Notice of Meeting

Audit & Governance Committee

Date & time
Monday, 16 February 2015 at **10.30 am**

Place
Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN

Contact
Cheryl Hardman
Room 122, County Hall
Tel 020 8541 9075

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Chief Executive
David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Members

Mr Nick Harrison (Chairman), Mr W D Barker OBE (Vice-Chairman), Mr Denis Fuller, Mr Tim Evans, Mr Will Forster and Mr Tim Hall

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader), Mr David Munro (Chairman of the County Council) and Mrs Sally Ann B Marks (Vice Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 1 DECEMBER 2014 (Pages 1 - 18)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*10 February 2015)*.
2. The deadline for public questions is seven days before the meeting (*9 February 2015)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER (Pages 19 - 38)

To review the Committee's recommendations tracker.

6 GRANT THORNTON: AUDIT & GOVERNANCE COMMITTEE UPDATE (Pages 39 - 62)

This paper provides the Audit & Governance Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments.

7 RISING TO THE CHALLENGE: THE EVOLUTION OF LOCAL GOVERNMENT (Pages 63 - 100)

To brief the Committee on the findings of Grant Thornton's most recent report on financial resilience in local government.

8 ASSURANCE MAPPING (Pages 101 - 108)

This report sets out the background and planned approach to Assurance Mapping.

9 COMPLETED INTERNAL AUDIT REPORTS (Pages 109 - 120)

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting of this Committee in December 2014.

10 LEADERSHIP RISK REGISTER (Pages 121 - 134)

The purpose of this report is to present the Leadership Risk Register as at 31 January 2015 and update the committee on any changes made since the last meeting to enable the committee to keep the council's strategic risks under review.

11 TREASURY MANAGEMENT 2015/16: BRIEFING (Pages 135 - 176)

The Treasury Management policy, strategy statement and prudential indicators report is required to be adequately scrutinised before being recommended to the full County Council. This briefing provides explanation as to the proposed changes to the 2015/16 Treasury Management Strategy.

12 AUDIT & GOVERNANCE COMMITTEE: ANNUAL REPORT 2014 (Pages 177 - 190)

For Members to consider and comment on the 2014 annual report of the Audit & Governance Committee.

13 STATUTORY RESPONSIBILITIES NETWORK (Pages 191 - 194)

The Audit & Governance Committee Effectiveness Review recommended that the committee develops a protocol for working with the newly established Statutory Responsibilities Network.

14 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 9 April 2015.

David McNulty
Chief Executive
Published: 5 February 2015

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 1 December 2014 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

Mr Nick Harrison (Chairman)
Mr W D Barker OBE (Vice-Chairman)
Mr Denis Fuller
Mr Tim Evans
Mr Will Forster
Mr Tim Hall

In Attendance

Cheryl Hardman, Regulatory Committee Manager
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Officer representative)
Sue Lewry-Jones, Chief Finance Officer
Verity Royle, Senior Principal Accountant – Management Accounting

129/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none from the committee but apologies for absence were received from the Cabinet Member for Business Services and the Director of Finance.

130/14 MINUTES OF THE PREVIOUS MEETING: 25 SEPTEMBER 2014 [Item 2]

The Minutes were approved as an accurate record of the meeting.

131/14 DECLARATIONS OF INTEREST [Item 3]

There were none.

132/14 QUESTIONS AND PETITIONS [Item 4]

There were none.

133/14 RECOMMENDATIONS TRACKER [Item 5]

Declarations of interest:
None.

Witnesses:
Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. In relation to A27/14 (Members' Interests), the Chief Internal Auditor confirmed that the audit of Members' Interests was ongoing and that co-opted Members were being included in testing.
2. In relation to A32/14 (Communications Plan), the Chairman confirmed that the Plan had now been shared with members of the Committee.
3. In relation to A35/14 (Partnerships), the Chairman confirmed that a workshop had been set up for 27 February 2015. At this the committee would consider the current partnership framework and agree how the committee should be involved in a relevant and proportionate way.
4. In relation to A40/14 (major projects), the Chairman discussed a document he had seen outlining a large number of projects ongoing within the Council. He would consider further how to develop the committee's involvement in major projects and would share his thoughts with Members.
5. In relation to A41/14 (Adult Social Care savings), it was confirmed that three Members from Audit & Governance Committee as well as the Chairman of Council Overview and Scrutiny Committee had attended the Adult Social Care Select Committee workshop on 27 November 2014. Members stated that it had been useful to attend the workshop and, while progress was being made with the Family, Friends and Community initiative, they didn't feel assured that robust arrangements were in place to make all the savings required. Concerns were raised about the forecast overspend in the Adult Social Care budget and the lack of plans to achieve all the savings allocated to the directorate. The Chairman agreed to write to the Leader of the Council expressing the committee's concerns about the budget (**Recommendations**

Tracker ref: A44/14). He would also write to the Chairman of Council Overview and Scrutiny Committee to encourage that the issue is addressed through its performance and finance sub-group (**Recommendations Tracker ref: A45/14**).

6. In relation to R4/14 (Operation Horizon), the Deputy Chief Finance Officer outlined the challenges associated with the Repair and Renewal Grant scheme. Finance was working with Internal Audit and Trading Standards to prevent the scheme being abused. The report by the Flooding Task Group (part of the Environment and Transport Select Committee) to Cabinet was praised and it was suggested that a review of Winter 2014/15 be held by the Flooding Task Group in Spring 2015. The Chairman agreed to write to the Cabinet Member for Highways, Transport and Flooding Recovery and the Chairman of the Environment and Transport Select Committee/Flooding Task Group recommending a review (**Recommendations Tracker ref: A46/14**).
7. In relation to A35/13 (data sharing), the Deputy Chief Finance Officer confirmed that all District and Boroughs were now returning data on Council Tax and Business Rates collection on a quarterly basis. However, there was still concern about the quality of some of the data, particularly with regard to forecasting. This was being addressed at an officer level.
8. In relation to A24/14, Members requested information on the outcome of the Council Overview and Scrutiny Committee meeting where it considered the Agency Staffing Contract audit (**Recommendations Tracker ref: A47/14**).
9. In relation to A22/14 (capital programme), the Deputy Chief Finance Officer informed the committee that it had been decided not to undertake a Rapid Improvement Event on the capital programme as the issues were not about process but about project management. A different approach was being taken with facilitated workshops to identify a more realistic way to build in assumptions to the capital programme. The Chairman requested that this action be retained in the tracker for now.

Actions/Further information to be provided:

i. Chairman to write to the Leader of the Council expressing the committee's concerns about the Adult Social Care budget.
ii. Chairman to write to the Chairman of Council Overview and Scrutiny Committee to encourage that committee to address the Adult Social Care budget through its performance and finance sub-group.
iii. Chairman to write to the Cabinet Member for Highways, Transport and Flooding Recovery and the Chairman of the Environment and Transport Select Committee/Flooding Task Group recommending a review of flooding recovery activity during Winter 2014/15 in Spring 2015.
iv. Information to be circulated on the outcome of the Council Overview and Scrutiny Committee meeting where it considered the Agency Staffing Contract audit.

RESOLVED:
That the committee notes the report.

Committee next steps:
None.

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134/14 BABCOCK 4S LIMITED - ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014 [Item 6]

Declarations of interest:
None.

Witnesses:
None

Key points raised during the discussion:

1. The Chairman explained the difficulty in arranging for Babcock 4S representatives to attend a formal meeting of the committee when it would have been timely to review the accounts. Instead, a group from the committee had reviewed the Annual Report and financial statements in detail during an informal session at the Babcock 4S head office. Its findings and the accounts are now being presented to a public meeting of the committee for transparency.
2. The committee members had found the session very useful and interesting but had felt that the Annual Report was light on the detail of what the service provides and its performance. They had asked that this be provided in the next year's reports.
3. A member who is also a member of the Children and Education Select Committee assured Members that performance at Babcock 4S was scrutinised by that Select Committee.
4. The Chairman informed the committee that Babcock had sent an explanation of the increase in charges from Surrey County Council to Babcock 4S between 2013 and 2014. This stated:

   "The charges from Surrey County Council to Babcock 4S increased with £126k compared to 2012/13. The increase is largely due to the inclusion of building rate charges in the 2013/14 accounts (£179k) which was not included in the 2012/13 accounts. This impact of this reduced because SCC cleaning service charges ceased from September 2013. Cleaning services from this point had been aligned to Babcock Group procurement initiatives".

5. It was queried what the financial benefit of Babcock 4S was for Surrey residents. The Vice-Chairman of Children and Education Select Committee suggested that this could be considered by that Select Committee (**Recommendations Tracker ref: A48/14**).

Actions/Further information to be provided:
The Vice-Chairman of Children and Education Select Committee to discuss with the Chairman of that Select Committee reviewing the financial benefit of Babcock 4S for Surrey residents.

RESOLVED:

a. That the committee notes the Annual Report and Statements.
b. That the committee notes the findings at the informal meeting of the Audit & Governance Committee.
c. That the committee has no further questions at present.

Committee next steps:
None.

135/14 ANNUAL AUDIT LETTER 2013/14 [Item 7]

Declarations of interest:
None.

Witnesses:
Tom Ball, Assistant Manager – Grant Thornton
Andy Mack, Engagement Lead – Grant Thornton
Kathryn Sharp, Senior Manager – Grant Thornton

Key points raised during the discussion:

1. The Engagement Lead at Grant Thornton introduced the Annual Audit Letter and Fee Letter.
2. Members discussed the meaning of the Value for Money conclusion and understood that it relates to whether the Council has the proper arrangements in place to secure value for money.
3. A Member queried the reference to an increase in the pension reserve representing an increase in the pension liability due to the tri-annual valuation, as the accounts follow the relevant accounting standard. The Grant Thornton representatives confirmed that the statement was accurate.
4. The Senior Manager at Grant Thornton confirmed that there had been challenges in the past year with working to a shorter deadline to issue an audit opinion on the Council's 2013/14 financial statements. This provided lessons for ensuring that the future quality of working papers is retained when working to a shorter deadline.
5. The Chairman queried the current position on the Teachers' Pension Return. The Deputy Chief Finance Officer informed the committee that information had been sent to the Teachers' Pensions Agency and follow-up letters had also been sent asking if there was anything further required from the Council but no response had been received. The Chairman requested a report back to the next meeting (**Recommendations Tracker ref: A49/14**).
6. The Chairman confirmed that a report on the capital programme would come to committee in April 2015.

Actions/Further information to be provided:

i. Officers to report back to the February meeting of Audit & Governance Committee on progress with the certification of the Teachers' Pension Return.
ii. Officers to report back on the capital programme at the April meeting.

RESOLVED:

a. That the committee notes the contents of the Annual Audit Letter.
b. That the committee notes the Fee Letter.

Committee next steps:
None.

136/14 EXTERNAL AUDIT: PERFORMANCE MANAGEMENT FRAMEWORK [Item 8]

Declarations of interest:
None.

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Witnesses:
Tom Ball, Assistant Manager – Grant Thornton
Andy Mack, Engagement Lead – Grant Thornton
Kathryn Sharp, Senior Manager – Grant Thornton

Key points raised during the discussion:

1. The Senior Manager at Grant Thornton introduced the report.

Tim Hall left the meeting at 10.50am.

2. The Chairman highlighted that Grant Thornton would have missed the target for providing a final list of any proposed amendments to the financial statements 7 working days before the relevant Audit & Governance Committee this year if the performance indicator had been set. The Senior Manager confirmed that the review process for the accounts would be changed for the next financial year.
3. It was suggested and agreed that the performance indicator 'the total approved audit fee will not be exceeded, except by prior approval by the Director of Finance' be amended to include an additional requirement for approval by the Chairman of Audit & Governance Committee.

Actions/Further information to be provided:
None.

RESOLVED:
That the committee adopt the proposed key performance indicators, subject to the amendment described above.

Committee next steps:
None.

Tim Hall rejoined the meeting at 10.53am.

137/14 COMPLETED INTERNAL AUDIT REPORTS [Item 10]

Item 10 was brought forward as the officers had not arrived for Item 9.

Declarations of interest:
None.

Witnesses:
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report.
2. In relation to the Local Sustainable Transport Fund audit, Members queried what the difficulty was in resolving the eligibility of some mobilisation costs associated with the Onslow Park and Ride. The Chief Internal Auditor offered to circulate a response (**Recommendation Tracker ref: 50/14**).

3. Members discussed the value for money of sustainable transport schemes. A number of Members queried the cost-benefit analysis and whether the funding is being used appropriately. The Chairman agreed to talk further with those Members and discuss the issues at the Local Committees' Chairmen's meeting (**Recommendation Tracker re: A51/14**).
4. In relation to the Surrey Fire and Rescue Service (SFRS) Premises Information audit, the Chairman informed that committee that he had requested this audit because of deaths elsewhere in the country partly attributed to the information available to crews. He would raise the issue of developing a standard for training with the Fire and Rescue Advisory Group and report back (**Recommendation Tracker re: A52/14**).

Actions/Further information to be provided:

i. Chief Internal Auditor to circulate information on the difficulty in resolving the eligibility of some mobilisation costs associated with the Onslow Park and Ride.
ii. Chairman to discuss value for money concerns about sustainable transport schemes with Members and raise the issues with the Chairmen of Local Committees' meeting.
iii. Chairman to raise training for firefighters on the use and understanding of data available through the Mobile Data Terminals with the Fire and Rescue Advisory Group and report back.

RESOLVED:
That the committee notes the report.

Committee next steps:
None.

138/14 TREASURY MANAGEMENT HALF YEAR REPORT 2013/14 [Item 9]

Declarations of interest:
None.

Witnesses:
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager – Pensions and Treasury

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report.
2. In response to a query about the increase in fixed interest investments between 31 March 2014 and 30 September 2014, the Strategic Finance Manager – Pensions and Treasury explained that Councils traditionally were at a low cash position at 31 March. New grants and precepts were received from April onwards.
3. The Strategic Finance Manager – Pensions and Treasury informed the committee that traditionally the Council takes its long-term borrowing from the Public Works Loan Board. The £10m market loan from Barclays was historic and was intended to diversify the debt portfolio with terms agreeable at the time.

4. Some members expressed a view that with the current market environment, the Council should be borrowing more. Officers confirmed that markets were at historically low borrowing cost and record low gilt yield levels. However, the case for borrowing was looked at very carefully, as the cost of carry involved would translate immediately into increased interest expenditure. Officers were monitoring the situation. At present it was being forecast that £40m would need to be borrowed to ensure cash flow at the end of the financial year.
5. The Strategic Finance Manager – Pensions and Treasury informed the committee that training on the treasury management function would be arranged in the near future (**Recommendations Tracker ref: A53/14**).
6. The Strategic Finance Manager – Pensions and Treasury confirmed that counterparty limits were already very cautious.
7. The committee discussed the fee to Capita for its treasury management advice. A contract review was imminent but the competition was limited.

Actions/Further information to be provided:

i. Training on the treasury management function to be arranged.

RESOLVED:
That the committee notes the report.

Committee next steps:
None.

139/14 INTERNAL AUDIT HALF YEARLY REPORT 2014/15 [Item 11]

Declarations of interest:
None.

Witnesses:
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and highlighted some of the resource issues faced by the Internal Audit team during the first half of the year.
2. In response to a suggestion that some audits be dropped in order to save money, the Chief Internal Auditor confirmed that she would spend the Internal Audit budget in order to deliver the Audit Plan. Agency staffing was being used fill gaps in the short-term while the structure of the team was being reviewed for 2015/16. The Deputy Chief Finance Officer reminded the committee that the audit plan was produced in consultation with the Director of Finance who requires assurance on financial systems going forward. Finance would be concerned if Internal Audit were to be encouraged to drop audits in order to save a small amount of money. The Chairman also stated that he would need some convincing before he accepted an reduction of the planned audit coverage.

3. Members queried why a secondment was permitted if the team was short-staffed. The Chief Internal Auditor highlighted the developmental opportunities to individuals of secondments. She also informed the committee that she received the budget back and had someone seconded into the Internal Audit team from another department.
4. The Chief Internal Auditor clarified that the number of audit reports completed according to the table in paragraph 12 did not match the number of audits completed in paragraph 10 because the definition of audits in paragraph 10 is wider than just audit reports. It also includes grant sign-offs, irregularity investigations etc.
5. In response to a question, the Chief Internal Auditor explained that the Customer Satisfaction Survey which rated an audit as not very useful related to an audit where there was disagreement about the results on the audit. However, she felt that the audit had been useful as there had been a lot of activity in the service leading from the audit report.

Actions/Further information to be provided:
None.

RESOLVED:
That the committee notes the report.

Committee next steps:
None.

140/14 CITRIX SYSTEMS: PROJECT UPDATE [Item 12]

Declarations of interest:
None.

Witnesses:
Paul Brocklehurst, Head of Information Management and Technology
Andy Grogan, Group Manager – Infrastructure Manager

Key points raised during the discussion:
1. The Chairman stated that this item had been scheduled following an audit report which found that the Citrix Systems upgrade project had faced delays and was overbudget. It had been agreed with the Chairman of Council Overview and Scrutiny Committee that Audit & Governance Committee would question officers on this.
2. The Head of Information Management and Technology introduced the report and stressed the importance of infrastructure projects to everyone in the Council. The project was therefore taken slowly and carefully to avoid difficulties.
3. The Group Manager – Infrastructure Manager informed the committee that the project was on target to meet the revised delivery timetable. Over the past weekend, some technical aspects of the project had been undertaken and had gone well. The budget increase was due to the approach taken being changed. Originally the upgrade was to be a direct replacement for the existing Citrix infrastructure. It was then realised that the project should be developed to provide a longer-term solution which can reflect the changing needs of the business.

4. There were two main competitors to Citrix in the market. However, it was agreed that Citrix offered the better solution.
5. The Group Manager – Infrastructure Manager detailed the testing that had taken place to ensure that the end solution will be fit for purpose. The 'go live' in January 2015 would take place with small groups and a phased approach was planned. If something was to go wrong, the system could be reverted to the original Citrix system within 10 minutes. There were also 300 servers and it would be unlikely for all to fail together. The outage in September 2012 had allowed lessons to be learnt although Citrix was not the root cause in that case.
6. The Head of Information Management and Technology informed the committee that other councils had been undertaking similar infrastructure projects for long periods of time and had got stuck. Officers from Surrey County Council had given advice to those other councils on how to undertake infrastructure projects.
7. Members discussed the security of using a cloud to store data. The Head of Information Management and Technology explained that a Surrey cloud would be used which would give the Council control over the data. Also no sensitive data could be stored in the external cloud and IMT was working closely with Information Governance.
8. The Chairman requested a short note on progress before the next meeting of the committee (**Recommendation Tracker ref: A54/14**).

Actions/Further information to be provided:

i. Officers to provide a note on progress with the Citrix Systems upgrade project before the February meeting of the committee.

RESOLVED:
That the committee notes the report.

Committee next steps:
None.

141/14 SOCIAL CARE DEBT AUDIT - MANAGEMENT ACTION PLAN: PROGRESS UPDATE [Item 13]

Declarations of interest:
None.

Witnesses:
Neill Moore, Senior Principal Accountant

Key points raised during the discussion:

1. The introduced the report and tabled some supplementary data (attached as Annex A).
2. The Senior Principal Accountant advised the committee that the Strategic Finance Manager – Adult Social Care had been seconded away from the Council and that he would be taking on responsibility for this area. He explained that his background was not in Adult Social Care but that he had expertise in isolating and solving problems.
3. Members encouraged legal action where there was unsecured debt with no specific reason indentified which was older than a year.

4. The Senior Principal Accountant felt that while a second Direct Debit date might help with cash flow, he did not think that it would increase Direct Debit uptake. Members suggested that people may not be setting up Direct Debits because they do not receive their income at the right time.
5. The Senior Principal Accountant outlined the efforts made to collect information from the two local authorities with higher levels of Direct Debit uptake. The Chairman suggested that the Portfolio Holder for Adult Social Care be asked to make contact with their counterpart on the issue.
6. The Senior Principal Accountant stated that a report would be taken to Adult Social Care Select Committee in January 2015. The Chairman asked for the Audit & Governance Committee to be sent a copy (**Recommendations Tracker ref: A55/14**).
7. The Senior Principal Accountant agreed to circulate information on how long it takes to complete probate and receive money when someone dies in debt to Adult Social Care (**Recommendations Tracker ref: A56/14**).
8. The Deputy Chief Finance Officer confirmed that there was a bad debt provision on the council's balance sheet.
9. The Chairman asked for a further report on progress against the management action plan to be scheduled, including progress on the second direct debit date, information about the two best practice local authorities and information on unsecured debt with no specific reason indentified which was older than a year (**Recommendations Tracker ref: A57/14**).

Actions/Further information to be provided:

i. Audit & Governance Committee to be sent the report on social care debt going to Adult Social Care Select Committee in January 2015.
ii. The Senior Principal Accountant to circulate information on how long it takes to complete probate and receive money when someone dies in debt to Adult Social Care.
iii. A further report to be scheduled on progress against the management action plan, including progress on the second direct debit date, information about the two best practice local authorities and information on unsecured debt with no specific reason indentified which was older than a year.

RESOLVED:
That the committee notes the progress against the Audit management action plan.

Committee next steps:
None.

142/14 HALF-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES: APRIL - SEPTEMBER 2014 [Item 14]

Declarations of interest:
None.

2

Witnesses:
Reem Burton, Lead Auditor
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Lead Auditor introduced the report. She informed the committee that the Council had secured £539,500 from the Department of Communities and Local Government Counter Fraud Fund. She also highlighted a case previously reported to the committee regarding theft of money from a school shop in December 2013. The case was now being led by the police and would be going to court.
2. The Lead Auditor confirmed that the successful funding bid would help with extra resources for counter-fraud activities. The Chief Internal Auditor agreed to circulate the submitted bid for funding to the committee (**Recommendations Tracker ref: A58/14**).
3. Members were reminded of the counter-fraud seminar in January 2015.

Actions/Further information to be provided:

i. Chief Internal Auditor to circulate the submitted bid for funding from the DCLG Counter Fraud Fund to the committee.

RESOLVED:
That the committee notes the report.

Committee next steps:
None.

143/14 RISK MANAGEMENT HALF YEAR REPORT [Item 15]

Declarations of interest:
None.

Witnesses:
Verity Royle, Senior Principal Accountant – Management Accounting

Key points raised during the discussion:

1. The Senior Principal Accountant introduced the report.
2. A Member expressed concern that the residual risk for safeguarding had been determined to be medium and pointed out the reputational damage of actions that contribute in any way to a major impact on a vulnerable person.
3. In response to a question about the risk rating for Adult Social Care, the Senior Principal Accountant explained that risk to Adult Social Care is addressed by a number of the risks on the Leadership Risk Register.

Actions/Further information to be provided:
None.

RESOLVED:

a. That the committee confirms that it is satisfied with the risk management arrangements.
b. That the committee notes the Leadership Risk Register.

Committee next steps:
None.

144/14 GOVERNANCE UPDATE REPORT [Item 16]

Declarations of interest:
None.

Witnesses:
Alex Moylan, Senior Accountant

Key points raised during the discussion:

1. The Senior Accountant introduced the report and reminded the committee that it had discussed information governance and social care debt during the meeting. An update had not yet been received on Children in Care Health and Dental Checks.
2. The Chairman informed the committee that he had seen a progress report to the Corporate Parenting Board and that he was seeking permission to share with the committee.

Actions/Further information to be provided:
None.

RESOLVED:

a. That the committee confirms that it is satisfied with the ongoing governance work.
b. That there are no concerns to refer to the Cabinet or relevant Cabinet Member at this time.

Committee next steps:
None.

145/14 DATE OF NEXT MEETING [Item 17]

The date of the next meeting was noted.

Meeting ended at: 12.50 pm

Chairman

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Audit and Governance Committee 1st December 2014

Supplementary analysis on Adult Social Care Debt

In addition to the Report on the progress on the Management Action Plan for Adult Social Care Debt, further information and analysis is provided on the debt position as at 31st October 2014.

Table 1: Overall Adult Social Care Debt, as at 31st October 2014.

Note:		March	April	May	June	July	August	September	October
1	**Secured**	**6.33**	**6.56**	**6.34**	**6.16**	**5.95**	**5.73**	**6.15**	**5.65**
2*	**Unsecured (no specific reason identified)**	2.52	2.45	2.29	2.67	2.65	2.52	2.01	2.27
2a	Under query	0.45	0.52	0.54	0.44	0.37	0.48	0.54	0.60
2b	Query resolved, requiring adjustment	0.03	0.06	0.14	0.08	0.03	0.03	0.08	0.06
2c	Probate	0.19	0.23	0.22	0.22	0.22	0.24	0.35	0.43
2d	Installments	0.32	0.32	0.31	0.35	0.36	0.36	0.44	0.42
2e	Deferred payment applications	0.34	0.37	0.26	0.42	0.49	0.37	0.30	0.27
2f	External CoP / Deputyship	0.43	0.54	0.50	0.43	0.46	0.57	0.59	0.61
2g*	**Total unsecured debt subject to a recovery 'block'**	**1.75**	**2.04**	**1.97**	**1.95**	**1.93**	**2.05**	**2.30**	**2.40**
3	Legal	1.39	1.54	1.54	1.57	1.62	1.66	1.73	1.74
4*	ASC Deputyship	1.41	1.11	1.12	1.17	1.19	1.24	1.22	1.32
	Unsecured debt outstanding	**7.07**	**7.14**	**6.92**	**7.36**	**7.39**	**7.48**	**7.27**	**7.73**
	Total	**13.40**	**13.70**	**13.26**	**13.52**	**13.34**	**13.21**	**13.41**	**13.37**
5	Charges posted in month - not yet due	3.31	2.80	3.72	2.91	2.82	3.77	3.06	3.06
6	Total debt including charges posted in month	16.71	16.50	16.98	16.43	16.16	16.97	16.47	16.43
6a	Gross debt accounting credit balances	17.37	17.07	17.50	17.01	16.76	17.62	17.02	17.00
7	% received of amount billed (12 mth avg)	101%	101%	98%	102%	102%	101%	97%	94%
8	% pymts collected by DD	65%	65%	65%	65%	64%	65%	65%	65%
9	Number of cases referred	0	0	1	3	2	4	1	0
10	Value of debt at date referred	0.00	0.00	0.01	0.05	0.04	0.04	0.07	0.00
11	Number of 'open' cases	58	58	54	57	59	60	61	61
12	Current value of 'open' cases	1.91	1.56	1.58	1.61	1.66	1.71	1.76	1.82
13	Number of cases			17	34	18	23	12	29
14	Value of debt			0.09	0.02	0.05	0.003	0.04	0.04
*	**Unsecured debt not subject to Legal action**								
2*	Unsecured (no specific reason identified)		2.45	2.29	2.67	2.65	2.52	2.25	2.27
2g*	Total unsecured debt subject to a recovery 'block'		2.04	1.97	1.95	1.93	2.05	2.06	2.40
4*	ASC Deputyship		1.11	1.12	1.17	1.19	1.24	1.22	1.32
	Total Unsecured debt not subject to Legal action		**5.60**	**5.38**	**5.79**	**5.77**	**5.81**	**5.53**	**5.99**

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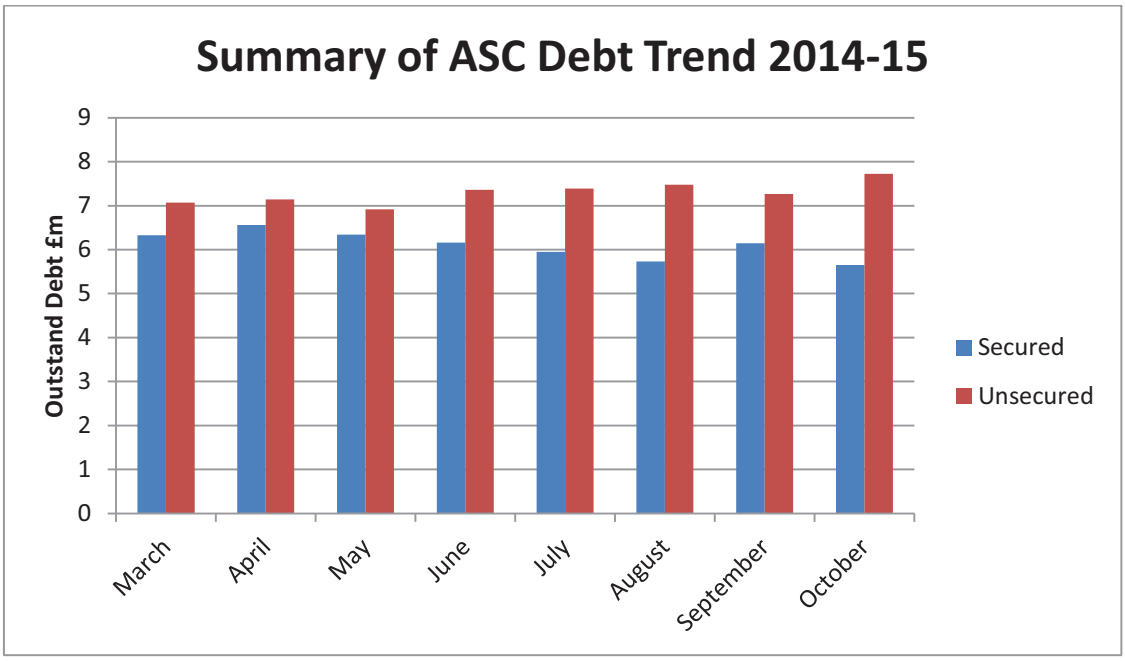
Explanatory notes to Table 1

1	Secured Debt: current value of debt secured against property and payable upon a future event
1a	Secured debt: section 55 Deferred Payment Agreement / Legal Charge - payable 56 days after death
1b	Secured debt: section 22 Imposed Legal Charge for failure to pay charges - payable on disposal of property
2*	Unsecured debt: value of outstanding debt that is not secured against property
2a	Unsecured debt: a query / complaint has been raised by the debtor
2b	Unsecured debt: a query / complaint has been resolved and account requires adjustment
2c	Unsecured debt: deceased case awaiting grant of probate to resolve
2d	Unsecured debt: payment of arrears by instalments has been agreed
2e	Unsecured debt: debtor has applied for a deferred payment agreement
2f	Unsecured debt: a charging order has been applied to property following litigation
2f_1	Unsecured debt: external (non SCC) application for Cop / deputyship under way
2g*	Unsecured debt: Total: where a reason for non-payment is recorded and dunning suspended
3	Current value of cases referred to Legal Services for formal recovery action
4*	Current value of cases referred to the SCC Deputyship Team to investigate and where possible put appropriate arrangements in place to manage the finances of persons who lack mental capacity
5	Total value of care charges raised in the last month. These charges become due after 30 days
6	Total value of debt owed to Surrey County Council.
7	Debt paid as a proportion of charges raised (NB proportion will be lower than 100% as charges include secured debt)
8	Proportion of charges collected by direct debit
9	Number of cases referred to Legal Services for recovery - IM: in month; YTD: year to date; TTD: total to date
10	Value of cases referred to Legal Services for recovery - IM: in month; YTD: year to date; TTD: total to date
11	Number of current and 'open' legal cases being pursued
12	Value of current and 'open' legal cases being pursued
13	Number of cases approved for write-off in month
14	Aggregate value of write-offs approved in month

Analysis of ASC Debt

Over the course of the 14-15 financial year, the secured debt has reduced whereas the unsecured debt has increased, making the overall level broadly static at around £17m gross.



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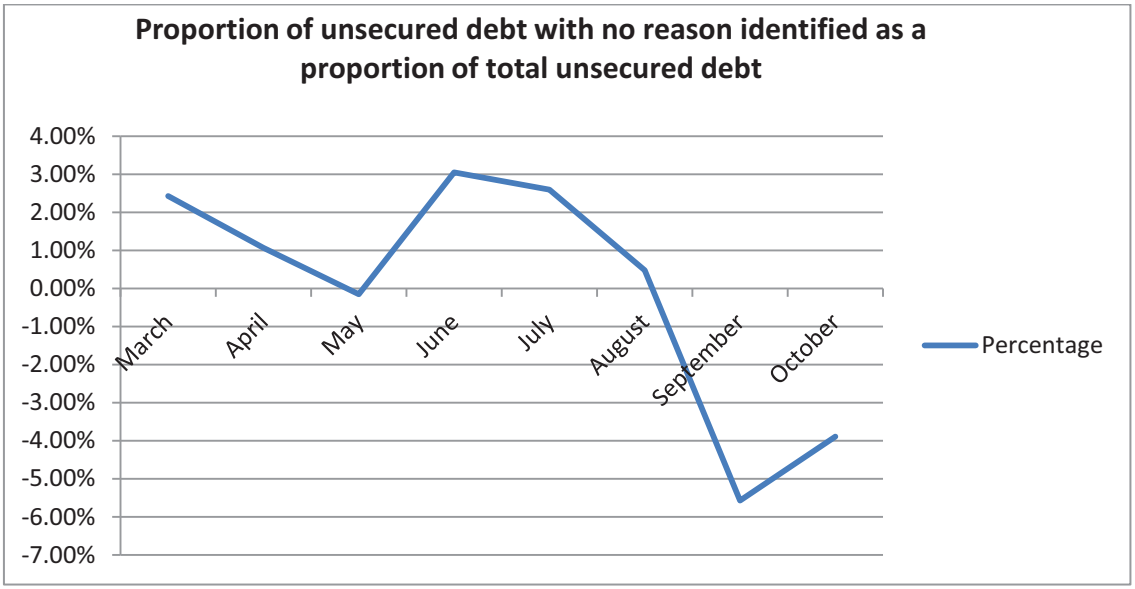
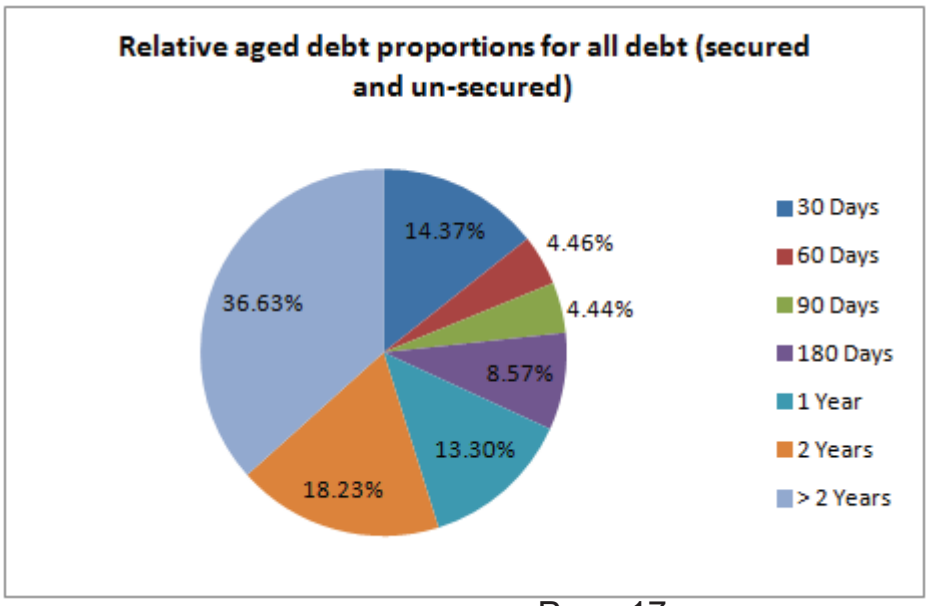
Whilst the trend in unsecured debt is increasing, more emphasis has been placed on understanding the reasons for unsecured debt remaining unpaid. The amount of unsecured debt with no specific reason identified has reduced as this analysis progresses.



