

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time
Thursday, 24 May
2018
at 12.30 pm

Place
Members Conference
Room, County Hall,
Kingston upon
Thames, Surrey KT1
2DN

Contact
Joss Butler
Room 122, County Hall
Tel 020 8541 9702

joss.butler@surreycc.gov.uk

Chief Executive
Joanna Killian



We're on Twitter:
[@SCCdemocracy](https://twitter.com/SCCdemocracy)

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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 Joss Butler on 020 8541 9702.

Members

Membership of the Committee will be confirmed following the County Council AGM on 22 May 2018.

Ex Officio:

Leader of the Council
Deputy Leader of the Council
Chairman of the Council
Vice-Chairman of the Council

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 12 APRIL 2018

(Pages 1
- 8)

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

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

- (i) Any disclosable pecuniary interests and / or
- (ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

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 (*18 May 2018*)
2. The deadline for public questions is seven days before the meeting (*17 May 2018*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages 9
- 14)

To review the Committee's recommendations tracker.

6 ANNUAL RISK MANAGEMENT REPORT

(Pages
15 - 32)

This annual risk management report enables the Committee to meet its responsibilities for monitoring the development and operation of the Council's risk management arrangements. It also presents the latest Leadership risk register.

- 7 2017/18 DRAFT ANNUAL GOVERNANCE STATEMENT** (Pages 33 - 42)
- This report presents the draft Annual Governance Statement, which summarises the Council's governance arrangements for the financial year ending 31 March 2018.
- 8 GOVERNANCE STRATEGY AND CODE OF CORPORATE GOVERNANCE** (Pages 43 - 62)
- This report provides the Committee with an update on the changes made to the Council's Governance Strategy and Code of Corporate Governance.
- 9 2017/18 TREASURY MANAGEMENT OUTTURN REPORT** (Pages 63 - 76)
- This report summarises the Council's treasury management activities during 2017/18, as required to ensure compliance with the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.
- 10 DATE OF NEXT MEETING**
- The next meeting of Audit & Governance Committee will be on 26 July 2018.

Joanna Killian
Chief Executive
Published: 16 May 2018

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MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 12 April 2018 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

Mr David Harmer (Chairman)
Mr Edward Hawkins
Mr Ernest Mallett MBE
Mrs Fiona White

Substitute Members:

Mrs Bernie Muir

Members in Attendance

Dr Andrew Povey

12/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Keith Witham and Peter Szanto. Bernie Muir substituted for Peter Szanto.

13/18 MINUTES OF THE PREVIOUS MEETING - 22 JANUARY 2018 [Item 2]

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

14/18 DECLARATIONS OF INTEREST [Item 3]

Edward Hawkins declared a non-pecuniary interest in item 8 as he was the Director of Halsey Garton Property Investments Ltd.

Bernie Muir declared a non-pecuniary interest in item 8 as she was the Director of Surrey Choices

15/18 QUESTIONS AND PETITIONS [Item 4]

There were none.

16/18 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]

Key points raised during the discussion:

1. It was noted that actions A3/18, A4/18 and A5/18 were being considered at the current meeting therefore they could be removed from the actions tracker.
2. When considering the bulletin, Members discussed concerns over a figure which showed that the life expectancy for males from age 65 had lowered between the years 2016 - 2017. Babcock 4S were asked to comment outside of the meeting, where they stated that it was far

from clear whether this trend would continue and it would be some years before any link was confirmed. The Chairman requested that he be sent further statistical information on the matter.

3. Further concern was raised with the decline in revenue for Babcock 4S where it was noted that the company's core contract with Surrey County Council had reduced significantly over the years and that it was due to expire in March 2019. Members agreed to invite the relevant Cabinet Members to attend a future meeting in order to share these concerns and answer questions on the matter.

ACTIONS:

Ref: A6/18 - To invite the relevant Cabinet Members to attend a future meeting in order to share concerns and answer questions on Babcock 4S.

RESOLVED:

The Committee noted the recommendation tracker and bulletin.

17/18 ETHICAL STANDARDS ANNUAL REVIEW [Item 6]

Witnesses:

Sarah Baker, Monitoring Officer

Key points raised during the discussion:

1. The Monitoring Officer introduced the report which provided a review of the recent activity of the Code of Conduct and complaints made on Member conduct. It was noted that training would be provided for all Members on the role of the Member Conduct Panel in dealing with complaints later in the year.
2. Members stated it was positive that there were no complaints alleging that a Member had failed to disclose or declare a pecuniary interest and that the number of complaints were lower than in previous years.

RESOLVED:

1. That the Monitoring Officer provides training to Members during 2018 as outlined in paragraph 16 of the report.
2. The Committee noted the Monitoring Officer's report on recent activity in relation to the Code of Conduct and complaints made in relation to member conduct.

18/18 MEMBERS' ALLOCATION FUNDING OF EDUCATION COSTS - MOTION FROM FULL COUNCIL [Item 7]

Witnesses:

David Green, Senior Principal Accountant
Sandra Brown, Engagement Manager
Dr Andrew Povey, County Councillor

Key points raised during the discussion:

1. Dr Andrew Povey, proposer of the original motion which was referred on to the Committee from the meeting of Full Council on 5 December 2017, spoke and highlighted his concerns with the current Member Allocation (MA) process. He insisted that Members should have increased freedom with what they choose to spend their allocated funding on with the reason that each individual Member understands best the needs of their residents.
2. Officers went on to introduce the report and provided some insight on its key points. This included a brief overview of the new Members' Community Allocation (MCA) grant which was being produced to replace the current MA. Officers explained that the new MCA school funding policy would be similar to the current procedure in place, but that details were still under consultation. Members noted that the MCA would be considered at Full Council on 22 May 2018.
3. Members provided examples of what they choose to spend their allocated funding on and explained why that works best for their residents.
4. It was agreed that the Chairman of the Committee would write to the Leader of the Council to ask that the new MCA grant policy be set broadly in order to allow less restrictions to funding and increased freedom to Members.

Actions:

Ref: A7/18 - That the Chairman of the Committee write to the Leader of the Council to ask that the new MCA grant policy be set broadly in order to allow less restrictions to funding.

RESOLVED:

The Audit and Governance Committee noted the contents of the report.

19/18 EXTERNAL AUDIT - AUDIT PLAN [Item 8]

Witnesses:

Nicola O'Connor, Finance Manager
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The representative from Grant Thornton introduced the report and provided a short summary of the various risks that had been identified. These were provided in Annex 1 of the report. The Committee were given further details on materiality, the group audit scope, and the key changes impacting the auditor's report for audits of financial statements.
2. Members sought clarification on a comment that Halsey Garton had no employees. It was confirmed that it used the resources of Surrey County Council and Orbis and then recharged to the LATC proportionally.
3. Members asked if the external auditors assessed the optimisation of Council-owned vacant properties where officers confirmed it was not in

their remit. Members went on to suggest inviting the relevant Cabinet Members to the Committee in order to answer questions on the subject. It was noted that there was a planned internal Audit on vacant properties, so it was agreed to await for publication of this before moving forward.

RESOLVED:

It was agreed that the Audit and Governance Committee approves the Audit Plan attached as Annex 1.

20/18 GRANT THORNTON: 2017/18 EXTERNAL AUDIT PLAN - PENSION FUND ACCOUNTS [Item 9]

Witnesses:

Nicola O'Connor, Finance Manager
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The representative from Grant Thornton introduced the item and highlighted various aspects of the report. In particular, an explanation was provided on 'deep business understanding' which was outlined in Annex 1 of the report.
2. The Chairman thanked Grant Thornton for the reports that they had provided.

Resolved:

It was agreed that the Audit and Governance Committee approved the external audit plan attached as Annex 1.

21/18 UPDATE ON DEPRIVATION OF LIBERTY SAFEGUARDS [Item 10]

Witnesses:

Jim Poyser, Senior Manager for Mental Capacity Act and Deprivation of Liberty Safeguards
Andy Butler, Senior Practice Development Manager and Principal Social Worker for Adults

Key points raised during the discussion:

1. This item was called into the Committee following a request for more information at its meeting on 22 January 2018.
2. Officers introduced the report and provided Members with an update on Deprivation of Liberty Safeguards (DOLS). It was explained that there had been a significant improvement in the number of completed authorisations in the last six months. This was primarily due to training more authorisers within Adult Social Care. It was said that officers now felt they were in a much better position than they were in the previous year.
3. Members congratulated officers for their work to improve the situation in a short amount of time.

4. Members were further informed that a replacement for DOLS was in the process of being agreed and would be titled Liberty Protection Safeguards (LPS). The government had accepted the majority of the Law Commissions draft bill and accepted the “urgency” of the need to introduce new legislation. However, they could not say when the bill would go ahead as this was dependent on when there was enough parliamentary time.

Resolved:

The Audit and Governance Committee noted the contents of the report.

22/18 LEADERSHIP RISK REGISTER [Item 13]

Ernest Mallett left the meeting at 12:00pm

Witnesses:

Nicola O’Connor, Finance Manager
Sheila Little, Director of Finance

Key points raised during the discussion:

1. The Finance Manager introduced the report and provided Members with a brief overview of the changes to the risk register.
2. Members showed particular concern with Ref: L1 on the Leadership Risk Register and asked the Director of Finance to comment. She stated that the Council would continue to lobby Central Government for additional funding for Adult Social Care but noted that the Council could not depend of this as it was not a guaranteed income stream. The Director of Finance went on to highlight details of the Business Rate Retention Scheme and stated that she hoped to continue the pilot scheme into 2019/20, but there was currently no certainty over this.
3. Members discussed the fact that some felt Surrey County Council did not require additional funding due to the number of wealthy residents in the County.
4. The Director of Finance informed Members that the Leadership Risk Register report would be considered by Cabinet on 24 April 2018. This report would include some details of the focus of the new Chief Executive.
5. It was noted that the new Chief Executive would be attending the next Audit and Governance Committee meeting in order to present the Annual Governance Statement.

Resolved:

The Committee reviewed the Leadership Risk Register.

23/18 INTERNAL STRATEGY AND ANNUAL AUDIT PLAN 2018/19 [Item 11]

Witnesses:

Russell Banks, Chief Internal Auditor
Simon White, Audit Manager

Key points raised during the discussion:

1. Officers introduced the report and explained its purpose was to present the Internal Audit Strategy and Annual Internal Audit Plan for 2018/19. Members were presented the core principles for an effective internal audit service which were outlined on page 113 of the agenda.
2. A discussion was had on the processes in place for monitoring the performance of the Council's Internal Audit department. Officers explained that the department self-assesses against strict, specific and professional guidelines every 12 months. These guidelines were then assessed by an external auditor every five years. It was noted that a report outlining further details on this would be brought to a future Committee meeting.
3. Officers stated that the Audit Department would continue to monitor the development, and compliance of, the General Data Protection Regulations (GDPR).
4. Members raised concerns around the Traffic Management Audit under the 'Improving Our Roads' Council priority. They stated that some traffic diversions in Surrey were unreasonably long and could cause issues with local businesses. Officers noted this and agreed to take it into account when carrying out the audit.

Resolved:

Members considered the contents of this report and Appendixes, and approved the following:

1. The Internal Audit Strategy (Annex 1)
2. The Internal Audit and Corporate Fraud Plan (Appendix A)
3. The Internal Audit Charter (Appendix B)

24/18 COMPLETED INTERNAL AUDIT REPORTS [Item 12]

Witnesses:

Russell Banks, Chief Internal Auditor
Simon White, Audit Manager

Key points raised during the discussion:

1. Officers introduced the report and provided a brief summary of the internal audits that had been completed since the last meeting. They explained that the opinion overall was positive and highlighted that the GDPR audit had received a 'partial assurance' opinion due to lack of conclusive details for the act.
2. When discussing the GDPR, Members were concerned that it could have negative consequences for local authorities when dealing with resident's data in emergency situations.
3. Members sought an update on the agreed action for the Nursery Education Funding follow-up audit. They were informed that work was still ongoing but the Committee would be updated when appropriate

4. The Organisational Ethics audit was discussed where officers highlighted that they hope to make the Fraud E-Learning course a requirement to increase the number of staff that had completed it.

Resolved:

The Audit and Governance Committee noted the report.

25/18 DATE OF NEXT MEETING [Item 14]

The date of the meeting was noted as 24 May 2018.

Meeting ended at: 12.45 pm

Chairman

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Audit & Governance Committee
24 May 2018

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.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings in Annex A.

