuneration Panel should be recruited to carry out the review.	Chief Executive	The Remuneration Panel has met and recommendations will be presented to full Council.
4.	Methods of staff communications with the public are in need of review (for example, use of social media).	The Council's Communications Strategy will be reviewed and amended as appropriate.	Chief Executive	Actioned. This will form part of Member induction training.
5.	The Council's Anti-Fraud and Corruption Policy is overdue for review.	The Anti-Fraud and Corruption Policy will be reviewed and updated.	Director of Corporate Resources	The Policy has been reviewed and updated.

6.	The quality of reports to Council, Cabinet and Committees should be reviewed.	<p>(i) Alternative courses of action will be given greater consideration where appropriate.</p> <p>(ii) The consultation process will be reviewed and improved to ensure that appropriate officers and Members have an input prior to reports being submitted to Council / Committee.</p>	Senior Leadership Team	Training has been provided to officers to improve the quality of reports. The Chief Executive has emailed all service managers reminding them of the importance of proper consultation and timely reporting. Forward planning has improved, but requires further continuous improvement.
7.	Engagement with local people / parishes could be improved.	The method and frequency of engaging with local people/parishes will be reviewed and areas for improvement will be identified and implemented.	Senior Leadership Team	We will be reviewing our liaison with parishes and community engagement as a whole. An action plan will then be developed.
8.	The service planning process should consider how the service can deliver the Council's Corporate / District Plan.	When developing service plans for 2015/16, consideration will be given to how each service can help deliver the District Plan.	Senior Leadership Team	Completed.

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2015/16

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1.	<u>Assurance Framework.</u> Second and third line assurance defence levels need to be identified so that these can feed into the Council's Annual Governance Statement for 2015/16.	A formal assurance framework will be developed.	Katharine Eberhart / Paul Miller	31 st December 2015
2.	<u>Constitution.</u> The Council's Constitution is currently based on the 2000 model and needs to be re-written. This will improve the Council's governance arrangements and will help to improve engagement with Members.	The Council's Constitution will be re-written in consultation with Members and senior officers.	Paul Cummins	31 st March 2016
3.	<u>Values / Behaviours</u>	The behaviour framework will be further developed to match all of the organisation's values.	Robert Laban	31 st March 2016
4.	<u>Health and Safety</u>	Agreed actions following an internal audit review of health & safety will be implemented by the end of the financial year.	Chief Executive	31 st March 2016

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

23rd June 2015

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



**Horsham
District
Council**

Risk Management – Quarterly Update Report

Executive Summary

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

Recommendations

The Committee is recommended to:

- 1) Note the contents of this report.

Reasons for Recommendations

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

Background Papers:	Management Information obtained from Covalent
Consultation:	The Senior Leadership Team, relevant Service Managers 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 Corporate Risk Register has been revised following a review undertaken by external consultants. The revised register is attached as Appendix 2.

Section 3.1 of this report details some actions designed to improve the risk management process, taking on board some of the consultant's recommendations.

2. Risk Management Update

2.1 Corporate Risk Register

At the beginning of the year, an independent review of risk management was undertaken by external consultants who raised some concerns regarding the 'application' of the process. The consultants were particularly concerned that there were potential gaps in the Council's Corporate Risk Register. They subsequently facilitated a series of workshops, attended by the Senior Leadership Team and service managers, and 6 new risks have been added.

2.2 Departmental Risk Registers

All 21 departmental risk registers have been reviewed and updated.

3. Next Steps

- 3.1 An action plan has been developed for the purpose of improving the risk management process which takes into account a number of the consultant's recommendations. The following actions will be undertaken:
 - All departmental risk registers will be reviewed to ensure that they include all relevant risks.
 - Control actions to mitigate risks will be reviewed using the 4Ts¹ 'decision tree' approach.
 - All amber and red risks identified on departmental risk registers will be escalated to the Senior Leadership Team. Where appropriate, these may be added to the Corporate Risk Register.

¹ The "4T"s is an acronym for **T**erminate, **T**ransfer, **T**reat and **T**olerate.

4. Outcome of Consultations

4.1 Not applicable.

5. Other Courses of Action Considered but Rejected

5.1 Not applicable.

6. Staffing Consequences

6.1 There are no direct staff consequences.

7. Financial Consequences

7.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

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

Statutory and Policy Background

Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk".
Relevant Government Policy / Professional Standards	Risk management is an essential element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements.
Relevant Council Policy	The Council's Risk Management Strategy 2012/15 has been published on the Council's Intranet. The Corporate Risk Register is managed by the Council's Senior Leadership Team, and each Service Manager 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.