Aged Debt

Initial analysis of the outstanding debt at 31st October 2014 shows the relative aged debt as:

30 Days	60 Days	90 Days	180 Days	1 Year	2 Years	> 2 Years
14.37%	4.46%	4.44%	8.57%	13.30%	18.23%	36.63%



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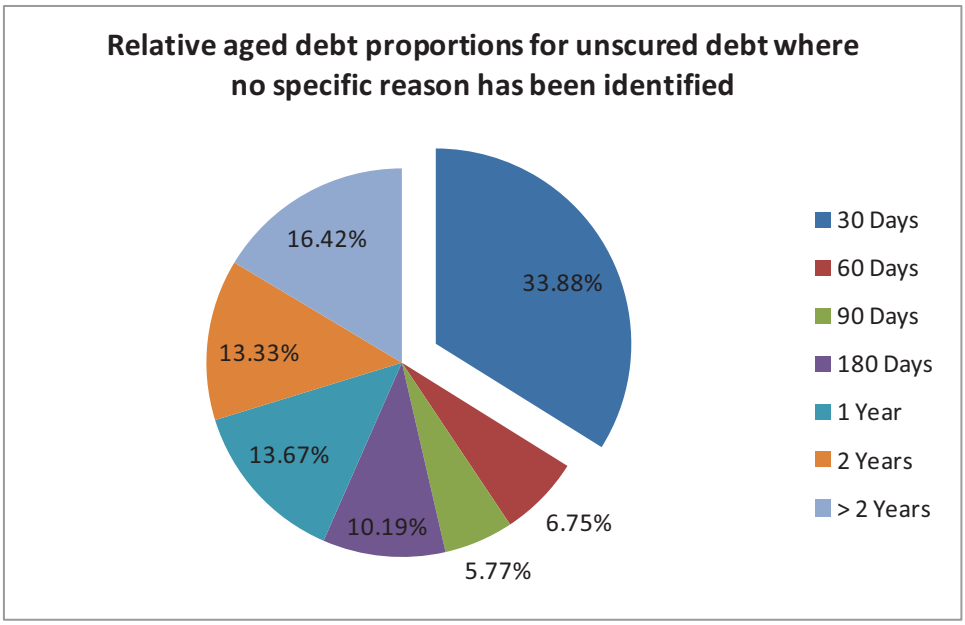
This shows a higher proportion of the overall debt as being in excess of two years old whereas for unsecured debt with no specific reason identified the profile is:

30 Days	60 Days	90 Days	180 Days	1 Year	2 Years	>2 Years
33.88%	6.75%	5.77%	10.19%	13.67%	13.33%	16.42%



This change in proportions would be expected as 33.88% of the outstanding debt is for changes that have been raised within the last 30days and have not yet fallen due for payment.

Summary

This analysis builds on information that has previously been available to committee. Further work is required to ensure that the aged debt analysis is entirely consistent with the overall debt table. This information will be refreshed for discussion at the Adult Select Committee in January 2015.

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
16 February 2015

RECOMMENDATIONS TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker.

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as **Annex A**, and the Committee is asked to review progress on the items listed.

The Committee's information bulletin, circulated by email on 19 January 2015, is attached as **Annex B**.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings (Item 5 Annex A).

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Sources/background papers: None

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Annex A

Audit & Governance Committee Recommendations Tracking

Recommendations (REFERRALS)

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R3/14	29/05/14	2013/14 Annual Governance Statement	To COMMEND the draft Annual Governance Statement, subject to the amendments outlined above, to the Cabinet for publication with the council's Statement of Accounts.	Cabinet	On 24 June 2014, Cabinet approved the Annual Governance Statement for inclusion within the Statement of Accounts and Annual Report. Audit & Governance Committee is to continue to monitor the governance environment and report to Cabinet as appropriate. A half year governance update is scheduled for the meeting on 1 December 2014. On 25 September 2014, the Chairman reported that progress was being made on health and dental checks for looked after children. A copy of a confidential report on progress has been circulated to committee Members for information. The half-year update was on the agenda for 1 December 2014.

Annex A

Audit & Governance Committee Recommendations Tracking

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A12/14	29/05/14	Internal Audit Annual Report 2013/14	The Chief Internal Auditor to consider the need for an audit of recovery rates following damage to Council property.	Chief Internal Auditor	A relevant note has been added to the Audit Universe to highlight this as an area to consider as part of the 2015/16 annual planning process.
A22/14	31/07/14	External Audit Report on Value for Money for Surrey County Council	The Director of Finance to bring a report to committee following the Rapid Improvement Event on the capital programme.	Director of Finance	On 1 December 2014, the Deputy Chief Finance Officer informed the committee that it had been decided not to undertake a Rapid Improvement Event on the capital programme as the issues were not about process but about project management. A different approach was being taken with facilitated workshops to identify a more realistic way to build in assumptions to the capital programme. A report has been scheduled for April 2015.
A23/14	25/09/14	Recommendations Tracker	The Chairman to discuss with the Cabinet Member for Schools and Learning whether it would be possible for the committee to receive an update on the SEN Strategy and Residential Strategy in February 2015.	Chairman/ Regulatory Committee Manager	A response from the Cabinet Member for Schools and Learning is attached. A full update will be scheduled for a future meeting.
A28/14	25/09/14	Ethical Standards Annual Review	That refresher training on the Code of Conduct be provided in 2015 and a reminder be given about Gifts and Hospitality.	Director of Legal and Democratic Services	An update will be provided in due course.

Annex A

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A33/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That work be undertaken to improve working arrangements between Audit & Governance Committee and the Select Committees	Regulatory Committee Manager	Discussions have been held between officers supporting Audit & Governance Committee and Select Committees with regard to task group findings. Work Plans have been shared to help Select Committees with their agenda planning.
A40/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That the committee considers how to develop its involvement in major projects such as the New Models of Delivery project	Chairman/ Regulatory Committee Manager	A summary of projects in progress has been shared with the Committee, together with the report and minutes on the New Models of Delivery Project which was considered at Corporate Overview & Scrutiny Committee. Audit & Governance Committee will discuss the way forward at its workshop with Internal Audit on 16th February.
A44/14	1/12/14	Recommendations Tracker	Chairman to write to the Leader of the Council expressing the committee's concerns about the Adult Social Care budget.	Chairman	A separate briefing note will be sent to the Committee by the Chairman.
A49/14	1/12/14	Annual Audit Letter 2013/14	Officers to report back to the February meeting of Audit & Governance Committee on progress with the certification of the Teachers' Pension Return.	Deputy Chief Finance Officer	The Deputy Chief Finance Officer to provide an update in February 2015.

Annex A

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A51/14	1/12/14	Completed Internal Audit Reports	Chairman to discuss value for money concerns about sustainable transport schemes with Members and raise the issues with the Local Committees' Chairmen's' meeting.	Chairman	The Chairman has discussed this with the relevant Members and a draft letter to the Local Committees' Chairmen's meeting has been shared with all Members of the Committee.
A53/14	1/12/14	Treasury Management Half-Year Report	Training on the treasury management function to be arranged.	Strategic Finance Manager – Pensions and Treasury	To be arranged.
A57/14	1/12/14	Social Care Debt Audit – MAP: Progress Update	A further report to be scheduled on progress against the management action plan, including progress on the second direct debit date, information about the two best practice local authorities and information on unsecured debt with no specific reason indentified which was older than a year.	Senior Principal Accountant (Neill Moore)	Scheduled for 9 April 2015.

Annex A

Audit & Governance Committee Recommendations Tracking

Completed Recommendations/Referrals/Actions – to be deleted

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A27/14	25/09/14	Ethical Standards Annual Review	Co-opted Members to be included in the terms of reference for the Members' Interests audit.	Chief Internal Auditor	The Chief Internal Auditor has confirmed that the Members' Interests audit is ongoing and that co-opted Members were being included in testing.
A32/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That a communications plan be prepared and implemented to raise the committee's profile and the profile of control systems with officers and backbench Members	Chairman/ Regulatory Committee Manager	A communications plan agreed with the Chairman and circulated to the committee.
A35/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That the committee develops a map of partnership arrangements and negotiates its role alongside those arrangements with the Leader, according to their type and the risk attached	Chairman/ Regulatory Committee Manager	It has been agreed that a workshop be held on 27 February 2015 to understand the current partnership framework and for the committee to discuss how it could get involved in a way that was proportionate, risk-based, relevant and timely.
A41/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That the Chairman discuss with the Chairman of Adult Social Care Select Committee the possibility of joint scrutiny with that Committee as to whether robust arrangements are in place to achieve savings in Adult Social Care	Chairman	Audit & Governance Committee members were invited to attend a meeting on 27 November at which the Adult Social Care Select Committee's performance and finance task group is to report its findings. Committee members reported back on their views at the meeting on 1 December 2014.

Annex A

Audit & Governance Committee Recommendations Tracking

A45/14	1/12/14	Recommendations Tracker	Chairman to write to the Chairman of Council Overview and Scrutiny Committee to encourage that committee to address the Adult Social Care budget through its performance and finance sub-group.	Chairman	As in A44/14
A46/14	1/12/14	Recommendations Tracker	Chairman to write to the Cabinet Member for Highways, Transport and Flooding Recovery and the Chairman of the Environment and Transport Select Committee/Flooding Task Group recommending a review of flooding recovery activity during Winter 2014/15 in Spring 2015.	Chairman	The Chairman has read the report, recommendations and meeting minutes. The report includes five key recommendations on: • changes to regulations, • pressing the EA for selective dredging, • improving communications arrangements with partners and residents • establishing flood fora • preparing planning applications for flood alleviation schemes. This is all in the context of pressing to implement and find funding for the flood alleviation schemes. The Cabinet accepted these recommendations and the Select Committee has retained the Flooding Task Group to continue in a monitoring role on the issues, and indeed their Recommendations Tracker includes a number of items on this topic. Based on this, the Chairman does not feel there is any purpose in our Committee writing as originally suggested - they have plans in hand to do what is required.

Annex A

Audit & Governance Committee Recommendations Tracking

A47/14	1/12/14	Recommendations Tracker	Information to be circulated on the outcome of the Council Overview and Scrutiny Committee meeting where it considered the Agency Staffing Contract audit.	Regulatory Committee Manager	The Minute of the COSC meeting was circulated on 5 December 2014.
A48/14	1/12/14	Babcock 4S Ltd – Annual Report and Financial Statements	The Vice-Chairman of Children and Education Select Committee to discuss with the Chairman of that Select Committee reviewing the financial benefit of Babcock 4S for Surrey residents.	Vice-Chairman of Children and Education Select Committee	The Vice-Chairman has discussed this with the Chairman of Children and Education Select Committee.
A50/14	1/12/14	Completed Internal Audit Reports	Chief Internal Auditor to circulate information on the difficulty in resolving the eligibility of some mobilisation costs associated with the Onslow Park and Ride	Chief Internal Auditor	Information was circulated by email on 12 January 2015 and was also included in the January bulletin.
A52/14	1/12/14	Completed Internal Audit Reports	Chairman to raise training for firefighters on the use and understanding of data available through the Mobile Data Terminals with the Fire and Rescue Advisory Group and report back.	Chairman	The Chairman raised this with the Fire and Rescue Advisory Group. It will continue to be pursued as an issue by both the Chairman and the Advisory Group.

Annex A

Audit & Governance Committee Recommendations Tracking

A54/14	1/12/14	Citrix Systems: Project Update	Officers to provide a note on progress with the Citrix Systems upgrade project before the February meeting of the committee.	Head of Information Management and Technology	A progress note was included in the January bulletin.
A55/14	1/12/14	Social Care Debt Audit – MAP: Progress Update	Audit & Governance Committee to be sent the report on social care debt going to Adult Social Care Select Committee in January 2015.	Regulatory Committee Manager	The link to the Adult Social Care agenda pages was included with the January bulletin.
A56/14	1/12/14	Social Care Debt Audit – MAP: Progress Update	The Senior Principal Accountant to circulate information on how long it takes to complete probate and receive money when someone dies in debt to Adult Social Care.	Senior Principal Accountant (Neill Moore)	A response was included in the January bulletin.
A58/14	1/12/14	Half-Year Summary of Internal Audit	Chief Internal Auditor to circulate the submitted bid for funding from the DCLG Counter Fraud Fund to the committee.	Chief Internal Auditor	This was circulated on 2 December 2014.

Audit & Governance Committee

Welcome…

Welcome to the Audit & Governance Committee Bulletin.
The purpose of this bulletin is to keep Members and officers up to date with local and national issues relevant to the Audit & Governance Committee.

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4.	Updates from other committees	5
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Update from previous Audit & Governance Committee meetings

Local Sustainable Transport Fund 14/15	At the December meeting of the committee, the Chief Internal Auditor was asked to circulate information on the difficulty in resolving the eligibility of some mobilisation costs associated with the Onslow Park and Ride. On 12 January 2015, she circulated the following information: There was thought to be a claim for mobilisation costs before Skanska initially withdrew from the site because of outstanding legal issues, which may include an amount to recompense Skanska for 'standing by' when work could not begin as planned. However, the Skanska Construction Team were redeployed fairly promptly to other jobs. The extent to which any standby costs were ever included in cumulative costs for this site works has been difficult to establish, but will need to be concluded upon by the time that the final account for the Onslow Park and Ride contract is submitted by Skanska.
Citrix Systems upgrade: progress	At the December meeting, officers were asked to provide a note on progress with the Citrix Systems upgrade project in the new year. The following has been provided: I am pleased to inform you that the Citrix project has continued to make great strides. From both a budgetary and scheduling prospective things remain on track for the delivery of our pilot group of customers on the new platform. In December the team completed the migration of relevant data (over 8 million files) to new servers three weeks ahead of schedule. Over the last week and a half we have had a team based at the first (and largest) pilot site in Uckfield performing both user acceptance testing of the new Citrix farm and its applications. This will be completed by the end of this week, where the team will then move onto the other pilot groups, and we remain confident that we will stick to our target deadlines. We continue to package applications up for the new systems at a steady rate and so far have had very few errors.

	General customer feedback so far is that the new platform is much faster, especially in the context of applications such as Notes and Microsoft office, and they like some of the elements that we have made simpler for them (e.g. printing options). Next steps are to communicate with the remaining pilot teams over the next week and to start the rollout to Registrars and some Fire and Rescue sites.
Social Care Debt	In response to a query about how long it takes to complete probate and receive money when someone dies in debt to Adult Social Care, officers have responded: "There is no hard and fast rule. A "minimum" period would be 3 months in the most simple estates; and pursued in a timely fashion, with little delay with probate being issued. However, other cases with complex estates can take far longer, and sometimes run into years". In December, officers were asked to circulate the progress update on the social care debt audit management action plan which was being considered by Adult Social Care Select Committee on 15 January 2015. This can be found at the link below: http://mycouncil.surreycc.gov.uk/ieListDocuments.aspx?CId=143&MId=3629&Ver=4

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Internal Audit update

Current Audits	The following audits are currently in progress or at the planning stage: Highways Contract - Safety Defects and Inspections Information Governance Telecare Accounts Payable Accounts Receivable Revenue Budgetary Control Public Health School Audits
2015/16 Internal Audit Planning Process	The Internal Audit team is currently meeting with key officers across all key service areas to consider areas for possible inclusion in the 2015/16 Internal Audit Plan. The Chief Internal Auditor is also seeking input from key members including all members of the Audit and Governance Committee. The draft plan will be presented to the Audit and Governance Committee for approval on 9 April 2015.

Counter Fraud Work	<u>Fraud Awareness Presentations</u> As part of on-going counter fraud work the Internal Audit team has developed a presentation designed to raise awareness of the risk of fraud. So far more than 150 officers have attended these presentations. This is now being rolled out to teams in Adult Social Care and Children, Schools & Families, with more than 15 presentations scheduled in January and February 2015. <u>Counter Fraud Fund</u> The Council has been successful in a bid to the Department for Communities and Local Government (DCLG) for some funding for proactive counter fraud work. The Council received £179,500 in December 2014 and expects to receive a further £360,000 in Quarter One of 2015/16. The bid was submitted by Surrey County Council who will be coordinating a programme of counter fraud activity in partnership with seven of Surrey's districts/boroughs. Although the funds are paid directly to the County Council as the lead authority, a significant proportion of the monies will need to be distributed to partnering districts and boroughs to fund fraud investigative work. An officer based Partnership Board has been established to facilitate joint working on a range of counter fraud activities and boost investigation resources. The aim is to undertake extensive cross authority data matching leading to increased rates of fraud and error identification and prevention; all underpinned by investigation of potential frauds by experienced investigators. Savings across participating partners arising as a result of the planned work are estimated to be approximately £400k for 2014/15 and £800k for 2015/16. <u>Fraud Survey</u> The Fraud Culture Survey launched by Internal Audit closed in November with a total of 480 responses. The answers and results of the survey were made available on S:net in December. Results from the survey suggest a healthy attitude towards fraud and the results are being used to help shape the approach being taken to tackle fraud.
Staffing News	Two agency members of staff have recently joined the Internal Audit team to help deliver the 2014/15 audit plan. Tasneem Ali will be working on schools' audits as well as specific service audits. Luis Choudhary will assist with audits of the Council's key financial systems. Both Tasneem and Luis have previously worked as agency staff within the Internal Audit team.

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Further information

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Best Value inspection of London Borough of Tower Hamlets **16 October 2014**	The Secretary of State for Communities and Local Government, Eric Pickles, announced the findings of a report from PricewaterhouseCooper (PwC) following an inspection of Tower Hamlets. The inspection and report were prompted by concerns about governance, poor financial management and possible fraud. While the report concludes there was serious systems failure it rejected that the authority had been fraudulent.
Finance Guidance on the Better Care Fund and S.75 Budgets from CIPFA and the HFMA **October 2014**	As part of plans to implement the Better Care Fund, the Healthcare Financial Management Association (HFMA), in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA), has released guidance for finance professionals. This looks at: • The legislation and regulations that underpin the operation of a pooled budget • The finance, governance and operational arrangements that clinical CCGs and local authorities need to be discussing and putting in place now in order to be ready for 'go live' on 1 April 2015 • The accounting standards that will apply and need to be considered in advance of preparing the signed agreement that will underpin the pooled budget.
Protecting the Public Purse **October 2014**	The Audit Commission has published its 2014 report 'Protecting the Public Purse' on counter-fraud in local government. This includes a profile of the first Proceeds of Crime Act (POCA) judgement to accept the loss to councils from tenancy fraud.
Planning for the Better Care Fund **11 November 2014**	This report by the National Audit Office criticises government planning for the Better Care Fund. It calls planning 'inadequate' and says that they did not match the scale and ambition of the programme. It calls on the government to offer more support to local areas. The Better Care Fund is a pooled health and social care budget which aims to integrate local services and reduce hospital admissions.
Auditing bodies unite to produce good practice guide on whistleblowing **25 November 2014**	A good practice guide for workers and employers of the public sector has been produced jointly by the four supreme audit agencies of the UK.
Council collection rates under scrutiny **27 November 2014**	A total of £4.55 billion in council tax and business rates went unpaid at the end of 2013/14, according to figures published by the Audit Commission. This figure was up by 6% on previous years.
Rising to the challenge: the evolution of local government **December 2014**	This report by Grant Thornton looks at the financial health of local authorities in England. It examines the financial performance, planning, governance and controls of councils. The report says that most local authorities have continued to rise to the challenge posed by government funding reductions but they must continue to evolve. It includes a case study on Surrey County Council's budget planning process (Page 20).

Auditing the Accounts **11 December 2014**	"On Thursday 11 December the Audit Commission published its annual Auditing the Accounts report. ... [T]his publication makes specific reference to our achievement of significantly reducing our closing timetable for 2013/14. The following link takes you to the full report or for those of you pushed for time, skip to page 10 which states: 'Surrey County Council has demonstrated that other bodies can also significantly improve the timeliness of their financial reporting. The auditor was able to issue the opinion on 4 August 2014, 32 days earlier than for 2012/13, and the Council published its audited accounts on 13 August 2014, 45 days earlier.' " - Nikki O'Connor
Transforming contract management: report published **10 December 2014**	The Public Accounts Committee has published its report on Transforming Contract Management.
UK anti-corruption plan **18 December 2014**	The cross-government Anti-Corruption Plan brings together, for the first time, all of the UK's activity against corruption in one place.

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Updates from other Committees

Listed below are a number of committee reports that may be of interest to the Committee, as they cross into the Committee's remit or they relate to matters recently discussed at Audit & Governance Committee, or that the Committee have shown an interest in:

Cabinet	At its meeting on 21 October 2014, the Cabinet considered the following reports: • Local Strategic Statement and Surrey Strategic Planning and Infrastructure Partnership • Finance and Budget Monitoring Report for September 2014 • Creation of a Joint Trading Standards Service with Buckinghamshire County Council At its meeting on 25 November 2014, the Cabinet considered the following reports: • Finance and Budget Monitoring Report for October 2014 • Leadership Risk Register At its meeting on 16 December 2014, the Cabinet considered the following reports: • Surrey Local Flood Risk Management Strategy • Finance and Budget Monitoring Report for November 2014 • Health and Social Care Integration
Surrey Pension Fund Board	At its meeting on 14 November 2014, the Surrey Pension Fund Board considered the following reports: • Manager Issues and Investment Performance • Revised Statement of Investment Principles • Core Belief Statement • Class Actions • Pension Fund Risk Register • Key Performance Indicators • Local Government Pension Scheme: Draft Governance Regulations

Adult Social Care Select Committee	At its meeting on 23 October 2014, the Adult Social Care Select Committee considered the following reports: • Update from the Performance and Finance Sub-Group At its meeting on 19 December 2014, the Adult Social Care Select Committee considered the following reports: • Adult Social Care Directorate October 2014 Budget Monitoring Report
Children and Education Select Committee	At its meeting on 27 November 2014, the Children and Education Select Committee considered the following reports: • Children's Services Annual Complaints Report • School Governance Task Group – Interim Report
Council Overview & Scrutiny Committee	At its meeting on 6 November 2014, the Council Overview and Scrutiny Committee considered the following reports: • Appraisal Completion Update Report for 2013/14 • Budget Monitoring Report
Environment and Transport Select Committee	At its meeting on 27 October 2014, the Environment and Transport Select Committee considered the following reports: • Report of the Flooding Task Group At its meeting on 15 December 2014, the Environment and Transport Select Committee considered the following reports: • Highways and Transport Member Reference Group Report on the Kier Contract • Surrey Highways – Safety Defect Year 1 Review • Agreement with Surrey Wildlife Trust for the Management of the County Council's Countryside Estate
Health Scrutiny Committee	At its meeting on 20 November 2014, the Health Scrutiny Committee considered the following report: • Better Care Fund Update

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Upcoming

The next meeting of the Audit & Governance Committee is on 16 February 2015. The following items are on the agenda:

- External Audit – Audit Plan
- National Financial Resilience Report
- Statutory Responsibilities Network
- Assurance Framework
- Update: SEN Strategy and Residential Strategy
- Leadership Risk Register
- Completed Internal Audit Reports
- Annual Report of the Audit & Governance Committee

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Mr Nick Harrison
Chairman
Audit & Governance Select Committee
c/o Room 122
County Hall
Penrhyn Road
Kingston upon Thames
KT1 2DN

28 January 2015.

Dear Nick

SEN Strategy

I refer to your letter dated 24th November 2014 and to my earlier letter to you on this subject dated 23 September 2014.

At that time, I advised the Committee of the formation of the SEND Governance Board and its plans for drafting a new SEND strategy for the local authority. While this work commenced in October, it has not been possible to complete a draft at this time owing to a number of pressures on the leadership team within Children, Schools and Families and the fact that the Governance Board has needed wider representation to ensure that all parties involved have an opportunity to input into this important work. The Governance Board met yesterday and is now committed as far as possible to producing a draft strategy by 1 May 2015. I am aware that the Select Committee will meet in April, and I will be happy to provide a further update for that meeting. The Board has also nominated a separate Operational Group which is now working in parallel with the Governance Board to bring together operational and commissioning oversight of services for children and young people with SEND and their families across Early Years, Education, Health and Social Care, promoting a joint approach to delivering the Surrey SEND Strategy 2015-20.

With regard to a refreshed Residential Strategy, this work has been affected by the need to focus on the design and implementation of a new SEND strategy in response to new legislation. However, a monitoring process has been established for all local authority special schools to report on levels of occupancy of beds so that only those beds used will be funded and not available beds, which is in line with new funding regulations for special schools. It remains the intention to formally consult with a view to altering the local authority's criteria for admission to a maintained residential special school, but this work is complex, involves numerous stakeholders, and has necessarily been delayed while the new SEND legislation is being implemented.

I hope this update is helpful, and I will be happy to update the Committee again for its meeting in April.

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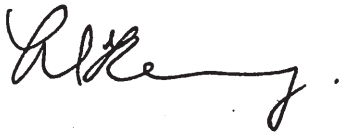
Yours sincerely



Mrs Linda Kemeny
Cabinet Member for Schools and Learning

SURREY COUNTY COUNCIL

Audit & Governance Committee
16 February 2015

Grant Thornton: Audit & Governance Committee Update

Purpose of the report:

This paper provides the Audit & Governance Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments.

Recommendations:

It is recommended that the Audit and Governance Committee note the external auditor's progress report.

Introduction:

1. International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which the external auditor is required to communicate with those charged with governance (the Audit & Governance Committee).

2. The attached report details Grant Thornton's progress on delivering their responsibilities as the Council's external auditor.

Financial and value for money implications

None

Equalities and Diversity Implications

None

Risk Management Implications

None

Next steps:

Detailed audit plans for the Council and Surrey Pension Fund will be provided to the committee at its April meeting.

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Sources/background papers: None

Audit & Governance Committee Update

Year ended 31 March 2015

16 February 2015

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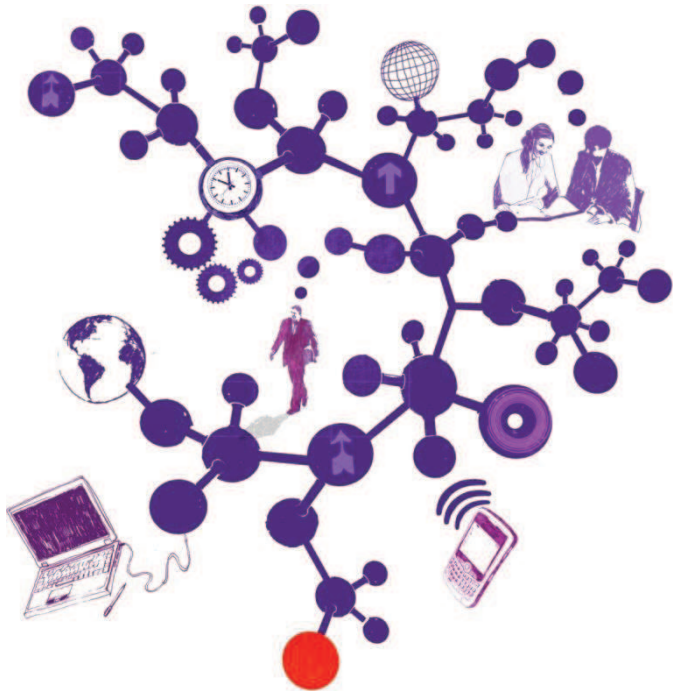

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit & Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit & Governance Committee can find further useful material on our website www.grant-thornton.co.uk , where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at February 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	February 2015 April 2015	In progress	Outlines of our planned audit work for the Council and the Pension Fund are set out on pages 7 and 8. Detailed audit plans will be presented to the Audit & Governance Committee in April.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January and March 2015	In progress	
2014-15 final accounts audit Including: • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	June and July 2015	No	

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Progress at February 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion comprises an assessment of: • whether the Council has proper arrangements in place for securing financial resilience • whether the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	March 2015 June and July 2015	No	
Other areas of work We have completed our certification of the Walton Bridge grant claim and issued a reasonable assurance report on the Teachers' Pensions Return. We have completed our audit of South East Business Services Ltd and will present our Audit Findings Report to the Committee in April.	February 2015 April 2015	Yes Yes	Summaries of our findings are on page 9 and in Appendix A.
Other activity undertaken We held a liaison meeting with the Chair of the Audit & Governance Committee. Our annual Chief Accountants Workshops will be taking place on 17 February in our Finsbury Square office and 25 February in our Gatwick office.	7 January 2015	Yes	

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Audit approach – Surrey County Council

Significant risks identified

There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

- Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:
  - there is little incentive to manipulate revenue recognition
  - opportunities to manipulate revenue recognition are very limited
  - the culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable.
- Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities. To address this risk we will review the accounting estimates, judgments and decisions made by management, test journal entries and review unusual significant transactions.

Changes to the recognition of school land and buildings on local authority balance sheets for 2014/15 mean that we consider that this is a significant risk for audit this year. We will carry out specific testing to ensure schools are accounted for correctly and in line with the latest guidance. More details on these changes can be found on page 14.

Other risks identified

- Operating expenses: We will identify and walkthrough controls and carry out detailed testing on operating expenditure, creditors and accruals.
- Employee remuneration: We will identify and walkthrough controls and carry out detailed testing on payroll expenditure.

Group audit

ISA 600 requires that as group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. For 2014/15 The Council plans to prepare consolidated accounts including South East Business Services Ltd and Surrey Choices Ltd.

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Audit approach – Surrey Pension Fund

Significant risks identified

There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

- Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Surrey Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to improper recognition. We have rebutted this presumption and therefore do not consider this to be a significant risk for Surrey County Council Pension Fund since:
  - The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions.
  - The split of responsibilities between the Pension Fund, the custodian and its fund managers provide a very strong separation of duties reducing the risk around investment income.
  - Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely.
  - Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
- Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities. To address this risk we will review the accounting estimates, judgments and decisions made by management, test journal entries and review unusual significant transactions.

Other risks identified

- Contributions: We will identify, walkthrough and test controls and carry out substantive testing.
- Benefits payable: We will identify, walkthrough and test controls and carry out substantive testing.
- Member data: We will identify, walkthrough and test controls and carry out testing on changes to member data during the year.
- Investments: We will identify and walkthrough controls and test the valuation of investments via independent confirmations.

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Results of our work on claims and returns

We carried out work on two claims and returns in 2013/14. We report the outcome of the certification of the Section 31 Claim for Walton Bridge in Appendix A in accordance with Audit Commission requirements. The other return, the Teachers' Pensions Return, is outside the Audit Commission's framework arrangements and we issued our reasonable assurance report on this claim in November 2014.

We concluded that the return had been prepared, in all material respects, in accordance with the regulations underpinning the Teachers' Pensions Scheme. Without qualifying our conclusion we reported the on-going issue identified by internal audit in June 2012 regarding the pensionable status of honoraria payments. The total amount of these payments is estimated to be £1,001,187. The Council is continuing to liaise with Teachers' Pensions to agree a mechanism for remittance of the underpaid contributions, but has not received advice on how to proceed. As such, the return has not been amended for any agreed adjustments.

The final fee of £2,600 for our work on the return is consistent with the indicative amount agreed with the Council.

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Emerging issues and developments

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Rising to the challenge

Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report have been provided to all Committee members.

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2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

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Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/.

The reports asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

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Accounting for schools

Accounting and audit issues

The debate about the recognition of school land and buildings on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they could be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet. This view has been set out in more detail in LAAP 101 (Accounting for Non-Current Assets Used by Local Authority Maintained Schools). This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school buildings to be clear cut and local judgement would need to be applied. We are discussing issues with CIPFA in particular:

- how the treatment proposed by CIPFA complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are working with the Audit Commission, CIPFA and the other audit firms suppliers to try to seek a practical way forward as soon as possible. We will continue to share the latest developments with officers. In the mean time we would recommend that you continue your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

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Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'
Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

These new standards are relevant for Surrey County Council in its consideration not only of South East Business Services Ltd and Surrey Choices Ltd, which it is planning to consolidate this year, but also of the Henrietta Parker Trust and Babcock 4S.

© 2

Group accounting standards (continued)

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parities and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

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Earlier closure and audit of accounts

Accounting and audit issues
DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. Surrey County Council is very well prepared for this change in deadline. Top tips for local authorities: • make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen • make the year end as close to 'normal' as possible by carrying out key steps each and every month • discuss potential issues openly with auditors as they arise throughout the year • agree key milestones, deadlines and response times with your auditor • agree exactly what working papers are required.

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Financial sustainability of local government

Local government guidance

In November the National Audit Office published their report on the Financial Sustainability of Local Government.

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

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Kerslake report on Birmingham City Council

Local government guidance

Sir Bob Kerslake published his report, The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council, on 9th December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.
- The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.
- Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.
- In moving from a 20,000 people organisation in 2010 to a 7,000 people one by 2018 the Council needs fit for purpose workforce planning.
- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midland MBCs to make the combined authority a reality that delivers jobs and prosperity to the region.

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Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, Auditing the Accounts 2013/14: Local government bodies, on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.

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Appendix A – Certification work for Surrey County Council for the year ended 31 March 2014

Walton Bridge – S31 Claim

We are required to certify certain claims and returns submitted by Surrey County Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

We have certified one claim for the financial year 2013/14 relating to expenditure of £3.5 million (see details below). There are no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2013/14 for the Council was based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the Initial Teacher Training Return and the Teachers' Pensions Return) have been removed. The final scale fee set by the Audit Commission for the Council for 2013/14 is £538. This is set out in more detail below.

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Walton Bridge Section 31 Claim	3,537,789	No	n/a	No	

Claim or return	2012/13 actual fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
Walton Bridge Section 31 Claim / ITT Return / Teachers' Pensions Return	3,420	4,700	538	4,162	There was no requirement to certify the ITT Return in 2013/14 and the fee charged for the Walton Bridge Claim was reduced through efficiencies. A fee of £2,600 was charged under separate arrangements for our reasonable assurance report on the Teachers Pensions Return, giving a total net saving of £1,562.

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Audit & Governance Committee
16 February 2015

Rising to the Challenge: The Evolution of Local Government

Purpose of the report:

To brief the Committee on the findings of Grant Thornton's most recent report on financial resilience in local government.

Recommendations:

It is recommended that the Committee consider the Council's arrangements against the good practice checklist included as Appendix A in the report.

Introduction:

Grant Thornton's report, based on a review of 40% of the sector, assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future. The fourth in an annual series, 'Rising to the challenge – the evolution of local government' has a positive message overall.