REPORT CONTACT: Joss Butler, Democratic Services Assistant
020 8541 9702 joss.butler@surreycc.gov.uk

Sources/background papers: None

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Audit & Governance Committee Recommendations Tracking

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A1/17	20/02/17	Audit for Surrey Choices	Committee to invite Penelope Fell, MD of Surrey Choices/Shareholder Board to next meeting of A&G	Chairman	<p>July 2017 – That the Committee will see how the new Overview and Budget Scrutiny Committee will be dealing with this matter going forward.</p> <p>November 2017 – The Chairman of the Overview and Budget Scrutiny Committee has planned to take an item on the performance of the Shareholder Board (and the LATCs) in July 2018. A&G Committee to be updated following this.</p> <p>December 2017 - The Chairman agreed to speak informally to the Chairman of the Overview and Budget Scrutiny Committee to raise concerns over the debt of Surrey Choices.</p>
A1/18	22/01/2018	Business Continuity	To upload the updated LGA Guidance titled 'A Councillor's guide to Civil emergencies' to the network portal and let all Members know when it's available.	Democratic Services Assistant	Awaiting publication by Local Government Association.
A2/18	22/01/2018	Business Continuity	To discuss timings for future reports once training for Members has taken place on Business Continuity.	Chairman	April 2018 – Member Development session titled 'Induction to Emergency Planning' took place on 30 April 2018. The session provided Members with an overview of the response structures in place for emergency situations, as well as some of the key risks facing both Surrey County Council and local authorities more widely.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A6/18	12/04/2018	Bulletin	To invite the relevant Cabinet Members to a future meeting in order to share concerns and answer questions on Babcock 4S.	Democratic Services Assistant	

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A3/18	22/01/2018	Leadership Risk Register	That the Finance Manager feedback the Committee's comments to the Statutory Responsibilities Network and the Resilience Network.	Finance Manager	
A4/18	22/01/2018	Leadership Risk Register	That a list of additional statutory responsibilities, and associated costs, put on the council over the last five years be put on a future agenda for discussion.	Chairman	
A5/18	22/01/2018	Completed Internal Audit Reports	That the Committee's concerns regarding the Deprivation of Liberty safeguards (DOLS) be expressed to the Cabinet Member, Head of Service and Chairman of the Select Committee.	Chairman	April 2018 - DOLS item to be considered at meeting on 12 April 2018.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A8/16 (Merged A20/15 A43/15 -Dec 2016)	28/05/15 07/12/15	Completed Internal Audit Reports Internal Audit Half Year Report 2015/16	<ul style="list-style-type: none"> • record keeping for accounts relating to individuals' care charges • outstanding financial assessments. 	Chairman	<p>Members from Audit & Governance Committee were invited to attend the Social Care Services Board on 26 October to take part in discussions on this item. Denis Fuller and Tim Hall attended as did Saj Hussain who is a member of SCSB.</p> <p>January 2017 – Committee agreed to keep on the tracker for the new committee.</p> <p>May 2017 – An audit is currently taking place on record keeping for accounts relating to individuals' care charges so depending on the outcome the Committee may wish to delete this item from the tracker.</p> <p>June 2017 – Committee requested this be kept on tracker until the audit report had been seen.</p>
A7/18	12/04/2018	Motion referred from Council	That the Chairman of the Committee write to the Leader of the Council to request that the new Members' Community Allocation grant policy be set broadly to create less restrictions to funding.	Chairman	Completed.



Audit & Governance Committee
24 May 2018

Annual risk management report

Purpose of the report:

This annual risk management report enables the Committee to meet its responsibilities for monitoring the development and operation of the Council's risk management arrangements. It also presents the latest Leadership risk register.

Recommendations

It is recommended that the Audit and Governance Committee:

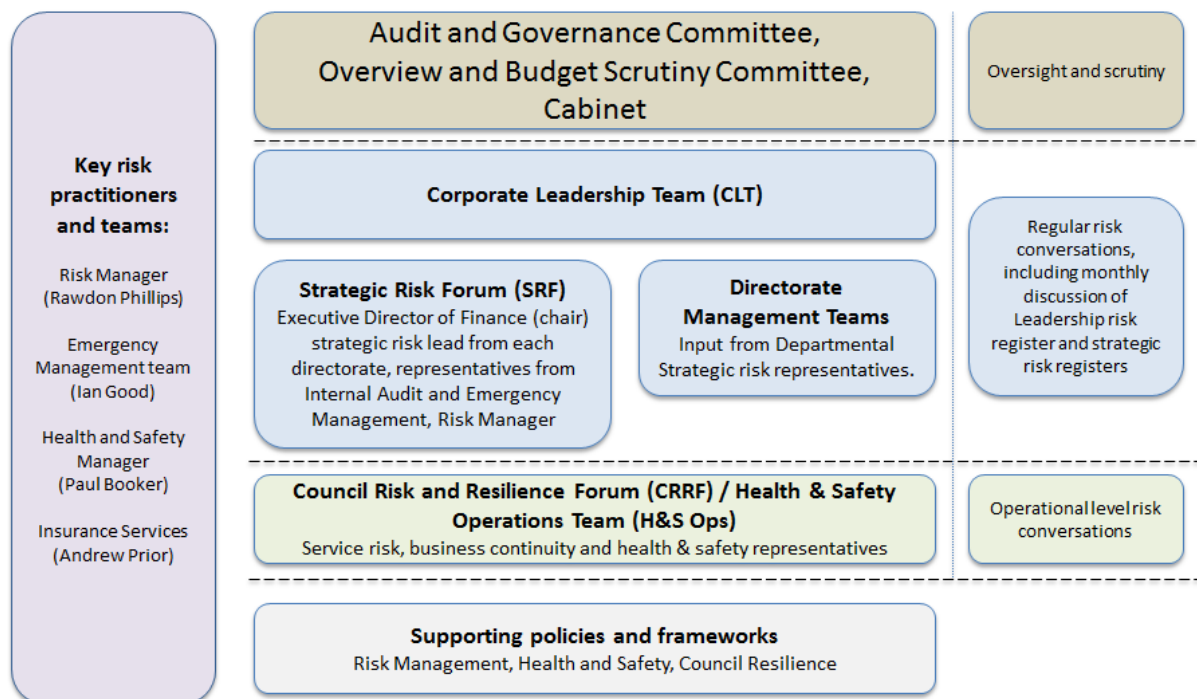
1. Consider the contents of the report and confirm they are satisfied with the risk management arrangements;
2. Commend the Risk management strategy to Council for inclusion in the Constitution (Annex A); and
3. Review the Leadership risk register (Annex B) and determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, Cabinet Member or Select Committee.

Introduction

4. The terms of reference of the Audit and Governance Committee include the requirement to monitor the effective development and operation of the Council's risk management arrangements. This report summarises the risk management activity from April 2017 to date and provides an update on the Leadership risk register.

Risk management arrangements

5. The diagram below describes the Council's risk governance arrangements;



6. The **Corporate Leadership Team (CLT)** is provided with a monthly risk update from the Executive Director of Finance (strategic lead for risk management). The risk updates are focused on the Leadership risk register and emerging risks, but can also include the risk strategy and specific risk information such as the risk overview.
7. The **Strategic Risk Forum (SRF)**, chaired by the Executive Director of Finance, meets on a bi-monthly basis. The forum scrutinises and challenges strategic risk and discusses risk arrangements across the Council to ensure a consistent approach is applied.
8. The Leadership risk register is presented to Cabinet on a quarterly basis to provide oversight of the Council's strategic risks and controls.
9. The Leadership risk register is also presented to the Audit and Governance Committee to facilitate the monitoring and scrutiny of the Council's risk management arrangements and of the Council's strategic risks and controls.

Progress on key actions from 2017/18

10. The 2017/18 risk management plan identified three key risk management actions for the year and progress is summarised below.

Continue to ensure the Council's risk arrangements are fit for purpose and support new ways of working.

11. Strong risk leadership, supported by a network of risk representatives, continues to ensure that management teams at all levels across the organisation focus on having effective conversations about risk and that the risk registers (operational and strategic) document and inform those discussions. Emerging risks or risks that are becoming more significant are escalated through the risk governance arrangements (shown above) as appropriate.

12. Each service has a named risk representative who is responsible for supporting management teams with their management of risk, including embedding understanding of risk and ensuring regular risk register reviews.
13. The Council's risk profile is dynamic and therefore the risk management structure is flexible enough to address this. This is relevant in relation to new ways of working. An example of this has been the assessment of risks relating to cyber resilience issues and GDPR (General Data Protection Regulation) compliance.
14. In order to further strengthen risk management practice across the organisation, a series of risk management training sessions / workshops have been provided to the senior management teams in the Adult Social Care, Environment and Infrastructure, and Legal & Democratic Services Departments. A risk management workshop was also provided to the Senior Operational management team at the Surrey Fire and Rescue service. These training sessions and workshops helped to emphasis and further embed sound risk management practice, and to support managers in having more effective risk based conversations.
15. Ongoing support is also being provided to the Children's, Schools and Families Department involving an in depth review of Departmental and Service level risk registers with particular emphasis on the identification of new risks and the identification of relevant mitigation actions to ensure that risk registers are documenting the ongoing conversations about risk and supporting the management of risk going forward.

Continue to moderate, challenge and present risk information in a clear and transparent way across the organisation

16. Risk registers are continually evolving alongside organisational changes and new ways of working. The Strategic Risk Forum (SRF) reviews and discusses strategic and operational risk registers at each meeting to ensure they are consistent and support risk discussions within services and directorates.
17. The Leadership risk register has been extensively reviewed by the Statutory Responsibilities Network (SRN) during 2017 / 2018 to ensure there is continued focus on the significant risks facing the organisation. This risk review function has now transferred to the Corporate Leadership team (CLT). The Leadership risk register now has seven risks, split into two sections of three strategic risks and four cross-cutting risks.
18. The Risk Manager provides support, guidance and challenge to assist with the development of risk registers and the further embedding of sound risk management practice across the council. Risk Management refresher training has been provided to Senior Management teams in the Adult Social Care, Children's, Schools and Families, Environment & Infrastructure, Legal & Democratic Services Departments, and also to Surrey Fire and Rescue Services to support effective risk management conversations.

Investigate the strengthening of links between Risk Management and Internal Audit to improve programme and project reviews. Also improve links between Risk Management and Business Continuity with particular reference to consistency of risk registers.

19. Risk Management is one of a set of services which provide assurance across the organisation. It is important that links between the Risk management, Internal audit and Business continuity functions are strengthened to maximise this assurance.

20. While Programmes and projects use their own risk register formats, the fundamental elements remain consistent and in line with corporate standards, which facilitates the escalation of relevant risks to service or strategic level, should this be required. The Departmental Strategic risk representatives form a link between directorate programmes and projects and corporate risk via the risk conversations undertaken at Strategic Risk Forum (SRF). The Risk Manager also continues to work closely with Internal audit, sharing information and providing advice on key risk areas, in particular in relation to programmes and projects.
21. Business continuity and Internal audit managers are both members of the Strategic Risk Forum (SRF) and consequently have been involved in the review and challenge of the Leadership Risk Register (LRR) on a regular basis. The Risk Management and Business Continuity teams are also both represented on the Council Risk and Resilience Forum (CRRF) which review operational risk management and business continuity plans.

Risk management strategy and plan

22. The Risk management strategy 2018-21 (Annex A) clearly sets out the Council's risk management approach, in alignment with the Corporate Strategy.
23. The Risk management strategy is supplemented by the risk management plan which outlines the risk governance arrangements, specific roles and responsibilities and the key risk actions for 2018/19 which are:
 1. Continue to ensure the risk management arrangements are fit for purpose and support new ways of working.
 2. Continue to moderate, challenge and present risk information in a clear and transparent way across the organisation and to ensure that sound risk management practice is further embedded.
 3. Continue to review the risk management arrangements in line with best practice.

Assurance

Internal audit review

24. The Internal audit team provide an annual independent assessment of the risk management arrangements. Consequently an audit of the risk management function was undertaken in March 2018.
25. The overall Audit Opinion was 'Substantial Assurance' (the highest level available) with four recommendations made. All of these recommendations were considered 'low' priority.
26. The recommendations related to ensuring representation from all SRF attendees at future meetings, ensuring the latest version of the Risk Management Strategy is posted on s-net, ensuring 'cyber resilience' risk are reflected on Departmental level risk registers and ensuring any programme and project risks be consistent to facilitate any risk escalation.
27. All audit recommendations have been accepted and will be completed by the required deadlines agreed in the audit.

Leadership risk register

28. The Leadership risk register (Annex B) is owned by the Chief Executive and shows the Council's 7 key strategic risks as at 30 April 2018.