APPENDIX 2

Corporate Risk Register June 2015

Generated on: 10 June 2015



Status Icons:
 = Completed
 = Assigned & in progress
 = Overdue

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01 Financial <u>Source:</u> The Council is reliant on Central Government funding (eg. New Homes Bonus). <u>Event:</u> Grant funding from Government is less generous than assumed in the MTFP.</p>	<ul style="list-style-type: none"> Reductions in funding Adverse effect on morale Financial losses Failure to achieve agreed objectives 	Katharine Eberhart	<p>Impact</p> <p>Likelihood</p>				<p>Impact</p> <p>Likelihood</p>	<p><u>June 2015 Update:</u> No change</p>
<p>CRR02 Managerial / Professional <u>Source:</u> The Council has a legal obligation to protect personal data. The Information Commissioner has the power to levy significant financial penalties up to £500k for data breaches. Some information held by the Council is politically / commercially sensitive, and it is important that such information is not leaked. <u>Event:</u> Major data breach or leak of sensitive information to a third party.</p>	<ul style="list-style-type: none"> People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Censure by regulators Adverse publicity Reputation damage 	Katharine Eberhart	<p>Impact</p> <p>Likelihood</p>	CRR.02.1 Develop processes & procedures which underpin the IT Security Policy	Katharine Eberhart		<p>Impact</p> <p>Likelihood</p>	<p><u>June 2015 Update:</u> Ongoing information security training will be provided.</p>
				CRR.02.2 Provide a programme of training on Information Security to all staff.	Katharine Eberhart			
				CRR.02.3 Annual PSN Accreditation	Katharine Eberhart			

APPENDIX 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR03 Legal <u>Source:</u> The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p><u>Event:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.</p>	<ul style="list-style-type: none"> People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Censure by regulators Reputation damaged 	Natalie Brahma-Pearl		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle			<p><u>June 2015 Update:</u></p> <p>CRR.03.1: This document is up for review in September and will include information collected from departmental BC plans and the new warm site arrangements at the Drill Hall. A completion date of September/October 2015 is planned and senior management will be informed and trained on new operating procedures.</p> <p>CRR.03.2: All part 1 departmental BC plans will be reviewed with managers and updated in July/August 2015. Information collected will influence IT disaster recovery procedures where possible.</p> <p>Part 2 response BC plans will be completed in line with new warm site arrangements and procedures.</p> <p>CRR.03.3 This was explored and not possible. As such a new warm site (Drill Hall) has been agreed by Census ICT and the Drill Hall is currently undergoing the necessary IT improvements to accommodate HDC BC requirements. It is anticipated that these works will be complete by August / September 2015.</p>
				CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle			
				CRR.03.3 Explore feasibility of reciprocal arrangements with other authorities (by 31/03/14)	Trevor Beadle			

APPENDIX 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR04 Political <u>Source:</u> There is currently a shortfall in the Five Year Land Supply. In the absence of an approved Planning Framework, planning application appeals may be lost.</p> <p><u>Event:</u> Developers are successful in appealing declined planning applications.</p>	<ul style="list-style-type: none"> Failure of business objectives Financial business loss Damage to reputation 	Chris Lyons		<p>CRR.04.01 Identify five year land supply via the Planning Development Framework (by 30/04/15)</p> <p>CRR.04.02 Continue to raise awareness with Members (Ongoing)</p> <p>CRR.04.03 Member training (Ongoing)</p>	<p>Barbara Childs</p> <p>Barbara Childs</p> <p>Barbara Childs</p>	<p>✓</p> <p>▶</p> <p>▶</p>		<p><u>June 2015 Update:</u></p> <p>The hearing date has been set for 3rd July 2015. It is anticipated that a report will be received between 4 and 6 weeks later.</p>
<p>CRR05 Governance <u>Source:</u> Managers are responsible for ensuring that controls to mitigate risks are consistently applied.</p> <p><u>Event:</u> Officers are either unaware of expected controls or do not comply with control procedures.</p>	<ul style="list-style-type: none"> Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation damage 	Katharine Eberhart		<p>CRR.05.1 Officer training</p> <p>CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process). (By 30/06/15).</p> <p>CRR.05.3 All Service Managers will be required to sign an Internal Control Statement. (By 30/06/15).</p>	<p>Katharine Eberhart</p> <p>Katharine Eberhart</p>	<p>✓</p> <p>▶</p> <p>▶</p>		<p><u>June 2015 Update:</u></p> <p>Service Managers will be signing their internal control statements.</p>
<p>CRR06 Physical <u>Source:</u> The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility</p>	<ul style="list-style-type: none"> People come to harm Complaints/claims/litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale 	Katharine Eberhart		<p>CRR.06.1 Set up a Health & Safety Forum with clear terms of reference.</p> <p>CRR.06.2 Develop and implement a corporate inspection strategy.</p>	<p>Robert Laban</p> <p>Robert Laban / Health & Safety</p>	<p>▶</p> <p>▶</p>		<p><u>June 2015 Update:</u></p> <p>A new Health and Safety adviser is due to commence employment at the end of June 2015. The appointment has taken longer than anticipated.</p>