Most local authorities have continued to rise to the challenge posed by government funding reductions, supported by an evolution in financial management arrangements over the past four years. However, with austerity challenges facing local government over the medium-term set to continue, authorities must continue to evolve. For those that do not, a financial tipping point is likely to become apparent by 2016. Our report makes suggestions on what still needs to be done for this outcome to be avoided.

Conclusions:

There is reason to be positive about the way that local government has navigated the first period of austerity. But there remains much to be achieved if it is to become sustainable in the long term. Authorities should consider how their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon

- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

Financial and value for money implications

7

None

Equalities and Diversity Implications

None

Risk Management Implications

None

Next steps:

None

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Sources/background papers:
None

Grant Thornton

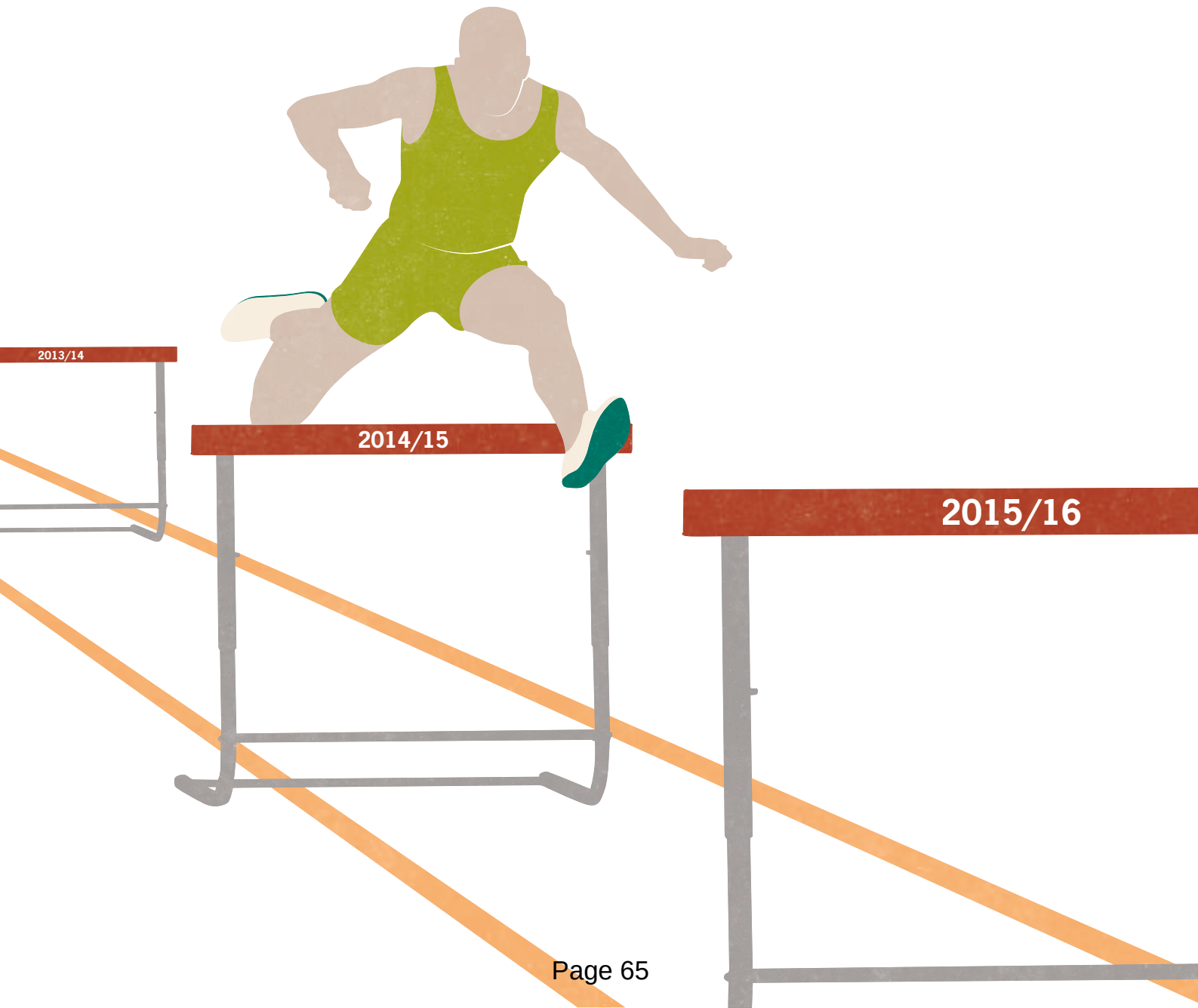
An instinct for growth™

Rising to the challenge
The evolution of local government

7

Summary findings from our fourth year of financial health checks at English local authorities

December 2014



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Introduction

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In the wake of the financial crisis and the government spending review, this report looks at how local authorities have risen to the huge financial challenges they face. It also looks at the steps they have taken to secure financial resilience and how they can meet the challenges of the future. This is the fourth in our series of annual reports on financial resilience in local government in England.

The era of austerity

In 2008, the UK economy entered a period of sustained financial downturn as a result of the global financial crisis. That led to a large and permanent reduction in the finances available to fund public services.

In October 2010, the chancellor announced a wide-ranging spending review of public services (SR10). This aimed to bring the public finances into balance by financial year 2014/15. The savings required to deliver this objective reflect the largest reduction in public sector funding since the great depression of the 1920s. For local government, this meant a real-terms funding reduction of 28%, excluding schools.

The government then announced that this would not be sufficient to balance the country's finances by 2015. In 2013, a new spending review (SR13), covering the period to 2015/16, required a further 10% saving in local government. The era of austerity is likely to continue through 2017 and beyond.

The funding reductions over this period are compounded by rising demand and, in some cases, rising unit costs for some services – notably adult and children's social care. There has been some localisation of funding decisions but there are other areas where local government has less control eg in local taxation and in the increased activity of regulators such as Ofsted and the Care Quality Commission (CQC), which can have significant cost implications.

This all means that the onus has been on local authorities to innovate and improve efficiency wherever they can.

The response of local government

Since our first report, 'Surviving the storm: how resilient are local authorities?' published in December 2011, we have followed the progress of local authorities in their efforts to manage this time of austerity. We concluded that authorities had responded well to the initial challenge of SR10, but the real challenges lay in the future.

Our next report, 'Towards a tipping point' (2012), identified a series of potential financial 'tipping points' that many local authorities felt were on the horizon. We described a number of tipping point scenarios.

In '2016 tipping point?: Challenging the current' (2013), we reported that local government was continuing to deliver despite the challenges. However, there were some signs of stress, particularly in delivering financial targets, although there was some variation in the stresses affecting authorities of different kinds and in different regions. We were also able to narrow down the risk of reaching the tipping point and identified that it would only affect a minority of authorities with 2016 emerging as the crucial year for them.

This report takes that analysis forward, using information gathered from our work at local authorities during financial year 2013/14.

Evolution in financial management

The last four years have presented an unprecedented challenge to local authorities, but it is a challenge to which many have risen. This report looks at how financial management arrangements have evolved over the period; what still needs to be done; what good arrangements look like; and what the future holds.

Our approach

Our core research is based on a detailed assessment of information from our statutory Value for Money (VfM) audits at 133 local authorities, for the financial year ending 2013/14. This used a combination of document review, supplemented by interviews and a supporting survey, which received 108 responses. We also draw on our research from the previous three years as a comparison and to provide an all-round view of the financial management arrangements in place and their effectiveness.

The thematic areas analysed were:

- **Key indicators of financial performance**
  What are the financial outcomes? This provides insight into the overall effectiveness of the financial management arrangements reviewed under the other three themes. This includes benchmarking against the Audit Commission 'nearest neighbours'.
- **Strategic financial planning**
  Does the authority have a robust financial plan? This theme focuses on financial planning arrangements and the medium-term financial plan (MTFP). This includes the plan's scope; the key financial assumptions made; its relationship with wider strategic and service planning; and its flexibility in changing circumstances.
- **Financial governance**
  Does the authority demonstrate effective financial governance? This focuses on the overall governance of financial planning; monitoring and delivery by the senior management team; and effectiveness of the overview and scrutiny of financial matters by council members.
- **Financial control**
  Has the authority established strong financial controls? This theme looks at the arrangements in place to ensure the delivery of financial plans. This includes savings; the capability of the finance team; and the effectiveness of assurance and risk management arrangements.

Within each of these themes, we identified a number of sub-categories (outlined in Table 1) and gave each a red/amber/green (RAG) risk-rating using the criteria provided in Table 2. The latter was based on a judgement on the part of the reviewer against our VfM framework to provide consistency across authorities.

Generally, a red rating reflects a significant and immediate risk to an organisation's financial resilience. Amber ratings reflect arrangements that are not at optimal effectiveness, but do not pose an immediate significant risk if attended to. Green ratings reflect adequate arrangements, but not necessarily good practice. We have included a checklist of good practice in Appendix A.

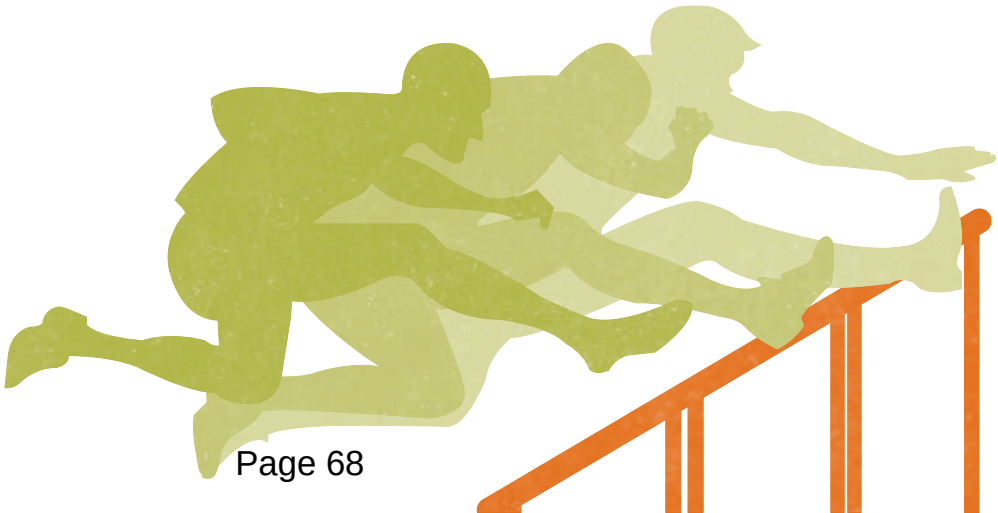


Table 1 Themes and categories for analysis

Theme	Sub-category
Key indicators of financial performance	Schools balances*
	Reserve balances
	Performance against budget
	Workforce
	Borrowing
	Liquidity
Strategic financial planning	Focus of MTFP
	Adequacy of planning assumptions
	Scope of MTFP and links to annual planning
	Review processes
	Responsiveness of the plan
Financial governance	Understanding the financial environment
	Executive and member engagement
	Overview of key cost categories
	Performance management of budgets
	Accuracy of reporting
Financial controls	Performance management of budgets
	Performance of savings plans
	Key financial systems
	Finance department resources
	Internal audit arrangements
	External audit arrangements
	Assurance framework/risk management approach

*For single-tier and county councils only

Table 2 Risk rating criteria

Green	**Arrangements meet or exceed adequate standards** Adequate arrangements identified and key characteristics of good practice appear to be in place
Amber	**Potential risks and/or weaknesses** Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the authority is taking forward areas where arrangements need to be strengthened
Red	**High risk** The authority's arrangements are generally inadequate or may have a high risk of not succeeding

Rising to the challenge

7

In 2010, the government spending review triggered uncertainty over whether local government was facing a financial tipping point that threatened the survival of local services as we knew them. Four years later, local authorities are still delivering local services to a high standard within a balanced budget. Many are forecasting financial resilience confidently in their medium-term financial strategy. This is a major achievement and reflects an evolution in financial management that would have been difficult to envisage given the original reaction of the sector to the spending review in 2010.

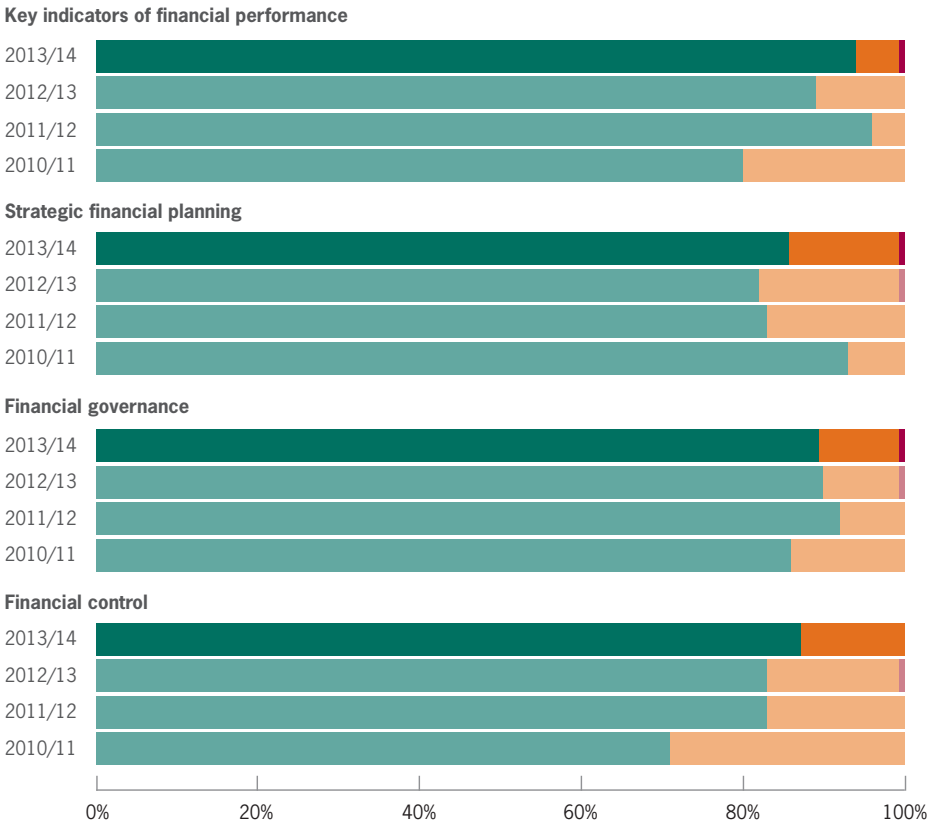
The narrative around austerity and local government funding reductions has been relentlessly negative over the past four years. This was driven largely by valid concerns for the future of local services as we know them. There were also concerns about whether it was possible to effect change on the scale required and whether local government institutions could survive in their current form.

This change would need to be structural, in terms of the way service delivery is organised, but also cultural, in terms of the way the whole organisation is aligned to the future strategy of the authority. The latter is arguably the harder to achieve, and therefore the most critical.

It was always likely that the scale of central government funding reductions would lead to cuts in some service provision. This has started to happen although not to the extent that might have been expected by this point.

Serious concerns remain about whether local government services in the age of austerity can continue to meet the needs of the public, in the face of demographic and economic pressures. Concerns also remain about the funding structure for local authorities, and whether it allocates funding fairly in relation to local geographic, demographic and economic conditions.

Figure 1 Summary ratings over time – all local authorities



The recent interim report of the Independent Commission on Local Government Finance ('Public money, local choice'), concludes that funding arrangements are 'broken'.

It recommends that in the future funding should be entirely locally derived – specifically through retention of business rates and a revision of council tax valuations. The impact on future funding arrangements remains to be seen. However, the scope of this report is to question whether local authorities can effect large-scale change and manage with significantly reduced funding. We are getting the first hints that the answer is yes they can, but not without impacting significantly on the services they deliver.

Evolution in the age of austerity

Through our series of reports on the financial resilience of local authorities over the last four years, we have tracked the effectiveness of financial management arrangements. Most authorities have weaknesses or risks in their arrangements of one kind or another and a minority have multiple weaknesses. But there are very few councils with red-rated, critical issues arising.

The NAO's report, 'Financial sustainability of local authorities 2014', provides a note of caution. It states that 56% of metropolitan and unitary councils local auditors are concerned that their clients will not meet medium-term savings targets. Our analysis aligns with this: 60% of councils of this type within our sample had at least one amber or red-rated risk that could affect the delivery of the medium term financial plan if not addressed. However, our experience over the last four years gives us some confidence that these risks can be overcome in many cases.

What stands out is how local authorities have maintained and in some cases improved their financial performance, in the face of ever increasing challenges.

This is even more impressive when you consider that the level of sophistication and effectiveness required to achieve it has increased year on year. By March 2015, the first period of austerity envisaged in SR10 will have been navigated successfully by almost all local authorities.

Through a combination of necessity, innovation and strong leadership, many organisations have risen to the challenge. Through our work, we have seen financial management arrangements strengthen greatly over this period, with financial control showing particular improvement.

With the possibility of greater devolution of powers and financial freedoms on the horizon, strong arrangements will become ever more important. Local authority members and the public are having to come to terms with the fact that in future their organisations will look and feel very different to the way they did before 2010. But we are only part way through the age of austerity and significant challenges remain which will continue to drive the evolutionary process.

The tipping point?

In our earlier reports, we said that a financial tipping point could be approaching for some local authorities and that significant work had to be done to avoid this risk. The tipping point could have a number of characteristics, but would broadly reflect a point where financial balance was no longer possible, recovery was no longer within the power of the organisation and the continued delivery of services was no longer feasible (Appendix B).

This would be a situation similar to that suffered by the local authority in Detroit (USA) and a growing number of NHS organisations (in the context of significant deficits rather than bankruptcy). This year's research has enabled us to refine this view, because the uncertainties have started to clear. The likely destination for individual authorities is now crystallising in the next generation of medium-term financial plans that take us up to 2016 and beyond.

What now seems clear is that many local authorities should be in a position to secure financial resilience on a sustainable basis, assuming that funding arrangements remain on their current trajectory. However, a minority of authorities are still facing the prospect of a tipping point and 2016 still resonates for them. For single-tier authorities and counties, the 'graph of doom' scenarios around demand-driven services, in particular social care, remain a key part of the challenge. Broadly these predict that, without transformation, local authorities may only be able to fund social care by 2020 if they drastically reduce or even stop other services.

But even here new ways of delivering services are emerging – such as care at home, prevention and early intervention – that can alleviate some of these risks. We are also seeing some progress around health and social care integration, which is explored further in our report on the implementation of the Better Care Fund. By 2016, it will be clear whether the current MTFPs are on track to deliver. Those who have struggled to establish effective arrangements to date are those most likely to face a tipping point in 2016.

What does the future hold?

Predicting the future is fraught with difficulty, particularly as the outcome of the 2015 general election is unpredictable and could have far-reaching consequences for local government financing. But chief executives are showing increased confidence about the future of their organisations.

The localisation agenda is gaining momentum. Greater control over financial decisions in local authority areas, coupled with better co-ordination between public sector agencies, opens up some exciting possibilities for improving services and delivering them more efficiently.

We have already seen significant change in the culture of local authorities. Finance is no longer solely the preserve of the finance department. Responsibility, accountability and financial skills have permeated throughout the whole management structure. A strong culture of continual improvement, efficiency and financial control, aligned with the authority's medium term strategy, will become a necessity over the next few years. There is significant work to be done here, particularly in regard to engaging front-line specialists in financial management. This should be an important area of focus for local authorities.

Our report on the future of local government, '2020 Vision' (2014), builds on this and other themes and is a useful companion to this report. '2020 Vision' explores a number of potential scenarios that local authorities might face, including 'adaptive innovation', 'running to stand still' and 'withering on the vine'.

Analysis by authority type

When we divide the findings by authority type, we see that the level of risk and weakness is not distributed equally. This does not imply that some types are not as well run as others. Rather it reflects that different types face different levels of pressure, due to their size, breadth of responsibility or geographic, demographic or economic profile.

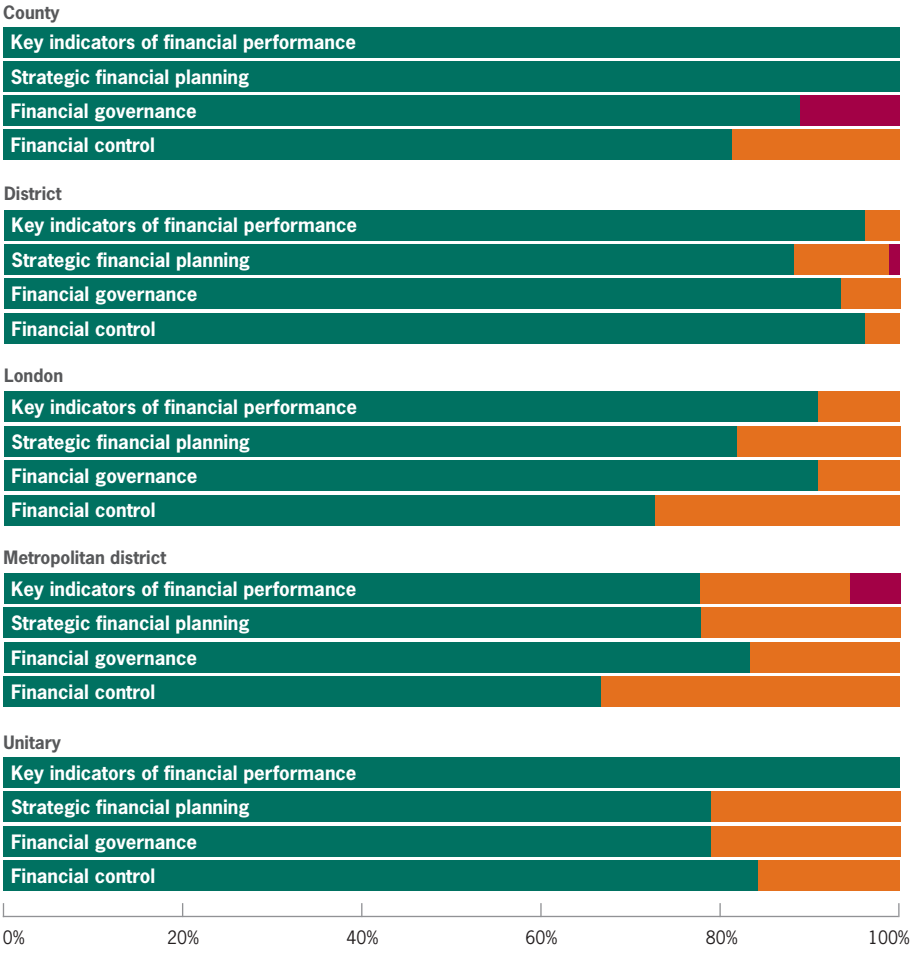
The analysis shows that single-tier authorities of all types are under more pressure than counties or districts. This probably reflects some differences in the funding structures between single- and two-tier arrangements. All single-tier authorities show strategic financial planning as an area of concern, which reflects the scale of savings required over the next few years.

Metropolitan district councils and London boroughs, both with urban demographics, show some similarities in the pattern of amber ratings for key financial indicators and financial controls, which are often closely linked. The metropolitan borough councils, concentrated in the north of England, show a higher number of issues in both areas, which is likely to be linked to the less favourable economic conditions compared to London – affecting both revenue potential and cost pressures.

Unitary councils – often with a greater rural population and concentrated in the midlands and south west of England – show a different pattern with reasonably strong key financial indicators. These are perhaps linked to fewer problems with financial controls. However, they have more problems with financial governance, certainly in comparison to the London boroughs. This could be related to the relative access to members with strong financial backgrounds enjoyed by some London boroughs.

The population of county councils in the sample is comparatively small, so it is harder to draw firm conclusions. However, the counties appear relatively strong compared to single-tier councils, despite similar responsibilities for adult social care and other demand-led services. Financial control seems to be the main area of concern. Although this has not yet impacted on key financial indicators, there is a risk of this in the future in some cases.

Figure 2 Summary ratings by local authority 2013/14



District councils fare better. They do not have the pressures of demand-driven services such as social care or large-scale urban or rural deprivation that other councils face. With some exceptions, district councils are under comparatively less pressure from current funding arrangements. However, in proportion to revenue, some districts have had to deliver significant savings and have done this largely successfully.

There have also been some good examples of innovation, with districts leading the way with shared services and joint management arrangements. Many districts, particularly in the south east, are planning for a near future where they are financially independent, with services being funded entirely by local taxation and other revenue streams. The challenge for some districts is to drive efficiency and find new ways of working without having the 'burning platform' of necessity experienced by other types of authority. The motivation should be to minimise council tax rises and to fund capital programmes within the current financial envelope.

Analysis by region

By classifying councils by region some broad patterns are identified.

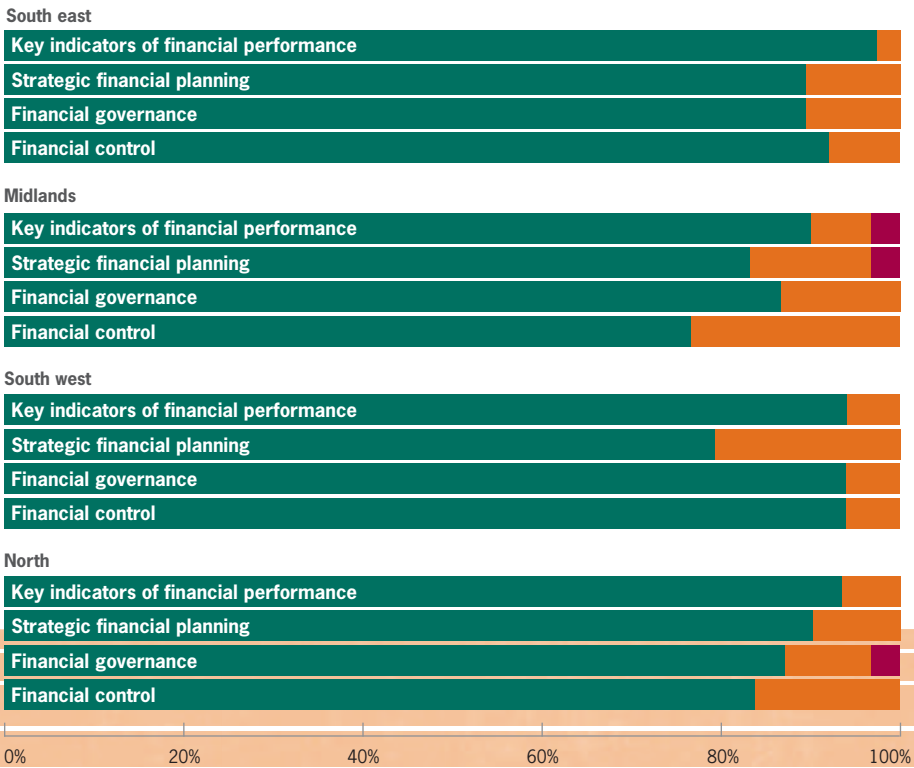
The midlands has the highest level of financial challenge followed by the north of England. In both cases there is a combination of issues which are broadly proportionate across all four themes. The north and midlands have a small number of authorities where the issues are particularly acute (red-rated) that we have not seen in other parts of the country and the highest frequency of issues with financial governance.

The midlands also had the highest level of issues for key indicators of financial performance, with strategic financial planning also being an area of difficulty.

The south east of England is generally faring better than both the north and midlands across all themes, strengthened by the presence of affluent areas in some London boroughs and districts.

The south west of England, with its more rural profile, fares well in 2014, except in strategic financial planning where there is a higher concentration of issues than elsewhere. This indicates that authorities are meeting their financial targets and are reasonably well governed and controlled. But there are concerns about the scale of savings and transformation required to maintain this in future years.

Figure 3 Summary ratings by region 2013/14



Summary

There is reason to be positive about the way that local government has navigated the first period of austerity. But there remains much to be achieved if it is to become sustainable in the long term. Authorities should consider how their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to medium-term challenges will be tested sorely by the second half of the austerity period and the complexity created by fiscal devolution, continued evolution of alternative delivery models and closer integration with other public bodies.

It is unlikely that in balancing the books local government will be able to preserve all of the services it currently delivers. Renegotiating service provision with the public (to enable it to remain within a reducing financial envelope) will be a key task for local government in the next few years.

Key indicators of financial performance

7

In the fourth year of our work on key indicators of financial performance, we see a significant improvement across the board compared to the previous year. While some authorities continue to struggle, more are returning to the longer-term trajectory of improvement in delivering sound financial outcomes.

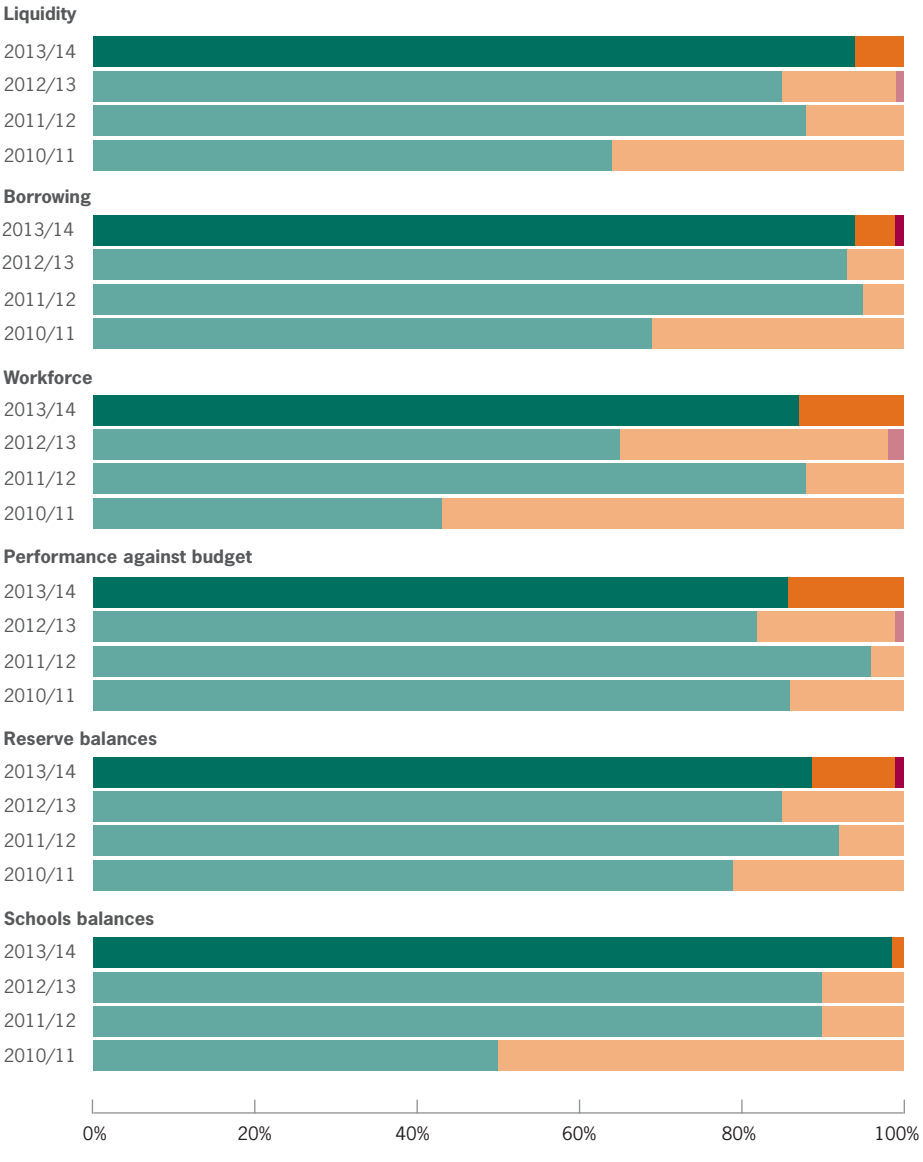
While common in other parts of the public sector and the commercial world, the use of financial ratios and performance indicators remains a comparatively rare feature of local authority financial reporting. This is gradually changing though. This type of analysis is useful as it helps to test whether arrangements that appear to be robust are actually resulting in good financial outcomes.

The key performance indicators (KPIs) we use cover a number of aspects of financial performance. Where possible, we draw on the Audit Commission's benchmarking of financial ratios to provide context.

The majority of authorities continue to deliver good financial outcomes and a robust financial position – a significant achievement given the challenges they face. Our analysis of sub-category ratings over time shows a long-term trend of improvement in all areas. But 2012/13 saw an upsurge in amber potential risks and weaknesses, with a few authorities incurring red ratings. This position has broadly recovered in 2013/14 although not to the levels seen in 2011/12.

In 2012/13, savings challenges started to bite. This may have impacted on a number of indicators. It seems likely that 2013/14 is a reflection of the action taken by authorities to restore control over the delivery of financial plans.

Figure 4 Key indicators of financial performance



Liquidity

We assess the 'current ratio' of assets (cash or assets that are readily convertible to cash) to liabilities (short-term liabilities that require prompt payment). We then look at benchmarking information to see if the authority has a low ratio in comparison to its peers and whether there is enough cash to cover short-term liabilities, with a margin of safety.

This is a rough measure which is common in the private sector. The risk of running out of cash is less acute for local authorities, due to the security of grant income receipts and the low-value, high-volume nature of local taxation, coupled with reliably high collection rates. Increasing numbers of authorities are taking advantage of the security of their income to maximise returns from short-term investments.

The low number of amber ratings in 2013/14 (6%) reflects the increasing recognition that a low current ratio does not necessarily present a problem, as long as treasury management is effective.

Borrowing

We look at benchmarking information for groups of similar authorities. This includes the ratio of long-term borrowing to long-term assets held (assets are used as a proxy for the size of the authority) and the ratio of long term borrowing against tax revenue (revenues are used to assess the ability to repay from locally-generated income, as opposed to grant funding that could be withdrawn). In line with previous years, there is only a small minority of authorities where borrowing is sufficiently large to present a risk to financial resilience (about 6%).

Workforce

We consider a range of workforce indicators, such as staff turnover, agency staff costs and the rate of appraisal. However, the primary indicator we use is the number of full-time equivalent staff working days lost to sickness during the year.

High sickness absence has implications for productivity, as well as associated costs, for example, agency staff. It can also provide an indication of working culture and staff engagement, which often have indirect financial implications. Although there are some fluctuations, the long-term picture is one of gradual improvement, with most authorities now monitoring sickness absence and taking action to reduce it.

The public sector benchmark is an average of eight days per full time equivalent lost to sickness per year, but a small number of authorities have significantly lower rates that are comparable to the private sector. Authorities with a high proportion of traditional 'blue collar' jobs in-house seem to have more problems with sickness absence. Conversely, high levels of agency staff in areas such as social care can artificially lower the sickness rate. The longer-term trend of improvement may reflect the degree of outsourcing that has taken place in the last four years alongside stronger workforce management.

The average number of sick days lost in the sample was eight, broadly in line with the public sector average. However, a minority of authorities had achieved significantly lower rates by revising their workforce management arrangements.