Changes to the Leadership risk register (LRR);

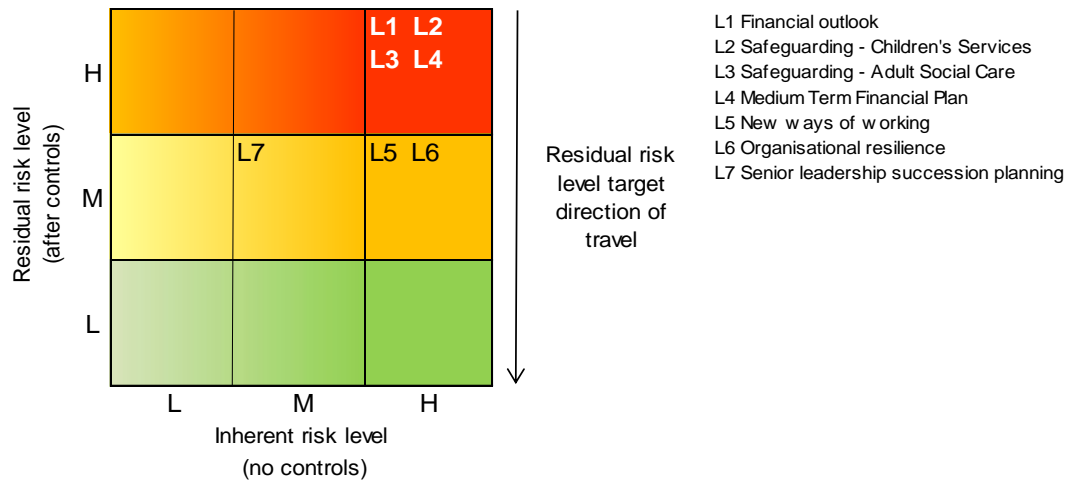
29. Since the Leadership risk register was last presented to the committee in April 2018 the following changes have been made;

- **Risk L1 (Financial Outlook)** – Removed reference to Members induction programme and added references to the development of a transformational programme for improved financial sustainability;
- **Risk L3 (Safeguarding- Adult Social Care)** – Updated reference to working with Surrey Safeguarding Adults Board.
- **Risk L4 (Medium Term Financial Plan)** – Additional references to detailed savings tracker, earlier budget planning and Members financial briefings.
- **Risk L5 (New Ways of Working)** – Removed reference to local oversight and challenge. Updated references to Governance arrangements and Sustainability and Transformation partnerships.
- **New Ways of Working (L6)** – risk description has been updated to reflect the broader aspects of the risk. Processes and controls have also been updated.
- **Risk L7 (Senior Leadership Succession Planning)** – Processes and controls further updated to reference the changes to the leadership team.
- **Leadership level risk assessment criteria' table** : This is currently under review. Any amendments will be reported to the Audit & Governance Committee once the review is completed.

Residual risk level

30. The Surrey County Council 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 or are being put in place, detailed on the risk register as both 'processes in place' and 'controls.'

31. There are currently seven risks on the Leadership risk register, six of which have a high inherent risk level, as illustrated in the table below. Despite mitigating actions, four risks continue to have a high residual risk level (L1,L2,L3,L4), three have a medium residual risk level (L5,L6,L7), showing the significant level of risk that the Council is facing despite the processes and controls being put in place to manage the risks.



Implications:

Financial and value for money implications

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

Equalities and Diversity Implications

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

Risk Management Implications

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

Report contact: Rawdon Phillips, Risk Manager, Finance

Contact details: 01273 481593 or Rawdon.Phillips@eastsussex.gov.uk

PURPOSE

To realise opportunities and manage exposures to ensure Surrey residents remain healthy, safe and confident about their future.

VISION

A risk culture that supports

ONE place

ONE budget

ONE team for Surrey

VALUES



Listen



Responsibility



Trust

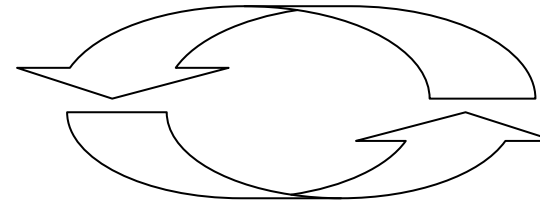


Respect

Context

The demand for council services continues to grow while financial resources are decreasing. Effective risk management is an integral part of ensuring the continued delivery of our services and providing organisational resilience during major change and transformation.

This Risk Management Strategy supports the achievement of our key priorities, goals and service delivery to residents. It is supplemented by our risk management plan that sets out our key risk actions for the coming year.



INTEGRATED APPROACH:

Risks are continually discussed and considered in the context of financial and performance management.

RISK PROCESS:

We have a consistent, iterative process of risk identification, risk assessment, risk monitoring and reporting.

GOVERNANCE:

Risk management roles and responsibilities are clearly defined and regularly reviewed.

Our strategic approach to risk management

1. Principles

Our approach to risk management is built on the following principles:

- It is dynamic, iterative and reacts to change
- It is open, transparent and consistently applied
- It provides risk information that objectively informs decision making and creates value
- It is integrated into our processes and aligns with our objectives
- It ensures lessons are learnt and actions for improvement are identified and implemented

2. Benefits

Through our risk management approach, the following benefits are realised:

- Enhanced organisational resilience through facilitating continuous improvement and innovation
- Stakeholder confidence and trust
- Flexibility to positively respond to new and continued pressures and challenges
- Strengthened governance to enable informed decision making
- Proactive management of risk and opportunities

3. Realisation

Realisation of the principles and benefits will be achieved through:

- Strong risk leadership that ensures the effective operation of the council's risk approach and arrangements
- Consistent compliance with the risk strategy and framework
- Staff and members being equipped to work with and support the risk culture
- Clear communication of the council's risk approach to our stakeholders
- Strong and transparent risk governance arrangements, including reporting and escalation of risk

To realise opportunities and manage exposures to ensure Surrey residents remain healthy, safe and confident about their future.

Challenges and opportunities

The ongoing climate of funding reductions, demand increases and changing responsibilities for Local Government continues to bring significant risk as well as opportunities. Sustaining the council's strong organisational resilience will require working differently, effectively managing our risks and realising the opportunities identified by new ways of working.

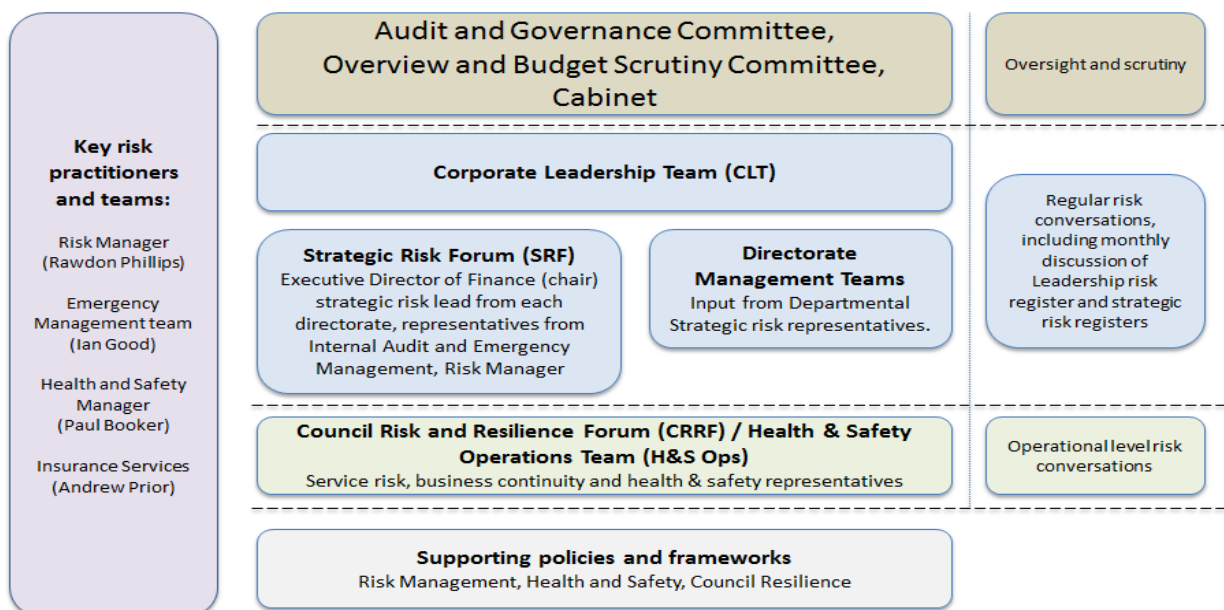
Risk management is a continuous and evolving process that runs through everything we do. Continually identifying and managing risks and opportunities increases the probability of success and supports the achievement of our goals and priorities.

Key actions

During 2018/19 three risk management actions will be prioritised to support the achievement of the council's corporate strategy:

1. Continue to ensure the risk management arrangements are fit for purpose and support new ways of working.
2. Continue to moderate, challenge and present risk information in a clear and transparent way across the organisation and to ensure that sound risk management practice is further embedded.
3. Continue to review the risk management arrangements in line with best practice.

Risk governance



The strategic lead officer for the corporate risk management arrangements is Sheila Little, Director of Finance and she is supported by Rawdon Phillips, Risk Manager.

The Audit and Governance Committee is responsible for monitoring the effectiveness of the risk management arrangements.

Roles and responsibilities

ROLE	RESPONSIBILITIES
The Cabinet	Oversee effective risk management across the council and ensure that key risks are identified, managed and monitored.
Portfolio Holders	Ensure that key risks within their portfolio are effectively managed through discussions with senior officers. Contribute to the Cabinet review of risk and be proactive in raising risks from the wider Surrey area and community if appropriate.
Select Committees	Monitor and challenge key risk controls and actions.
Audit and Governance Committee	Provide independent assurance to the council on the effectiveness of the risk management arrangements. Annually approve the risk management strategy and plan.
Corporate Leadership Team	Ensure effective implementation, monitoring and review of the council's risk management arrangements. Identify, own and manage key risks facing the council.
Executive Directors	Own their risk register and regularly identify, prioritise and control risks as part of wider council performance. Ensure that risk management is consistently implemented in line with the council's Risk Management Strategy and proactively discuss risk with senior officers and members.
Heads of Service	Own their risk register and regularly identify, prioritise and control risks as part of wider council performance. Challenge risk owners and review actions to ensure controls are in place and monitored. Support and have a regular dialogue with risk representatives and ensure that risk management is consistently implemented in line with the council's Risk Management Strategy.
Managers	Take ownership for actions and report progress to management. Co-operate and liaise with risk representatives and report any new or emerging risks.
Staff	Assess and manage risks effectively and report risks to management.
Risk Manager	Lead on the implementation of the risk management arrangements, including moderating and challenging risk across the organisation and providing training and communication. Centrally hold and publish all council risk registers and facilitate the review and challenge of the Leadership risk register.
Strategic Risk Forum	Review strategic risk through challenge and moderation and make recommendations to senior management on changes to the corporate risk arrangements and strategic risks. Identify and escalate common themes and issues through sharing learning and best practice.
Risk representatives	Embed and aid understanding of risk across the council and support management with the review of risk, including the risk register, as part of performance monitoring.
Internal Audit team	Annually audit the council's risk management arrangements and use risk information to inform the annual internal audit plan to ensure that internal controls are robust.

Review

The Risk Management Strategy and plan is reviewed annually. For any queries or comments on this document please contact Rawdon Phillips, Risk Manager.

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Leadership risk register as at 30th April 2018 final (covers rolling 12 months)

Owner: Joanna Killian

Strategic risks – have the potential to significantly disrupt or destroy the organisation

ANNEX B

Ref	Risk ref.	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	ASC1 CSF7 EAI1 FN1 ORB10	Financial outlook Further reductions in funding, due to constraints in the ability to raise local funding and/or distribution of funding, results in significant adverse long term consequences for sustainability and service reductions leading to significant implications for residents.	High	<ul style="list-style-type: none"> Proactive development and implementation of a transformation programme to support the council in improved financial sustainability ahead of 2020/21 and enable the delivery of a balanced budget for 2019/20 Structured approach to ensuring Government understands the council's Council Tax strategy and unsustainable impact of current funding mechanism. Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular Adult Social Care). Proactive engagement with Government departments to influence core Government policy direction (specific areas to be developed as Government priorities become clear). 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 where economically advantageous). <p>Notwithstanding actions above, there is a significant risk of Central Government policy changes /austerity measures due to changes in ministerial responsibilities impacting on the council's long term financial sustainability.</p>	<ul style="list-style-type: none"> Strengthened Transformation Governance arrangements established to effectively manage and monitor progress (fortnightly Transformation Board). Members make decisions to stop new spending, reduce spending and or generate alternative sources of funding, where necessary, in a timely manner. Members proactively take the opportunities to influence central Government. Officers continue to analyse events and create budget scenarios. The council pro-actively seek to participate in consultations and other opportunities to engage with Government as it develops future funding policies. 	Executive Director of Finance	High

Key to references:

ASC = Adult Social Care risk
CSF = Children, Schools and Families risk

C&C = Customers and Communities risk
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FN = Finance Service risk
ORB = Orbis risk





Leadership risk register as at 30th April 2018 final (covers rolling 12 months)

Owner: Joanna Killian

Ref	Risk ref.	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)
L2	CSF3,4,9	<p>Safeguarding – Children’s Services</p> <p>Avoidable failure in Children's Services, through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on well being.</p>	High	<ul style="list-style-type: none"> Children’s Improvement Board, with partnership membership, in place which has set improvement objectives for children through an Improvement Plan and regularly reviews impact for children and whole system capability and capacity. In addition to the Improvement Board there is scrutiny and quality assurance across the partnership through for example the Children’s Safeguarding Board, Corporate Parenting Board, the Council’s Select Committees and other scrutiny functions. Regular quality assurance and review within Children’s, Schools and Families, including feedback from regulators, peer review, quality and performance insight, and feedback from children and families. Children’s, Schools and Families Assistant Director roles and responsibilities have been reshaped to strengthen leadership and governance. Work now underway to strengthen practice leadership at all levels. Focus on improving practice and practice leadership. 	<ul style="list-style-type: none"> Timely interventions by well recruited, trained, supervised and managed professionals ensures appropriate actions are taken to safeguard and promote the wellbeing of children in Surrey. Quality assurance and management systems in place to identify and implement any key areas of learning so safeguarding practice can be improved. Actively respond to feedback from regulators, partners and service users. The Surrey Safeguarding Children Board (with an independent chair) is the key statutory mechanism to ensure agencies, including the council, work together effectively to safeguard and promote the welfare of children. An Improvement Board (chaired by the Leader) sets direction and reviews progress on the Improvement Plan and agrees any areas of action as required. 	Executive Director of Children's Families and Learning	High

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Leadership risk register as at 30th April 2018 final (covers rolling 12 months)

Owner: Joanna Killian

Ref	Risk ref.	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)
L3	ASC6,7,13,14	<p>Safeguarding – Adult Social Care</p> <p>Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on wellbeing.</p>	High	<ul style="list-style-type: none"> 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. The Adult Social Care and Children, Schools and Families Multi Agency Safeguarding Hub went live on 5 October 2016 facilitating the sharing of good practice. Established a locality safeguarding advisor role to assure quality control. Surrey Safeguarding Adults Board has undertaken external auditing of adult safeguarding enquires in 2016 and 2017 and we have acted on the learning from these. We have improved our process including our case recording system and our internal quality assurance process. In addition to the work of the Safeguarding Adults Board, there is further scrutiny of the function through the activities of the Council's Adults and Health Select Committee. 	<ul style="list-style-type: none"> 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. Actively respond to feedback from regulators. We are working with Surrey Safeguarding Adults Board (SSAB) and our partners to revise our adult safeguarding policies, procedures and guidance, associated tools such as the competency framework and our learning and development offer to support these. The revised SSAB policy, procedure and competency framework have been agreed by relevant sub-groups. Final sign off is anticipated at the next Board meeting in May 2018. The revised adult safeguarding training offer for ASC staff commenced in April 2018. 	Executive Director of Adult Social Care & Public Health	High

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Leadership risk register as at 30th April 2018 final (covers rolling 12 months)

Owner: Joanna Killian

Cross cutting risks – high level risks that can be mitigated more effectively through cross working.