APPENDIX 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
for H&S in some partner organisations where it does not have operational control. <u>Event:</u> A health & safety failure occurs.	. Stress and absenteeism				Officer			Control action deadlines need to be defined.
				CRR.06.3 Clarity of responsibilities and implementation of a training programme.	Robert Laban	▶		
				CRR.06.4 Implement a central repository for risk assessments.	Robert Laban / Health & Safety Officer	▶		
CRR07 Managerial / Professional <u>Source:</u> There is a lack of corporate consistency in terms of the way in which contracts are managed, and contract management is inadequate in some areas. <u>Event:</u> Failure of contract / poor service delivery / failure to achieve value for money.	. Failure of business objectives . Financial . Service delivery . Compliance with regulations . Personal Privacy Infringement . Reputation damage	Katharine Eberhart		CRR.07.1 Specific contract management guidelines will be developed. (By 30/09/15).	Mark Pritchard	▶		<u>June 2015 Update:</u> Deadlines extended. Training programme is under development.
CRR.07.2 A contract management training programme will be designed and implemented. (By 31/12/15).	Mark Pritchard			▶				
CRR08 Governance <u>Source:</u> The Council operates a Cabinet system with a series of advisory groups of backbenchers who feel disconnected from decision-making. <u>Event:</u> Delays in carrying decisions through advisory groups	. Member/officer tensions . Opportunities lost . Complaints / claims / litigation . Financial losses . Adverse effect on morale	Paul Cummins		CRR.08.1 The Council's Constitution will be updated using the 2011 template. (By March 2016).	Paul Cummins	▶		<u>June 2015 Update:</u> New risk. The Leader has committed to review the Constitution.
CRR09 Governance	. Member/officer tensions . Poor/ultra vires decisions	Tom Crowley		CRR.09.1 Member training	Chris Lyons	▶		<u>June 2015 Update:</u>

APPENDIX 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p><u>Source:</u> The Council's decision-making relies upon Members taking officer's professional advice.</p> <p><u>Event:</u> Members go against officer advice.</p>	<ul style="list-style-type: none"> Complaints/claims/litigation Financial losses Reputation damage Stress and absenteeism 			CRR.09.2 Officer training	Chris Lyons			New risk. Member induction training and quarterly Member training agreed for Planning.
				CRR.09.3 Member briefings to improve communications	Chris Lyons			
<p>CRR10 Managerial / Professional / Political</p> <p><u>Source:</u> The Council is generally risk averse.</p> <p><u>Event:</u> Ideas and proposals aren't progressed because of risk aversion.</p>	<ul style="list-style-type: none"> Missed opportunities Poor decisions 	Tom Crowley		CRR.10.1 Workshops with senior managers.	Katharine Eberhart			<p><u>June 2015 Update:</u></p> <p>New risk.</p>
				CRR.10.2 Risk matrix amended	SLT			
				CRR.10.3 Training for Members (ongoing)	SLT			
				CRR.10.4 Council report template to be enhanced	Paul Cummins			
<p>CRR11 Managerial / Professional</p> <p><u>Source:</u> The Council faces skills shortages in several disciplines and areas, has an over-reliance on interim and agency staff, has immature workforce strategy and succession planning, and operates in a competitive market in an affluent and expensive area.</p> <p><u>Event:</u> Failure to recruit and retain good staff.</p>	<ul style="list-style-type: none"> Failure to reduce reliance on interims/agency staff Stress and absenteeism Adverse effect on morale Increased costs/ financial losses Failure to improve Failure to achieve agreed objectives Failure to deliver statutory services 	Tom Crowley		CRR.11.1 Strategic outsourcing or commissioning.	SLT			<p><u>June 2015 Update:</u></p> <p>New risk. Actions CRR11.2 and CRR11.3 are associated with strategic workforce planning. Systems will be put in place by 31/3/16. The main areas of concern are Planning, Building Control and Environmental Health. Areas for use of apprentices need to be identified in consultation with service managers.</p>
				CRR.11.2 Undertake a skills audit and develop strategy to grow own people. (Systems to be put in place by 31/3/16).	Robert Laban			
				CRR.11.3 Employ apprentices / trainees. (Systems to be put in place by 31/3/16).	Robert Laban			
<p>CRR12 Partnership / Supplier / Contractual</p> <p><u>Source:</u> The Council is</p>	<ul style="list-style-type: none"> Financial losses Censure by audit / inspection Reputation damage 	Katharine Eberhart		CRR.12.1 Staff training	Mark Pritchard / Roger Dennis			<p><u>June 2015 Update:</u></p> <p>New risk. Training has been undertaken and procedures</p>

APPENDIX 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
subject to EU procurement rules and regulations, is putting more services out to tender, and contractors are increasingly challenging contract awards. <u>Event:</u> A contractor successfully challenges an award (eg on inflexible price:quality ratios).	. Adverse effect on morale			CRR.12.2 Up-to-date procedures	Mark Pritchard / Roger Dennis			have been updated (currently out to consultation).
				CRR.12.3 Reference to Procurement Team for advice	Mark Pritchard / Roger Dennis			
				CRR.12.4 Proactive monitoring by the Procurement Team	Mark Pritchard / Roger Dennis			
CRR13 Governance <u>Source:</u> Decisions are not always based on data. <u>Event:</u> Wrong decision made.	. Missed opportunities . Poor decisions . Poor VFM . Increased costs/financial losses	Tom Crowley		CRR.13.1 Improved business cases that contain critical data. CRR.13.2 Document decisions CRR.13.3 Member training	SLT SLT SLT	 		<u>June 2015 Update:</u> New risk.