Performance against budget

This is a crucial indicator as it helps validate both the strength of planning arrangements and the effectiveness of financial control. A good track record of delivering to budget is a strong indicator of whether future financial plans, including large-scale savings, can be delivered.

In 2012/13, there was an upsurge in budget targets missed. Although there has been improvement, a significant minority of authorities (14%) have still struggled to deliver in 2014. The most common trigger for an amber rating is a significant revenue budget overspend. This often relates to demand-led services such as adult or children's social care. This will be a key battleground over the next few years and persistent under-budgeting in these areas is a danger sign for future financial resilience. Any authority with weaknesses in this area that is not well advanced in service transformation is likely to face financial difficulty in the immediate future.

Just under half of the issues raised relate to underspent capital budgets, which is often down to unrealistic planning assumptions or weaknesses in

the management of capital programmes. Unavoidable delays are often part and parcel of major capital schemes – which often span several years – and this would not normally trigger an amber risk unless there were doubts about capital scheme management.

This raises questions about the value of monitoring annualised capital budgets, other than in terms of cashflow, and whether authorities should be looking at alternative ways of reporting progress on capital schemes, focusing more on the risk of slippage to planned completion dates.

Reserves

We use peer group benchmarking information for the ratio of total useable reserves (general fund, earmarked reserves and useable capital receipts) compared to the gross cost of services. Comparison of the authority to the average for other similar authorities provides a useful starting point for discussion about whether reserves are sufficient. We also consider whether reserve levels are reducing year-on-year and whether this is part of a measured plan or whether the authority has, for example, used reserves to cover an unplanned revenue budget overspend.

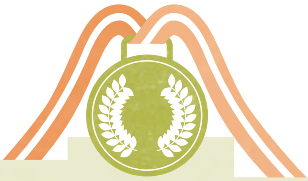
In 2013/14, the number of ambers relating to reserve levels has reduced, in line with the longer-term trend, although a minority of authorities (11%) did have notably low levels of reserves. In these cases, the ability to absorb unexpected financial shocks, to maintain services during transformation, or to invest in schemes and services, can be limited severely. It can also force authorities to borrow to fund capital programmes or to forgo capital investment.

Low or reducing reserve levels is a strong indicator that the authority might struggle to maintain financial resilience in the coming years. But despite the challenges, most authorities have maintained or increased their reserve levels to insure against financial difficulty.

Schools reserves

This indicator only affects county and single tiers with responsibility for oversight of schools. This area has dropped significantly as a risk to authorities over the four-year period. This is partly in recognition of the limited control they can exercise over schools and the limited risk that financial difficulties at a small number of schools could have a material effect on the authority's finances.

In addition, increasing numbers of schools have transferred out of local authority control over the four-year period. Where school reserves are low, it is often because of their cumulative failure to deliver to budget or to set aside reserves within financial plans. In these cases, the local authority has a responsibility to help the schools to recover a more sustainable financial position.



Case study

At Wigan Council, early delivery of the 2013/14 savings plans has allowed funds to be released for the creation of a number of new reserves which will offset some of the risks around the delivery of the Council's transformation programme. The opportunity has also been taken to re-prioritise and re-package a number of existing reserves to assist in the delivery of the transformation agenda. Wigan consider the key to its success in delivering savings to be close monitoring and regular progress reporting, and building required efficiencies to be built into base budgets, and reviews of specific service area budgets, to maintain provision of high-quality, responsive and cost-effective service.

28% of authorities, many of them single tier, considered themselves at risk of a financial tipping point, at some point between 2016 and 2018 if financial plans were not delivered.

Strategic financial planning

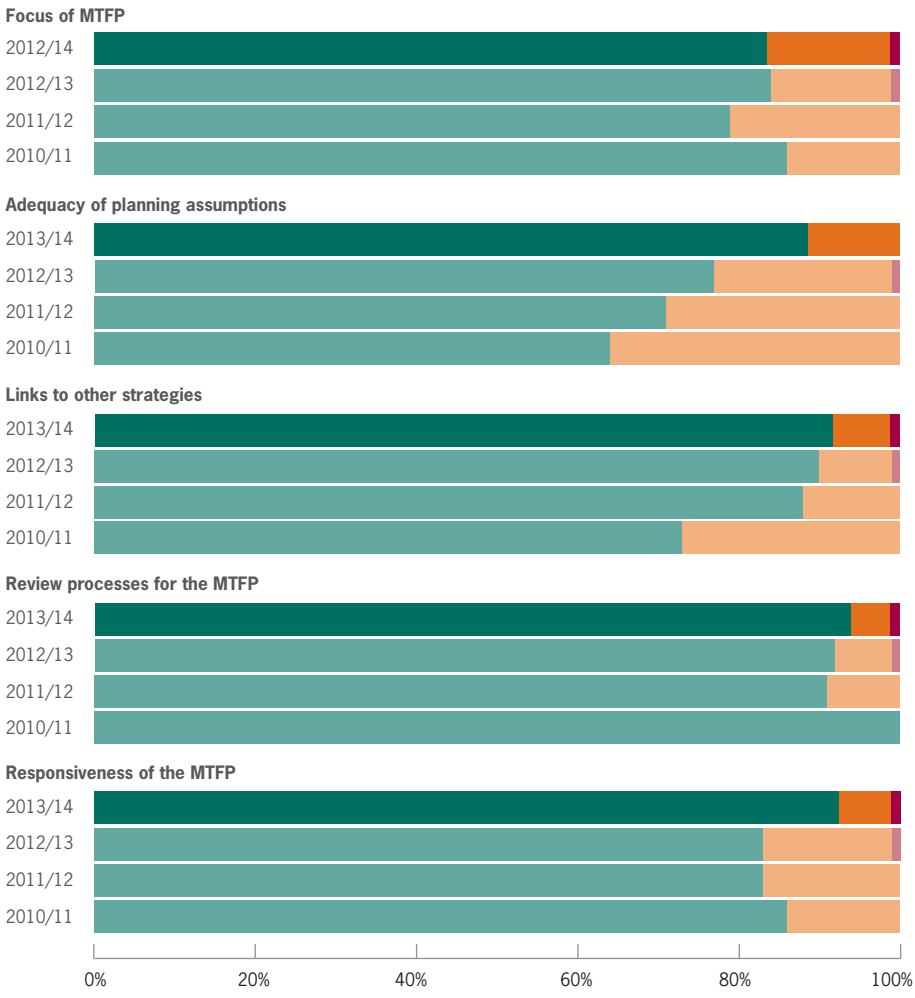
7

Local authorities have continued to improve and strengthen their strategic financial planning arrangements in line with the long-term trend. Many authorities have delivered their first post-2010 MTFP and have developed new plans for the period to 2016 and beyond. These new plans reflect the additional skills, insight and experience that they have acquired over the last four years.

Robust strategic financial planning is crucial to the future financial resilience of local authorities. Our analysis shows improvement across all sub-categories within the planning theme. This is a strong indication of significant evolution in the sophistication and effectiveness of planning processes. It is partly driven by necessity, but also by the realisation that future financial risks and pressures need to be understood fully, modelled and planned for, to an extent not previously considered.

Authorities have made particular advances in the adequacy of planning assumptions and the responsiveness of the MTFP. The level of ambers for the 'focus of the MTFP' sub-category has improved only marginally and remains a concern for a significant minority of authorities.

Figure 5 Strategic financial planning



Focus of the MTFP

This area looks at the overall scope of the MTFP, the range of forward planning and the extent to which the planned outcomes are achievable and aligned to the longer-term financial health of the authority. Although arrangements at most authorities remain adequate in proportion to their overall financial position, a significant minority (15%) carry potentially significant risks and weaknesses in 2013/14 – a consideration of different scenarios in the underlying financial modelling, or a failure to maintain a fully-developed financial planning horizon of at least three to five years.

The most common trigger was the scale of savings that needed to be achieved over the life of the plan, particularly where it was unclear how

Case study

At St Helens Metropolitan Borough Council (MBC), fully integrated financial and service planning together with joint financial and performance reporting help to ensure that it can concentrate resources on achieving priority outcomes. Departmental directors and the assistant chief executive for finance hold monthly meetings to discuss budgets, progress against key performance measures, issues relating to service delivery and actions required to address any identified concerns. The result is that clear, consolidated reports, covering both budget and service performance monitoring, are presented to cabinet on a monthly basis.

St Helens MBC also believes that gathering the views of local people and key stakeholders should be an integral part of the budget-setting process. Through its budget consultation and budget simulator initiatives, the council allows interested parties to advise on the most valued areas of its spend. The council makes the budget consultation available annually, and publishes a summary report on its website. At the same time, work continues in the form of zero-based reviews of portfolio budgets, and reviews of specific service area budgets, to maintain provision of high-quality, responsive and cost-effective service.

this would be achieved. In almost all cases, some or all of the in-year savings requirement for 2015/16 and beyond had yet to be matched to defined savings schemes. In some cases, the short timescale for delivering these savings was the main concern. In addition, some authorities continue to rely on further efficiencies and top-slicing of budgets rather than transformational schemes.

In this small number of cases, the ambers could quickly turn red in the next two years if significant progress is not made. By 2015/16, it will be apparent whether the current MTFPs, particularly those with significant savings, can be delivered. This supports our contention in previous years that for at least a small number of authorities, 2016 will mark the financial tipping point.

Conversely, we have seen that increasing numbers of district councils, particularly in the south east, are planning for a future where they are broadly self-funding, with MTFPs that reduce the reliance on central government grant to a bare minimum.

Adequacy of planning assumptions

This area has seen significant improvement in 2013/14, compared to the prior year. This probably reflects the number of new MTFPs that have come on line during the year, for 2014/15 and beyond, and the fact that the depth of analysis in many cases is significantly stronger than in the first wave of plans in 2010/11.

For example, we are seeing increasingly sophisticated use of demographic information to predict growth in demand for services, for example in adult social care, as well as the potential for growth in council tax and business rate income. Assumptions around income growth – whether from fees and charges, property or other investments, or from commercial income sources – also feature much more strongly.

A minority of authorities (10%) still have risks around the financial assumptions. There is some crossover here with the focus of the MTFP sub-category, in that the scale of savings required also features as a prominent amber trigger. Under this sub-category, the lack of a strong track record of delivering savings casts doubt on the assumption that the large-scale savings needed could be delivered. In some cases, there was a doubtful assumption that previously weak arrangements for delivering savings could be improved quickly enough to achieve plans in the following year. Other triggers related to a range of authority-specific issues.

Links to other strategies

There has been a consistent and gradual improvement over the four years of review in this area. Authorities have increasingly demonstrated effective and mutually supportive links between

33% of authorities had a planning horizon on their MTFP of only two years. 26% had a horizon of three years and only 36% had a horizon of four years or more.

Case study

A number of councils have demonstrated innovative thinking in achieving efficiencies in their services and delivering better services for less. Elmbridge Borough Council's work in collaborating with neighbouring authorities in the joint delivery of family support services was notable in its success in delivering improved outcomes for families and also resulting in reducing cost to public services overall.

strategic plans, the MTFP and service plans; and links to supporting strategies such as treasury management, capital programmes, housing, workforce and other areas. The few ambers that were raised tended to relate to individual supporting strategies that needed reviewing.

Review process

This area has consistently been the strongest sub-category in the theme. Almost all authorities review their MTFP annually, including presentation to members. In many cases this has prompted amendment of the MTFP, often in regard to the quantum or phasing of savings needed – for example, following government announcements.

In a few cases, the MTFP had not been refreshed, with significant changes being made in annual budgets, resulting in a lack of coherence between the two. In other cases, the MTFP had been allowed to run down to within a year of completion, potentially reducing the forward-planning window. However, in most of these cases this was mitigated by evidence of a longer-range view provided by the underlying financial modelling and revised savings and transformation plans.

Responsiveness of the plan

This is another sub-category that has seen significant improvement since 2013/14 and reflects the new generation of MTFPs. The main focus is on the ability of the plan to absorb financial risks – specifically the extent to which adverse scenarios have been anticipated and mitigated against – and on the flexibility to deal with as yet unforeseen scenarios.

The strength in this area is partly related to the fact that most authorities have set aside significant reserves to provide this flexibility. Many authorities have also built further contingencies into their annual budget. A number of authorities have benefitted from their policy of delivering savings in advance of need and then stripping the savings from the start of the new financial year.

This means that savings plans delivered early provide additional unbudgeted savings that can be held in reserve or used to tackle other budget pressures. Others have benefitted from budgeting investment income based on worst-case scenario returns, in the expectation that income will exceed that planned. As long as the use of additional income to fund overspends is reported transparently – corporately and by services – this is a reasonable and helpful strategy.

Case study

Councils across the country have developed initiatives to make savings in back office expenditure, without depleting resources. The London Borough of Bexley has reduced the number of physical offices used by council staff and reported savings in annual running costs of £1m at the start of 2014/15, rising to £1.5m in future years, as a direct result of this process. In addition, the surplus capital receipts generated from the disposal of former office sites will also reduce the need for borrowing to fund the council's capital programme. At Stockport Metropolitan Borough Council, the roles of staff have changed to create greater efficiency, with roles becoming more generic to allow for greater flexibility in the back office. Tewkesbury Borough Council has redeveloped their property and rationalised the space utilised by their own employees, allowing them to let out space to other entities, such as the county council's adult and children social care services, the police, the DWP, the fire service and the Citizens Advice Bureau, creating a 'public sector hub' to give local people a centralised location to access a range of services. The annual rent benefit to the council is currently £160k with £235k expected in 2015/16.

The average annual savings requirement for 2013/14 was 1.5% of the gross cost of services. This was broadly consistent across all types of council. The highest level of annual savings was 4.6%.

Financial governance

7

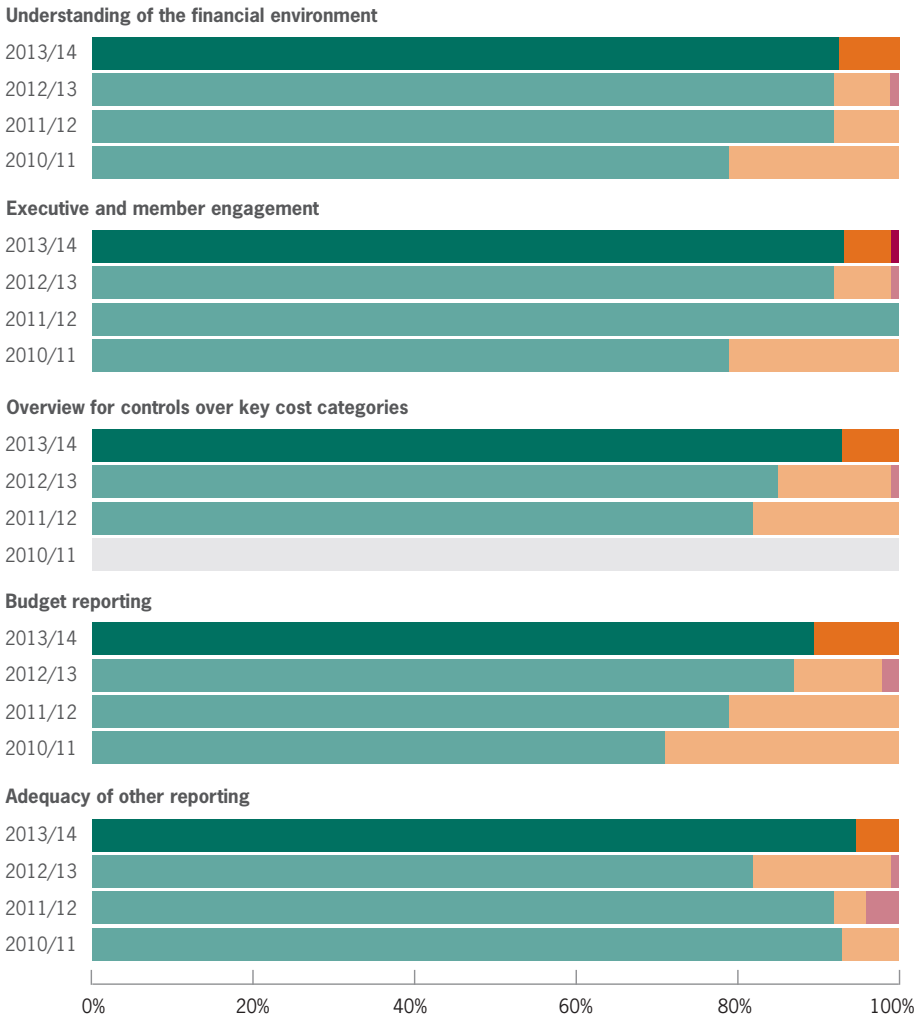
Financial governance remains a relatively strong area for local authorities. In addition to providing oversight and scrutiny, the executive team and members set the tone and the culture of the organisation. This is emerging as a key factor in ensuring financial resilience.

Our work in this theme indicates that overall financial governance continues to strengthen, particularly in the quality and access to information presented to members. This facilitates effective oversight of financial delivery.

The relationship between members and the management of the authority is a complex one, where political and administrative priorities need to be balanced carefully. Members are not necessarily experienced in financial matters, but the onus is on them to engage in the process alongside management's responsibility to support them with advice and information. These factors have to be taken into account when we are assessing what adequate arrangements look like. There will always be some tension between the competing priorities and concerns of members and management.

Although there is an overall reduction in the number of ambers in the detailed sub-categories, there is a slight increase in the number of authorities where governance was rated amber overall. While weaknesses in governance are relatively rare, where they do occur they tend to result in serious financial and/or reputational issues and can affect a broad range of operational areas. While there may be relative strength in core governance procedures, weak governance over key partnerships and within an authority's group structure can still present a significant risk if not reviewed and tested adequately.

Figure 6 Financial governance



17% of authorities do not view cultural change as a priority in regard to delivering financial plans and savings. 28% do regard it as important but have yet to take action. 28% have attempted to change the culture with limited success. Only 32% have managed to improve the financial culture of the organisation successfully.

Understanding the financial environment

This indicator looks at the extent to which members and management have a good grasp of the financial conditions and risks that the authority faces currently and in the next few years. It also reflects on the organisation's culture for finance and the strategic tone that the leadership has set. As might be expected, the level of understanding is high, with over 92% of authorities rated as green.

Over the past few years, members have had to make increasingly difficult decisions about the delivery of services. A better understanding of the underlying issues helps to build mutual confidence with the management team and to extend the organisation's risk appetite. This is particularly apparent in the increasing levels of innovation, for example, with joint working between authorities and other partners, and setting up alternative delivery models for services.

There are still a small number of cases where members have been resistant or slow to appreciate the need for a more radical outlook in regard to the sustainability of services. Some still look to the back office or to piecemeal efficiencies to provide the savings they require, and do not see a strong culture of financial efficiency as a priority, whatever the financial position. In these cases, the onus is on officers to take a stronger role in helping develop their appreciation of the financial environment and the longer-term outlook.

Member training on financial matters and their role in governance remains a weak point at many authorities. This is particularly acute in a year that has seen many new members arriving following election.

Executive and member engagement

This looks at the extent to which members and the management team engage with the financial planning and delivery and act to address problems as they arise. It also looks at the extent to which members participate in and drive the process of financial governance.

Again, this shows a slight improvement from 2012/13, and remains a relatively strong area with 93% of authorities rated green. Where ambers and one red did occur, this was related to: insufficient scrutiny of financially significant decisions; lack of effective action taken on reported financial delivery issues; and insufficient challenge or awareness of financial plans and amendments to budget.

Case study

London Borough of Sutton has demonstrated how integrated reporting can improve members' understanding of the whole picture of delivery. Their Strategy & Resources Committee reviews the financial performance report with integrated KPIs including customer service and workforce information on a quarterly basis. Members therefore review service performance in the context of the financial envelope and the progress of the major change programmes, including savings delivery against targets. The balanced scorecard includes customer feedback and workforce KPIs in a summarised accessible format.

By developing a detailed MTFS with a planning horizon to March 2019, in line with their new Council Corporate Plan, London Borough of Sutton has also been able to identify savings requirements on a long-range basis and put mitigating planning arrangements in place to ensure that they are met. When the MTFS was revised in July 2014, it was determined that the projected funding gap over the period of the plan would be £38m, due to cost pressures and significant forecast reductions to the revenue support grant. By formulating this projection in advance, Sutton now have scope to develop and deliver efficiency plans phased over a significant period of time, easing the burden on staff and the impact on service users.

Case study

Herefordshire County Council has taken a bold move in response to changes in provider markets, bringing previously outsourced services back in-house and restructuring existing outsourced contracts. When Herefordshire identified that the outsourcing of its social workers to a local NHS Trust to deliver some aspects of its service was not delivering appropriate outcomes, the contract was terminated, a radically redesigned in-house social work service implemented and the direct provision elements re-commissioned, delivering significant cost savings. Herefordshire have also renegotiated their leisure services contract, using capital investment to improve facilities, increase participation, reduce subsidy cost and improve public health outcomes.

Members receive detailed financial information at committee every two to three months at 73% of authorities. They receive monthly information at 16% of authorities. Only 11% receive updates less than quarterly.

Overview of key cost categories

This looks at the extent to which the governance arrangements provide members and the management team with a good grasp of the full range of financial and operational issues affecting the authority. This is another relatively strong area and has seen significant improvement in 2013/14. One key area of improvement has been in the way that audit committees follow up internal audit recommendations properly. The managers responsible are increasingly being held to account – often being called into meetings to explain non-compliance.

This has also led to the agreement of appropriate recommendations being given more importance. We have seen an upsurge in the establishment of member-led financial scrutiny committees or other finance-focused groups, within the authority governance structures. This additional focus can often have a significant impact on the delivery of financial plans and savings, particularly in larger authorities.

Budget reporting

This covers the scope, depth and accessibility of budgetary performance information provided to members. The last four years have seen a consistent year-on-year improvement in this area. By 2013/14, 89% of authorities were rated green. However, it remains the most problematic area in the governance theme.

Our focus on recommending improvements to our clients in the area of reporting to members has helped to fuel this improvement. But most authorities have themselves recognised the importance of strong high-level reporting as a key pillar of strong financial governance – in many cases prompting internal review and consultation with members.

More authorities are now achieving a good balance in the breadth and depth of the information provided. Methods for drawing attention to key matters such as traffic lighting for risk are becoming more prevalent.

Amber ratings in this category are related to a number of common themes. The frequency of reporting to members at committee was a concern at some authorities. In some cases this was less than quarterly. This can be a particular problem where the authority

has significant financial challenges. In these cases, reliance on member newsletters to keep them informed between meetings and to prompt challenge may not be adequate. Indeed, quarterly review by committee may not be sufficient.

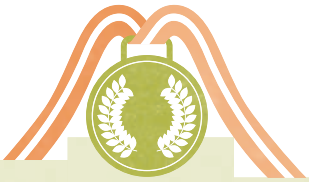
The accuracy of forecasting budget outturn was variable, sometimes resulting in significant variances and amendment between reports. The quantity of information provided, especially where the key points are not adequately drawn out, remains a barrier to member engagement in some cases. Large variances on capital budgets was again a common amber trigger – the emphasis in this theme is on the level of challenge by members on reported variances.

Other reporting

This looks at the scope, depth and accessibility of non-budget-related financial monitoring information. In particular, it considers the way that savings plan performance is monitored and reported to members. In 2011/12 and 2012/13, when many authorities were delivering large-scale savings in year, we saw an upsurge in amber ratings. This was often where members received very little information on savings plan progress, other than as a general feature of delivering the budget.

This was another area of focus for making recommendations to our clients. 2013/14 has seen a significant improvement in this area. However, a number of authorities still do not report savings plan progress separately. Where savings are delivered a year in advance of need, to be stripped from the next year's budget, some authorities consider that budget reporting is sufficient to check that the saving has worked. But this can deny members the chance to see if the next year's savings are on track before it becomes apparent in budget planning discussions. Another advantage of monitoring savings is that members can be clear on the distinction between recurrent savings delivered to plan and short-term fixes – for example, from income windfalls – that will have to be dealt with in future years.

This understanding is vital in being able to challenge the performance of officers, particularly where large-scale savings are required over a number of years. Another factor in the improvement seems to be the increasing use of an integrated balanced scorecard approach to performance management. This enables financial pressures to be viewed in the context of service performance, workforce and other operational aspects. Authorities are increasingly moving away from the old idea of reviewing financial performance in isolation.



Case study

Christchurch Borough Council and East Dorset District Council are working in partnership to facilitate a better level of service provision. A joint management team was formed in 2010, which initiated a three-year programme of shared service reviews – bringing teams together, reviewing work processes and restructuring as required. This is now almost complete and has delivered significant efficiency savings. Both councils also share their revenues and benefits service provision with North Dorset District Council and Borough of Poole through the Stour Valley and Poole Partnership, and their waste provision is part of the Dorset Waste Partnership which it formed with five other authorities.

Progress against savings plans is routinely reported separately to members at 47% of authorities. But 18% report savings to the management team only and 35% do not report savings plan progress as part of their routine financial monitoring process.

7

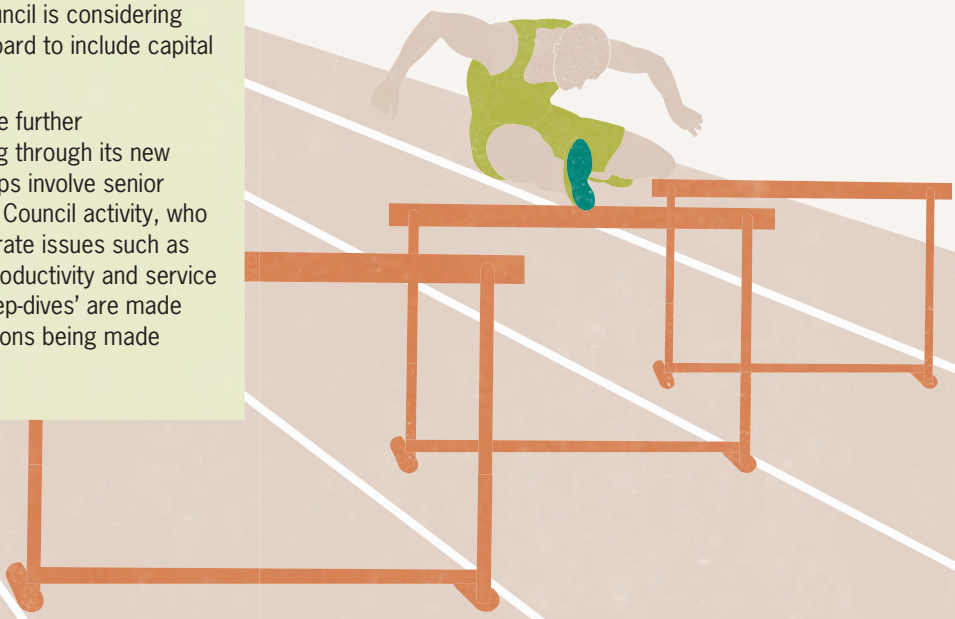
Case study

Surrey County Council has introduced regular all member seminars as part of the MTFP planning process, to keep members informed and engaged in financial monitoring. The seminars are jointly led by the Director of Finance and the Chief Executive, and allow for detailed discussion of the main financial risks facing the Council in the medium term. As a result, the interested parties within the Council have a sound understanding of these risks – which at present mainly relate to the erosion of major sources of funding, delivery of the major change programmes and associated efficiencies, delivery of the waste infrastructure and changes to health commissioning.

Surrey is also progressing a cultural shift so that all budget-holding managers have clear ownership of their financial responsibilities and understand how the wider financial environment impacts upon their service. All relevant managers are being trained to use the finance system in order to develop self-service reporting. The overarching aim of the project is proactive financial management and excellent financial decision making. As with any initiative requiring behavioural change, the Council is aware that the project will take time to embed and may be subject to challenge from some staff. The Council is mitigating this by regularly reviewing progress made and identifying actions for improvement. This has been partially achieved to date by implementing a phased roll-out of the dashboard to the directorates. Going forward the Council is considering widening the use of the financial dashboard to include capital monitoring and budget setting.

Surrey County Council is aiming to make further improvements to financial understanding through its new network leadership groups. These groups involve senior managers and experts for each area of Council activity, who meet at least monthly to discuss corporate issues such as budget and performance monitoring, productivity and service improvement. Data is reviewed and 'deep-dives' are made into selected areas, with recommendations being made where appropriate.

Where significant savings schemes fail and mitigating action is taken, this is discussed with members as standard in 44% of authorities, and by exception only in a further 45% of cases. In 11% of authorities this is not normally raised with members.



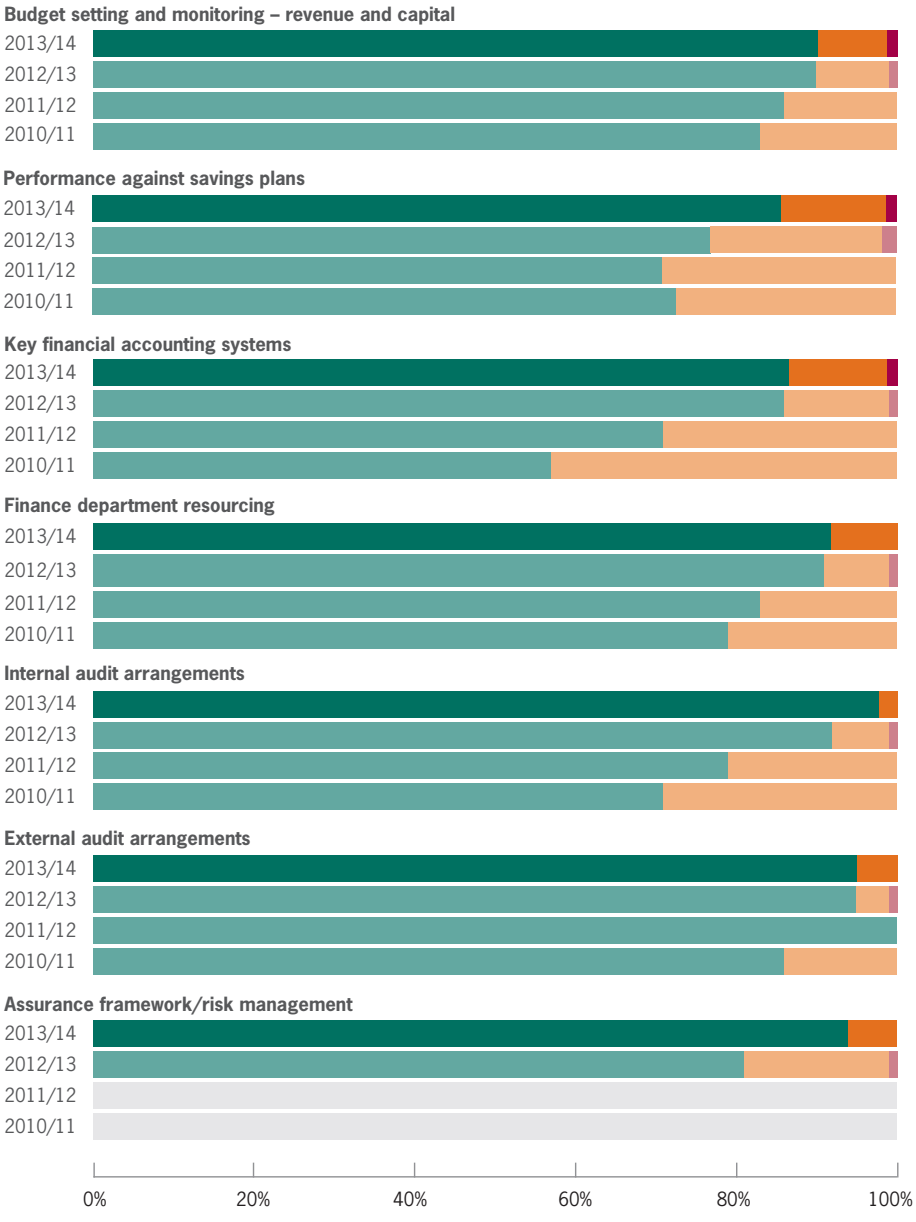
Financial control

7

Along with strategic financial planning, financial control remains one of the themes with the highest level of amber ratings. However, most authorities continue to be rated green overall for the theme and there has been a trend of gradual improvement, particularly in 2013/14.

Financial control is a diverse theme covering a number of aspects of financial management and control. These include the budget process, financial systems, the finance team and assurance processes. The management of savings plans continues to be the most prominent area for amber ratings, affecting a significant minority of authorities – 14% in 2013/14. Financial control is partly about having strong financial processes, properly applied by staff with the required skills and experience, and overseen by strong management. It is also about culture – the commitment and belief of the workforce in what the authority is trying to achieve through its financial plans and their motivation to deliver this. This is dependent on the tone set by the management team and members, and how that permeates through the organisation.

Figure 7 Financial control



Budget setting and monitoring

This sub-category covers the management process of setting and monitoring the budget. Generally this continues to be a comparatively strong area, with 90% of authorities now demonstrating adequate or green arrangements. Budget setting processes were generally well embedded and effective. There was strong engagement from services and increased focus on developing the budget on a zero

Savings plans are risk assessed for the likelihood of delivery at only 51% of authorities.

base and on a bottom-up basis. The traditional top-down emphasis for budget setting is becoming much less common – another example of how local authorities have evolved to find the most effective methods. Increasingly, managers within services are taking responsibility for delivering the budget, advised by the finance team.

This has helped improve delivery. Most authorities were monitoring the budget on a monthly basis and reporting this to the management team. There remains a significant minority of authorities with weaknesses. Some of the more common issues are to do with the inaccurate profiling of both revenue and capital budgets. That undermines the ability to monitor variances effectively and manage cash-flow. There were also a small number of authorities using reserves to cover shortfalls in the annual budget which is a danger sign for future financial resilience.

Performance against savings plans

This area looks specifically at the way savings plans are managed and delivered. Although most authorities have adequate arrangements, a significant minority have weaknesses in the process (14%). Of all the areas we cover, this one will arguably be the most crucial in the next few years. Those authorities that are struggling to deliver savings will be increasingly at risk as developing and achieving savings becomes increasingly difficult.

The most common trigger for an amber rating was that in-year savings schemes had not been defined fully for 2015/16 and beyond, with some still developing plans for 2014/15. The fact that savings schemes have not been developed for years two and three of the planning horizon is not necessarily a major risk in itself. However in many cases, efficiency savings and the top-slicing of budgets on an annual basis has delivered as much as it can and these authorities need to look to longer-term transformational schemes.

Experience shows that service and back office transformation takes time to develop, sometimes years. Those that do not yet have these plans in motion will be at risk. Close management of savings plans has become a pre-requisite of successful financial management. A corporate programme or project management approach to delivering large-scale plans is a feature of those authorities that have had success in delivering large-scale savings to date. Sophisticated risk-based reporting on progress and the development of contingency plans are also increasingly important features.