Ref	Risk ref.	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)
L4	ASC1,2,12,16,17 C&C4 CSF1,2,7 EAI1,3 FN2 ORB01,10	<p>Medium Term Financial Plan (MTFP) 2018-21 Failure to achieve the MTFP, which could be a result of:</p> <ul style="list-style-type: none"> • Not achieving savings • Additional service demand and/or • Over optimistic funding levels. <p>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.</p>	High	<ul style="list-style-type: none"> • Detailed savings tracker in place for CLT to monitor progress of delivery of 2018/19 savings, covering: necessary consultations, milestones, Equality Impact Assessments, detailed plans. (Enables early conversations to be held with all relevant stakeholders to ensure consultations about service changes are effective and completed in a timely manner). • 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). • Weekly review of the in year financial position at Corporate Leadership Team meeting and strong focus on development of plans for delivery of the 2018/19 service efficiencies and reductions – to enable early management action as relevant. • Budget planning cycle up-dated to ensure key decisions for 2019/20 financial year made well ahead of the February 2019 council meeting to enable full year delivery on plans. • Earlier budget planning discussions held with Cabinet and Select Committees. • Cross service networking and timely escalation of issues to ensure lawfulness and good governance. 	<ul style="list-style-type: none"> - Prompt management action taken by CLT, Directors / Leadership Teams to identify correcting actions for any in year overspends or failure to deliver service reductions (evidenced by robust action plans). - Members (Council, Cabinet, Select Committees) make the necessary decisions to implement action plans in a timely manner. - Members have all the relevant information to make necessary decisions. 	Executive Director of Finance	High

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Leadership risk register as at 30th April 2018 final (covers rolling 12 months)

Owner: Joanna Killian

Ref	Risk ref.	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)
				<ul style="list-style-type: none"> Increased challenge and rigour on cost control. Ongoing all Members briefings to ensure all members are aware of the financial challenge in 2018/19 and the longer term. Ongoing induction programme for new Chief Executive to introduce her to the council and provide insight to all relevant issues. Significant focus on income generating activities through an enlarged property investment programme and the optimisation of the existing property assets. 			
L5	ASC2, 16 CSF1,2, 5,6,8 ORB01, 02,07, EMT3, 12, EA13	New ways of working Failure to work effectively as part of a multi-agency system leads to severe service disruption and reputational damage.	High	<ul style="list-style-type: none"> Shared and aligned strategies to ensure no unintended consequences. Robust governance arrangements (e.g. Inter Authority Agreements, Memorandum of Understanding, Joint Commissioning Committee, Executive Leadership Group, Health and Social Care Integration Board, Health and Wellbeing Board, financial governance framework) in place with early warning mechanisms. Effective transition arrangements with continuous stakeholder engagement. Continuous focus on building and maintaining strong relationships with partners through regular formal and informal dialogue. Close liaison and communication with customers, partners, inspectorates and regulators. Self-assessment continually refreshed in line with Ofsted inspection framework to inform Children's improvement work. Regular reviews with Department for Education, feedback from Ofsted and listen to 	<ul style="list-style-type: none"> Working closely with Department for Education and Ofsted to inform future Children's improvement strategy. Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter. Continue to nurture strategic partnerships to affect better outcomes for residents. Work with Sustainability and Transformation Partnerships and Integrated Care Systems (including Clinical Commissioning Groups and Health Providers) on models of integrated care. Members continue to endorse approaches for integration 	Chief Executive	Medium

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Leadership risk register as at 30th April 2018 final (covers rolling 12 months)

Owner: Joanna Killian

Ref	Risk ref.	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)
				feedback from partners and practitioners, all informs our Children's improvement work.	across the council.		
L6	ASC4, 5,8 CSF5 EAI2, 3,4 ORB 02,03, 08 LD6 EMT1, 10,11	Organisational resilience Failure for the organisation as a whole to plan for and/or respond effectively to a significant event and or strains on workforce capacity or resilience, results in severe and prolonged service disruption and loss of trust in the organisation.	High	<ul style="list-style-type: none"> • Developing an employment framework that supports flexibility in service delivery and organisational resilience. • Robust governance framework (including codes of conduct, IT cyber resilience and information assurance policies, health and safety policies, complaints tracking). • Information Governance Board monitors information governance requirements and changes and reviews information governance risks. • Review of third party information governance risks. • External risks are regularly assessed through the Local Resilience Forum and reviewed by the Corporate Leadership Team. • Active learning by senior leaders from external experiences / incidents informs continual improvement within the council. • Close working between key services and the Emergency Management Team to proactively update and communicate business continuity plans and share learning. • Leadership and management development programme in place to increase skills, resilience and effectiveness of leaders, focusing on communication and setting clear expectations. • Career conversations built into appraisal process looking forward five years • Robust management networks in place including Corporate Leadership Team and Council Risk and Resilience Forum. 	<ul style="list-style-type: none"> - Corporate Leadership Team review business continuity plans at least twice annually. - Regular monitoring of effectiveness of processes is in place and improvements continually made and communicated as a result of learning. - Robust change management processes. - Refresh staff awareness for IT security and information management. - All externally hosted IT solutions should be considered by Security Working Group (IT & Digital and Information Governance), with contract approval via IT & Digital. - Senior management annual assurance statement provides assurance that business continuity is well planned and staff are all aware. - Mutual aid arrangements set up to provide support to other SE7 Authorities in the event of an emergency. 	Chief Executive	Medium

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				<ul style="list-style-type: none"> Ongoing Members development programme in place to ensure that all Members have the skills and information they need to understand the challenges facing the Council and to perform their roles effectively. 			
L7		<p>Senior Leadership Succession Planning A significant number of senior leaders leave the organisation within a short space of time and cannot be replaced effectively resulting in a reduction in the ability to deliver services to the level required.</p>	Medium	<ul style="list-style-type: none"> Executive leadership team being reshaped and programme management capacity and capability has been strengthened under leadership of the Chief Executive (eg MyProteus have been appointed to support the change programme) . 	<ul style="list-style-type: none"> Up-dated Executive Leadership Team agreed by People, Performance and Development Committee on 9 April 2018. Additional capacity at tier 2 and 3 to be secured over the next six months as appropriate. 	Chief Executive	Medium

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Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership risk register are assessed on their inherent risk level (no controls) and their residual risk level (after existing controls have been taken into account) by high, medium or low.

Risk level	Financial impact	Reputational impact	Performance impact	Likelihood
	<i>(% of council budget)</i>	<i>(Stakeholder interest)</i>	<i>(Impact on priorities)</i>	
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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Finance Service risk

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ORB



Audit & Governance Committee
24 May 2018

2017/18 Draft Annual Governance Statement

Purpose of the report:

This report presents the draft Annual Governance Statement, which summarises the Council's governance arrangements for the financial year ending 31 March 2018.

Recommendations

It is recommended that the Audit and Governance Committee:

1. Review the contents of the draft Annual Governance Statement (Annex A) to satisfy themselves that the governance arrangements are represented correctly; and
2. Commend the draft Annual Governance Statement to the Cabinet for publication with the Council's Statement of Accounts.

Introduction

- 1 The Council is required to annually review the effectiveness of its governance arrangements and produce an Annual Governance Statement. Surrey County Council's Governance Strategy and Code of Corporate Governance details the six good governance principles adopted by the Council and by which the governance arrangements are assessed. The Code of Corporate Governance also details the methodology by which the annual review of governance is undertaken.
- 2 The review of governance is overseen by the Governance Panel (Head of Legal [chair], senior representatives from Finance, HR, Internal Audit and Strategy & Performance and Risk & Governance Manager), which has the responsibility for the development and maintenance of the governance environment and production of the Annual Governance Statement.
- 3 The 2017/18 annual governance review has provided a satisfactory level of assurance on the Council's governance arrangements.

Annual Governance Statement 2017/18

- 4 The 2017/18 draft Annual Governance Statement developed by the Governance Panel is attached at Annex A. There are two main sections:

Section	Pages	Detail
The governance environment	3 to 7	Summarises the Council's key policies, procedures and arrangements that evidence good governance. Includes the overall opinion of the Chief Internal Auditor on the internal control environment.
Focus for 2018/19	8	Outlines areas that the Council will focus on during the year ahead to ensure continued good governance.

Consultation

- 5 The Corporate Leadership Team, Chief Executive and Leader of the Council have been consulted and their comments are incorporated.

Monitoring and review

- 6 The Governance Panel will continually review the governance arrangements throughout the year and governance update reports will be presented to the Audit and Governance Committee throughout the year as appropriate.

Implications

Financial

- 7 There are no direct financial implications arising from this report. Continued improvements in governance will help to deliver value for money for residents.

Equalities

- 8 There are no direct equalities implications of this report.

Risk management

- 9 Strong governance arrangements support the Council in the effective delivery of services and achievement of objectives.

What happens next

The draft Annual Governance Statement will be presented to Cabinet for approval on 26 June 2018, signed by the Chief Executive and the Leader of the Council and then incorporated into the Council's Statement of Accounts for 2017/18.

REPORT AUTHOR: Sarah Baker, Chair of Governance Panel

CONTACT DETAILS: Tel: 020 8541 7981 or sarah.baker@surreycc.gov.uk

Sources/background papers: Governance panel minutes. Annual review of governance working papers. Code of Corporate Governance. CIPFA/SOLACE framework *Delivering Good Governance in Local Government*.

Annual Governance Statement 2017/18



OVERVIEW

The 2017/18 review has provided a satisfactory level of assurance on the governance arrangements for the year



Our Corporate Strategy: Ensuring Surrey residents remain healthy, safe and confident about their future



Listen



Responsibility



Trust



Respect

Surrey County Council (the council) has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. We also have responsibility for ensuring there is a sound system of governance and appropriate internal controls in place. We are committed to fulfilling our responsibilities in accordance with the highest standards of good governance to support our Corporate Strategy. The council's Governance Strategy sets out our approach to good governance and is supplemented by our Code of Corporate Governance.

The annual review of governance is overseen by the Governance Panel (the panel) which comprises the Monitoring Officer [chair], senior representatives from Finance, Internal Audit, HR and Organisational Development and Strategy and Performance, and the Risk and Governance Manager. The panel meets four times a year and during 2017/18 reported to the Statutory Responsibilities Network and the Audit and Governance Committee. The 2017/18 annual review of governance has provided a satisfactory level of assurance on the governance arrangements for the year.

We are pleased to present the Surrey County Council Annual Governance Statement for 2017/18, which outlines the council's governance arrangements and achievements during the year and highlights areas to continue to strengthen governance in 2018/19.

THE GOVERNANCE ENVIRONMENT

Surrey County Council's Corporate Strategy provides direction for staff as well as a signpost for residents, businesses and partner organisations and incorporates the council's four values of Listen, Responsibility, Trust and Respect at its heart. It is underpinned by a suite of supporting documents such as the Medium Term Financial Plan and the Investment Strategy. Performance is measured through a variety of key indicators relating to wellbeing, economic prosperity and resident experience and progress is published on the external website.

The Council continues to develop a property investment portfolio aimed to enhance the financial resilience of the Council. Boards are in place to provide oversight on the council's continuing commercial activity – the Shareholder Board monitors the activity and performance of the trading companies created and owned by the council and provides oversight for the council's shareholdings; the Investment Board was created in March 2017 to facilitate the further growth of the investment portfolio. Both these Boards are member led and are supported by relevant internal and external professional advisors. Both Boards produce annual reports to provide updates on progress and monitor performance.