Financial accounting systems

This sub-category focuses on the extent to which the authority has implemented effective IT systems to support financial management and to meet the increased demands placed on them. The long-term picture is one of steady improvement. In 2010/11, 40% of authorities had weaknesses in their systems. In 2013/14, 92% have robust systems in place. The development of the financial system to give budget holders access to live financial information has been hugely beneficial to some. Some authorities have also enabled spending forecasts to be updated in real time. Where this system has been applied, it has assisted the devolution and accountability for financial performance in the services greatly. Amber ratings in 2013/14 tend to relate to problems with older systems acting as a barrier to effective processes or problems with the implementation of new systems. The latter highlights the importance of strong procurement and project governance arrangements.

Finance department resourcing

This looks at the capability, capacity and resilience of the finance team. A strong finance team is crucial to the continued financial resilience of an authority. In 2010/11 and 2012/13 we saw many authorities reducing their finance teams to save cost and an increased devolution of financial authority to non-finance specialists within the services. This created a lot of uncertainty about whether the new arrangements would work and be able to rise to the increasing financial challenge.

95% of authorities have confidence that their finance team is adequately skilled and resourced.

In 2012/13, these concerns reduced as the arrangements proved to be effective. In 2013/14 over 92% of authorities were deemed to have adequate or better finance teams. We have increasing assurance that the new arrangements have been successful in most cases, and have even benefitted the organisation by creating wider financial accountability outside of the finance department.

Some authorities were only just reorganising their finance teams in 2013/14, triggering amber risks due to disruption and uncertainty. The remaining ambers tended to relate to authority-specific matters. An over reliance on key individuals, with limited options for cover or succession, remains a vulnerability at many authorities.

Internal audit arrangements

This indicator covers the capability and impact of the internal audit team as a key source of assurance over financial controls. The vast majority of authorities (97%) have effective internal audit services, showing marked improvement in the years since 2010/11, when it was a significant risk area. The historic problems were not just about the capability of internal audit functions, but also about the impact they had in their organisations and the support they received from audit committees and management in driving improvement.

External audit arrangements

This indicator looks at the findings of the external audit team, primarily in regard to financial reporting and overall governance. It remains an area with few issues arising for local authorities. Over 94% of authorities audited by Grant Thornton provided sound annual accounts on time, supported by adequate accountings systems.

The 6% of amber ratings is consistent with the small number of accounts and VfM qualifications that were issued, and the rarity of authorities that were not able to provide an effective annual financial accounts process. The Department for Communities and Local Government (DCLG) plans to bring forward the date for accounts sign off, which will increase pressure on the capacity of finance teams.

Case study

Bath and North East Somerset Council has moved towards zero-based budgeting to challenge the allocation of resources and focus on resourcing priority services. It reports progress with the budget to senior management and cabinet on a monthly basis. This enables the council to act quickly in response to developing spending pressures.

It also scrutinises performance of key savings plans closely. Detailed savings plans, broken down into specific activities and years, are built into medium-term service resource plans. These feed into the overall budget report and MTFS. Scrutiny panels, cabinet and the full council then scrutinise plans. A detailed monitor of progress is made against savings achieved by directorate.

49% of authorities have a finance team that can offer basic business advice to services. 42% think they are equipped to deliver advanced business advice, including options for alternative service delivery models. Only 10% of authorities still have finance teams that are equipped to deliver only routine budget monitoring.

7

Assurance framework

This area looks at risk assurance arrangements. The realisation of corporate risks can often impact on financial resilience. Effective arrangements to understand and manage corporate risks enables the organisation to build appropriate contingencies into their financial plans to absorb financial shocks. These shocks could arise from almost any aspect of operations – for example, equal pay claims, an adverse Ofsted report or extensive flooding.

We looked at this area for the first time in 2012/13 and found a number of authorities where risk assurance arrangements had not been developed adequately or had been allowed to lapse, inhibiting their ability to plan for key risks. In 2013/14, we have seen a significant improvement, in some cases as a result of our recommendations. Risk assurance is prone to being treated as a bureaucratic necessity or as a second priority. However, an effective risk assurance process is important as a financial planning tool and authorities should make sure a proportionate and effective process is maintained.

Starting planning early provides more time to develop and challenge deliverable savings plans. Only 49% of authorities begin their planning early, from April to July. 51% begin later, from September onwards. District councils are more likely to begin later than other types.

34% of authorities use a dedicated corporate programme management team to help them deliver savings. 33% are confident this can be managed by the finance team. 32% of authorities are confident they can deliver savings without corporate monitoring of savings plans outside of the budget monitoring process.

Case study

The London Borough of Haringey has reorganised their senior management structure. This has improved clarity of roles and responsibilities which include full accountability for budget setting, monitoring and achievement. A new strategic layer of assistant directors has been introduced whose accountabilities include managing and monitoring budgets in their areas and holding budget-holders to account for performance. In addition, a new corporate management group (top 100 managers) and a corporate leadership group (assistant directors) have been formed who work collaboratively to find solutions to strategic issues and who have been responsible for developing the council's three-year savings and investment plans. It is important during times where budgets are tight to ensure that the whole council works together to achieve the required outcomes – the new structures and governance help to break down silos.

The NHS experience

7

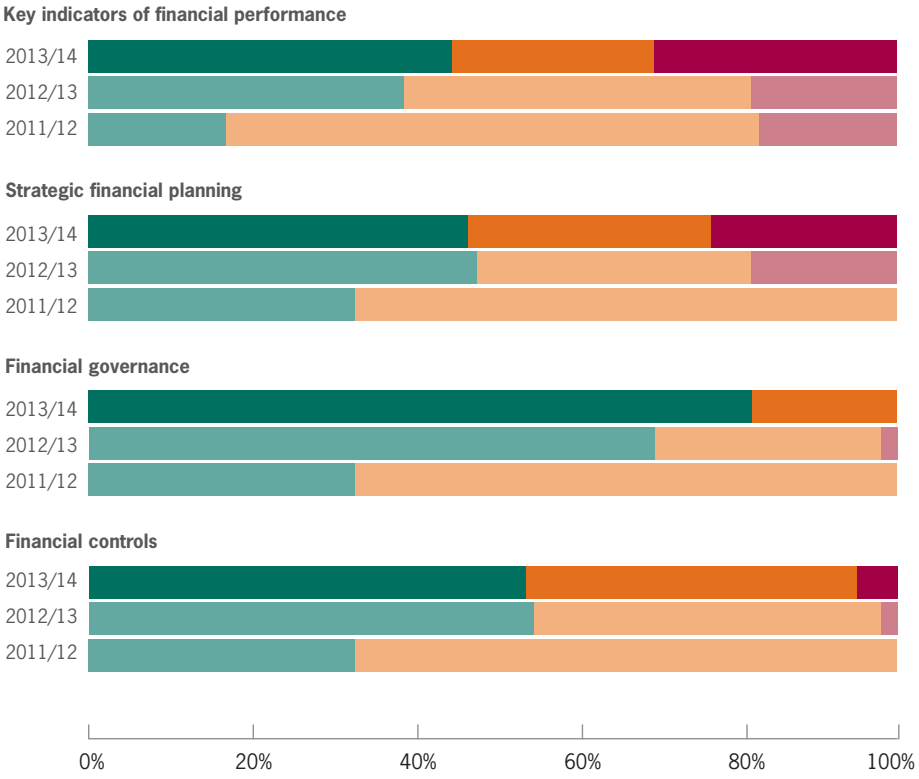
While local government has, arguably, borne the largest proportion of government funding cuts in the era of austerity, other parts of the public sector have had their own significant challenges to overcome. In this section we explore the extent to which local government can benefit and learn from the experience of the NHS.

The relative impact of austerity on different parts of the public sector is not just about the quantum of cost and the share of reductions in central government funding. The impact is affected by political priorities and the extent to which these reflect public opinion. For example, health and education have been prioritised over welfare in the current round.

Funding arrangements also play a key role – particularly the extent to which this is demand-driven – and different local economic and demographic conditions lessen or amplify the challenge.

We have used the same methodology for assessing arrangements to secure financial resilience for both NHS and local government clients. This allows us to draw some useful comparisons and learning opportunities from the NHS experience.

Figure 8 Annual comparison of thematic areas



NHS funding

In 2006, the majority of NHS funding switched from block contracts based on adjusted historic cost, to an activity-based tariff model. This was based on a standard price paid for each type of treatment delivered. The tariff was based on actual cost, but incorporated a downward adjustment that amounted to an annual cost efficiency target.

Although in theory trusts get paid for the activity they undertake, NHS commissioner budgets remained subject to tightly controlled spending limits. Until very recently, this meant that if a trust delivered more activity than planned, it may not be paid full tariff for it and therefore it may not cover costs. Patient care activity is demand-led. With an aging population demanding more care, trusts have been under pressure to make significant annual savings since 2006. However, these arrangements also led to a culture of reliance on receiving additional, unplanned tranches of money at year end from commissioners to cover at least some of this discrepancy in reimbursement. In 2013/14 this additional money ceased to be available in the same quantities, as a result of the new NHS commissioning regime. This tipped a number of trusts into financial problems.

Similarities and differences

From a localist perspective the lack of progress in achieving financial sustainability could be linked to overly bureaucratic and centrally-driven processes which hinder effective partnership working with local government. The NHS also has significant challenges in the efficient use of infrastructure and assets and in effective performance and workforce management which hinder financial sustainability. It may also reflect a failure to deliver large-scale transformational change on the scale that some parts of local government have already achieved. The NHS has had productivity improvements built into its funding and pricing for nearly a decade well before SR10 hit local government. This is clearly impacting on its ability to achieve further savings now.

It provides a useful example of what can happen to UK public services if cost savings do not keep pace with funding reductions. NHS funding arrangements resemble the grant funding element in local government. But the NHS does not have the advantage of the relatively secure revenue streams, with some scope for growth, offered by local taxation and fees and charges, being in effect wholly grant funded. There is some scope for income generation, for example from car parking and private patients, but this is limited. In addition, all NHS services are demand-driven, whereas only some local government services are – such as adult and children's social care.

Therefore the NHS scenario is closer to that of a single-tier, heavily grant-dependent local authority in many respects.

One final key difference is what happens when an NHS trust runs into financial difficulty. In these cases, the Trust Development Authority (TDA) or Monitor, the foundation trust regulator, step in and support or impose a financial turnaround process. This usually incorporates short-term support funding and external support on developing a turnaround plan, including savings and service transformation. It can also incorporate a reshuffle of the management team.

Post Corporate Assessment there have been no comparable examples of this in local government, notwithstanding the recent government intervention at Tower Hamlets which was not finance driven. It will be interesting to see what emerges if and when the first local authorities reach the tipping point.

The NHS in 2013/14

The financial position of the NHS provides a stark warning to local government about the consequences of inadequate financial management. There has been a 4% increase in real terms funding during this parliament compared to a 35% reduction in local government funding. However, NHS restructuring had to meet £20 billion of health service savings under SR10 (25% of the total), and this has proved very difficult to deliver.

Although the NHS has not, on the surface, suffered a reduction in funding, spiralling demand for services and a lack of real term inflationary increases has landed the service as a whole into an unsustainable financial position in 2013/14. A large minority of NHS

trusts are having serious difficulty in delivering a balanced budget in the medium term. As a result, the NHS shows a predominance of red and amber ratings, contrasting considerably with the predominantly green outcomes we have seen for local government.

This does not necessarily mean that local government has better financial arrangements, rather that the scale of the challenge has made it harder to achieve adequate arrangements in the NHS.

Comparison of themes

There is a pattern of improvement over time common to the NHS and local government, at least for key indicators and financial governance, with strategic financial planning and financial control in the NHS worsening only marginally.

The issues that trigger amber and red ratings are similar in both sectors – for example, a lack of clarity on how savings targets will be met over the life of the MTFP or failure to deliver budget or savings plans. The key difference has been the significant increase in red-rated risks seen in the NHS by 2013/14 in three of the four themes. This seems to indicate a process of polarisation, with the majority of trusts re-establishing control of their financial position gradually, but leaving a significant minority that are struggling.

It is tempting to speculate that a similar situation is evolving for local authorities, with one important difference. It seems that the minority of local authorities suffering acute financial difficulties will be a much smaller proportion of the whole than in the NHS.

Lessons from the NHS experience

The comparison with the NHS remains a useful yardstick, when considering the future of local government financial resilience. There are a number of lessons to be drawn from the NHS experience:

- Organisations that do not establish robust arrangements for delivering recurrent savings on schedule can quickly lose the ability to overcome the revenue deficit they accumulate.
- Efficiency savings from current processes have limited potential to deliver savings beyond the first few years. Organisational and service transformation is the only proven way to drive down unit costs and achieve large-scale savings in the medium to long term.
- It is often years before the financial benefits of large-scale transformation are felt. It often involves additional cost or investment in the initial stages. Long-range planning is therefore important.
- Effective engagement with service staff and budget holders is essential to unlock the level of leadership, drive, innovation and accountability that is required to deliver large-scale, sustainable savings year-on-year.
- Large-scale transformation involves significant cultural change, which takes time to plan and deliver. There are perhaps some useful lessons in the way that doctors and nurses have become an integrated part of financial planning and management at successful trusts. That would apply equally to social workers and other non-finance trained specialists in local government services.
- Strong governance is key to making sure that the issues above are addressed. A lack of clear action and progress made between meetings of those charged with governance can be very damaging.

A Appendix: good practice checklist

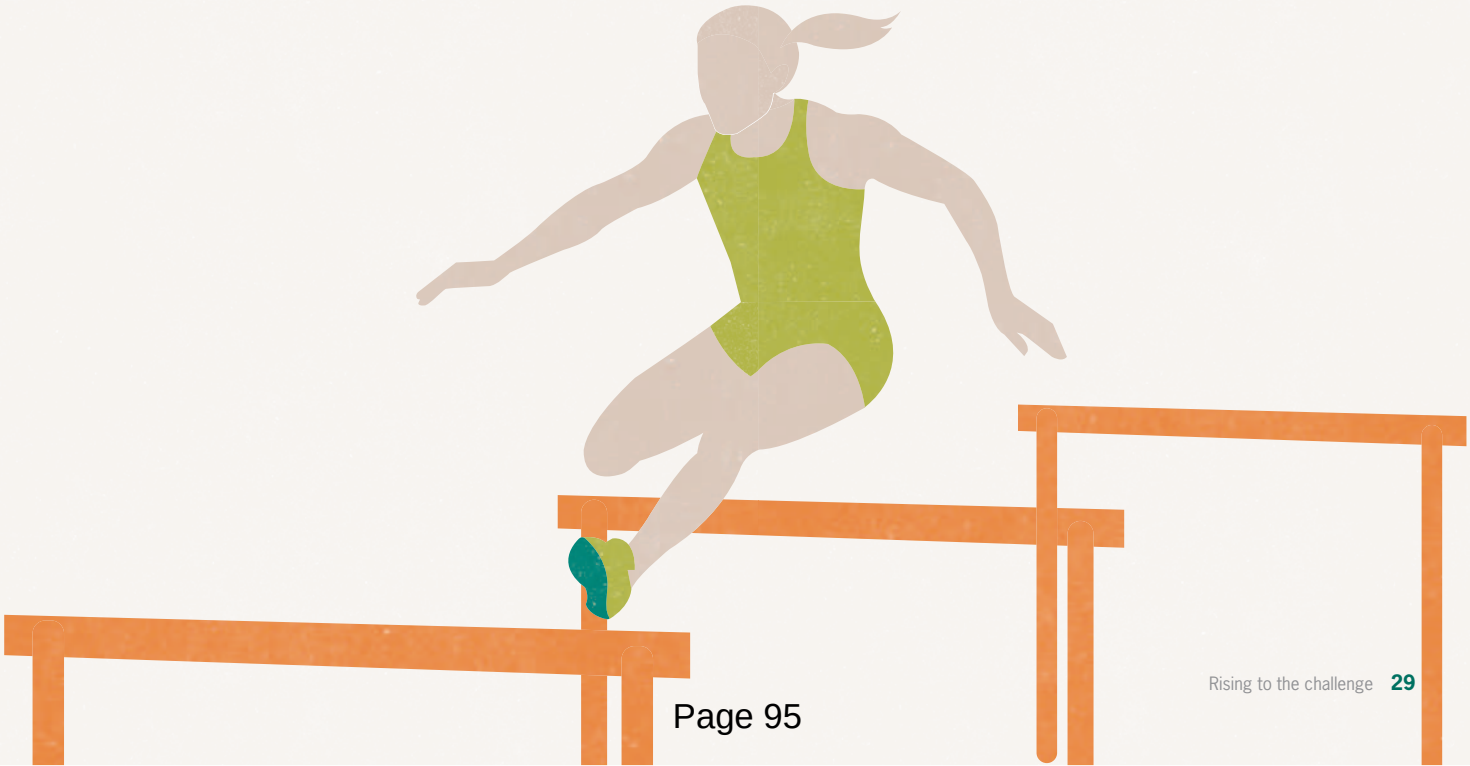
7

Key indicators of financial performance	✓	X	Comments
There is regular monitoring of key indicators of financial performance			
The council operates within a locally determined appropriate level of reserves and balances			
The general fund balance is maintained at or above the locally agreed minimum level			
Working capital is at or above a ratio set by the section 151 officer			
Levels of long-term borrowing are manageable and within prudential borrowing limits			
Targets have been set for future periods in respect of key indicators, such as reserve balances and prudential indicators			
There is a track record of spending to budget and proactively managing forecast overspends in-year			
There is a robust organisational approach and focus on absence management to improve productivity, reduce costs and enhance customer service			

Strategic financial planning	✓	X	Comments
Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities			
Service and financial planning processes are integrated			
The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working			
Annual financial plans follow the longer-term financial strategy of the council			
There is regular review of the MTFP and the assumptions made within it. The council responds to changing circumstances and manages its financial risks			
The council has performed sensitivity analysis on its financial model using a range of economic assumptions including the impact of SR10			
The MTFP is linked to and is consistent with other key strategies, including workforce			
KPIs can be derived for future periods from the information included within the MTFP			
Zero-based budgeting is used to improve strategic prioritisation during the financial planning cycle			
Effective treasury management arrangements are in place			

Financial governance	✓	X	Comments
There is a clear understanding of the financial environment the council is operating within			
Regular and transparent reporting to members. Reports include detail of action planning and variance analysis			
Actions have been taken to address key risk areas			
The CFO is a key member of the leadership team			
Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities			
The leadership ensure appropriate financial skills are in place across all levels of the organisation – for example, a good understanding of unit costs and cost drivers			
The leadership foster an open environment of challenge to financial assumptions and performance			
Effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities			
There is engagement with stakeholders including budget consultations			
There are comprehensive policies and procedures in place for members, officers and budget holders, which clearly outline responsibilities			
Internal and external audit recommendations are not overdue for implementation			
Committees and cabinet regularly review performance and it is subject to appropriate levels of scrutiny			
There are effective recovery plans in place, if required			

Financial control	✓	X	Comments
Budget setting and budget monitoring			
Budgets are robust and prepared in a timely fashion and the council has a good track record of operating within its budget			
Budgets are monitored at an officer, member and cabinet level and officers are held accountable for budgetary performance			
Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis			
Budget profiles are accurate and regularly monitored			
There is particular focus on monitoring income-related budgets			
Savings programme reporting includes effective management information on countervailing savings and the use of RAG ratings			
Staff resources			
The capacity and capability of the finance department and service departments are fit for purpose for effective financial planning and financial management			
Financial systems			
Key financial systems have received satisfactory reports from internal and external audit			
Financial systems are adequate for future needs, for example, commitment accounting functionality is available			
Internal control			
Strength of internal control arrangements – there is an effective internal audit, which has the proper profile within the organisation. Agreed internal audit recommendations are implemented routinely and in a timely manner			
There is an assurance framework in place, which is used effectively by the council. This is how business risks are managed and controlled			
The annual governance statement gives a true reflection of the organisation			



B Appendix: tipping point scenarios

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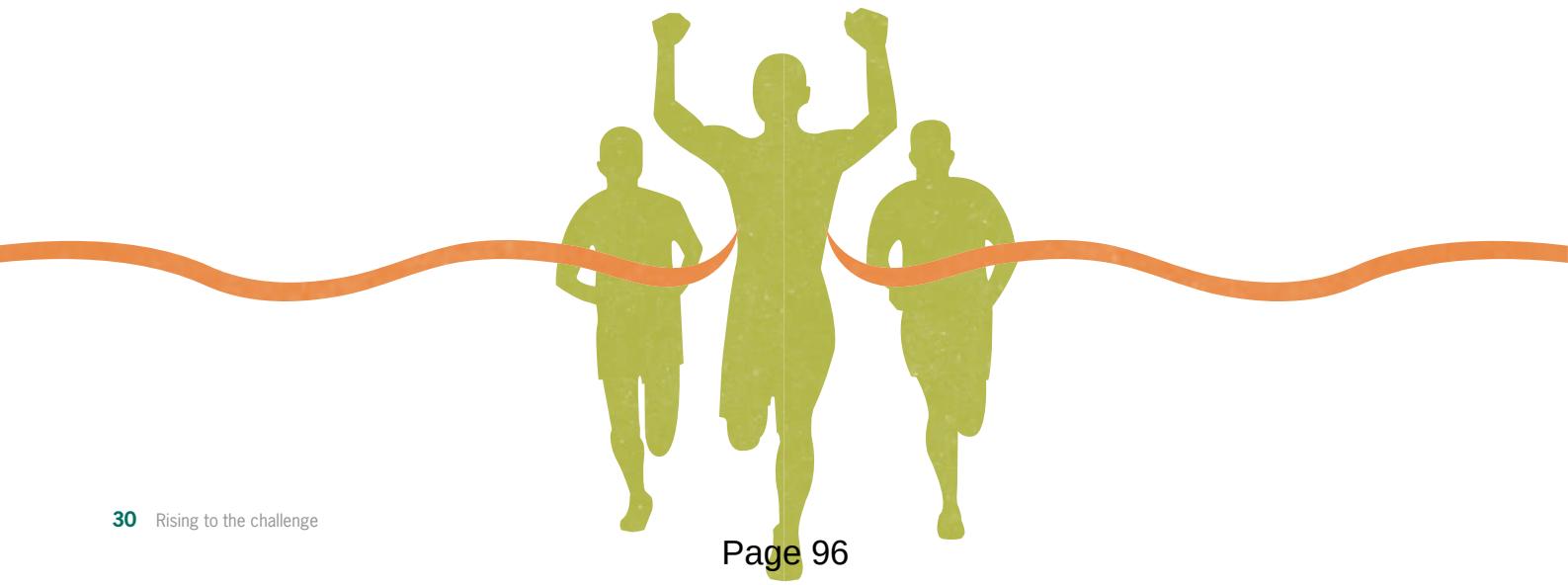
Tipping point scenario	Description
Decision paralysis	Local authorities fail to make the challenging but necessary decisions required to manage financial and other challenges. This has been identified as a potentially over-arching tipping point
Statutory	A local authority can no longer meet its statutory responsibilities to deliver a broad range of services with the funding available, leading to legal challenges and protests from impacted stakeholders
Financial	The Section 151 officer is unable to set a balanced budget, leading to an unbalanced budget report to members in line with Section 114 of the Local Government Act 1988 (England and Wales); or where the increased uncertainty leads to budget overspends that reduce reserves to unacceptably low levels; or where an authority demonstrates characteristics of an insolvent organisation, such as a failure to pay creditors. Bankruptcy is a potential outcome of this scenario, as has happened for some US local authorities, most recently Detroit
Industrial	In response to pay restraints, changes to terms and conditions and job losses, employees and trade unions enact prolonged strike action, leading to major service disruption and long-term industrial relations disputes
External	A major supplier fails, due to general economic conditions, leading to significant service disruption and reputational damage to the authority. A further banking/financial crisis would increase the risk of this scenario
Incremental	Multiple, smaller failures in individual service areas lead to an eventual critical mass of tipping points
Militancy	A local authority ignores or defies one or more statutory obligations
Civil disturbance	Where service cuts run so deep that the dissatisfaction of users leads to widespread civil disturbance, as was experienced in relation to the Community Charge/Poll Tax. This could impact on business continuity and extreme and prolonged civil disturbance could impact significantly on the overall resilience of an authority
Doomsday	A further banking/financial crisis leads to even greater levels of austerity, over a significantly longer timeframe



About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 24 locations nationwide. We understand regional differences and can respond to needs of local authorities. But our clients can also have confidence that our team of local government specialists is part of a firm led by more than 185 partners and employing over 4,200 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well-established market in the public sector and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students in the UK. Our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market. We are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients. We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities. This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach draws on a deep knowledge of local government combined with an understanding of wider public sector issues. This comes from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector. We take an active role in influencing and interpreting policy developments affecting local government and in responding to government consultation documents and their agencies.

We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

Contact us

If you would like to find out more, discuss any of the points raised in this report or discuss financial resilience at your organisation, please get in touch.

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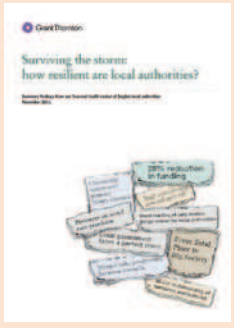

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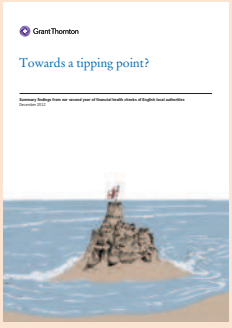

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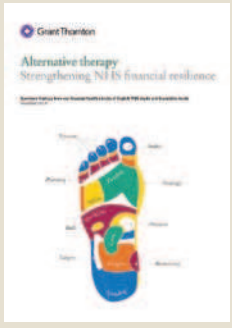

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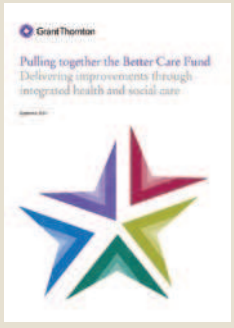

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EPI1131

SURREY COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
16 February 2015

Assurance Mapping

SUMMARY AND PURPOSE:

This report sets out the background and planned approach to Assurance Mapping.

RECOMMENDATIONS:

The committee are asked to note the proposed methodology and consider whether it will meet the expectations of the committee.

BACKGROUND:

1. Over the course of a number of years it is evident that across all audit sectors there has been a drive towards risk based auditing. However, in recent years there has also been recognition that risk alone is not sufficient. Section 2010 of the Public Sector International Accounting Standards (PSIAS) includes a requirement that the risk based plan takes in to account the organisation's assurance framework and that the work of internal audit will address local and national issues.

2. By mapping assurance coverage against the key risks in the organisation it should be possible to give senior management and elected/committee members comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal audit are then able to use the assurance map to ensure that activities can be targeted to provide sufficient coverage and minimise duplication of effort through the sharing and coordinating of activities with other management activities.

3. Through integrating assurance mapping with the audit planning process the exercise will build on existing knowledge and develop increased awareness of the wider assurance framework.

ASSURANCE MAPPING AT SCC:

4. An assurance framework is based on a 'three lines of defence" model, as outlined in Table 1 below. All three lines have a specific role to play in the internal control environment.

Table 1: The 3 lines of defence

	Source	Nature of Assurance
1st Line	Front line / business operations	Direct assurance - examples include direct management monitoring, local management controls, financial regulations, contract standing orders, performance data, KPIs
2nd Line	Corporate governance oversight	Risk assurance - this includes corporate mechanisms for reporting and monitoring including compliance & legal mechanisms, corporate risk management, Equality Impact Assessments
3rd Line	Third party review	Independent assurance - for example Internal Audit review, External Audit, External Inspectorate

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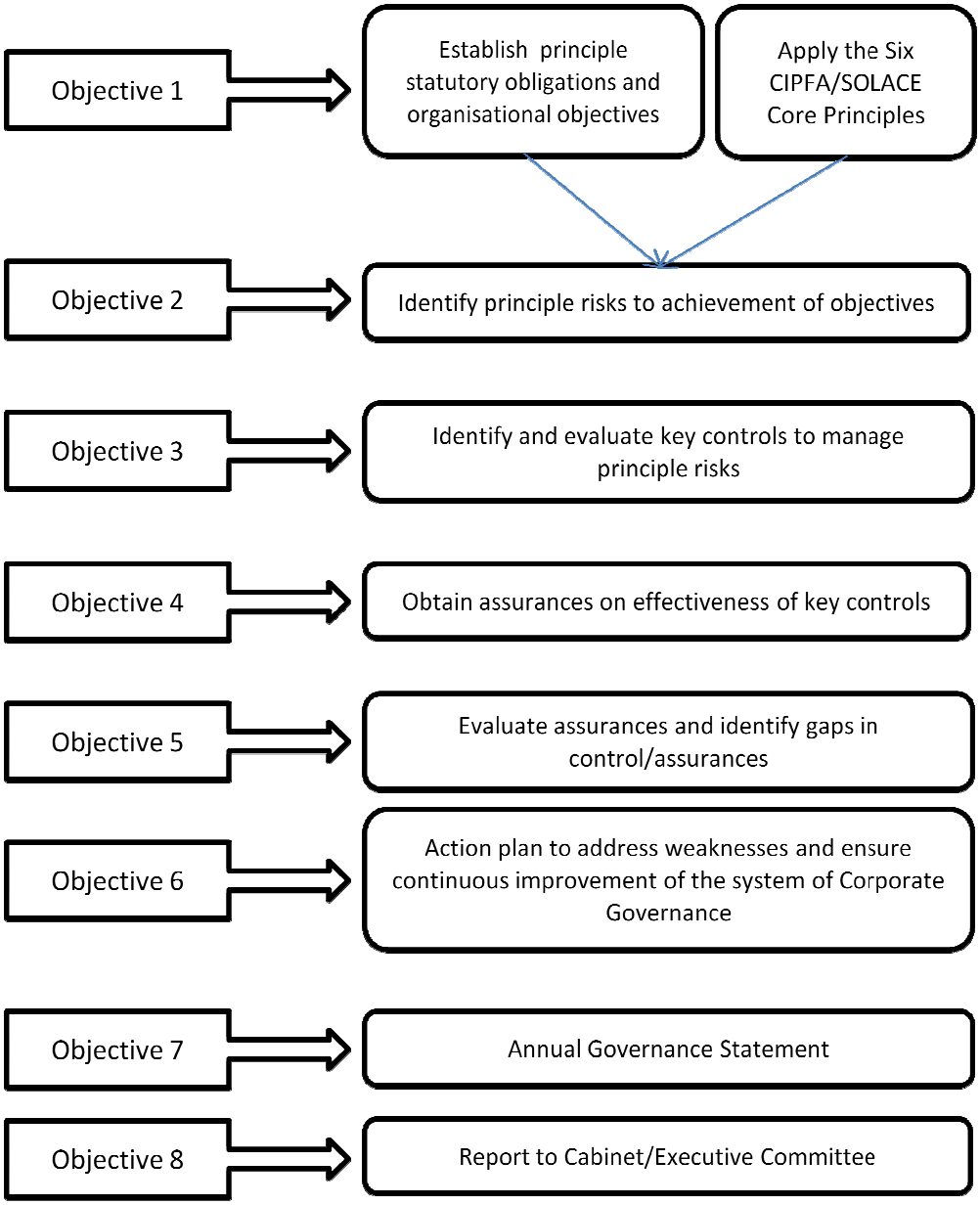
5. The Audit Commission's '**Taking it on Trust**' report highlighted that effective assurance requires a number of elements to be present together:
    - the right governance framework and risk culture;
    - a clear understanding of strategic objectives and risks;
    - good internal controls;
    - evidence that internal controls are operating effectively.

6. By combining the mapping exercise with existing internal audit assurance work it will be possible to consider the evidence that exists about the effectiveness of internal controls. However, the development, implementation and ongoing maintenance of an assurance map will take time. Consequently, Internal Audit have considered the options for undertaking Assurance Mapping and have identified a phased approach.

7. Internal Audit have designed a dashboard that will be used to map management assurance across the organisation, attached at Appendix A. We have conducted an initial assurance mapping exercise covering the Council's key strategic risks on the Leadership Risk Register to provide an overview for the Audit & Governance Committee of sources of assurance. It is proposed that the assurance map will then be consolidated with directorate risk areas and key council projects and programmes. This will allow the Committee to consider key areas and where there may be gaps in assurance or where assurance is required to be targeted by Internal Audit.

8. In terms of future development, there is opportunity to combine the mapping exercise with the processes in place for compiling the Annual Governance Statement (AGS). The CIPFA Rough Guide for Practitioners outlines the stages of reporting for internal governance and it is evident that the assurance mapping process would have a clear affinity with objectives 4 and 5 where assurance is obtained and evaluated on the key controls (figure 1).

Figure 1: The Statement on Internal Control - Meeting the Requirements of the Accounts and Audit Regulations 2003: Rough Guide for Practitioners (IPF, 2005)



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9. The method of obtaining assurance for mapping purposes will vary but is likely to follow similar processes to the AGS, consequently there is clear scope to combine with control effectiveness statements or control risk self assessments (CRSA) in the annual governance process.

10. Internal Audit will work closely with the Risk & Governance Manager to develop a framework that combines the governance process with the essential elements of assurance mapping and ensures compliance with best practice and PSIAS.

11. Internal Audit have advised the Statutory Responsibilities Network of the proposed approach where support was widely received.

NEXT STEPS

12. Proposed Assurance Dashboard will be rolled out to all directorates mapping strategic risks and identifying any gaps in assurance.
13. The findings from this exercise will be reported back to Audit Committee for their consideration.
14. Internal Audit will liaise with the Risk & Governance Manager to develop an assurance framework in line with best practice.

IMPLICATIONS:

8

Financial
There are no direct financial implications arising from this report

Equalities
There are no direct equalities implications arising from this report

Risk management
Assurance mapping will provide assurance on the effectiveness of the risk management framework and the associated control environment.

REPORT AUTHOR: Simon White, Audit Performance Manager

CONTACT DETAILS: telephone: 020 8541 9191 e-mail: simon.white@surreycc.gov.uk

Sources/background papers: Public Sector Internal Audit Standards (CIPFA/IIA, 2013), Taking it on Trust (Audit Commission, 2009), The Statement on Internal Control – meeting the Requirements of the Accounts and Audit Regulations 2003: Rough Guide for Practitioners (IPF, 2005)

Assurance Framework - Dashboard

Ref.	Statutory Obligations / Principle Objectives	Key Risks	Assurance Source													Actions / Comments
			First Line				Second Line					Third Line				
			Direct Line / Performance Mgmt	Cabinet . CLT	Self Assessment	Control	Corporate Governance	COSC / Select Committee	Health & Safety	Risk Mgmt	Control	External Audit	Internal Audit	External Review / Inspection	Control	
L1	MTFP 2014-19	Failure to achieve the MTFP which could be as a result of: • not achieving savings • additional service demand and/or • over optimistic funding levels. As a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.	✓	✓		• Monthly reporting to Continuous Improvement and Productivity Board and Cabinet on the forecast outturn position • Budget Support meetings (Chief Executive and Director of Finance) report back to Cabinet as necessary • Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year • Monthly formal budget reports		✓		✓	• Budget planning discussions with Cabinet and Select Committee • Risk monitored on Leadership Risk Register	✓	✓		• External Audit provide commentary on overall financial position of authority. • Internal Audit review MTFP under Revenue Budget Control.	
L2	Central Government policy development	Central Government policy changes, in particular the Care Act, may put additional pressure on demand for all public services leading to an erosion of financial resilience and ability to deliver statutory and essential services.	✓	✓		• Effective horizon scanning to ensure thorough understanding of intended policy changes • Implementation of the recommendations of the Welfare Reform Task Group, approved by the Cabinet in April 2014, to mitigate the impact of reforms on Surrey Residents. • ASC reviewing roles and structure to realign service to meet requirements of welfare reform, working closely with internal and external partners.		✓		✓	• Implementation of a welfare reform programme considered at Health Scrutiny Committee including districts and boroughs covering: - Advice and information - Financial resilience - Emergency assistance - Localisation of council tax support - Housing and homelessness - Employment training and support • Update on Better Care Fund to Health Scrutiny Committee • Risk monitored on Leadership Risk Register		✓	✓	• CQC inspection of all 5 Surrey Acute Hospitals. • Internal Audit review of Better Care Fund amd Care Bill Preparedness.	Taking opportunities to influence central government e.g. via the Local Government Association.
L3	Waste	Failure to deliver the key elements of the waste strategy lead to negative financial and reputational impact.	✓	✓		• Implementation monitored by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board • All major decisions are reported to Cabinet on a frequent basis • Cabinet paper in November outlines a strategy to implement a single waste authority	✓			✓	• Good governance of Joint strategic partnership reinforces collaboration and will, if successful, strengthen the ability to deliver the key elements of the waste strategy • Risk monitored on Leadership Risk Register		✓		• Internal Audit review of Waste Management and Minimisation	
L4	Integration of health and social care	A breakdown in partnership working, or the failure of a key partner, results in our inability to co-ordinate and integrate health and social care services, reducing our collective impact on improving health outcomes, failing to develop a sustainable financial model across health and social care and a failure to achieve the optimal outcome for residents in relation to health and social care. Failure to achieve efficiency targets for reductions in health and social care due to inability to work together with partners.	✓			Governance arrangements: • robust partnership governance arrangements are in place through the Better Care Board , Public Sector Transformation programme and Surrey's Heath and Wellbeing Board • regular monitoring of progress and risks against key H&SC integration workstreams and agreed financial framework (incl. the Better Care Fund) • support and implementation of the Central Government framework working together to approve and sign up to the Surrey Better Care Fund plan.	✓			✓	• Prioritisation of resources and clear senior leadership across Council directorates to support the development of H&SC workstreams, and • Continued focus on building and maintaining strong relationship with partners through regular formal and informal dialogue. • Risk monitored on Leadership Risk Register		✓		• Internal Audit review of Better Care Fund amd Care Bill Preparedness.	
L5	Comprehensive Spending Review (CSR) 2015	Risk that CSR 2015: • reduces further the total public sector funding available, and • introduces a revised distribution mechanism which lowers the councils financial resilience.	✓	✓		• Focused contribution to Local Government Commission to review LG Funding throughout summer / autumn 2014 (Officer and Member level) • Officers (Finance and Policy in particular) to sustain pro-active horizon scanning for insight into potential funding change.	✓			✓	• Development of scenarios for budget planning process • Risk monitored on Leadership Risk Register		✓		• Internal Audit review of budget planning in Revenue Budgetary Control Audit	

Assurance Framework - Dashboard

Ref.	Statutory Obligations / Principle Objectives	Key Risks	Assurance Source													Actions / Comments
			First Line				Second Line					Third Line				
			Direct Line / Performance Mgmt	Cabinet . CLT	Self Assessment	Control	Corporate Governance	COSC / Select Committee	Health & Safety	Risk Mgmt	Control	External Audit	Internal Audit	External Review / Inspection	Control	
L6	Safeguarding	Avoidable failure or abusive actions in Children's Services and/or Adults Social Care lead to serious harm, death or a major impact on individual well being.	✓	✓		• ASC is reviewing its safeguarding structure, framework and model following a Peer Review and the implications of the Care Act 2014. • ASC and CSF are working as key stakeholders in the further development of the Multi-Agency Safeguarding Hub at Guildford Police Station. • Close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions.	✓			✓	• Working within the frameworks established by the Surrey Safeguarding Adults Board and the Children's Safeguarding Board ensures the council's policies and procedures are up to date and based on good practice. • Risk monitored on Leadership Risk Register		✓	✓	• Internal Audit review of Safeguarding QA Process • OFSTED inspection of Childrens' Services	
L7	Future Funding	The council is highly dependent on Council Tax for funding, and the ability to increase that in real terms is constrained (by current government policy). This could lead to a reduction in the council's financial resilience with the consequence that funding for key services will be seriously eroded.		✓		• Structured approach to ensuring Government understands the council's Council Tax strategy and high dependence • Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular School Basic Need) • Continued horizon scanning of the financial implications of existing and future government policy changes • Development of alternative / new sources of funding (e.g. bidding for grants) • Review how systems and processes can lead to greater efficiencies.		✓		✓	• COSC scrutiny of funding strategy • Risk monitored on Leadership Risk Register					Internal Audit liaise with External Audit to review Council's financial reslience and long term, funding strategy (beyond balanced budget)?
L8	Reputation	A significant failure to deliver within the organisation (caused by an event or individual), could lead to a loss of trust and confidence in the organisation by external stakeholders (e.g. residents, Government, Partners) affecting our ability to deliver services effectively and harming our freedoms and flexibilities from Government controls.	✓	✓		• Processes in place that minimise the likelihood of organisational failure include: - Active learning by senior leaders from experiences / incidents outside the council inform continual improvement within the council	✓			✓	• Processes in place that minimise the likelihood of organisational failure include: - Strong corporate values - Robust Governance framework (including codes of conduct, health & safety policies, complaints tracking). • Risk monitored on Leadership Risk Register		✓		• Internal Audit review of Corporate Governance and Organisational Ethics	
L9	Staff resilience to change and demand pressure	Low morale leading to loss in productivity, increased sickness and staff turnover.	✓	✓		• Communication, consultation and engagement is a priority for the council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives • Currently eight training courses available that address various aspects of change. Trained coaches who are available in all services to support staff. New High Performance Development Programme to be commissioned for roll-out across the organisation.	✓			✓	Range of governance processes in plcae across the council inclduing: • Comprehensive range of surveys and focus groups provide a measure of the staff satisfaction with the council and its management of change. • The smarter working framework and flexible working policy are in place to support managers and their teams to work differently. • Promotion of support mechanisms for staff (eg. employee assistance). • Staff are encouraged to get involved in finding innovative solutions to redesign services. • Better Place to Work outcomes are implemented • Training of managers in effective engagement of their staff to roll out over 2015. • Risk monitored on Leadership Risk Register		✓		• Internal Audit review of Corporate Governance and Absence Management	
L10	Business Continuity, Emergency Planning	Failure to respond effectively to a known event or major incident results in an inability to deliver key services.	✓			• Close working between key services and the Emergency Management Team to update plans and share learning • Continued consultation with Unions and regular communication to staff.		✓		✓	• The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. • Combined Environment & Infrastructure and Communities Select Committees Task Group agreed to identify improvement and best practices during the recent flooding. • Risk monitored on Leadership Risk Register		✓	✓	• Internal Audit review of Business Continuity and Emergency Planning • External risks are assessed through Local Resilience Forum	

LEADERSHIP RISK REGISTER

Assurance Framework - Dashboard

Ref.	Statutory Obligations / Principle Objectives	Key Risks	Assurance Source: First Line				Second Line					Third Line				Actions / Comments
			Direct Line / Performance Mgmt	Cabinet . CLT	Self Assessment	Control	Corporate Governance	COSC / Select Committee	Health & Safety	Risk Mgmt	Control	External Audit	Internal Audit	External Review / Inspection	Control	
L11	Information Governance	Loss of protected data by the council leads to financial penalties, safeguarding issues and erosion of public trust.	✓			• Encrypted laptops – 100% coverage for our 5,500 Laptop estate • Secure environment through the Egress encrypted email system • Twice-yearly communications campaign linked to known peaks for breaches, and a refreshed and re-launched information security e-learning package. • Implement learning from feedback where breaches occur. • Directorates and Digital Delivery Team to engage with partners to deliver a platform that will enable appropriate sharing of information between agencies.	✓			✓	• introduction of the Information Governance Board and the launch of the data classification project, both of which commenced in the first quarter of 2014/15, and will help to manage this risk. • continuation of training for staff to improve awareness and ensure adherence to procedures • Risk monitored on Leadership Risk Register		✓	✓	• Internal Audit Management Action Plans in place that are monitored by Audit & Governance Committee and Select Committees • Internal Audit review of Information Governance and PSN Compliance • SCC has received GCSx accreditation certificate and recently passed PSN Compliance	Despite the identified controls, there is a continued risk of human error that is out of the council's control.
L12	Supply chain / contractor resilience	Supply chain failure, lack of business continuity arrangements in place leading to increased costs, time delays or reputational damage and failure to promote service delivery.	✓			• Supply chain business continuity plans for strategic/critical contracts to meet required standards. • Consistent management of supply chain risks across all key suppliers through common reporting. • Regular supplier intelligence reporting in place to track industry and supplier news.				✓	• Risk management training provided to contract managers to enable a consistent approach. • Risk monitored on Leadership Risk Register					Internal audit review of spply chain / contractor resilience

Key	
✓	Assurance in place
	Gap in assurance line of defence
	Action required

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SURREY COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE
16 February 2015

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting of this Committee in December 2014 - as attached at Annex A.

Although it is not the Committee's policy to review all Internal Audit reports in detail during the meeting, full copies of the reports summarised have been provided to Members of the Committee and are available through the Members' on-line library.

RECOMMENDATIONS:

The Committee is asked to consider whether there are any audit reports or management action plans that it would like to review further and whether there are any matters they wish to refer to the relevant Select Committee.

BACKGROUND:

1 At the conclusion of each audit review a report is issued to the responsible manager who is asked to complete an action plan responding to the recommendations.

2 The return of a management action plan (MAP), which in the auditor's opinion adequately addresses the report findings and recommendations, signals the end of the audit process. Any follow up work required forms part of future audit plans at the appropriate time.

3 There have been nine audit reports issued since the last report to this Committee in December 2014. The table below lists those audits and shows the audit opinion and number of high priority recommendations included in the Management Action Plan.

	Audit	Opinion	Number of recommendations rated as High Priority
1	Supply of Equipment	Some Improvement Needed	0
2	Financial Assessments and Benefits	Some Improvement Needed	0
3	Pension Fund Investments	Some Improvement Needed	1
4	Property Asset Management System	Some Improvement Needed	1
5	Review of Bus Operating Contracts	Some Improvement Needed	2
6	SAP Application Controls	Effective	0
7	Public Service Network	Effective	0
8	Fuel Card Analytics	Significant Improvement Needed	5
9	ASC Provider Portal	n/a – Position Statement	0

4 Annex A contains more details of the audits listed above and shows for each the:

- title of the audit
- background to the review
- key findings
- overall audit opinion
- key recommendations for improvement

5 The Committee will be aware that in order to respond to general Member interest in Internal Audit reports it has previously been agreed that a list of completed reports will be circulated to all Members of the County Council on a periodic basis.

6 In order to fully discharge its duties in relation to governance the Committee is asked to review the attached list of recently completed Internal Audit reports and determine whether there are any matters that it would like to review further or if it would like to suggest another Select Committee does so.

9

SELECT COMMITTEE REVIEW:

7 The **Fuel Cards Analytics** Internal Audit report is planned to be considered by the Council Overview and Scrutiny Committee in April or May 2015. The Chairman of Environment and Transport Select Committee is currently considering whether or not to review the findings of the **Bus Operating Contracts** Internal Audit report in a formal committee meeting. The **Pension Fund Investments** Internal Audit report will be included within the Manager Issues report to be presented at a meeting of the Pension Fund Board on 13 February 2015.

IMPLICATIONS:

8 Financial
Equalities
Risk management and value for money

9 There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed Internal Audit Reporting and Escalation Policy

WHAT HAPPENS NEXT:

10 See Recommendations above.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor, Policy and Performance

CONTACT DETAILS: telephone: 020 8541 9190 e-mail sue.lewry-jones@surreycc.gov.uk,

Sources/background papers: Final audit reports and agreed management action plans

Completed Audit Reports (November 2014 – February 2015) Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Supply of Equipment	The council and Surrey Clinical Commissioning Groups jointly fund equipment services in Adult Social Care (ASC). The service is provided by Millbrook Healthcare and this contract is due for renewal in April 2016. A whole system review, led by ASC, is currently underway to look at equipment services across the council.	The contract appears to be operating as expected. No evidence was found of SCC being charged unnecessarily for new equipment. It is possible, however, that prescribers are preferentially ordering more expensive equipment where lower cost equivalents are available. Weaknesses in coordination between council and health prescribers both increases delivery costs and limits the extent to which individuals' care services are joined up. Financial savings are available through better management of prescriber behaviour, which is currently generating unnecessary delivery charges. For illustration, eliminating multiple deliveries caused by lack of coordination with other prescribers and individuals has the potential to save up to £100k, in excess of 2% of the service budget.	Some Improvement Needed	Management should consider removing high cost items from the catalogue where lower cost equivalents are available. **(M)** Management should consider ways to encourage coordination between SCC and health prescribers. **(M)** Management should arrange workshops to train prescribers and encourage the use of service user led orders. **(M)** Management should monitor the use high cost delivery speeds and 'service user led' orders by teams, and revise the protocol for direct 'verbal' requests. **(M)** Management should consider how to change prescriber behaviour in particular with regards to: deadlines for same/next day delivery; speed of delivery; and multiple deliveries. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Financial Assessments and Benefits	Adult Social Care (ASC) teams participated in a Rapid Improvement Event (RIE) held in June 2013. The event looked at the end to end process of social care charges. The event identified a number of proposals: To transfer the responsibility for the 'paying for care' conversation from care practitioners to the Financial Assessments and Benefits advisors; and, to set timescales for the completion of financial assessments so that the assessments is completed in advance of service provision. The new process was rolled out in November 2013.	Individual actions proposed in the RIE have been implemented. However, the cumulative impact has not yet been realised. Data sets are held on the number of referrals and financial assessments completed per month, however, these are held in separate systems. The Auditor was unable to identify the number of clients awaiting a financial assessment. The current KPI's do not include targets or reference to ranges of acceptable performance. Data suggests that that over the last six months there has not been any improvement in the timeliness of assessments. Furthermore, historic data is unavailable therefore, at this time the Auditor is unable to offer an opinion on the effectiveness of the new processes. A review of the 20 largest billing charges posted in the period June to August 2014 suggests 43% are retrospective charges. A delay in charging causes instant debt to the council.	Some Improvement Needed	The service should consider monthly reporting to committees and management teams on the number of clients that have been referred to the service but are waiting for a financial assessment. **(M)** The service should consider developing simple actionable metrics including targets to be achieved or reference to upper and lower ranges of acceptable performance. **(M)** Management should conduct close monitoring of the financial assessment processes and resources to identify improvements in the timeliness of assessments. **(M)** The service should consider an aged report on clients waiting for a financial assessment in order to concentrate resources on high risk clients. **(M)** The service conducts periodic reviews to obtain client feedback. **(L)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Pension Fund Investments	The Local Government Pension Scheme (LGPS) is a funded scheme, which operates distinctly from the non-funded public sector schemes and has its own regulatory framework. The funds received through employer and employee contributions are invested and administered at individual pension fund authority level with the agreement of elected members who are accountable to the local council taxpayers. The Pensions Investment audit is a Key Financial System audit and is concerned with ensuring controls are in place to account for deposits received and invested.	It was found that quarterly reconciliations of SAP to the Northern Trust (NT) Global Custodian account had not been completed. Audit testing of drawdown requests found one instance where the actual amount paid to the fund manager exceeded the amount requested. An independent adviser to the Pension Fund had recently been appointed as a Director of a Global Investment company. This may present a perceived conflict of interest. Detailed review of the risk register identified a number of additional risks for consideration. Testing of fund manager fee payments identified a payment that had been accrued to the wrong account period. Results of testing indicate that independent controls assurance statements had not been obtained for two fund managers, representing 11.5% of funds invested.	Some Improvement needed	Quarterly reconciliations to the Northern Trust account should be completed in a timely manner. (**H**) Fund drawdown requests should be accurately actioned. (**L**) The Pension Fund Board should ensure that any potential conflict of interest is managed appropriately in relation to the use of independent advisers. (**L**) The Pension Fund Board could consider the Pension Funds exposure to additional risks highlighted by the auditor. (**L**) Fund manager payments should be accounted for in the correct financial period. (**L**) The Pensions Team should provide for clawbacks in their accounting treatment where this arrangement has been negotiated. (**L**) The Pension Fund Board should review all controls assurance statements in order to consider any limitations identified in the report. (**L**)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Property Asset Management System (PAMS)	Property Services are responsible for the management and maintenance of SCC's property portfolio (>1,500 assets) valued at more than £1bn. Property Services jointly procured Atrium Property, with Hampshire County Council (HCC) commonly referred to as PAMS in late 2012/13 via a contract with Atrium Software Ltd. The system is being implemented on a module by module basis over 3 phases while ensuring that payments to contractors in PAMS interface with SAP at the same time. Most of Phase 1 went live on or after 2 April 2013 and was reviewed as part of this audit.	PAMS implementation was delayed due to differing priorities of SCC and HCC; the need to gather and clean the information; and delays in Atrium support. Master Data in PAMS is not complete. All Contracts in PAMS are not populated in the Contract Management System. Advanced reporting facility to add value in meeting requirements are yet to be developed. Help Desk staff do not comply with the ordering process resulting in duplicate orders being raised unnecessarily and then cancelled. Sample of reactive orders are not checked as previously agreed with Internal Audit. The current method of filing paid invoices is inefficient and not a good use of resources. SAP interface runs are not frequent, regular or complete.	Some Improvement Needed	Master data in PAMS should be maintained on an ongoing basis. **(M)** All contracts should be recorded in PAMS and Procurement's Contract Management System. **(M)** The advanced reporting facility should be developed to add value to meet service requirements. **(L)** Help Desk staff should be reminded to comply with the procedures for placing orders and cancelled orders should be regularly reviewed. **(M)** The sample checks agreed with Internal Audit should be implemented. **(M)** The process for filing paid invoices should be resolved using the payment report from IMT. **(H)** Interface files should be complete with regular and frequent runs. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Bus Operating Contracts	SCC has >100 bus operating contracts in place providing bus services to Surrey residents in areas where commercial providers do not operate. The total contracted value is in the region of £11m per annum including £1m paid in a single instalment in October each year to Transport for London (TfL) in return for the London buses which operate services into Surrey. In addition, 3 other types of contracts, namely Minimum Subsidy (MS), De Minimis (DM) and Minimum Cost (MC) contracts are in operation. Bus operators on MS and MC contracts are paid a fuel subsidy by the DfT and from 1 Jan 2014, this is paid as a grant to SCC to administer.	The number of contracts in operation at any given time cannot be easily established due to the use of an obsolete access database by the team to hold the information. The system does not hold audit trails and is not fit for purpose as it is not supported by IMT. The referencing of contracts is not logical and since the operator is able to switch from one type of contract to another with the approval of the Bus Service Planning Team, it is not possible to trace the history of a given contract. Some contracts with no end dates have been operating for a number of years with little or no review. Numerous manual processes are used to complement the end to end processes that make the operations of the team both resource intensive and inefficient. However, the team has numerous experienced staff. Work is underway to move to framework contracts.	Some Improvement Needed	Priority should be given to the work that is already underway to implement a suitable alternative and a user friendly IT system which will enable transparency and audit trails of all operations that take place in the Bus Service Planning Team. **(H)** Referencing of contracts should be reviewed and a logical sequence adopted clearly separating the routes and days of operation. **(H)** Contracts with no end dates should be awarded as one year contracts and reviewed annually. **(M)** The proposed procurement arrangements of moving to Framework Contracts should be progressed as appropriate. **(M)** The new system should be supported by IMT to reduce the manual processes and support the planning and delivering of the bus service required for the residents of Surrey. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
SAP Application Controls	SAP is the Enterprise Resource Program (ERP) for Surrey County Council and as such performs many critical financial processes such as Payroll, Accounts Payable and General Ledger. As a key element of the IT infrastructure and a key financial system SAP is included in the annual audit cycle. This audit focused on the maintenance and change control processes in place.	The 'change environment' is well documented and policy and procedures are in place. The documenting of approval decisions has historically been weak but this has improved significantly since January 2014. Testing of low priority requests for change found no discrepancies. Organisational changes, impacting on the SAP landscape are being well managed. Partnership working impacting on the use of SAP must be carefully risk assessed particularly where access to data is concerned.	Effective	A process is agreed with the lead for partnership working to produce a list of expected transfer/access arrangements. IMT staff can then vet access against this list. **(M)** Partnership staff are required to sign off an acceptable usage policy prior to access. **(M)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
PSN – Public Services Network	The Public Services Network (PSN) is a key facet to central government's Information Communication Technology (ICT) Strategy. PSN is an evolution of the UK Government Connect Secure Extranet (GCSx) and envisions a single secure, open logical network shared by government bodies for the efficient exchange of information. PSN compliance requirements are neither harder nor easier than GCSx compliance; however connection will only be given to those that are presently compliant at the time of review by the PSN Compliance team.	An independent assessor has been commissioned to assess the security of the network and they are appropriately accredited to review government level installations. The rules of engagement have been clearly defined with the assessor to ensure that only non-destructive testing can be used. Action plans have been generated in response to the findings identified by the external assessor. All actions have been undertaken in a timely manner. Those findings where a 'take no action' has been tabled are reasonable and risk assessed. Review of pass findings and comparison to this year's findings demonstrates that weaknesses are not being repeated.	Effective	None

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Fuel Card Analytics	As part of Internal Audit's counter fraud programme data analytics is used to identify scenarios and trends that may be indicative of inappropriate activity but are hidden in the mass of transactions. In the last 12 months Surrey County Council has made 4691 separate transactions for the purchase of fuel. The total value of these inclusive of VAT is £302,433. There are a total of 240 cards divided amongst 49 groups. The annual average card spend is £1260 with the largest spend on a single card being £8135 during the period of review.	There was no policy in place and no procedure for business as usual processes. The data indicates that assumptions concerning how controls function are incorrect and that any vehicle producing a SCC fuel card at a petrol court, regardless of ownership, would have the bill paid. Cards are being shared amongst vehicles/users. There is no assurance that private vehicles are not using the fuel cards.	Significant Improvement needed	Draft a policy that explicitly forbids the sharing of fuel cards between cars unless the card is allocated to a named individual. **(H)** ***Note: this has now been actioned.*** Managers should consider multiple instances of card use in a day, particularly those transactions for the same fuel and determine if they are reasonable. **(H)** ***Note: included in above policy*** A policy should require odometer readings to have some degree of accuracy (eg to closest 10 miles) **(H)** ***Note: included in policy*** Cost centre owners/managers to regularly review transactions on the Allstar system for reasonableness. To include looking at the time, date and location of the transaction. **(H)** ***Note: completed as above*** A lease car policy or policy statement within the fuel card policy should consider the possibly of aligning lease car commuter fuel usage to the employee expenditure claimable mileage policy statement. **(H)** ***Note: action to be completed***

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
ASC Provider Portal	A review of ASC sourcing and administration in 2013 identified the need for front line teams to be supported by an IT solution, the provider portal, to enable them to organise care packages efficiently. It was envisaged the portal would enable approved providers and Friends, Family and Community Services to upload details regarding their service availability and capacity on a real time basis and ASC teams to access this information to make placements. A budget of £400,000 was provided on the understanding that the system would be implemented during 2013/14.	Delays in the early stages of the project meant the audit was unable to review an implemented system as originally planned. Instead an audit position statement was issued. There was an initial delay of approximately three months in awarding the contract to a developer, following a challenge on the award decision by an unsuccessful bidder. There was then a further four month delay in signing the contract and raising the order as a result of personnel changes; a change in Project Manager and Project Sponsor. These initial delays pre-date the current project team. At this time the expected date for Portal implementation is July 2015. At the time of the audit the Auditor found no documented strategy on how providers will be incentivised to use the portal. Subsequently the Auditor has received a high-level stakeholder engagement strategy and the first Surrey Information Portal provider engagement planning meeting is due to be held on 4 March 2015	n/a – position statement issued	No recommendations made.

[1] **Audit Opinions**

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Significant Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

[2] **Audit Recommendations**

Priority High (H) - major control weakness requiring immediate implementation of recommendation
Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources
Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control

Audit & Governance Committee
16 February 2015

Leadership Risk Register

Purpose of the report:

The purpose of this report is to present the Leadership Risk Register as at 31 January 2015 and update the committee on any changes made since the last meeting to enable the committee to keep the council's strategic risks under review.

Recommendations:

It is recommended that the committee:

1. Review the Leadership risk register; and

2. Determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or relevant Select Committee.

Leadership Risk Register:

3. The Leadership Risk Register (Annex 1) is owned by the Chief Executive and shows the council's 13 key strategic risks. The register is regularly reviewed by the Strategic Risk Forum[1] (chaired by the Director of Finance) and the Statutory Responsibilities Network[2] on a monthly basis.

4. Since it was last presented to the committee in December, as well as being reviewed by the Strategic Risk Forum and the Statutory Responsibilities Network, the Leadership Risk Register has also been reviewed by the Directors reporting to the Chief Executive.

[1] Strategic Risk Forum membership – Director of Finance (Chair), strategic risk leads, Chief Internal Auditor, Head of Emergency Management, Risk and Governance Manager.
[2] Statutory Responsibilities Network membership – Chief Executive (Chair), statutory officers for Social Care, Education, Fire, Public Health, Director of Finance, Director of Legal and Democratic Services, Chief Internal Auditor, Director of People and Development.

5. The reviews have resulted in a number of changes to the risk register:
   - The residual risk level for the Waste risk (L3) has been reduced to medium;
   - The Safeguarding risk has been split into Safeguarding – Children's Services (L6) and Safeguarding – Adult Social Care (L13). The residual risk levels have been increased to high;
   - Wording changes have been made to the 'processes in place' and 'controls'; and
   - Risk owners have been reviewed and updated (see paragraph 9 below).

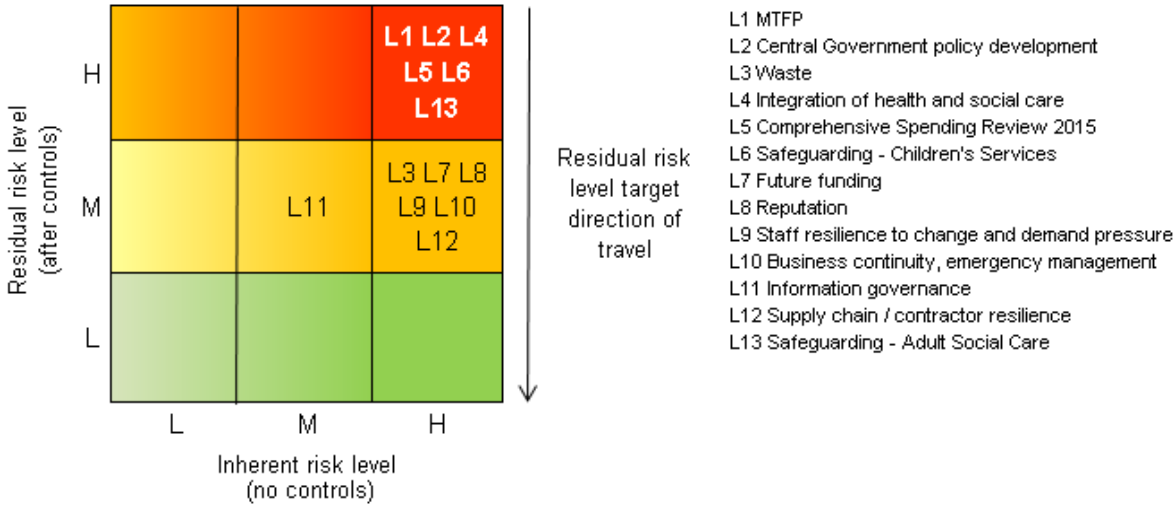
6. The detailed changes are shown in Annex 2.

Residual risk level

7. The Leadership risk register includes both the inherent and residual risk levels for each risk. Inherent risk is the level of risk before any control activities are applied. The residual risk level takes into account the controls that are already in place, detailed on the risk register as both 'processes in place' and 'controls.'

10

8. There are 13 risks on the Leadership risk register, of which 12 have a high inherent risk level, as illustrated in the table below. Despite mitigating actions, seven of these risks have a medium residual risk level (L3,L7,L8,L9,L10,L11,L12) and six have a high residual risk level (L1,L2, L4,L5,L6,L13): showing the significant level of risk that the council is facing despite processes and controls being put in place to manage the risks.



Risk owners

9. To ensure clarity of control, a single risk owner is now identified against each risk on the Leadership risk register and they have lead responsibility for driving the mitigating actions and ensuring the risk is regularly reviewed and updated as appropriate. The column title has therefore been changed to 'Lead risk owner.'

10. Specific mitigating actions are delegated by the risk owner to relevant officers who are then responsible for the implementation of those actions and providing updated to the risk owner.

Implications:

Financial and value for money implications

11. There are no direct financial implications relating to the Leadership risk register.

Equalities and Diversity Implications

12. There are no direct equalities implications but any actions taken need to be consistent with the council's policies and procedures.

Risk Management Implications

13. Effective management of risks and financial controls supports the council to meet its objectives and enable value for money.

10

Next steps:

The Leadership Risk Register will be presented to Cabinet on 24 February 2015 and then to the next Audit and Governance Committee on 9 April 2015.