The Statutory Responsibilities Network, chaired by the Chief Executive, met throughout 2017 on a fortnightly basis and provided a forum for statutory officers to discuss key issues, share knowledge and offer challenge. The network provided governance oversight and ensured statutory responsibilities were managed effectively by reviewing the key risks and issues of the organisation and focussing on progress of key strategies and implementation plans. For 2018/19 onwards this oversight will be provided by a Risk and Governance group, which will meet monthly.

The council's external auditors' 2016/17 report on value for money published in July 2017 concluded that 'in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources, with the exception of the arrangements in place within the council's Children's Services directorate.'

Throughout 2017/18 the partnership-wide Surrey Children's Improvement Board has overseen the important improvements needed to ensure swift and sustainable improvements resulting in better outcomes for children. The Children and Education Select Committee, Surrey Safeguarding Children Board, Corporate Parenting Board and all Members have provided increased focus and scrutiny. Despite these efforts it is clear there is significantly more improvement needed to transform and change services and support for vulnerable children across the county.

The Department for Education and NHS England confirmed in November 2017 that good progress is being made against the services for children with special educational needs and disabilities (SEND) action plan priorities. There is further work required and underway to continue to improve SEND services, including the quality of assessments and statutory plans and their timeliness. The SEND Partnership Board will drive the required improvements and their sustainability.

Senior officers and Cabinet Members continue to make the case to Government for fairer funding for Surrey (via Members meeting with Surrey MPs and ministerial letters). The provisional financial settlement, published in December 2017, announced a number of consultations, including a long awaited Fair Funding Review, which will provide opportunities for the council to influence policy on the future of local government funding and promote the issues that affect Surrey most.

In December 2017, it was announced that the Council, along with the 11 boroughs and districts, had been successful in their application to become a 100% business rates pilot. The pilot will operate from 1 April 2018 to 31 March 2019 and designates the authorities as a pool. Surrey County Council is acting as the lead authority for the pool and a Memorandum of Understanding is in place, setting out the terms by which the authorities in the pool will pilot 100% business rate retention.

THE GOVERNANCE ENVIRONMENT

7

There were a number of officer leadership changes throughout the year. The Chief Executive retired in October 2017 and a new Chief Executive started in March 2018. The role was fulfilled on an interim basis by the Deputy Chief Executive between October and March. The council's Monitoring Officer retired in December 2017 and this role is being fulfilled by the Head of Legal. The council has appointed a new Director of Children's Services who will start in April 2018.

The functions of the Monitoring Officer (Head of Legal Services) and Section 151 Officer (Director of Finance) are specified by statute and between them they are responsible for ensuring lawfulness, fairness and financial prudence in decision-making.

The council's financial management arrangements fully comply with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer (CIPFA, 2010). The Director of Finance meets her financial responsibilities and ensures fully effective financial management arrangements are in place. She reports directly to the Chief Executive and is a member of Chief Executive's Direct Reports (recently replaced by the Corporate Leadership Team (CLT)) and sat on the Statutory Responsibilities Network (to be replaced by a risk and governance group in 2018). She has regular meetings with and has direct access to the Leader and key Members, Chief Executive, Monitoring Officer, Chief Internal Auditor, External Auditor and other key Members and strategic directors. The Director of Finance and the Chief Executive have regular support meetings with the strategic directors.

The 2017/18 budget was set in a climate of rising demand for services and targeted £104m of savings to be delivered. A process of focused monitoring of the delivery of the necessary savings is in place and there is regular reporting to both the Chief Executives Direct Reports meeting (now Corporate Leadership Team) and Cabinet on progress against savings milestones and achievability.

In addition, strategic budget planning workshops, led by the Director of Finance are held with Cabinet and the Leadership Team on a regular basis. Finance briefings for all members have been held throughout the year to support the preparation of the budget for future years. Additional meetings have also been held, as deemed necessary, in light of the financial challenges emerging from the Local Government financial settlement and the increased pressure and demand for our services.

The roles, responsibilities and delegated functions for officers and members are set out in the Constitution of the Council. The Scheme of Delegation for members and officers is regularly reviewed and updated in consultation with services and the Cabinet, before being approved by full County Council. The Cabinet comprises the Leader, Deputy Leader and eight additional Cabinet Members, with each Member holding the brief for a particular portfolio of services. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet. The Leader determines what decisions are delegated to individual Members and this is set out in the Council's Constitution.

The Staff and Member Codes of Conduct set out the expected high standards of conduct and include the 7 Standards of Public Life. The Code of Conduct for staff, which applies to all staff, workers, contractors and their staff whilst working for, or on behalf of the council, has recently been updated to make explicit the requirement to behave ethically, to act in accordance with the council's Counter Fraud Strategy and to make clear the expectation that employees must report to work in a fit and safe state to carry out their duties. The Codes of Conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Counter Fraud Strategy.

The Monitoring Officer and the Member Conduct Panel, in consultation with the Independent Person, deal with allegations of breaches of the Member Code of Conduct. The Members Code of Conduct also includes provisions for the registration and disclosure of pecuniary and other interests, which includes a requirement for Members to register significant personal interests, declare prejudicial interests and disclose pecuniary interests and significant personal interest at meetings of the council and its committees. The register of pecuniary interests for all members can be viewed online.

THE GOVERNANCE ENVIRONMENT

The Investment Panel which is chaired by the Director of Finance and meets monthly, as necessary, continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate. It also approves any invest to save schemes (funding from this reserve is re-paid from future savings).

The Strategic Risk Forum, chaired by the Director of Finance, brings together lead officers from across the council to review and challenge risk and ensure a consistent approach is adopted. The Leadership risk register is regularly reviewed by the Statutory Responsibilities Network, (now CLT), Audit and Governance Committee and Cabinet.

The Director of Finance also chairs the Information and Risk Governance Board and holds the role of Senior Information Risk Officer. The Board provides strategic oversight and ensures that the council has effective information and risk governance policies and management arrangements including breaches of confidentiality and information security.

The council provides a confidential facility through an external provider for anyone wishing to whistle blow. The policy and guidance have been updated during 2017/18 to provide further clarification on the process and this service is publicised in council buildings and through the front page of the council's intranet.

The gifts and hospitality register is held on the internal website and provides a means for staff to register any gifts or hospitality whether offered, accepted or declined. Gifts and hospitality has its own policy and all declarations are electronic. These are reviewed regularly by HR and summary reports are received by appropriate senior officer groups and included annually in the bulletin of the Audit & Governance Committee. The requirement to declare gifts and hospitality has been promoted with a focus on out posted establishments as well as in the council's main buildings.

The council has six member select committees which provide challenge to the Cabinet. The Overview and Budget Scrutiny Committee (OBSC), takes a council-wide view and leads on collaborative scrutiny issues. In addition, a sub-group of OBSC receives and provides scrutiny of the monthly budget monitoring reports including the achievement of savings targets. Every County Council, Cabinet and Planning & Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Audit and Governance Committee comprises six councillors who have been specifically chosen to enable robust challenge and assurance from a position of knowledge and experience. The committee provides independent assurance on the council's control environment, the adequacy of the risk and governance arrangements, financial reporting and ethical standards.

The Council has also appointed 9 local committees and 2 joint committees, aligned with the boroughs and districts, to ensure more efficient, transparent and accountable local decision making.

The Surrey Pension Fund Committee takes decisions on behalf of the council as the administering body for the Local Government Pension Scheme and meets four times a year. The Surrey Local Pension Board assists the Surrey Pension Fund Committee in the exercise of its functions but has no decision making powers. A Local Fire Pension Board also assists the Surrey Fire and Rescue Authority in the administration of its Firefighters' Pension Scheme.

The Border to Coast Pensions Partnership, a pool of 12 Local Government Pension Schemes including the Surrey Pension Fund, has started to make senior staff appointments, build its investment structure and obtain Financial Conduct Authority approval for its operation.

Public Sector Audit Appointments Ltd (PSAA) appointed Grant Thornton as the Council's external auditor for up to 5 years from 2018/19. This is the result of a sector-led appointment process provided by PSAA who developed a national collective scheme.

In June 2017, a new Chief Internal Auditor for Orbis was appointed, who fulfils the role for the three members of the Orbis partnership. The 2018/19 Internal Audit plans for all three partners aim to provide a consistent approach and maximise the skills and knowledge of the team.

THE GOVERNANCE ENVIRONMENT

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Transparency and stewardship

Orbis Internal Audit has completed an independent external inspection against the Public Sector Internal Audit Standards. The review was conducted by South West Audit Partnership (SWAP) and involved interviewing key stakeholders from all three partner organisations including, Chief Executives, Section 151 Officers, Chairs/Vice Chairs of audit committees and internal audit staff. The review gave an opinion of 'Generally Conforms' which is the highest of the three rankings, meaning that Orbis Internal Audit is achieving the highest level of conformance with the Standards and Code of Ethics.

The overall opinion of the Chief Internal Auditor on the internal control environment for 2017/18 is "Reasonable Assurance." This opinion is based on the findings of a number of internal audits, carried out throughout the year, and concludes that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. Controls over the council's key financial systems continue to be sound.

In addition, a 'reasonable assurance' audit opinion was given following the annual internal audit of Organisational Ethics. The audit established that the Council has clear leadership on ethics and a clear ethical framework, which is effective in practice. It also concluded that the Council responds effectively if there is a breach in behaviour and that there are appropriate internal control mechanisms in place to detect such breaches.

The General Data Protection Regulation (GDPR) is a new legislative requirement on data protection and privacy for all individuals within the European Union. The GDPR will apply in the UK from 25 May 2018 and the council continues to work towards compliance.

People

After the local elections in May 2017, the Council designed and delivered a comprehensive training and guidance programme for new and returning Councillors, including the code of conduct, committee processes and introductions to the council's service areas. New members were 'buddied' with senior managers to help them learn the role and the services of the council and signpost them to officers for queries. 97% of Councillors rated the induction as good or excellent as part of an induction survey conducted in September 2017.

A new leadership development programme has been developed that focuses on communication, setting clear expectations and coaching. It is a more self-directed and flexible programme to support leaders and managers with their varying challenges, needs and time constraints.

During October and November 2017 staff participated in a staff survey, which has provided evidence of how colleagues feel about working for our organisation. The data has been shared and teams across the council are reviewing the feedback to identify and agree action plans to improve key areas.

The HR & OD strategy was reviewed and updated in 2017/18 following a review of the current people related strategies and to reflect and consider the challenges and opportunities for our workforce. The Continuous Improvement and Performance Network and Chief Executive's Direct Reports (now CLT) engaged with this review to ensure the vision and priority areas are the right ones for their services and the organisation. The updated strategy is published on the council's external website.

THE GOVERNANCE ENVIRONMENT

7

Engagement and Collaboration

Health and social care integration continues to be one of the top priorities for the council, as we continue to implement our Sustainability and Transformation Plans (STPs), working together with health partners to make the best use of our collective resources to meet residents' needs.

The STPs have also prioritised citizen engagement and the Surrey Heartlands' engagement approach was recognised nationally as an exemplar model and has received funding from NHS England as a result.

The Internal Audit team continue to work with external partners through chairing and coordinating the Surrey Counter Fraud Partnership, a collaborative approach for dealing with non-benefit fraud locally. Initially grant funded, the partnership has developed into a sustainable and innovative approach to tackling fraud at borough, district and county levels. This has led to increased cooperation and joint working between, and within, the different tiers of local authorities in Surrey. The partnership has grown into a multi-agency body led by Surrey with membership from all 11 districts and boroughs, Surrey Police, Trading Standards and registered social landlords from across the county. The partnership has delivered savings to the public purse of over £10m since its inception in 2015, including the recovery of over 100 social housing properties and the prevention of over 200 fraudulent applications for housing, homelessness or Right-to-Buy.

Partnership working has also enabled us to reduce the cost of our support services across the council. Orbis, our shared services partnership with East Sussex County Council and Brighton & Hove City Council continues to deliver efficiencies. Orbis includes 2,000 staff across the three councils and drives savings by sharing business services across areas. The partnership is established under a joint committee which is responsible for delivering services from a joint operating budget.

Following the appointment of a Chief Internal Auditor for Orbis, the Internal Audit function has been developing its joint working practices and the fully integrated structure went live in April 2018. In addition to the three Orbis partners, Horsham District Council joined Orbis Internal Audit in April 2018, further strengthening the offering to sovereign authorities.

The council currently engages and consults with residents and partners using a number of methods which include paper and electronic surveys, face to face engagement and social media. The council has a dedicated consultation hub 'Surrey Says' where most consultations are published. As well as the consultations, the site also features a 'We Asked, You Said, We Did' section where the Council provides feedback on the actions taken or not taken as a result of consultation.

FOCUS FOR 2018/19

7

Under the leadership of the new Chief Executive, a strengthened Corporate Leadership Team (CLT) has been supported by Members and is now in place. CLT is working to develop a revised corporate vision and supporting target operating model, focused on user outcomes. It will support the council to prepare a sustainable 5 year financial plan and drive cultural change to support the organisation through transformation.

The council continues to face pressures from increasing demographic demands alongside decreasing funding from Central Government. The level of savings required to produce a balanced budget in 2018/19 and beyond continue to be significant. A focused process to ensure delivery of these savings has been put in place by the Chief Executive and the Director of Finance who will closely monitor through the Corporate Leadership team and Cabinet. Alongside this, demand pressures will be monitored, to avoid the depletion of levels of reserves below minimum acceptable levels.

Looking ahead to 2019/20 the scale of the budget challenge means the council is re-thinking how it delivers its services and the future operating model. This means during 2018/19, the council is undertaking a significant transformation programme with strong programme management support, clear governance and a programme to develop the right change capacity vital to delivering the necessary transformation at pace. A Transformation Steering Board (consisting of CLT and others) will meet fortnightly, providing a key part of the governance arrangements overseeing this programme of change. The council will engage closely with partners to develop and then implement this service transformation with a close focus on improved service outcomes for those in need of our services.

In parallel, the council continues to work to ensure Government understands the impact of current funding mechanisms on Surrey and take opportunities to input into the fair funding review and Business Rate Retention being carried out by the Ministry for Housing, Communities and Local Government.

The devolution agreement between the Council, three Clinical Commissioning Groups, NHS England and NHS Improvement will bring further opportunities to work differently with our partners in driving the integration of health and social care. Surrey Heartlands will publish its final commissioning intentions and key priorities in 2018, once the findings of the recent patient and public engagement exercise have been analysed.

A key challenge will be to swiftly and sustainably improve Services for Children, by focusing energy and efforts on making sure children get the right help, care and protection at the right time. This will require strong leadership, effective management oversight and robust assurance.

We continue to face a growing and complex need for our learning disability services. It is important that we improve ways of working to manage these increasing demands and enable better outcomes. We know that key to achieving this is more joined up working between Adult Social Care, Children, Schools and Families and health which will ensure a more holistic approach is taken to supporting someone throughout their lifetime. We aim to enable adults with learning disabilities and their families to be able access support from a single countywide team, enabling us to better support our residents in the future.

Other areas of focus include:

- Reinforcing and supporting a culture of compliance through appropriate information, communication and training. To assist with this the Council is introducing a requirement for senior leaders and budget holders to reflect sound governance related goals in their annual performance objectives.
- Pensions pooling - building the investment structure and obtaining Financial Conduct Authority approval for its operation.
- Continuing to work towards GDPR compliance.



Audit and Governance Committee
24 May 2018

Governance Strategy and Code of Corporate Governance

Purpose of the report:

This report provides the Committee with an update on the changes made to the Council's Governance Strategy and Code of Corporate Governance.

Recommendations

The Audit and Governance Committee is asked to approve the updated Code of Corporate Governance (Annex B) and commend it to the County Council for inclusion into the Constitution.

Governance Strategy

- 1 The Council's Governance Strategy, attached at Annex A, clearly sets out the meaning of governance and the benefits of good governance in alignment with the Corporate Strategy. The strategy is underpinned by the Code of Corporate Governance.
- 2 The Governance Strategy for the period 2018-21 has been reviewed by the Governance Panel¹ and Corporate Leadership Team. The key change relates to the 'In 2018/19 we will' section, which has been updated to reflect the areas detailed in the 'Focus for 2018/19' section of the 2017/18 Annual Governance Statement.

Code of Corporate Governance

- 3 The Local Government Act 2000 places a reliance on local authorities to review their governance arrangements and operate through a local governance framework, which brings together requirements, governance principles and processes.
- 4 Surrey County Council's Code of Corporate Governance meets those requirements by outlining the Council's commitment to good governance and providing a robust framework of policies and procedures that underpin compliance with the governance principles. It also sets out the mechanisms for monitoring and reviewing the corporate governance arrangements.

¹ Consisting Head of Legal (Chair), senior representatives from Finance, HR, Strategy & Performance and Internal Audit, Risk and Governance Manager

- 5 An annual review of the Code of Corporate Governance has been undertaken to ensure that it is fit for purpose and reflects the authority's approach and commitment to good governance. Minor updates have been made to reflect organisational changes. The Governance Panel approved the updated Code of Corporate Governance at its meeting on 17 April 2018 and it is attached at Annex B.

Implications

- Financial**
- 6 There are no direct financial implications of this report.
- Equalities**
- 7 There are no direct equalities implications of this report.
- Risk management**
- 8 An effective governance and internal control environment leads to improved performance and outcomes for residents.

What happens next

The Code of Corporate Governance will be presented to County Council for inclusion into the Constitution.

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CONTACT DETAILS: cath.edwards@surreycc.gov.uk, 020 8541 9193,

Sources/background papers: Governance Panel papers, working papers, Cipfa/Solace Framework for Delivering Good Governance in Local Government, The Code of Corporate Governance

PURPOSE

To operate effectively, efficiently and ethically to ensure Surrey residents remain healthy, safe and confident about their future.

VISION

To be an exemplar of the Standards of Public Life:
Selflessness Openness
Integrity Honesty
Objectivity Leadership
Accountability

VALUES

-  Listen
-  Responsibility
-  Trust
-  Respect

Context

Good governance is about doing things in the right way and acting in the public interest at all times. Partnership and collaborative working continues to create more complexity and challenge.

This Governance Strategy demonstrates our commitment to good governance and promotes the values and principles that guide the behaviour of all our officers and members. It is supplemented by the Code of Corporate Governance that sets out the way we meet that commitment.

Good governance practice and any areas for improvement are identified annually through our published Annual Governance Statement.



DECISION MAKING:

Good governance encourages better informed and longer-term decision making as well as the efficient use of resources.



ACCOUNTABILITY AND TRANSPARENCY:

Good governance strengthens accountability for the stewardship of resources.

OUTCOMES:

Good governance improves management and oversight, resulting in more effective interventions and a better resident experience.

In 2018/19 we will:

- Focus on the sustainability of our resources and driving cultural change to support the organisation through transformation.
- Continue to closely monitor demand pressures and ensure delivery of savings.
- Work with partners to develop and implement service transformation to improve service outcomes.
- Focus energy and efforts on improving Services for Children in a sustainable way.
- Continue to drive the integration of Health and Social Care.
- Improve ways of working to manage increasing demands for learning disability services.

Our core governance principles

1. We will focus on our purpose to optimise the achievement of intended outcomes for Surrey and its local communities
2. Members and officers will behave with integrity and demonstrate a strong commitment to ethical values
3. We will ensure openness and effectively engage with our stakeholders
4. We will develop the capacity and capability of members and officers to continue to be effective
5. We will manage risks and performance through robust internal control and strong public financial management
6. We will implement good practice in transparency and reporting to deliver effective accountability.

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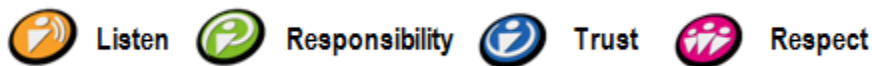
Code of Corporate Governance

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COMMITMENT TO GOOD GOVERNANCE

Good corporate governance underpins confidence in public services and should be transparent to all stakeholders. We are committed to demonstrating that the council has sound corporate governance and the Governance Strategy and this Code of Corporate Governance sets out the way we meet that commitment. This in turn promotes adherence to our values that guide the behaviour of all officers and Members:



Corporate governance is the way in which the council directs and controls its arrangements to ensure that the intended outcomes for stakeholders are defined and achieved. A robust governance code provides assurance that Surrey is meeting best practice in protecting its assets and serving the community.

The council annually reviews the effectiveness of its governance arrangements and produces an Annual Governance Statement (AGS), which summarises the governance framework and environment in place during the year. The AGS is signed by the Chief Executive and the Leader of the Council and is included within the Statement of Accounts, as required by statute. A summary of the AGS is also included within our Annual Report.

This Code of Corporate Governance supplements the Governance Strategy and sets out the mechanisms for monitoring and reviewing the corporate governance arrangements, which enables the council to identify good governance practice and also areas for improvement.



Our Corporate Strategy: Ensuring Surrey residents remain healthy, safe and confident about their future

GOOD GOVERNANCE PRINCIPLES

Principles of Public Life

The council is committed to ensuring that good governance is in place and that we are serving the local community in accordance with the seven principles of public life as defined by the Nolan Committee¹. These principles apply to everyone working in the public services and should be incorporated into all codes of conduct and behaviour to ensure residents and service users receive a high quality service.

The principles are as follows:

Selflessness

Officers and members should act solely in terms of the public interest. They should not act in such a way in which to gain financial or other benefits for themselves, their family or their friends.

Integrity

Officers and members should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, officers and members should make choices on merit.

Accountability

Officers and members are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their role.

Openness

Officers and members should be as open as possible about all decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Officers and members have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the people of Surrey.

Leadership

Officers and members should promote and support the principles by leadership and example.

¹ The Nolan Committee was established in 1994 by the Prime Minister in response to concerns that conduct by some politicians was unethical.

Core Governance Principles

The council has adopted six core governance principles, which ensure good governance, compliance with the principles of public life and support the achievement of our Corporate Strategy and Governance Strategy.

<p>We will focus on our purpose to optimise the achievement of intended outcomes for Surrey and its local communities.</p> <p>We will meet this by:</p> <ul style="list-style-type: none"> • Making the best use of our resources available to ensure best value is achieved; and • Promoting decision making that is rigorous and transparent.
<p>Members and officers will behave with integrity and demonstrate a strong commitment to ethical values.</p> <p>We will meet this by:</p> <ul style="list-style-type: none"> • Demonstrating and communicating our values; and • Understanding, monitoring and maintaining our ethical standards.
<p>We will ensure openness and effectively engage with our stakeholders.</p> <p>We will meet this by:</p> <ul style="list-style-type: none"> • Demonstrating, documenting and communicating our commitment to openness; and • Engaging with residents, partners, businesses and other stakeholders in the development of services.
<p>We will develop the capacity and capability of members and officers to continue to be effective.</p> <p>We will meet this by:</p> <ul style="list-style-type: none"> • Clarifying roles and responsibilities; and • Ensuring members and officers have the appropriate skills, knowledge, resources and support to perform well in their roles.
<p>We will manage risks and performance through robust internal control and strong public financial management.</p> <p>We will meet this by:</p> <ul style="list-style-type: none"> • Ensuring integrated and effective risk management arrangements are in place; and • Monitoring service delivery.
<p>We will implement good practice in transparency and reporting to deliver effective accountability.</p> <p>We will meet this by:</p> <ul style="list-style-type: none"> • Reporting to stakeholders in an understandable way; and • Having good quality information that is easy to access.

SUPPORTING GOVERNANCE DOCUMENTS

There is a robust framework of council policies and processes that are of key importance in maintaining good governance, support the achievement of the Corporate Strategy and Governance Strategy and underpin compliance with the core governance principles. The documents are shown at Annex A.

Responsibility for each governance document ultimately rests with the Chief Executive or one of the strategic directors, aside from statutory functions that fall within the personal responsibility of the Section 151 Officer or the Monitoring Officer. Cabinet Members must also demonstrate ownership within their individual portfolios.

Below those officers and members mentioned above, where appropriate, are officers who have a material input and control over governance documents. These officers are referred to as Governance Custodians and they are shown in Annex B.

Governance Custodians are responsible for keeping documents up to date and therefore making necessary changes. Any significant changes require approval by members or officers as shown at Annex C. It is the decision of the relevant officer and/or member as to what is classed as significant.

GOVERNANCE REVIEW

The annual review of governance assesses the level of compliance with each of the core governance principles. A flowchart showing the process is shown at Annex D. The review consists of a number of parts as follows.

PART 1 – CUSTODIAN ASSURANCE

Governance Custodians are required to complete an annual Custodian Assurance Statement. A summary report is presented to the Governance Panel, which makes recommendations on any specific areas to be reviewed as part of the governance compliance work undertaken by Internal Audit (see below).

PART 2 – GOVERNANCE COMPLIANCE AND REPORT ON INTERNAL CONTROL

Following agreement by the Governance Panel on the areas of focus, a number of methods are used by Internal Audit to test governance compliance as appropriate:

- Relevant audit reviews already undertaken or in progress;
- Compliance testing on specific governance policies; and
- Assurance mapping.

Key findings from the testing above are presented to the Governance Panel and any significant areas will be included in the AGS.

The Chief Internal Auditor uses information gathered from internal audit reviews carried out as part of the annual audit plan, to report on the adequacy of the overall internal control

environment. This report is presented to the Governance Panel and any significant areas will be included in the AGS

PART 3 – ASSESSMENT OF THE CORE GOVERNANCE PRINCIPLES

The Risk and Governance Manager carries out the annual assessment of the core governance principles. The review consists of:

- interviews with key officers,
- reviewing existing procedures,
- assessing existing governance arrangements against best practice, and
- reviewing any assurance mapping undertaken by Internal Audit.

A summary report is then presented to the Governance Panel and any significant findings will be included in the AGS.