Report contact: Cath Edwards, Risk and Governance Manager, Finance

Contact details: 020 8541 9193 or cath.edwards@surreycc.gov.uk

Leadership risk register as at 31 January 2015 *(covers rolling 12 months)* Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
L1	ASC2, 29 BUS01 CAC2 CSF4, EAI1, 3 FR72, 85	**Medium Term Financial Plan (MTFP) 2015-20** Failure to achieve the MTFP, which could be as a result of: • not achieving savings • additional service demand and/or • over optimistic funding levels. As a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.	**High**	• Monthly reporting to Continuous Improvement and Productivity Network and Cabinet on the forecast outturn position is clear about the impacts on future years and enables prompt management action (that will be discussed informally with Cabinet) • Budget Support meetings (Chief Executive and Director of Finance) continue to review and challenge the robustness of MTFP delivery plans and report back to Cabinet as necessary • Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year • Monthly formal budget reports focus on funding levels comparing actual spend to forecasts • Budget planning discussions with Cabinet and Select Committees • Formal review of MTFP (2015-20) planned for summer 2015 once the new Government is formed.	- Prompt management action taken by Strategic Directors / Leadership Teams to identify correcting actions. (Evidenced by robust action plans) - Members (Council, Cabinet, Select Committee) make the necessary decisions to implement action plans in a timely manner	Director of Finance	**High**
L6	CSF2,3	**Safeguarding – Children's Services** Avoidable failure in Children's Services, through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on individual well being.	**High**	• Working within the frameworks established by the Children's Safeguarding Board ensures the council's policies and procedures are up to date and based on good practice • ASC and CSF are working as key stakeholders in the further development of the Multi-Agency Safeguarding Hub at Guildford Police Station.	- Timely interventions by well recruited, trained, supervised and managed professionals ensures appropriate actions are taken to safeguard and promote the well being of children in Surrey. - Robust quality assurance and management systems in place to identify and implement any	Strategic Director for Children's Schools and Families	**High**

Key to references:
ASC = Adult Social Care
BUS = Business Services
CAC = Customers and Communities
CEO = Chief Executive's Office
CSF = Children, Schools and Families
EAI = Environment and Infrastructure
FR = Fire and Rescue

Leadership risk register as at 31 January 2015 *(covers rolling 12 months)* Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
					key areas of learning so safeguarding practice can be improved. - The Children's Safeguarding board (chaired by an independent person) comprises senior managers from the County Council and other agencies facilitating prompt decision making and ensuring best practice.		
L13	ASC31, 32	**Safeguarding – Adult Social Care** Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on individual well being.	**High**	• Working within the framework established by the Surrey Safeguarding Adults Board ensures that the council's policies and procedures are up to date and based on good practice. • A revised safeguarding structure is being put in place following a Peer Review. • Implications of the Care Act 2014 are being consulted on. • Adult Social Care and Children, Schools and Families are working as key stakeholders in the further development of the Multi Agency Safeguarding Hub at Guildford Police Station. • Close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions.	- Continue to work with the Independent Chair of the Surrey Safeguarding Adults Board to ensure feedback and recommendations from case reviews are used to inform learning and social work practice. - Agree and imbed agreed changes resulting from Care Act 2014 consultation. - Recruitment to vacancies in area safeguarding and Multi Agency Safeguarding Hub roles February 2015.	Strategic Director for Adult Social Care	**High**
L2	ASC24, 29	**Central Government policy development** Central Government policy changes, in particular the Care	**High**	• Effective horizon scanning to ensure thorough understanding of intended policy changes • Implementation of a welfare reform	- Working in partnership with other statutory partners (e.g. Clinical Commissioning Groups CCG's) to maximise	Strategic Director for Adult Social	**High**

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Leadership risk register as at 31 January 2015 *(covers rolling 12 months)* Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
		Act, may put additional pressure on demand for all public services leading to an erosion of financial resilience and ability to deliver statutory and essential services.		programme including districts and boroughs covering: - Advice and information - Financial resilience - Emergency assistance - Localisation of council tax support - Housing and homelessness - Employment training and support • Taking opportunities to influence central Government policy development e.g. via the Local Government Association. • The Welfare Reform Task Group is monitoring the implementation of its recommendations, which are intended to manage the implementation of reforms on Surrey Residents. The Task Group reports regularly to the Council Overview & Scrutiny Committee.	opportunities for communities - Members take the opportunities and make the necessary decisions to influence central Government - Care Act Implementation Board in place and project programme set up to support ongoing discussion with partners. Through Association of Directors of Adult Social Services (ADASS), SCC leading best practice model in relation to financial management and working closely with Department of Health in the development of regulations that underpin the Care Act.	Care	
L4	ASC9 CEO13	**Integration of health and social care** Failure in partnership working reduces our ability to: - co-ordinate/integrate health and social care services; - improve health outcomes; and - develop a financially sustainable model.	**High**	Governance arrangements: • robust partnership governance arrangements are in place through the Better Care Board, Public Sector Transformation programme and Surrey's Heath and Wellbeing Board • regular monitoring of progress and risks against key H&SC integration workstreams and agreed financial governance framework (including the Better Care Fund) • prioritisation of resources and clear senior leadership across Council directorates to support the development of H&SC workstreams.	- National approval of Surrey's Better Care Fund plan (which includes agreed financial plans, metrics to measure progress and risk sharing arrangements). - Progress discussions with Clinical Commissioning Groups in Surrey about plans for integration beyond the Better Care Fund. - Inclusion of key partners in	Assistant Chief Executive	**High**

Key to references:
ASC = Adult Social Care
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Leadership risk register as at 31 January 2015 *(covers rolling 12 months)* Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
				• continued focus on building and maintaining strong relationship with partners through regular formal and informal dialogue • Surrey Better Care Fund plan now approved by Surrey's Health & Well-Being Board and has been submitted to Department of Health for approval. . • Formal pooling agreements (section 75 agreements) being developed for the operation of the Better Care Fund, for approval by the County and each CCG ahead of the start date from April 2015.	local whole systems planning. - Members continue to endorse approaches to integration across the County (and formally approve Sec 75 agreements for BCF).		
L5	BUS02	**Comprehensive Spending Review (CSR) 2015** Risk that CSR 2015: • reduces further the total public sector funding available, and • introduces a revised distribution mechanism which lowers the councils financial resilience.	**High**	• Contribution to Local Government Commission to review LG Funding and development of scenarios for budget planning process is ongoing and will continue throughout 2015. • Officers (Finance and Policy in particular) to sustain pro-active horizon scanning for insight into potential funding change.	- Cabinet fully consider the implications of CSR in budget planning and agree an MTFP that reflects likely impacts.	Director of Finance	**High**
L3	EAI2	**Waste** Failure to deliver the key elements of the waste strategy leads to negative financial and reputational impact. .	**High**	• Implementation monitored by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board • All major decisions are reported to Cabinet on a regular basis • Cabinet paper in November outlined a strategy to work towards a single waste authority. • Joint strategic partnership reinforces collaboration and will, if successful,	- Strong resourcing and project management regime in place to ensure prompt resolution of any issues that may hinder progress. - Collaborative work with Districts and Boroughs is delivered through the Surrey Waste Partnership with close involvement of all Surrey Chief Executives	Director of Environment and Infrastructure	**Medium**

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Leadership risk register as at 31 January 2015 *(covers rolling 12 months)* Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
				strengthen the ability to deliver the key elements of the waste strategy • Support from external strategic advisors assists senior officers in management and mitigation of key technical, financial and legal risks. • Senior officers working closely with Government departments.	- The Waste Programme Delivery Board comprises senior managers from the service together with Procurement and Finance and is chaired by the Assistant Director Environment facilitating prompt decision making.		
L7	ASC2 BUS07, 11,12 CSF4 EAI1	**Future Funding** The council is highly dependent on Council Tax for funding, and the ability to increase that in real terms is constrained (by current Government policy). This could lead to a reduction in the council's financial resilience with the consequence that funding for key services will be seriously eroded.	**High**	• Structured approach to ensuring Government understands the council's Council Tax strategy and high dependence • Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular School Basic Need) • Continued horizon scanning of the financial implications of existing and future Government policy changes • Development of alternative / new sources of funding (e.g. bidding for grants) • Review how systems and processes can lead to greater efficiencies. Notwithstanding actions above, there is a significant risk of Central Government policy changes /austerity measures impacting on the council's long term financial resilience.	- Members make decisions to reduce spending and or generate alternative sources of funding, where necessary, in a timely manner. - Officers unable to recommend MTFP unless a credible sustainable budget is proposed.	Director of Finance	**Medium**
L8	ASC31, 32,34 BUS01 CSF3,4	**Reputation** A significant failure to deliver within the organisation (caused by an event or individual), could	**High**	• Processes in place that minimise the likelihood of organisational failure include: - Active learning by senior leaders from experiences / incidents outside the	- Regular monitoring of effectiveness of processes is in place and improvements continually made as a result of	Chief Executive Officer	**Medium**

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Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
	CEO7 EAI2,14	lead to a loss of trust and confidence in the organisation by external stakeholders (e.g. residents, Government, Partners) or internal staff, affecting our ability to deliver services effectively and harming our freedoms and flexibilities from Government controls.		council inform continual improvement within the council - Strong corporate values - Robust Governance framework (including codes of conduct, health & safety policies, complaints tracking).	learning.		
L9	ASC9 BUS06 CEO8	**Staff resilience to change and demand pressure** Low morale leading to loss in productivity, increased sickness and staff turnover.	**High**	• Communication, consultation and engagement is a priority for the council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives • Currently eight training courses available that address various aspects of change. Trained coaches who are available in all services to support staff. • High Performance Development Programme being offered across the organisation to support leaders to develop their own and the organisations behaviours. • Comprehensive range of surveys and focus groups provide a measure of the staff satisfaction with the council and its management of change. • The smarter working framework and flexible working policy are in place to support managers and their teams to work differently. • Promotion of support mechanisms for staff (eg. employee assistance). • Staff are encouraged to get involved in finding innovative solutions to redesign	- Decision by members on pay and reward system taken in timely manner and combine with staff and union consultation. - Communications engagement plan to promote the benefits of working for Surrey and help to support engagement across the organisation to be delivered.	Strategic Director Business Services	**Medium**

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				services. • Better Place to Work outcomes are implemented • Training of managers in effective engagement of their staff to roll out over 2015.			
L10	CEO3 EAI4,5 FR06	**Business Continuity, Emergency Planning** Failure to respond effectively to a known event or major incident results in an inability to deliver key services.	**High**	• The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. • Close working between key services and the Emergency Management Team to update plans and share learning • Continued consultation with Unions and regular communication to staff. • External risks are assessed through the Local Resilience Forum. • Combined Environment & Infrastructure and Communities Select Committees Task Group agreed to identify improvement and best practices during the recent flooding.	- Business Continuity Plans are in place and signed off (by Local Resilience Board) in timely manner	Assistant Chief Executive	**Medium**
L11	ASC12, 30, 33 BUS13 CEO7 CSF5	**Information Governance** Loss of protected data by the council leads to financial penalties, safeguarding issues and erosion of public trust.	**Medium**	• Encrypted laptops – 100% coverage for our 5,500 Laptop estate • Secure environment through the Egress encrypted email system • Internal Audit Management Action Plans in place that are monitored by Audit & Governance Committee and Select Committees • Twice-yearly communications campaign linked to known peaks for breaches, and a refreshed and re-launched information security e-learning package. • SCC has received GCSx accreditation	Information governance controls work effectively overseen by IG and Caldecott boards and audited annually Cabinet have reviewed IT security policy and as result the security policy, Code of conduct and social media policies are being updated to reflect changes agreed	Strategic Director Business Services	**Medium**

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Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
				certificate • introduction of the Information Governance Board and the launch of the data classification project, both of which commenced in the first quarter of 2014/15, and will help to manage this risk. • continuation of training for staff to improve awareness and ensure adherence to procedures • Implement learning from feedback where breaches occur. • Directorates and Digital Delivery Team to engage with partners to deliver a platform that will enable appropriate sharing of information between agencies. Despite the actions above, there is a continued risk of human error that is out of the council's control.			
L12	ASC21 BUS10	**Supply chain / contractor resilience** Supply chain failure, lack of business continuity arrangements in place leading to increased costs, time delays or reputational damage and failure to promote service delivery.	**High**	• Supply chain business continuity plans for strategic/critical contracts to meet required standards. • Consistent management of supply chain risks across all key suppliers through common reporting. • Regular supplier intelligence reporting in place to track industry and supplier news. • Risk management training provided to contract managers to enable a consistent approach. • Mitigating actions are less effective for small/medium suppliers due to reduced business continuity.	- Supplier selection policy decision made to include financial resilience and business continuity arrangements - Needs strong support from ELT (Extended Leadership Team) to ensure contract resilience and business continuity is in place and regularly up-dated	Strategic Director Business Services	**Medium**

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Movement of risks

Ref	Risk	Date added	Current inherent risk level	Current residual risk level	Movement in residual risk level	
L1	Medium Term Financial Plan	Aug 12	High	High	-	-
L2	Central Government policy development	Feb 13	High	High	-	-
L3	Waste	May 10	High	Medium	Jan 15	⇩
L4	Integration of health & social care	June 13	High	High	-	-
L5	Comprehensive Spending Review 2015	Sep 14	High	High	-	-
L6	Safeguarding – Children's Services	May 10	High	High	Jan 15	⇧
L7	Future funding	Aug 12	High	Medium	-	-
L8	Reputation	Oct 14	High	Medium	-	-
L9	Staff resilience to change and demand pressures	May 10	High	Medium	Jan 12	⇩
L10	Business Continuity, Emergency Planning	May 10	High	Medium	Aug 12	⇩
L11	Information governance	Dec 10	Medium	Medium	Oct 14	⇩
L12	Supply chain / contractor resilience	Jan 14	High	Medium	-	-
L13	Safeguarding – Adult Social Care	May 10	High	High	Jan 15	⇧

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Risks removed from the register

Risk	Date added	Date removed
IT risk	*May 10*	*Oct 14*
Resource Allocation System in adults personalisation	*May 10*	*Aug 12*
Integrated Childrens System	*May 10*	*Feb 11*
NHS reorganisation	*Sep 10*	*May 13*
2012 project management	*Sep 10*	*Aug 12*
LLDD budget transfer	*May 11*	*Mar 12*
2012 command, control, coordination and communication	*Dec 11*	*Sep 12*

Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership risk register are assessed on their residual risk level ie. the level of risk after existing controls have been taken into account, by high, medium or low.

Risk level	Financial impact	Reputational impact	Performance impact	Likelihood
	(% of council budget)	*(Stakeholder interest)*	*(Impact on priorities)*	
Low	< 1%	Loss of confidence and trust in the council felt by a small group or within a small geographical area	Minor impact or disruption to the achievement of one or more strategic / directorate priorities	Remote / low probability
Medium	1 – 10%	A sustained general loss of confidence and trust in the council within the local community	Moderate impact or disruption to the achievement of one or more strategic / directorate priorities	Possible / medium probability
High	10 – 20%	A major loss of confidence and trust in the council within the local community and wider with national interest	Major impact or disruption to the achievement of one or more strategic / directorate priorities	Almost certain / highly probable

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Annex 2

Leadership risk register changes (December 2014 – January 2015)

Ref	Changes to 'Processes in place'	Changes to 'Controls'	Changes to residual risk level
L1	Further process added to reflect MTFP review in Summer 2015 (bullet 6).		
L2	Updated to reflect the ongoing work of the Welfare Reform Task Group (bullet 4).		
L3	Updated (bullet 3) and further processes added (bullets 5 & 6).		Reduced from high to medium
L4	Updated (bullet 5) and further process added regarding pooling arrangements (bullet 6).	Further control added to reflect joint working (bullet 3) and Section 75 agreements added (bullet 4).	
L5	Updated to reflect ongoing work (bullet 1).		
L6*	Updated to focus on Children's Services.	Updated to focus on Children's Services.	Increased from medium to high
L9	Updated to reflect ongoing work (bullet 3).	Updated (bullet 1) and further control added (bullet 2).	
L12		Further control added (bullet 2).	
L13*	Updated to focus on Adult Social Care.	Updated to focus on Adult Social Care.	Increased from medium to high

* L6 split into:
- Safeguarding – Children's Service (L6)
- Safeguarding – Adult Social Care (L13)

Audit & Governance Committee
16 February 2015

Treasury Management 2015/16: Briefing

Purpose of the report:

The Treasury Management policy, strategy statement and prudential indicators report is required to be adequately scrutinised before being recommended to the full County Council. This briefing provides explanation as to the proposed changes to the 2015/16 Treasury Management Strategy reported in Appendix 1.

Recommendations:

It is recommended that the Committee:

1. Note the report.

Introduction:

2. Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changes in market conditions, regulation, and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the full County Council before the beginning of the financial year.

Position and changes incorporated for 2015/16

Internal Borrowing

3. As a result of the continuation of unprecedented low investment interest rates, and in order to help reduce counterparty risk, the use of internal funding for capital expenditure will continue where possible to minimise the cost of carry.

4. The Council will maintain the minimum deposit balance at £47m. However, officers will keep a watching brief on the financial markets with a view to reversing the current internal borrowing policy, if the market conditions change and are favourable to the Council.

5. The Director of Finance will continue to have delegated power to authorise additional borrowing.

Cash Investment Principles

6. Cash investment principles will continue to focus in order of security, liquidity and yield with the use of a permissible counterparty list. The maximum deposit period will remain at one year.

7. The strategy highlights changes to the rating of our counterparties by the main credit rating agencies. The agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some financial institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

8. As a result of these rating agency changes, the credit element of Capita's (the Council's treasury advisor) assessment methodology will focus solely on the short and long term ratings of an institution, rather than incorporating an element of sovereign support. This is the same process currently used for Standard & Poor's, but will be a change to the use of Fitch and Moody's ratings. This will marginally affect the Council's perceived risk.

9. The Council will increase its total exposure to Money Market Funds (MMFs) from £100m to £175m with a change to its maximum exposure to £25m (from £20m) for each MMF. Each fund will be risk assessed and required to achieve a AAA rating from two of the three rating agencies.

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Borrowing

10. In order to maintain appropriate cashflow levels during 2014/15, the Council has borrowed equal to the total estimated borrowing requirement, £70m in three tranches as at 31 January 2015, all through the Public Works Loans Board.

Principal (£000)	Start Date	Duration (Years)	Interest Rate
30,000	02 September 2014	50	3.72%
20,000	15 December 2014	50	3.36%
20,000	20 January 2015	50	2.99%

11. Officers are monitoring the market with a view to taking advantage of the very low interest rate environment and the possibility of borrowing early in respect of the £90m estimated borrowing required for 2015/16

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Sources/background papers:
Annex 1: Treasury Management Strategy Statement 2015/16 and Prudential Indicators 2015-2020
Appendix 1 – 7: Treasury Management Strategy Statement 2015/16 and Prudential Indicators 2015-2020

Treasury Management Strategy Statement 2015/16 and Prudential Indicators 2015-20

Key issues and decisions

To set the Council's prudential indicators for 2015/16 to 2019/20, approve the minimum revenue provision (MRP) policy for 2015/16 and agree the treasury management strategy for 2015/16.

Introduction

1.1 Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changes in market conditions, regulation, and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. This annex sets out updated versions of the Council's treasury management strategy statement and Appendix 1 sets out the Council's treasury management policy statement.

1.2 Since 2009/10 the Council's treasury management strategy has followed an extremely cautious approach as a direct result of the Council's experience with Icelandic banks. Moving forward into 2015/16, no significant changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite. The proposed position can be summarised as follows.

- As a result of the continuation of unprecedented low investment interest rates, and in order to help reduce counterparty risk, maintain the minimum deposit balance at £47m. However, officers will keep a watching brief on the financial markets with a view to reversing the current internal borrowing policy, if the market conditions change and are favourable to the Council.
- Maintain the current counterparty list of institutions with which the Council will place short term investments, with the approved lending list reflecting market opinion as well as formal rating criteria.
- Maintain the monetary limit for the two instant access accounts at £60m since both have nationalised status and therefore minimum risk. This will be reassessed in the event that either institution has been fully refloated on the market, thus falling out of the Government's protection umbrella.
- Increase the allocation to AAA rated money market funds from £100m to £175m and the maximum individual AAA money market fund from £20m to £25m.
- Approve the Prudential Indicators in Appendix 2.
- Maintain the Schedule of Delegation as set out in Appendix 4.
- Maintain the Council's minimum revenue provision policy as set out in Appendix 7.

Background

1.3 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or

instruments commensurate with the Council's low risk appetite, providing adequate security and liquidity initially before considering investment return.

1.4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.5 The Chartered Institute Public Finance and Accountancy (CIPFA) defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting requirements

1.6 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actual outturn:

- treasury management policy, strategy statement and prudential indicators report (this report), consisting of:
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy, indicating how the Council intends to fulfil its duty to make a prudent provision towards the reduction in the overall borrowing requirement,
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).

- mid year treasury management update reports, consisting of:
  - update of progress on treasury and capital position
  - amendment of prudential indicators where necessary
  - view on whether the treasury strategy is on target or whether any policies require revision.

- an annual treasury management outturn report
  - details of the actual prudential and treasury indicators and actual treasury operations compared with the estimates within the strategy.

1.7 The treasury management policy, strategy statement and prudential indicators report is required to be adequately scrutinised before being recommended to the Full County Council. This role is undertaken by the Audit and Governance Committee.

Treasury management strategy for 2015/16

1.8 The strategy for 2015/16 covers two main areas:

- capital issues:
  - the capital plans and the prudential indicators;
  - the minimum revenue provision (MRP) strategy.
- treasury management issues:
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - prospects for interest rates;
  - the borrowing strategy;
  - policy on borrowing in advance of need;
  - debt rescheduling;
  - the investment strategy;
  - creditworthiness policy; and
  - policy on use of external service providers.

1.9 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Treasury management consultant

1.10 The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

1.11 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review by the Audit and Governance Committee.

Training

1.12 Officers and members involved in the governance of the Council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the Council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through local authority networks. Capita Asset Services provides daily, weekly and quarterly newsletters and regular update calls/meetings are held with Capita Asset Services.

1.13 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. Training will be arranged as

required. The training needs of treasury management officers are periodically reviewed.

Capital prudential indicators 2015/16 to 2019/20

1.14 The Prudential Code plays a key role in capital finance in local authorities. The Prudential Code was developed as a professional code of practice to support local authorities in their decision making processes for capital expenditure and its financing. Local authorities are required by statutory regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

1.15 The Council's capital expenditure plans are the key driver of treasury management activity. The framework of prudential indicators aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. The prudential indicators in this report are calculated for the whole medium term financial plan (MTFP) period. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the statement of accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.

1.16 The prudential indicators are set out in Appendix 2.

Borrowing

1.17 The capital expenditure plans set out in Appendix 5 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

1.18 Table 1.1 summarises the Council's treasury portfolio position at 31 March 2014, with forward projections. The table shows the actual external debt against the underlying capital borrowing need (the capital financing requirement or CFR), highlighting any over or under borrowing. The authority has adopted a treasury management strategy that favours fixed rate borrowing to provide certainty over borrowing costs and rates of interest.

Table 1.1: Current portfolio position

External debt	2013/14 Actual £m	2014/15 Projected £m	2015/16 ← £m	2016/17 £m	2017/18 Estimated £m	2018/19 £m	2019/20 → £m
Capital Finance Requirement at 31 March	**682**	**767**	**838**	**899**	**913**	**916**	**916**
Less Other Long Term Liabilities	-69	-80	-76	-72	-68	-63	-59
Borrowing Requirement	613	687	762	827	845	853	857
Actual External Debt at 31 March	400	486	557	618	631	634	633
Under/(over) borrowing	**213**	**201**	**205**	**209**	**214**	**219**	**224**

1.19 Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the capital finance requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

1.20 The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Prospects for interest rates

1.21 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table 2.2 provides Capita's central view on interest rates. For clarification, the Public Works Loans Board (PWLB) certainty rate is a 0.20% reduction to local authorities who provide the required information on their plans for long-term borrowing and associated capital spending. Table 1.2: Prospects for interest rates

Annual average	Bank rate %	PWLB borrowing rates (including certainty rate adjustment) 5 year %	25 year %	50 year %
December 2014	0.50	1.97	3.17	3.29
March 2015	0.50	2.20	3.40	3.40
June 2015	0.50	2.20	3.50	3.50
September 2015	0.50	2.30	3.70	3.70
December 2015	0.75	2.50	3.80	3.80
March 2016	0.75	2.60	4.00	4.00
June 2016	1.00	2.80	4.20	4.20
September 2016	1.00	2.90	4.30	4.30
December 2016	1.25	3.00	4.40	4.40
March 2017	1.25	3.20	4.50	4.50
June 2017	1.50	3.30	4.60	4.60
September 2017	1.75	3.40	4.70	4.70
December 2017	1.75	3.50	4.70	4.70
March 2018	2.00	3.60	4.80	4.80

1.22 Investment returns are still likely to remain relatively low during 2015/16 and beyond. Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 and early into 2015 have seen gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015.

1.23 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to fund new capital expenditure and/or to refinance maturing debt. There will remain a cost of carry to any new borrowing which causes an increase

in investments as this will incur a revenue loss between borrowing costs and investment returns, as well as increased counterparty risk.

1.24 A commentary on the global economic outlook is shown as Appendix 3.

UK Treasury Management Delegation

1.25 The Treasury Management Scheme of Delegation is set out in Appendix 4.

Borrowing strategy

1.26 The Council is currently maintaining a significantly under-borrowed position. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. At 31 December 2014, the level of under-borrowing amounted to around £285m. This strategy is prudent and has proved to be extremely effective as investment returns are at a historic low and counterparty risk remains relatively high.

1.27 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Director of Finance will monitor interest rates and gilt yields in financial markets, and adopt a pragmatic approach to changing circumstances.

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1.28 The crucial question is how much longer this under-borrowing strategy will be appropriate and relevant. The Council's current policy of funding external borrowing from internal reserves, thus saving the difference between the cost of capital and the investment returns available in the money markets will not hold permanently. At some point in the medium term, the Council will be required to reverse this policy and fund its position from external sources as long term gilt yields and interest rates will eventually rise, thus impacting on the cost of borrowing.

1.29 How the current internal borrowing gap will eventually be bridged will depend on market projections over 2015/16 and beyond, and officers will take advice from the Council's treasury consultant as to the future directions of the market over the next year. In the current low interest rate environment, which is not expected to change in the immediate short term, the Council remains well placed to take advantage of its internal borrowing strategy in terms of funding capital expenditure from reserves, and then refinancing at the optimum time over the medium term future.

1.30 There remains an optimal opportunity to take advantage of financing for the long term at historically low rates, just prior to those long term rates rising upwards. The Council must be strategically poised to take advantage of this opportunity and will assess the timing carefully in order to take full advantage. It is expected that the return to external borrowing will take place on a gradual basis in order to reduce the impact of unanticipated market movements. This underlines the Council's need to maintain a cautious, and low risk approach and monitor on a daily basis the economic position against the Council's existing treasury position.

1.31 There are two possible risks in 2015/16:

- The risk of a fall in long and short term rates (e.g. due to a marked increase of risks around a further relapse into recession or of risks of deflation). In this instance, long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- The risk of a sharper rise in long and short term rates than that currently forecast, perhaps arising from an increase in world economic activity, or an increase in inflationary expectations. In this instance, the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

1.32 The UK is still benefitting from a "safe haven" status outside the global markets and the Eurozone, which has supported UK gilt prices and reduced further historically low gilt yields (which underpin PWLB borrowing rates). Moreover, the UK inflation position has reduced to below the Bank of England's Monetary Policy Committee's (MPC's) target of 2%. Any further reduction may have an impact on the financial markets view of gilt prices, with a further reduction in gilt (and therefore PWLB) rates. This highlights the higher importance of the longer term fixed interest rate economic forecasts.

1.33 Any decisions will be reported to the Audit and Governance Committee at the next available opportunity.

Treasury management limits on activity

1.34 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, then they will impair the opportunities to reduce costs and improve performance. The indicators are as follows:

- **Upper limits on variable interest rate exposure**
  This identifies a maximum limit for the level of debt (net of investments) taken out at variable rates of interest.
- **Upper limits on fixed interest rate exposure**
  This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- **Maturity structure of borrowing**
  These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

1.35 Cabinet is asked to recommend the Council approves the treasury indicators and limits in Table 1.3.

Table 1.3: Treasury indicators and limits

	2015/16 to 2019/20	**2014/15 year end projection**
Upper limits on fixed interest rates	100%	100%

Upper limits on variable interest rates	25%		0%	
Maturity structure of external borrowing	Lower	Upper	£m	
Under 12 months	0%	50%	0	0%
12 months to 2 years	0%	50%	0	0%
2 years to 5 years	0%	50%	0	0%
5 years to 10 years	0%	75%	10	3%
10 years and above	25%	100%	297	97%
Total external borrowing			**307**	**100%**

Policy on borrowing in advance of need

1.36 The Council will not borrow more than or in advance of its needs purely in order to benefit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved capital finance requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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Debt rescheduling

1.37 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (significant premiums can be incurred).

1.38 The reasons for any rescheduling to take place will include:

- the generation of cash savings or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile or the balance of volatility).

1.39 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. Such a decision will be dependent on the level of the premium levied on the redemption.

1.40 All rescheduling will be reported to the Audit & Governance Committee at the earliest meeting following its action.

Annual investment strategy

Investment policy

1.41 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some financial institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

1.42 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

1.43 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

1.44 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

1.45 As a result of these rating agency changes, the credit element of the future Capita assessment methodology will focus solely on the Short and Long Term ratings of an institution. This is the same process for Standard & Poor's but a change to the use of Fitch and Moody's ratings. Furthermore, Capita continue to utilise credit default swap (CDS) prices as an overlay to ratings in the new methodology.

1.46 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities will be security first, liquidity second, then return as the third priority, in line with this guidance.

1.47 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on its lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three rating agencies (Fitch, Moody's and Standard & Poor's (S&P)). Using the Capita Asset Services ratings service,

potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

1.48 Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

1.49 To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. Other information sources used will include the financial press, e.g. Financial Times, share prices and other information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

1.50 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

1.51 Current investment counterparties identified for use in the financial year using currently approved rating criteria are listed in Appendix 5 under the 'specified' and 'non-specified' investments categories. Counterparty monetary limits are also set out in this appendix. No changes to limits and criteria are recommended, given the Council's desired prudent risk level.

1.52 The Director of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing risks and associated interest rates at the time. All investments will be made in accordance with the Council's treasury management policy and strategy, and prevailing legislation and regulations. If the list of counterparties and their time or value limits need to be revised, amendments will be recommended to the Audit & Governance Committee.

Creditworthiness policy

1.53 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure it:

- maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security (this is set out in the specified and non-specified investment sections below); and

- has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed (these procedures also apply to the Council's prudential indicators covering the maximum principal sums invested).

1.54 The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

1.55 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies with one meeting the Council's criteria and the other not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services on all active counterparties that comply with the criteria below.

1.56 Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notifications of likely changes), rating outlooks (notification of possible longer term changes) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is summarised in Appendix 5.

- Banks (1): good credit quality. The Council will only use banks which:
  - are UK banks; or
  - are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA.

  and have, as a minimum, the following Fitch, Moody's and S&P's credit ratings (where rated):

  - Short term: F1/P1/A1
  - Long term: A-/A3/A-
  - (N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Banks (2): part nationalised UK banks. Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks (3): The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- Bank subsidiaries: The Council will use these where the parent bank has provided an appropriate guarantee and has the necessary ratings outlined above.
- Building societies: The Council will use all societies which meet the ratings for banks outlined above.
- Money Market Funds: AAA rated via two out three three rating agencies. It is recommended that this be increased from total £100m to £175m, maximum £25m per fund, in order to provide additional capacity in the possible event of counterparties dropping out of the Lending List.
- UK Government, including gilts and the Debt Management Account Deposit Facility (DMADF)
- Local authorities, parish councils etc
- Supranational institutions
- Enhanced Cash/Corporate bonds pooled funds: AAAs1 (or equivalent)

Country and Sector Considerations

1.57 Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition,

- no more than £50m will be placed with any non-UK country at any time;
- AAA countries only apply as set out in Appendix 6;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

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Use of additional information other than credit ratings

1.58 Additional requirements under the Prudential Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches or outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

1.59 All investments will be limited to 364 days. Further internal restrictions may be applied on recommendations from Capita Asset Services.

1.60 The proposed criteria for specified and non-specified investments are shown in Appendix 5 for approval.

Country limits

1.61 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from all three rating agencies. This restriction does not apply to the UK, which has seen its AAA rating reduced.

In-house funds

1.62 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Instant access funds

1.63 The Council will seek to maximise its return on investments by retaining its call account deposits in part nationalised banks (Lloyds and RBS) which pay a slightly enhanced rate due to their weakened financial strength but remain supported by the UK Government. In addition, the council will utilise Money Market Funds (up to the value of £175m).

Local authorities

1.64 Loans will be offered to local authorities that seek to borrow cash from alternative sources to the PWLB.

Investment returns expectations

1.65 The Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Capita Asset Services forecasts the financial year ends (March) as:

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
0.50%	0.75%	1.25%	2.00%	2.50%	2.50%

1.66 There are downside risks to these forecasts (i.e., the start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if the Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

1.67 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next three years are as follows:

2015/16	0.40%
2016/17	1.00%
2017/18	1.75%
2018/19	2.25%
2019/20	2.25%

1.68 In terms of how these estimate yields differ from last year's strategy, the date of the first rise in the Bank Rate to 0.75% is pushed out to December 2015. The possibility of counterparties falling off the Lending List as a result of tightening criteria by the rating agencies could also make the generation of enhanced yields challenging.

Investment treasury indicator and limit

1.69 This indicator concerns the total principal funds invested for greater than 364 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early liquidation of an investment, and based on the availability of funds after each year end.

1.70 The Council is asked to approve the treasury indicator and limit.

Table 2.4: Maximum principal sum invested >364 Days

	2014/15 % of portfolio	2015/16 % of portfolio	2016/17 % of portfolio
Principal sums invested > 364 days	0	0	0

1.71 This means that no investments should be for longer than 364 days. This keeps the strategy within the Council's desired level of prudent risk.

1.72 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated overnight deposits.

Icelandic bank investments

1.73 The Council placed £20m of deposits with two failed Icelandic banks: Glitnir and Landsbanki. Of this £20m, the Council's exposure is £18.5m with the balance attributable to the Police and Crime Commissioner for Surrey. The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.

1.74 The current position is that the Landsbanki deposit recovery is complete. With regard to Glitnir, 84% of the deposits has been repaid. The balance owed on each deposit is shown in the Table 2.5. It should be noted that the balance has been placed in an escrow account awaiting repayment, and subject to the final processes of the Icelandic Winding Up Board.

Table 2.5: Balances owed on Icelandic bank deposits

Counterparty	Period (days)	Principal £000	Rate %	Principal repaid £000	Principal outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
		10,000		8,385	1,615

1.75 The remaining balance will be subject to exchange rate fluctuations when capital controls in Iceland have been lifted. Previous provision has been made within the Council's accounts for an irrecoverable amount regarding the Icelandic bank debt. It is anticipated that the position could be finally ascertained and closed at some juncture in 2015/16 with a final irrecoverable amount decided and included in the Council's accounts. The council holds £564k in a financial investment reserve.

Investment risk benchmarking

1.76 A development in the revised Code on Treasury Management and the CLG consultation paper, as part of the improvements to reporting, is the consideration and approval of security and liquidity benchmarks. Whereas yield benchmarks are currently widely used to assess investment performance, security and liquidity benchmarks are new reporting requirements. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual report.

Security

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1.77 The Council's maximum security risk benchmark for the current portfolio, when compared with these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio

Liquidity

1.78 The Council currently restricts deposits with each counterparty to term deposits only, the length of which is based upon individual assessment of each counterparty. The amount of available cash each day should never fall below £15m. A minimum core of £47m is currently in place. This provides a safety margin, to help ensure the Council need not borrow to fund daily expenditure. In respect of its liquidity, the Council seeks to maintain the following.

- Bank overdraft: £100,000
- Liquid short term deposits of at least £15m available with a day's notice
- Weighted average life benchmark is expected to be three months.

Yield

1.79 The Council benchmarks the return on deposits against the 7-Day LIBID (London Interbank Bid Rate), and reports on this as part of the treasury monitoring reports.

Additional Portfolio of Investments

1.80 On 23 July 2013, Cabinet approved a portfolio of investments, covering investment in property and assets and in new models for service delivery. This supports the Council's stated intentions of enhancing financial resilience in the longer term. These arrangements will allow for investment in schemes that will support economic growth in

Surrey provided that these schemes are consistent with the Investment Strategy outlined in the Cabinet report of 23 July 2013.

1.81 The strategic approach to investment is based upon the following:

- prioritising use of the Council's cash reserves and balances to support income generating investment through a Revolving Investment and Infrastructure Fund (the Investment Fund) to meet the initial revenue costs of funding initiatives that will deliver savings and enhance income in the longer term (some of which may be used to replenish the Investment Fund);
- using the Investment Fund to support investments in order to generate additional income for the council that can be used to provide additional financial support for the delivery of functions and services;
- investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council;
- investing in schemes that have the potential to support economic growth in the county;
- retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

Performance indicators

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1.82 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy and effectiveness of the treasury management function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The performance indicators to be used for the treasury management function are:

- borrowing: actual rate of borrowing for the year less than the year's average rate relevant to the loan period taken; and
- investments: internal returns above the 7-day LIBID rate.

1.83 These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2015, and the Treasury Management Annual Report for 2014/15.

End of year investment report

1.84 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Report.

External fund managers

1.85 The Council does not currently employ an external fund manager.

Minimum revenue provision

1.86 The Council's policy on minimum revenue provision (MRP) is shown in Appendix 7.

Lead/contact officer:

Treasury	Phil Triggs, Strategic Finance Manager, Pension Fund & Treasury 020 8541 9894
Capital	Wai Lok, Senior Accountant 020 8541 7756

Appendices:

Appendix 1	Treasury Management Policy
Appendix 2	Prudential indicators – summary
Appendix 3	Global economic outlook and the UK economy
Appendix 4	Treasury management scheme of delegation
Appendix 5	Institutions
Appendix 6	Approved countries for investments
Appendix 7	Annual minimum revenue provision (MRP) policy statement

Sources and background papers:

CIPFA Prudential Code for Capital Finance

CIPFA Treasury Management in the Public Services: Code of Practice

Investment guidelines under section 15(1)(a) of the Local Government Act 2003

Audit Commission: 'Risk & Return: English Local Authorities and the Icelandic Banks

Treasury Management Policy

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

Definition

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

Risk appetite

1.3 The Council's appetite for risk in terms of its treasury management activities is low. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

Risk management

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

Value for money

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

Borrowing policy

1.6 The Council greatly values revenue budget stability and, therefore, will aim to borrow the majority of its long term funding needs at long term fixed rates of interest. However, short-term rate loans may be utilised where the yield curve provides opportunity. The Council will also constantly evaluate debt restructuring opportunities within the portfolio.

1.7 The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

Investment policy

1.8 The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds

are available for expenditure when needed. The generation of investment income to support the provision of local authority services is a further important objective.

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

Prudential indicators

The Council has adopted the Prudential Code.

Capital expenditure

2.1. Table 2.1 sets out actual and estimated capital expenditure and its funding for 2013/14 to 2019/20. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

Table 2.1: Actual and estimated capital expenditure 2013/14 - 2019/20

	2013/14 Actual £m	2014/15 Projected £m	2015/16 ← Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m	2018/19 Estimated → £m	2019/20 £m
Capital expenditure	224	198	185	181	125	113	90
Financed by:							
Government grants	103	92	86	88	74	72	52
Capital receipts	0	0	0	0	0	0	0
Revenue, reserves and third party contributions	9	5	8	9	13	13	14
Net financing need for the year*	**112**	**101**	**98**	**84**	**38**	**28**	**24**

*Capital expenditure to be met by borrowing

The Council's borrowing need (the capital financing requirement)

2.2. Table 2.2 sets out the Council's capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP).

2.3 The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.

Table 2.2: Capital financing requirement (CFR) 2013/14 to 2019/20

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Projected**	← - - - - - - - - - - **Estimated** - - - - - - - - - - →				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Opening CFR	560	682	767	838	899	913	916
Add new borrowing:							
MRP and other financing movements*	10	-16	-20	-23	-24	-25	-24
Net Financing Need**	112	101	91	84	38	28	24
Closing CFR	682	767	838	899	913	916	916
Total CFR movement	122	85	71	61	14	3	0

*Other financing movements include the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

B.2.4. Table 2.3 sets out the Council's gross debt compared to the CFR. Gross borrowing refers to an authority's total external borrowing. The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates for the following two financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes.