PART 4 – ADDITIONAL GOVERNANCE INFORMATION

In order to pull together a full picture of governance across the organisation, the Governance Panel also look at any relevant reports and findings from other inspectorates and groups, along with any self-assessments that the council has completed within the relevant year. Any significant issues are then included in the AGS and the information can include the following:

- External audit reports
- External inspection reports
- Annual review of the effectiveness of the system of internal audit
- Member task group reports and findings

PART 5 - AGS

Taking all the above information into account, the draft AGS is developed and agreed by the Governance Panel. The Chair of the Governance Panel consults with the Corporate Leadership Team before the AGS is presented to the Audit and Governance Committee and the Cabinet for approval. The AGS is then incorporated into the Statement of Accounts and the Annual Report.

PART 6 - MONITORING

The Governance Panel monitors progress on any improvement actions identified and update reports are presented to senior officers and the Audit and Governance Committee as appropriate.

ROLES AND RESPONSIBILITIES

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All staff and members have a role in ensuring good governance but specific responsibilities are set out below:

ROLE	RESPONSIBILITIES
The Cabinet	<ul style="list-style-type: none"> • Approve the AGS for publication with the Statement of Accounts and the Annual Report • Monitor any governance improvements required, as appropriate
Portfolio Holders	<ul style="list-style-type: none"> • Demonstrate ownership of individual governance areas • Approve governance policies as appropriate
Audit & Governance Committee	<ul style="list-style-type: none"> • Review the draft AGS and advise the Cabinet as appropriate • Monitor the effectiveness of the governance arrangements • Monitor compliance with the Code of Corporate Governance • Approve governance policies as appropriate
Corporate Leadership Team	<ul style="list-style-type: none"> • Commission remedial action to address issues as appropriate • Review related reports en route to the Cabinet e.g. AGS
Governance Panel	<ul style="list-style-type: none"> • Refer to the Terms of Reference – Annex E
Heads of Service and Assistant Directors	<ul style="list-style-type: none"> • Appoint Governance Custodians as required • Promote the delivery of policies within their service • Participate in the governance review and ensure that officers under their charge cooperate within the given timescales • Ensure governance improvements required within their service are acted upon in a timely manner and reported as necessary
Governance Custodians	<ul style="list-style-type: none"> • Maintain and regularly review governance documents to ensure they reflect legislative changes, best practice and organisational changes • Ensure governance documents are communicated effectively • Operate a standard process of version control on all governance documents • Ensure actions identified through the corporate governance review are acted upon in a timely manner and reported as necessary
Risk and Governance Manager	<ul style="list-style-type: none"> • Coordinate the corporate governance review • Carry out the annual assessment of core principles • Annually review the Code of Corporate Governance • Ensure provision of Corporate Governance training for staff and members as appropriate
Internal Audit Team	<ul style="list-style-type: none"> • Conduct the annual review of governance compliance • Provide information on the internal control environment to inform the AGS

REVIEWING AND REVISING THE CODE

This Code of Corporate Governance will be reviewed annually to reflect any changes. For any queries or comments on this document please contact:

Cath Edwards, Risk and Governance Manager, Business Services

GLOSSARY

Annual Governance Statement (AGS)	A statement required by the Accounts and Audit Regulations (England) 2011 explaining how the council has complied with the code of corporate governance. It is signed by the Chief Executive and Leader of the Council and published as part of the annual Statement of Accounts and the Annual Report.
Chartered Institute of Public Finance and Accountancy (CIPFA)	The leading accountancy body for public services.
Constitution of the Council	Sets out how the Council operates, how decisions are made and the procedures that are followed to ensure efficiency, transparency and accountability.
Corporate Governance	How local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
Custodian Assurance Statement (CAS)	An annual submission from each Governance Custodian providing assurance that each policy is up to date and detailing any work that has been undertaken throughout the year.
Effectiveness review	An annual review of the effectiveness of the system of internal audit.
External Audit	An external annual review of the Council's accounts.
Governance Custodian	Officers who have responsibility for ensuring that governance documents are up to date and promoted across the authority.
Governance Panel	Chaired by the Director of Legal, Democratic and Cultural Services, the panel ensures that the council has a robust appraisal of governance. It advises Statutory Responsibilities Network, Audit & Governance Committee and Cabinet on the adequacy of the governance arrangements.
Internal Audit Team	An independent appraisal function that objectively examines, evaluates and reports on the adequacy of internal control.
Monitoring Officer (Head of Legal)	The statutory officer in accordance with section 5 of the Local Government and Housing Act 1989 ensuring lawfulness and fairness of decision making.
Section 151 Officer (Director of Finance)	The statutory officer with responsibility for the proper administration of the Council's affairs under section 151 of the Local Government Act 1972.
Society of Local Authority Chief Executives and Senior Managers (SOLACE)	The representative body for senior strategic managers working in local government, promoting effective local government.
Corporate Leadership Team	Provide oversight on the council's major statutory responsibilities.

GOVERNANCE DOCUMENT CUSTODIANS

Annex B

Document	Custodian
Arrangements for dealing with complaints about Members	Head of Legal
Behaviours Framework	Head of HR and OD
Cabinet Forward Plan	Cabinet Business Manager
Capability	Head of HR and OD
Change Management	Head of HR and OD
Code of Conduct for Members	Head of Legal
Code of Conduct for Staff	Head of HR and OD
Communications and Engagement Strategy	Head of Communications
Counter Fraud Strategy	Audit Manager – Counter Fraud
Customer Promise	Customer Services Group Manager
Data Governance policy	Corporate Information Governance Manager
Disciplinary	Head of HR and OD
Equality, Fairness and Respect strategy	Head of Strategy
Ending harassment, bullying, discrimination and victimisation	Manager – Health and Safety, Wellbeing and Inclusion
Financial Regulations	Director of Finance
Governance Strategy	Governance Panel
Grievance Resolution	Head of HR and OD
Health and Safety policy	Head of HR and OD
HR&OD Strategy	Head of HR and OD
IT Security policy	Chief Information Officer
Member / Officer Protocol	Head of Legal
Partnership Governance Framework	Risk and Governance Manager
Premises Security policy	Deputy Chief Property Officer
Procurement Standing Orders	Head of Procurement
Regulation of Investigatory Powers Act (RIPA)	Head of Trading Standards
Resilience Policy	Head of Emergency Management
Risk Management Strategy	Head of Legal
Safer Employment	Head of HR and OD
Scheme of Delegation	Head of Legal
Standing Orders	Cabinet Business Manager
VCFS Framework	Strategic Partnership Manager
Whistle blowing policy	Head of HR and OD

GOVERNANCE DOCUMENT APPROVAL

Annex C

Member approval

Cabinet	Leader of the Council
Communication and Engagement Strategy	Cabinet Forward Plan
Customer Promise	
Equality, fairness and respect strategy	
Financial Regulations	County Council
Partnership principles	Arrangements for dealing with complaints about Members
Procurement Standing Orders	Code of Conduct – Members
Regulation of Investigatory Powers Act (RIPA)	Member / Officer protocol
	Scheme of Delegation
	Standing Orders

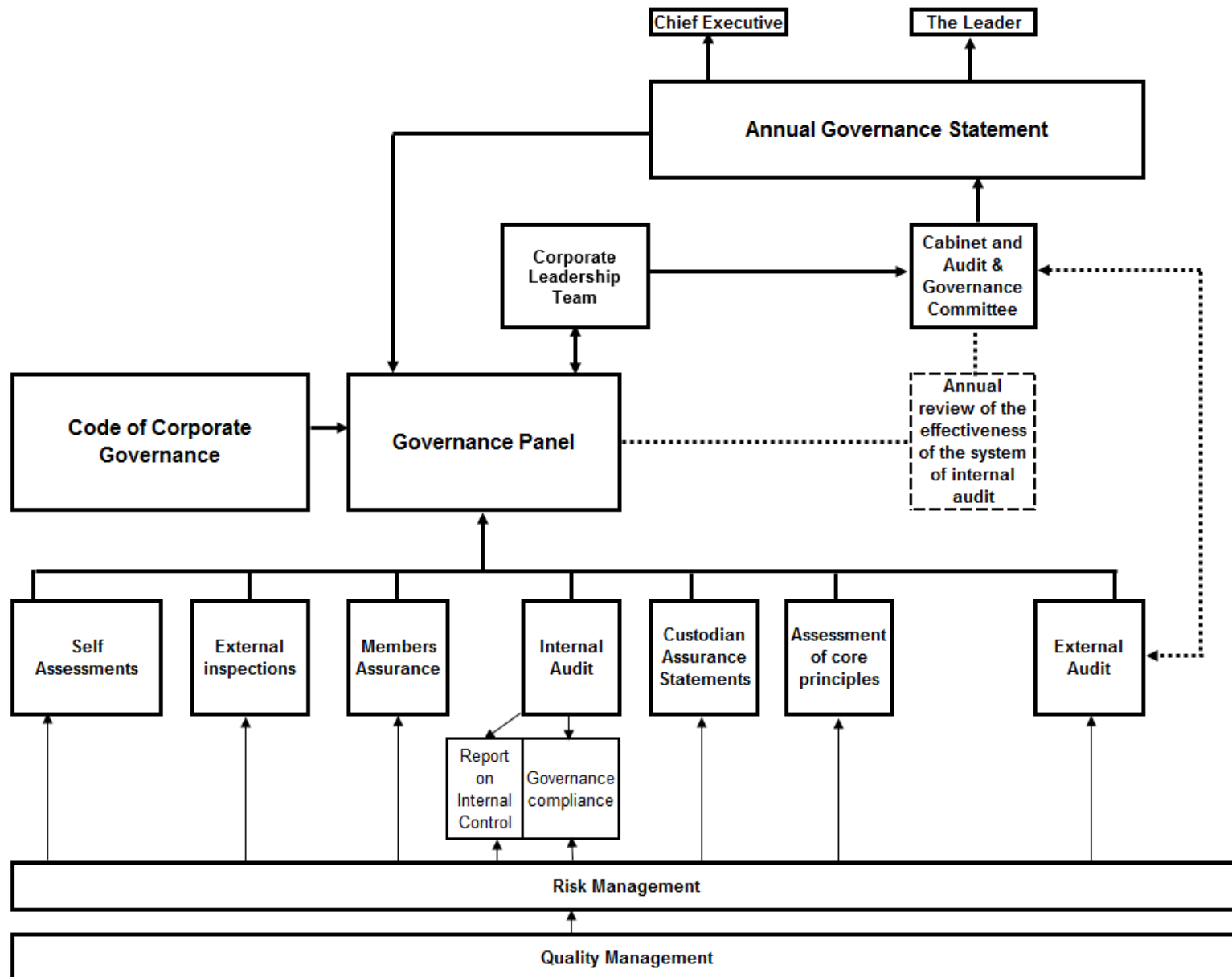
People, Performance and Development Committee	Audit and Governance Committee
Behaviours framework	Risk management strategy
Capability	Counter Fraud Strategy
Change Management	
Code of Conduct – Staff	
Disciplinary	
Ending harassment, bullying, discrimination and victimisation	
Grievance Resolution	
HR&OD	
Safer Employment	
Whistle blowing policy	

Officer approval

Data governance policy	Information Governance Risk Board
Governance Strategy	Governance Panel
Health and Safety policy	Central Joint Safety Committee
IT Security policy	Chief Information Officer
Partnership Governance framework	Governance Panel
Premises Security policy	Chief Property Officer
Resilience policy	Head of Emergency Management
VCFS Framework	Chief Executive

GOVERNANCE REVIEW PROCESS

Annex D



Scope

The Governance Panel (the panel) ensures that the Council has a robust method of scrutiny and appraisal of Governance. The panel advises Corporate Leadership Team (CLT), Audit & Governance Committee (A&GC) and Cabinet on the adequacy of the arrangements and proposes areas for improvement through the Annual Governance Statement (AGS).

The panel reviews reports from Internal Audit, Risk & Governance, External Audit and other relevant documents.

The Role of the Governance Panel

The Governance Panel collectively, is responsible for:

- Annually reviewing the Code of Corporate Governance and approving changes prior to presentation at the A&GC
- Reviewing reports from Internal Audit, Risk & Governance, External Audit and other inspectorates as appropriate
- Reviewing significant changes to governance documents within the Code of Corporate Governance
- Reporting significant governance issues, providing updates and presenting the draft AGS to the SRN and A&GC.

Membership

The following officers form the Governance Panel:

Chair	-	Head of Legal (Monitoring Officer)
Standing members	-	Senior representatives from Finance, HR & OD, Internal Audit and Strategy & Performance
	-	Risk & Governance Manager
Advisors	-	Governance custodians
	-	Representatives from Internal Audit

Individual Roles and responsibilities

Chair

- Proactively chair panel meetings, ensure meetings are effective and actions have been completed
- Present panel reports to CLT, A&GC and Cabinet and feed back to the rest of the panel members
- Report back to the panel on key issues from other governance meetings as appropriate, including partnerships

Panel members

- Proactively participate at panel meetings
- Report back to the panel on key issues from other governance meetings as appropriate, including partnerships

Risk and Governance Manager

- Lead on the annual review of governance, including the development of the AGS
- Provide reports to the panel on areas of risk and governance, including strategic and significant service risks, annual governance review reports and progress reporting
- Prepare panel reports for CLT, A&GC and Cabinet
- Report key issues from external audit and inspection reports including the Annual Audit Letter and the Annual Governance Report
- Undertake the annual review of the Code of Corporate Governance and recommend changes to the panel

Internal Audit

- Provide updates and reports to the panel on internal control and key audit findings

Governance Custodians

May be required to attend any panel meetings at the request of the Chair

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Audit & Governance Committee
24 May 2018

2017/18 Treasury Management Outturn Report

Purpose of the report:

This report summarises the Council's treasury management activities during 2017/18, as required to ensure compliance with the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

Recommendations

It is recommended that the Audit and Governance Committee:

1. Note the content of the Treasury Management Annual Report for 2017/18; and
2. Adopt the revised Treasury Management Risk register, attached as Annex 2.