Table 2.3: Gross borrowing requirement 2013/14 to 2019/20

	2013/14 Actual £m	**2014/15 Projected £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 Estimated £m**	**2018/19 £m**	**2019/20 £m**
Gross borrowing	424	486	557	618	631	634	633
CFR	682	767	838	899	913	916	916

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The Council's operational boundary

2.5. Table 2.4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The operational boundary has been set to ensure there is sufficient headroom to borrow up to the Authority's CFR if the cost of carry or interest rate environment are expected to change during the next 12 months to the extent that makes this an appropriate action.

Table 2.4: Operational boundary 2013/14 to 2019/20

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Projected**	← - - - - - - - - - - **Estimated** - - - - - - - - - - →				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	467	527	601	653	643	633	622
Other long term liabilities	82	92	88	84	79	75	71
Total	**549**	**619**	**689**	**737**	**722**	**708**	**693**
Actual external debt	424	486	557	618	631	634	633

The Council's authorised limit

2.6. Table 2.5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

Table 2.5: Authorised limit for external debt 2013/14 to 2019/20

	2013/14 Actual	**2014/15 Projected**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
			← - - - - - - - - - - **Estimated** - - - - - - - - - - →				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	527	596	674	730	721	712	701
Other long term liabilities	82	92	88	84	79	75	71
Total	**609**	**688**	**762**	**814**	**800**	**787**	**772**
Actual external debt	424	486	557	618	631	634	633

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Ratio of financing costs to net revenue stream

2.7. Table 2.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme.

Table 2.6: Ratio of financing costs to net revenue stream

	2014/15 Projected	2015/16	2016/17	2017/18	2018/19	2019/20
		← - - - - - - - - - - Estimated - - - - - - - - - - →				
Ratio of financing costs to net revenue stream	4.45%	4.92%	5.54%	5.13%	4.96%	4.96%

Incremental impact of capital investment decisions on Council Tax 2015/16 to 2019/20

2.8. Table 2.7 sets out the incremental impact of capital investment decisions on Council Tax. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for all future years.

Table 2.7: Estimated incremental impact of capital investment decisions on council tax 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
Band D Council Tax	£15.16	£24.08	£30.11	£30.68	£30.58

These prudential indicators show the full revenue costs of the proposed capital programme and do not reflect the impact of the current internal borrowing strategy which has the effect of reducing the actual finance costs as the external borrowing entered into is reduced.[1]

The revenue implications of potential, yet to be identified, investment opportunities that meet the Council's long term capital strategy criteria, will be funded from the investment returns of such investments. If there is a delay in the realisation of sufficient returns then costs will be funded from the Council's Revolving Infrastructure & Investment Fund.

[1] The revenue budgets for interest paid, received and the minimum revenue provision do reflect the internal borrowing and reduced cash balances strategies.

Global economic outlook and the UK economy

The UK

3.1. GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by developed economy standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to business and manufacturing investment and exporting in order for this recovery to become more firmly established.

3.2 One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November 2014, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year and this will help to improve consumer disposable income and so underpin economic growth during 2015.

3.3 However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling should feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US

3.4 The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The Eurozone

3.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. If this results in Greece leaving the Euro, it is unlikely that this will destabilise the Eurozone as the EU is regarded as having put in place adequate firewalls to contain the immediate fallout to just Greece. The indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is very difficult to quantify.

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, worries over the Ukraine situation, the Middle East, and the Ebola crisis have led to a resurgence of those concerns, with increased risk of prolonged deflation and weak growth. Sovereign debt difficulties (especially Greece) have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done).

- It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods.

Treasury management scheme of delegation

Full Council

B.4.1 Approval of annual strategy.

Audit & Governance Committee

B.4.2. Receiving and reviewing regular monitoring reports.

Director of Finance

B.4.3. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

- Raising borrowing or funding finance from the most appropriate of these sources:
  - Government's Public Works Loans Board
  - lenders' option borrowers' option (LOBO) loans
  - local bond issues
  - European Investment Bank
  - overdraft
  - banks and building societies
  - local authorities
  - lease finance providers
  - internal borrowing
  - municipal bonds agency

- Debt management:
  - managing the cost of debt;
  - delegate authority to treasury management staff to undertake borrowing and debt rescheduling activities.

- CIPFA Prudential Code for Capital Finance in Local Authorities:
  - ensuring that this requirement is not breached, taking into account current commitments, existing plans, and the proposals in the budget report.

- Investing:
  - setting more restrictive investment criteria in response to changing circumstances;
  - arranging investments using these instruments:
    - fixed term deposits with banks and building societies
    - money market funds
    - local authorities
    - Government's Debt Management Agency deposits
    - pooled funds: gilts and corporate funds;
  - compiling and updating the lending list, utilising the criteria for counterparties, in consultation with the treasury management consultants;
  - managing surplus funds and revenue from investments;
  - appointment and performance management of external cash managers (if considered necessary);
  - delegate authority to invest to designated treasury management staff.

- Loan rescheduling:
  - any debt rescheduling which will be done in consultation with the treasury management consultants.

- Policy documentation:
  - formulation and review of the treasury management strategy statement;
  - formulation and review of the treasury management practices (TMPs).

- Strategy implementation:
  - implementing the strategy, ensuring no breaches of regulations;
  - reporting to Cabinet any material divergence from the strategy making requests to Council to approve amendments to the strategy as required;
  - ensuring that treasury management activities are carried out in accordance with CIPFA Codes of Practice.

Institutions

5.1. The Council will use specific credit ratings to determine which institutions can be used for investments. For specified investments, an institution will require the highest short-term credit rating from at least one of the three main credit rating agencies. The Council does not expect to make non-specified investments, so no additional criteria are provided.

Banks and building societies

5.2. For banks and building societies, the following minimum requirements will permit only high quality institutions to be on the Council's lending list but will also allow a wide spread of institutions to choose from:

Rating	Fitch or equivalent from Moody's and Standard & Poor's
Short-term	F1
Long-term	A-

5.3. Equivalent ratings are used as not all institutions are rated by all three rating agencies. Where an institution is rated by more than one agency, the lowest ratings will be used to determine whether it qualifies for inclusion on the list. This practice is known as the Lowest Common Denominator approach.

Money market funds

5.4. Use of seven money market funds with the individual amount to a single fund set at £25m, with qualifying funds requiring a AAA rating from Fitch, Moody's or Standard & Poor's (two out of the three rating agencies).

Enhanced Cash / Bond Funds

5.5. The Council will consider using enhanced cash funds as part of its investments in 2013-14. Criteria for suitable funds is a fund credit quality (FCQ) rating of AAA and a fund volatility rating (FVR) of s1 (or equivalent) from one of the three main rating agencies (Fitch, Moody's or Standard & Poor's). The criteria would only allow the Council to use funds with the highest FCQ and those funds where performance has a low sensitivity to changing market conditions.

Other institution types

5.6. The following institutions are mentioned explicitly in the new guidance and associated legislation. Councils are not expected to lay down specific criteria for including these types of institution as they are either UK Government institutions or have a UK Government guarantee.

- UK Government including gilts and the Debt Management Office
- Local authorities as defined by the Local Government Act 2003
- Supranational institutions, e.g., the European Investment Bank

Specified investments

5.7. All such investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' credit criteria
DMA deposit facility	-
Term deposits: local authorities	-
Term deposits: part nationalised banks	Short-term F1
Term deposits: UK banks and building societies	Short-term F1, Long-term A-
Term deposits: overseas banks	Short-term F1, Long-term A- (AAA rated countries)
Money market funds	AAA
Enhanced Cash / Bond Funds	AAAf / s1 or equivalent

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Effective counterparty limits

	Fitch		Moody's		S&P			
Type	ST	LT	ST	LT	ST	LT	Maximum Value	Maximum Term
Bank/Building Society	F1	A-	P-1	A3	A1	A-	£20m	3 months
Bank/Building Society	F1+	AA-	P-1	Aa3	A1+	AA-	£25m	1 year
Bank/Building Society	F1+	AA	P-1	Aa2	A1+	AA	£35m	1 year
Money Market Funds	AAA		AAA		AAA		£25m	n/a
Enhanced Cash / Bond Funds	AAA / v1		Aaa-bf		AAAf / s1		£20m	n/a
Debt Management Office	-		-		-		Unlimited	6 months
Supranational	-		-		-		£10m	1 year
Local Authority	-		-		-		£20m	1 year

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i) Deposits are permitted with UK banks that do not comply with the Council's credit rating criteria subject to them being nationalised or part nationalised by the UK government.

ii) The use of Money Market Funds is restricted to funds with three AAA ratings (from two of the three rating agencies) up to a maximum of £175m (with a maximum of £25m per Money Market Fund).

iii) £60m (per call account) is made available to invest in overnight high interest call accounts with RBS and Lloyds. This will be maintained while they remain part nationalised.

5.8. Deposits with foreign banks are permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is AAA-rated with any of the three ratings agencies (Fitch, Moody's and Standard and Poor's).

- MMF = Money Market Fund
- DMADF = Debt Management Account Deposit Facility at the Bank of England
- ST = Short-Term
- LT = Long-Term

F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.

P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.

A-1 Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

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Illustrative counterparty list as at 1 January 2015

	Fitch Ratings		Moody's Ratings		S&P Ratings	
	S/T	L/T	S/T	L/T	S/T	L/T
UK		AA+		AA1		AAA
HSBC	F1+	AA-	P1	AA3	A1	AA-
Lloyds	F1	A	P1	A1	A1	A
Royal Bank of Scotland	F1	A	P2	BAA1	A2	A-
Nationwide Building Society	F1	A	P1	A2	A1	A
Barclays	F1	A	P1	A2	A1	A
Santander (UK)	F1	A	P1	A2	A1	A
Australia		AAA		AAA		AAA
Australia & NZ Banking Group	F1+	AA-	P1	AA2	A1+	AA-
Commonwealth Bank of Australia	F1+	AA-	P1	AA2	A1+	AA-
Macquarie Bank	F1	A	P1	A2	A1	A
National Australia Bank	F1+	AA-	P1	AA2	A1+	AA-
Westpac Banking Corporation	F1+	AA-	P1	AA2	A1+	AA-
Canada		AAA		AAA		AAA
Canadian Imperial Bank	F1+	AA-	P1	AA3	A1	A+
Bank of Montreal	F1+	AA-	P1	AA3	A1	A+
Bank of Nova Scotia	F1+	AA-	P1	AA2	A1	A+
Royal Bank of Canada	F1+	AA	P1	AA3	A1+	AA-
Toronto-Dominion Bank	F1+	AA-	P1	AA1	A1+	AA-
Germany		AAA		AAA	A+	AAA
DZ Bank	F1+	A+	P1	A1	A1+	AA-
KfW	F1+	AAA	P1	AAA	A1+	AAA
Landswirtschaftliche Rentenbank	F1+	AAA	P1	AAA	A1+	AAA
Singapore		AAA		AAA		AAA
Development Bank of Singapore	F1+	AA-	P1	AA1	A1+	AA-
Oversea Chinese Banking Corp	F1+	AA-	P1	AA1	A1+	AA-
United Overseas Bank	F1+	AA-	P1	AA1	A1+	AA-
Sweden		AAA		AAA		AAA
Skandinaviska Enskilda Banken	F1	A+	P1	A1	A1	A+
Svenska Handelsbanken	F1+	AA-	P1	AA3	A1+	AA-
Swedbank AB	F1	A+	P1	A1	A1	A+
Switzerland		AAA		AAA		AAA
UBS AG	F1	A	P1	A2	A1	A

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Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

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Minimum revenue provision (MRP) policy statement

7.1. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008 with 2008/09 being the first year of operation. The Council has assessed its method of MRP and is satisfied that the guidelines for its annual amount of MRP set out within this policy statement will result in its making the prudent provision that is required by the guidance.

7.2. Where capital expenditure was incurred before 1 April 2008, MRP will continue to be charged at the rate of 4% of the outstanding capital financing requirement, in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life method, as summarised in Table 7.1 below. MRP will be based on the estimated life of the assets purchased from unsupported borrowing.

Table 7.1 Estimated economic lives of assets

Asset class	**Estimated economic life**
Land and heritage assets	50 years
Buildings	40 years (unless valuer indicates otherwise)
Vehicles, equipment & plant	10-15 years
IT Equipment (Hardware)	3-10 years
Infrastructure: - bridge strengthening - lighting - structural maintenance - minor works	 40 years 20 years 12 years 7 years
Intangible Assets (such as computer software)	5 years
Economic regeneration	1% or 0% MRP charged.

7.3. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

7.4. MRP will be made at 1% for properties held that are not currently needed for service operational purposes, but may be in future or are being held to facilitate future economic growth or re-generation.

7.5. In the case of long-term debtors arising from loans made to third parties, or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), there will be no minimum revenue provision made. The Council will make a MRP on investments in service delivery companies based on a 100-year life.

7.6. The Council reserves the right to determine alternative MRP approaches in particular cases in the interests of making prudent provision where this is material, taking into account local circumstances, including specific project timetables and revenue earning profiles.

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SURREY
COUNTY COUNCIL

Audit & Governance Committee
16 February 2015

AUDIT AND GOVERNANCE COMMITTEE: ANNUAL REPORT 2014

PURPOSE OF REPORT:

For Members to consider and comment on the 2014 annual report of the Audit & Governance Committee.

INTRODUCTION:

The Audit & Governance Committee is accountable to full Council. An annual report is a useful way to develop understanding of the committee's role and functions and to demonstrate its impact.

The annual report attached as Annex A is presented to Members for comment and endorsement. It is intended that the report will be commended to County Council on 17 March 2015.

RECOMMENDATION:

Members are asked to endorse the 2014 annual report of the Audit & Governance Committee.

Financial and value for money implications
None

Equalities Implications
None

Risk Management Implications
None

REPORT CONTACT: Cheryl Hardman, Regulatory Committee Manager
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Sources/background papers: None

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Audit & Governance Committee

Annual Report 2014

SURREY

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Introduction

I am pleased to present this year's Annual Report of the Audit & Governance Committee. The committee members believe that an annual report to full Council is a useful way to develop understanding of the committee's role and functions. The Committee is accountable to full Council and welcomes scrutiny of its effectiveness in fulfilling its terms of reference and its impact on the improvement of governance, risk and control within the authority.

This report covers the work of the Audit & Governance Committee during the period **October 2013 – December 2014.** In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the Committee, the results of a self-assessment of the committee's effectiveness, and how the Committee has engaged with others. The report ends with a look forward to 2015 and the committee would welcome any feedback from Members of the Council on the themes identified.

_____

Nick Harrison
Chairman
Audit & Governance Committee

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The role of the Audit & Governance Committee

Cipfa (the Chartered Institute of Public Finance and Accountancy) defines the purpose of an audit committee as:

> *"...to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.[1]"*

Therefore, the role of the committee is primarily concerned with assuring itself, and advising the Cabinet and County Council as necessary, that the Council's policies are being implemented and has in place systems which provide adequate controls over the Council's resources and assets to prevent the risk of loss through fraud and corruption. It is not the role of the Audit and Governance Committee to be responsible for or manage the arrangements themselves.

Key to the role of an audit committee is that it should be independent of the Cabinet and Scrutiny (Select Committee) functions of the authority, have clear reporting lines and rights of access to other committees (primarily the Cabinet and County Council) and that its members should be properly trained to fulfil the role. The terms of reference for the Audit and Governance Committee were amended slightly this year following the self-assessment of the committee's effectiveness (discussed later). The committee's terms of reference is listed below with a summary of work undertaken:

Statement of Purpose

The Council recognises the importance of undertaking scrutiny of the management of the internal control systems and the Audit & Governance Committee provides an independent and high-level focus on audit, governance and financial accounts matters.

Regulatory Framework

a) To monitor the effective development and operation of the risk management and corporate governance arrangements in the council.
b) To monitor the effectiveness of the council's anti-fraud and anticorruption strategy, including the assessment of fraud risks.
c) To monitor compliance with the council's corporate governance framework and advise or make recommendations to the Cabinet or County Council as appropriate.
d) To review the Annual Governance Statement and commend it to the Cabinet.
e) To conduct an annual review of the effectiveness of the system of internal audit.
f) To provide oversight to the Annual Report of the Council.
g) To make proposals to appropriate Select Committees on suggested areas of scrutiny.

[1] CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police

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Summary of work & outcomes

- Reviewed and commended the Council's key risk management and governance policy papers, including: the Council's Annual Report; the Risk Management Policy Statement and Strategy; the Code of Corporate Governance; and the Annual Governance Statement.
- Regularly reviewed the development and operation of the Council's risk management and corporate governance arrangements, including the structure, membership and procedures of the new Investment Panel. Also, regularly monitored the Leadership Risk Register.
- Reviewed the work of Internal Audit in countering and raising awareness of fraud risk. Recommended and implemented the inclusion of a more robust reference to dealing with fraud in Babcock 4S' guidance to schools, highlighting the role of the police.
- Conducted an annual review of the effectiveness of the system of internal audit.

Audit Activity

a) To consider the Chief Internal Auditor's annual report and opinion, a summary of internal audit activity and the adequacy of management responses to issues identified.
b) To approve the annual Internal Audit & Inspection plan and monitor its implementation.
c) To approve the Internal Audit Charter.
d) To consider periodic reports of the Chief Internal Auditor and internal audit activity.
e) That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor.
f) To consider and comment upon the reports and plans of the external auditor, including the annual audit letter.

Summary of work & outcomes

- Approved the Internal Audit Plan 2014/15 and Internal Audit Charter.
- Regularly reviewed the work and performance of Internal Audit.
- Considered internal audit reports and management responses. Followed up on a number of internal audit reports and progress against the management actions plans with Cabinet Members, Select Committees and service officers, including: progress with the Property Asset Management System; progress with the Citrix project; Operation Horizon; Transport for Education actions; and performance of Children in Care Health & Dental Checks. The committee was careful to ensure that it worked in collaboration with Select Committees, avoiding duplication and referring issues on when appropriate.
- Reviewed a number of reports from the external auditor Grant Thornton.

Working with Select Committees

During 2014, 57 internal audit reports were issued. The working protocol with Select Committees is that all reports categorised as Unsatisfactory, Significant Improvement Needed or Some Improvement Needed with High Priority recommendations are considered by the relevant Select Committee. 16 (28%) of the reports were categorised as such. Select Committees have reviewed or are scheduled to review 12 of the eligible reports.

Accounts

a) To consider and approve the annual statement of accounts and the Surrey Pension Fund accounts.
b) To review the Council's Treasury Management strategy and consider periodic reports of treasury management activity.
c) To undertake statutory functions as required on behalf of the fire fighters' pension schemes.

Summary of work & outcomes

- Supported and adopted an approach to streamlining and simplifying the Statement of Accounts.
- Considered and approved the Statement of Accounts for the Council and the Surrey Pension Fund.
- Considered the Statement of Accounts for Babcock 4S.
- Reviewed treasury management activity and informally scrutinised the draft Treasury Strategy.

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Ethical Standards

a) To monitor the operation of the Members' code of conduct.
b) To promote advice, guidance and training for Members and co-opted members on matters relating to the code of conduct.
c) To ensure the Council's complaints procedures operate effectively.
d) To grant dispensations to Members (including co-opted members) from requirements relating to interests set out in the Members' Code of Conduct.

Summary of work & outcomes

- Conducted an annual review of ethical standards and requested refresher training for Members on the Code of Conduct and a reminder to be circulated regarding gifts and hospitality.
- Reviewed complaints handling performance for the Council.
- Reviewed an update on whistleblowing activity.

Membership of the committee

The Audit & Governance Committee is composed of six elected Members from across the political spectrum.

It is recommended as good practice to have an audit committee which has a good depth of knowledge and experience. The current Audit & Governance Committee has a membership drawing from chartered accountancy and the actuarial profession. Members also bring with them business experience of audit, risk management, project management and relevant service and local governance knowledge.

During the self-assessment of the committee's effectiveness, Members and officers acknowledged the skills and knowledge of the Audit & Governance Committee. Also, all six members of the Audit & Governance Committee have completed a Knowledge and Skills survey, based on CIPFA's knowledge and skills framework. The analysis confirmed that the committee has a good level of skills and knowledge within its membership. Regular training is provided to develop specialist knowledge further.

Current Membership:

Nick Harrison, the Leader of the Residents' Association/Independent Group of councillors, has been a member of the Audit & Governance Committee since 2005, and Chairman since 2009. The Council's Constitution specifically sets out that the role of Chairman may be filled by a Member from one of the minority groups. CIPFA recommend that in order to promote objectivity and increase an audit committee's standing in the eyes of the public, the chairman should not be a member of the executive and the committee should be independent from the scrutiny function. To help maintain the Audit & Governance Committee's independence, Nick Harrison is not a member on any of the Council's scrutiny committees. He is a member of the Member Conduct Panel.

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Bill Barker, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2005. He was Vice Chairman of the Committee for 2005/06 and then reappointed as Vice Chairman of the Committee in 2009. Bill Barker is also a member of the Surrey Pension Fund Board and the Health Scrutiny Committee.

Tim Evans, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. He is also a member of the Health Scrutiny Committee and the Surrey Pension Fund Board.

Will Forster, a member of the Liberal Democrat Group, has been a member of the Audit & Governance Committee since May 2013.

Denis Fuller, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009. Denis Fuller is also the Vice Chairman of the Children and Education Select Committee.

Tim Hall, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. Tim is also Vice-Chairman of Planning & Regulatory Committee and a member of Health Scrutiny Committee.

Attendance:

Attendance at Audit & Governance Committee has been good, as evidenced below:

Member	Total expected attendances	Total attendances	Percentage
Nick Harrison	6	6	100%
Bill Barker	6	5	83%
Tim Evans	6	6	100%
Will Forster	6	3	50%
Dennis Fuller	6	5	83%
Tim Hall	6	6	100%

Officer support to the committee

The Section 151 Officer
The Section 151 Officer, Sheila Little, has provided key support to the Audit & Governance Committee. The Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. CIPFA best practice states that a core Chief Finance Officer responsibility within an authority is the support of the audit committee.

The Section 151 Officer or her representative Kevin Kilburn, with the support of the Financial Reporting Team, has provided reports and training in relation to the Statement of Accounts, external audit activity and financial management. They have attended every Audit & Governance Committee meeting and ensured that the Committee has received the information and advice that it needs to do its job effectively.

Chief Internal Auditor
The Chief Internal Auditor, is a role defined by CIPFA as '...a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee'. At Surrey County Council, the Chief Internal Auditor, Sue Lewry-Jones has supported the Audit & Governance Committee in relation to internal audit activity and the regulatory framework. The Chief Internal Auditor sits within the Policy & Performance Directorate and reports to the Head of Policy & Performance.

Risk & Governance Manager
The Risk & Governance Manager, Cath Edwards, is the Council's lead officer for coordinating risk management arrangements and monitoring the annual review of governance. During the second half of 2014, Cath has been on maternity leave and her role has been taken by Verity Royle (Risk Management) and Alex Moylan (Governance). The Audit & Governance Committee have received regular reports on governance action plans and reviewed the Leadership Risk Register at each meeting.

Pension Fund & Treasury Manager
Phil Triggs is the Council's Strategic Manager - Pension Fund and Treasury. The Committee is responsible for reviewing the Council's Treasury Management strategy on an annual basis as well as approving the Surrey Pension Scheme accounts.

External Audit
Grant Thornton is the County Council's appointed external auditors and operates under the Audit Commission Act 1998 and a code of practice approved by Parliament. The appointed auditor for Surrey County Council is Andy Mack and his primary responsibility is to give his opinion on whether the Council's accounts give a true and fair view of the Council's financial transactions. Grant Thornton also annually assesses the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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Effectiveness review

In May 2014, the committee agreed that a task group should undertake a self-assessment of the committee's effectiveness in line with CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*. The task group consisted of the Chairman and Vice-Chairman of the committee (Nick Harrison and Bill Barker), and Tim Hall.

While an audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the local authority's business, it can be difficult to clearly identify a contribution that is characterised by 'influence' and 'support'. An assessment tool which can help to evaluate the impact of the committee was included with the CIPFA Guidance and was adapted for use by the task group.

The CIPFA Guidance went on to suggest that a good standard of performance against recommended practice, as well as a knowledgeable and experienced membership, are essential requirements for delivering effectiveness. The Guidance included a tool which was adapted to support an assessment of the committee against recommended practice. However, the task group was aware that good practice should not be regarded as a tick-box activity and that achieving recommended practice does not mean necessarily that the committee is effective.

To gather evidence in order to complete the assessments of effectiveness and good practice, the task group undertook an online survey of senior Members and officers as well as undertaking direct interviews with a number of stakeholders. It also compared the committee's terms of reference with CIPFA's recommended terms of reference for local authority audit committees to assess if any changes should be made and analysed the results of a knowledge and skills survey of the committee's membership.

The committee was found to have a knowledgeable and balanced membership, a high degree of performance against CIPFA's good practice principles and is generally effective in supporting improvements within the Council. A number of recommendations were proposed and agreed to assist the committee to keep improving and adapt to the changing local government environment. A progress chart against the recommendations is included as **Annex 1**.

Engaging with others

Engaging with the Leadership

The Chairman of the Audit & Governance Committee has had regular meetings with senior managers across the Council during 2013/14. This included 6-monthly meetings with the Head of Communications and meetings with the Section 151 Officer before each Audit & Governance Committee meeting. The Chairman has also met with the Chief Executive and the Leader of the Council on a regular basis.

The Leader of the Council and the Council's Chief Executive attended the Audit & Governance Committee on 29 May 2014 to present the Annual Governance Statement. The Annual Governance Statement is the Council's comprehensive assessment of the governance arrangements and the internal control environment across all Council activities. It is signed and jointly owned by both the Chief Executive and Leader. The Chief Executive also attended the committee on 31 July 2014 to present the Annual Report of the Council.

Making recommendations
The Committee has made a number of formal recommendations to Cabinet and the Council as well as drawing attention to matters of concern, without formal recommendation.

All recommendations, referrals to other individuals and bodies, and other actions (including requests for further information) are followed up through the use of a recommendations tracker which is reviewed at every meeting of the Audit & Governance Committee.

Wider Council engagement

Since 2009, an Audit & Governance Committee Bulletin has been produced. The Bulletin was originally introduced to help keep Members up-to-date with issues relevant to the Committee's remit between meetings. Over time the Bulletin has evolved to include more information such as updates from the Council's Finance, Policy & Performance and Adult Social Care services, as well as linking to useful websites. To help raise the profile of the Committee's work, the Bulletin is now published alongside agendas on the public website and is available on notice boards in County Hall.

The Committee also includes information on its activities in the quarterly Regulatory Committee Bulletin, emailed to all Members of the Council.

Next year's focus

The Audit & Governance Committee will continue to review and challenge the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management throughout 2015. It will also focus on ensuring that there is effective governance and risk management in partnership arrangements and major projects.

Annex 1 - Effectiveness Review Recommendations: Progress

Recommendation	Comment	Status
1. That the Committee recommends to Council that its terms of reference be amended [as detailed in report].	The Council approved all amendments to the terms of reference on 14 October 2014.	Completed
2. That a communications plan be prepared and implemented to raise the committee's profile and the profile of control systems with officers and backbench Members.	A communications plan has been drafted in consultation with the Chairman of the committee and circulated to all members of the Committee and relevant officers. Implementation will take place as part of business as usual.	Completed
3. That work be undertaken to improve working arrangements between Audit & Governance Committee and the Select Committees.	Discussions have been held between officers supporting Audit & Governance Committee and Select Committees with regard to task group findings. Work Plans have been shared to help Select Committees with their agenda planning. The approach to audit reports is being actively coordinated by officers and Committee Chairmen.	Ongoing
4. That the committee develops a protocol for working with the newly established Statutory Responsibilities Network.	The committee is receiving a report on the Statutory Responsibility Network from the Chief Executive at its February 2015 meeting and will consider how to work with the Network going forward.	Ongoing
5. That the committee develops a map of partnership arrangements and negotiates its role alongside those arrangements with the Leader, according to their type and the risk attached.	The committee is holding a workshop on partnerships in February 2015 and will discuss how it could get involved in a way that was proportionate, risk-based, relevant and timely. The Chairman and Scrutiny Officers of COSC are also invited to ensure that Select Committees are involved when useful.	Ongoing
6. That the number of committee meetings be increased to six per year, while the committee continues to adopt innovative ways of working outside formal committee meetings.	The numbers of meetings have been increased to six per year and workshops/training events are continuing to be planned, including: regular meetings with the Internal Audit team; a workshop on partnerships; a workshop on counter-fraud activity; a presentation on the Audit Plan to senior Members; training on treasury management, local authority financial statements, and risk management; and an informal meeting in the Autumn with Babcock 4S to scrutinise its accounts.	Completed.
7. That the committee scrutinises the Assurance Framework upon completion of the assurance mapping process.	This was scrutinised at the February committee meeting.	Completed.

Recommendation	Comment	Status
8. That Grant Thornton provides information on its performance to the committee, in a format agreed with the Chairman.	A performance management framework was agreed with Grant Thornton on 1 December 2014.	Completed
9. That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor.	Council agreed this amendment to the committee's terms of reference on 14 October 2014.	Completed
10. That the committee consider how to develop its involvement in major projects such as the New Models of Delivery project.	The Chairman is reviewing a list of projects and considering how to take this forward.	Ongoing
11. That the Chairman discuss with the Chairman of Adult Social Care Select Committee the possibility of joint scrutiny with that Committee as to whether robust arrangements are in place to achieve savings in Adult Social Care.	Audit & Governance Committee members were invited to attend a meeting on 27 November 2014 at which the Adult Social Care Select Committee's performance and finance task group reported its findings. Committee members reported back on their views at the meeting on 1 December 2014 and will continue to focus attention on the Adult Social Care budget in conjunction with Adult Social Care Select Committee.	Ongoing
12. That the committee improve its approach to ensuring that the council has effective arrangements for countering fraud and corruption risks.	The committee participated in a workshop on counter-fraud on 13 January 2015. Future six-monthly reports to committee on irregularity investigations are to include information on: the Council's counter-fraud strategy; review of the strategy against recommended practices; and fraud risks.	Completed
13. That the full committee continues with its regular training covering all areas of its work, while individualised training programmes are agreed with Members as requested.	Training for the full committee on all the areas in the terms of reference continue to be organised. Individualised training programmes have been agreed with Members.	Completed

The committee will continue monitoring progress against recommendations which have not been completed at each meeting.

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SURREY COUNTY COUNCIL

Audit & Governance Committee
16 February 2015

Statutory Responsibilities Network

Purpose of the report:

The Audit & Governance Committee Effectiveness Review recommended that the committee develops a protocol for working with the newly established Statutory Responsibilities Network.

Recommendations:

It is recommended that:

i. The committee supports the proposed protocol for working with the Statutory Responsibilities Network.

ii. The Audit & Governance Committee Chairman has regular meetings with the Network chairman, the Chief Executive, in order to go through minutes and keep up-to-date with network activity.

Introduction:

1. During the course of Audit & Governance Committee Effectiveness Review, the task group was given information about the establishment of a Statutory Responsibilities Network for the Council. The task group felt that it would be necessary for the committee to understand how to use or work with the Statutory Responsibilities Network on aspects of its work. It recommended that the committee develops a protocol for working with the newly established Statutory Responsibilities Network. This report provides information on the work of the Network, specifically addressing queries raised during the Effectiveness Review, and outlines a proposed protocol for working with the committee.

What is the Statutory Responsibilities Network?

2. The Statutory Responsibilities Network (SRN) has been established since May 2014 and meets every fortnight on a Monday afternoon. It exists to bring key officers together with a focus on the Council's core legal duties.

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Terms of reference

3. The purpose of SRN is to facilitate clear senior officer oversight of our major statutory and other responsibilities, which have been defined as:

    - Ensuring adults and children are safe
    - Ensuring fiduciary duty, i.e. finances are safe
    - Ensuring compliance, including with equalities duties
    - Ensuring health & safety responsibilities are met
    - Ensuring highways responsibilities are met
    - Ensuring the provision of sufficient school places
    - Ensuring public health & wellbeing
    - Ensuring organisational resilience and continuity
    - Ensuring risks are identified and managed

Membership

4. SRN membership, as of February 2015:

    - David McNulty, Chief Executive Officer
    - Nick Wilson, Strategic Director Children, Schools and Families
    - Dave Sargeant, Strategic Director Adult Social Care
    - Russell Pearson, Chief Fire Officer
    - Helen Atkinson, Director of Public Health
    - Sheila Little, Director of Finance
    - Ann Charlton, Director of Legal & Democratic Services
    - Carmel Millar, Director of People and Development
    - Sue Lewry Jones, Chief Internal Auditor

Production of Annual Governance Statement

5. SRN will steer the production of the Annual Governance Statement. The Director of Finance will share a draft with SRN April 2015.

Typical network activity

6. The network provides a regular forum for statutory officers to raise key issues, share knowledge and offer challenge. In response to risks, the network may choose to request further information, propose ideas or commission specific work. Recent items include pay exceptions, health and safety and DBS checks. Where organisational inconsistencies are identified, a strategic solution is agreed, implemented and overseen.

Involvement with assurance mapping

7. The Chief Internal Auditor will periodically bring the Council's assurance map to the attention of SRN, for their oversight and feedback.

Governance of risk

8. The leadership risk register is a standing item for SRN meetings. This allows for the regular review of existing risks and the identification of new risks. The Strategic Risk Forum also continues to operate as usual.

Proposed Protocol:

9. Performance of SRN will be managed by the Chief Executive Officer, who will provide the Committee with twice yearly reports on progress. Key findings throughout the year will continue to be brought to the Committee by SRN members.

10. It is suggested that the Audit & Governance Committee Chairman goes through the minutes of SRN meetings and be briefed on other activity of the network during his regular meetings with the Chief Executive.

Conclusions:

11. The purpose of SRN is to bring together people with statutory responsibilities and to provide the strategic connectivity. It is designed to enhance the focus on core duties. With this protocol, the SRN will be joined up with the Audit & Governance Committee, with measures in place to ensure the effective governance of risk.

Financial and value for money implications

12. None

Equalities and Diversity Implications

13. EIA not completed as this report is for information.

Risk Management Implications

14. The Statutory Responsibility Network plays a key role in the identification and management of risk.

Next steps:

Director of Finance to share draft Annual Governance Statement with SRN.

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