Background:

- 1 Treasury Management is defined as the management of the organisation's cash flows, banking, money market and capital market transactions, the effective management of the risk associated with those activities, and the pursuit of optimum performance consistent with those risks.
- 2 The Authority's treasury management strategy for 2017/18 was approved by Council in February 2017. The Authority has borrowed substantial sums of money on a short term basis, and made temporary deposits of cash, and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
- 3 An economic commentary is included in annex 1, outlining the main influences and changes in the UK and European economy during the year. The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate increase in ten years. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly

likely.

- 4 In addition, during the year a number of regulatory changes were made which influenced treasury activities. These are also outlined in annex 1 and include changes relating to the following:
- Revised CIPFA codes (Treasury Management Code and Prudential Code)
 - Ministry of Housing, Communities and Local Government issued revised guidance (investment guidance and statutory guidance on Minimum Revenue Provision)
 - Impact of the second Markets in Financial Instruments Directive (MiFID II).

Treasury Management Annual Report 2017/18

- 5 On 31 March 2018, the Authority had net borrowing of £565m arising from its revenue and capital income and expenditure, an increase of £50m since 31 March 2017. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which represents the amount of capital expenditure that is not funded from capital receipts, government grants, third party contributions or revenue.
- 6 Net borrowing has increased due to a rise in the CFR as new capital expenditure was higher than the financing applied, including minimum revenue provision.
- 7 The Treasury Strategy for 2017/18, approved by Council in February 2017, continued the policy of internal borrowing, which maintains borrowing and investments below their underlying levels, in order to reduce risk and keep interest costs low.
- 8 The Council also manages cash on behalf of Surrey Police and Crime Commissioner, the balance of which was £18m as at 31 March 2018. The Council accounts for this as short term borrowing. The treasury management position as at 31 March 2018 and the year-on-year change in show in table 1 below.

Table 1: Treasury Management Summary

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m
Long-term borrowing	397		397
Short-term borrowing	115	78	193
Surrey Police	25	-7	18
Total borrowing	537	71	608
Short-term investments	22	21	43
Cash and cash equivalents			
Total investments	22	21	43
Net borrowing	515	-28	565

Borrowing Activity

- 9 At 31 March 2018, the Authority held £608m of loans, an increase of £71m on the previous year. The year-end borrowing position and the year-on-year change in show in table 2 below.

Table 2: Borrowing Position

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate* %
Public Works Loan Board	387		387	4.6
Banks (fixed-term)	10		10	5.0
Local authorities (short-term)	115	78	193	0.48
Surrey Police & Crime Commissioner	25	-7	18	0.35
Total borrowing	536	71	608	

*Weighted average maturity

- 10 The Authority's primary consideration when borrowing money is to balance low interest charges and cost certainty over the period, while allowing enough flexibility to renegotiate a portion of the debt portfolio based upon changing strategic needs.
- 11 In furtherance of these objectives, no new long term borrowing was undertaken in 2017/18, with all new debt being dated shorter than 365 days. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

Investment Activity

- 12 The Authority holds invested funds, representing income received in advance of expenditure.
- 13 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 14 In furtherance of these objectives, and given the increasing risk and low returns from short-term unsecured bank investments, the Authority has kept its cash balances and investments low throughout 2017/18 and invested funds principally in Money Market Funds to ensure liquidity. During 2017/18, the Authority's investment balance ranged between £2m and £143m. The year-end investment position and the year-on-year change in show in table 3 below:

Table 3: Investment Position (Treasury Investments)

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate* %
Banks & building societies (unsecured)	0	0	0	0
Government (incl. local authorities)	0	0	0	0
Money Market Funds	22	21	43	0.21
Total investments	22	21	43	0.21

*Weighted average maturity

- 15 The weighted average return on all investments the Council received in the year to 31 March 2018 is 0.21%. This compares to the 0.21% average 7-day London Interbank Bid Rate (LIBID) for the same period. Looking at the second half of the year the Council's returns were below the benchmark. Mainly due to cash being held overnight for reasons of liquidity, against a 7 day investment benchmark.

Financial Implications

- 16 The outturn for interest paid, interest received and the minimum revenue provision are outlined in table 4 below.

Table 4: Investment Position (Treasury Investments)

	Budget £m	Outturn £m	Variance £m
Interest Paid	10.3	7.8	-2.5
Interest Received	-0.4	-0.4	0.0
MRP	21.4	19/9	-1.5

- 17 The amount required to be set aside for the future repayment of external borrowing is known as the Minimum Revenue Provision. This amount is calculated with reference to the Council's balance sheet as at the end of the previous financial year. The amount required to be set aside for 2017/18 is £1.4m less than expected when the budget was set. This was mainly due to underspends in the general capital programme for 2016/17.
- 18 The variance of £2.5m on interest payable relates mainly to the contribution from the investment strategy. These are made to cover the cost of borrowing for these investments and were higher than expected, due to additional spend in this area and were accentuated by the Council's continued short term borrowing strategy resulting in the contribution being in excess of the actual costs incurred. In addition, there was a further underspend of £1m in relation to amounts held within this budget to cover the potential costs of interest rate rises.

Compliance Report

- 19 The Director of Finance is pleased to report that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits, the authorised limit and operational boundary for external debt, is demonstrated in table 4 below.

Table 4: Debt Limits

	2017/18 Maximum £m	31.3.18 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	654	608	694	1,274	✓

- 20 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not exceed the operational boundary in any period in 2017/18.

Table 5: Investment Limits

	2017/18 Maximum £m	31.3.18 Actual £m	2017/18 Limit	Complied
Any single organisation, except the UK Central Government	0	0	£20m	✓
Foreign countries (per country)	0	0	£40m	✓
Unsecured investments with Building Societies	0	0	£20m	✓
Loans to unrated corporate	0	0	£20m	✓
Money Market Funds	143	43	£175m (£25m per fund)	✓

Treasury Management Indicators

- 21 The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council analyses the investment portfolio against historic default rates to assess the maximum exposure to default. The table below shows that by ensuring all of the Council's investments are in AAA rated funds, based on the historic default rates of these funds, the Council has reduced its exposure to security risk.

Credit Rating	31.3.2018		Fitch Default Rate %
	Long-term £m	Short-term £m	
AAA	0	43	0
AA+	0	0	0
AA	0	0	0
AA-	0	0	0
A+	0	0	0
A	0	0	0
A-	0	0	0

Liquidity: The Council manages its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments. The Council maintains a bank overdraft of £100,000, utilises overnight access Money Market Funds and accesses short term borrowing to meet cash flow requirements. The Local Authority market provides readily available funds.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure: <ul style="list-style-type: none"> • Fixed long term borrowing • Fixed short term borrowing • Fixed short term investments 	100%	100%	✓
Upper limit on variable interest rate exposure	0%	25%	✓

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	35%	50%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	2%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	63%	100%	25%	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of interest rate changes.

	2017/18
Actual principal invested for >364 days	0
Limit on principal invested beyond year end	35%
Complied	✓

Other Non-Treasury Holdings and Activity

- 22 Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

- 23 The Authority holds the following non-treasury investments:
- £77m of directly owned property
 - £179m of loans to Halsey Garton Ltd (property investment)
 - £5m of loans to other local businesses & subsidiaries
 - £72m of equity investments.
- 24 Such loans and investments have been approved in accordance with the Council's agreed processes. A register of such investments is maintained and performance information is reported to the Investment Board or the Shareholder Board, in accordance with their Terms of Reference.
- 25 These non-treasury investments generated £3.9m of investment income for the Authority after taking account of direct costs and interest payable. This amount was transferred to earmarked reserves.

Implications

Financial

- 7 The financial implications of this report are discussed at paragraph 16-18 and are included in the outturn report to Cabinet.

Equalities

- 8 There are no direct equalities implications of this report.

Risk management

- 9 The risk management arrangements in relation to treasury management are discussed in paragraph 21.

What happens next

- i. The treasury team will continue to monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- ii. In line with the requirements of CIPFA's Code of Practice on Treasury management, this committee will receive a half yearly report on the Council's treasury management activities in December 2018, and a full year report for 2018/19 next May.

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Sources/background papers:

Capital Budget, Prudential Indicators & Treasury Management Strategy 2017/18
 CIPFA Code of Practice for Treasury Management
 CIPFA Prudential Code

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ANNEX 1 – Economic Context & Regulatory Changes

Economic commentary

1. 2017-18 was characterised by expectations of tapering of Quantitative Easing (QE), the potential for increased policy rates in the US and Europe and geopolitical tensions, which also had an impact.
2. The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.
3. The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.
4. The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate increase in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.
5. In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate rises.
6. **Financial markets:** The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.
7. Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year

gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

8. The FTSE 100 had a strong finish to 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

Credit Metrics

9. In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.
10. The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.
11. Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.
12. **Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Credit Rating developments

13. The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.
14. Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

15. Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.
16. Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.
17. S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Local Authority Regulatory Changes

18. **Revised CIPFA Codes:** CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.
19. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.
20. In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.
21. **MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).
22. Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.
23. The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using

asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

24. **MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.
25. The Authority has met the conditions to opt up to professional status and has done so in order to maintain its MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Risk Group	Risk Ref.	Risk Description	Inherent Risk Levels (no Control)				Total risk score	Mitigation actions	Annex 3 Residual Risk Levels (after controls)				
			Financial	Impact Reputation	Total	Likelihood			Financial	Impact Reputation	Total	Likelihood	Total risk score
Financial	1	UK's withdrawal from the European Union causes volatility in interest rates The UK's withdrawal from the EU results in the further downgrading of the UK Government as an international creditor, with resultant volatility in gilt yields and pressure on the value of Sterling, resulting in possible inflationary pressure and changes in interest rates. Uncertainty and volatility has the potential to create unexpected budget variances in relation to interest payable and receivable.	2	3	5	4	20	Since the result on the referendum on Europe, the UK has been downgraded to AA. To date, this has not had any adverse impact (increase) on gilt prices. The Treasury team continue to monitor closely Gilts and receive regular updates from treasury advisers on short and medium term interest rate expectations. In addition, the levels of short term and long term exposure to interest rate fluctuations are monitored and reported to Audit & Governance Committee. The interest payable budget includes some allowance for potential future interest rate rises.	1	2	3	4	12
Financial	2	Interest Rate Risk Unexpected or large fluctuations in the levels of interest rates create a unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	2	2	4	3	12	As part of the current Treasury Management Strategy, short term borrowing is undertaken to reduce the levels of interest paid. The treasury team continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level. Investments levels are currently low and this reduces the impact of interest rate changes. The interest payable budget includes some allowance for future interest rate rises.	1	1	2	3	6
Operational	3	HSBC System Failure The partial or complete failure of HSBC's online banking system preventing access or usage of online payment and bank account information.	1	4	5	2	10	In the event of an online systems failure, officers are able to request information or payments to be made through the Council's relationship manager and HSBC corporate team. This would result in the daily treasury processes taking more time than usual but all activities are possible using these alternative arrangements.	1	1	2	2	4
Operational	4	Financial failure of SCC's main bankers The collapse of the council's main bank, leading to loss of access to their services and/or the value of balances held.	3	4	7	1	7	The suitability of the council's banker (HSBC) in terms of its security and stability is assessed on a regular basis and investment balances are not held with the Council's main banker but in diversified deposits in line with the approved investment strategy. Government legislation has forced HSBC to ringfence its retail operations in order to protect customers against riskier banking operations	2	3	5	1	5
Financial	5	Credit and counterparty risk Failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.	4	4	8	2	16	The Council's current investment strategy restricts investments with a single counterparty and counterparty criteria has been set at a level to allow only the most financially secure banks, money market funds and Government backed local authorities within the lending list. Such lists are regularly monitored against updates and advice provided by our Treasury consultant.	4	4	8	1	8
Operational	6	Fraud, Error and Corruption Inadequate treasury management systems and procedures leads to loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.	5	5	10	2	20	The treasury team ensures strong internal controls, segregation of duties, unique security log-ins, documented procedures and limits on transaction levels are in place to reduce the risk of fraud and corruption. In addition, HSBC policies and procedures ensure unusual activity is questioned and required additional approval. Regular internal audit tests the quality of internal controls in place.	1	5	6	1	6
Operational	7	Legal and Regulatory Risk The organisation, or a third party with which it is dealing, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.	2	4	6	2	12	The Treasury Management team receives and acts upon relevant updates from CIPFA and our treasury advisors.	2	4	6	1	6
Operational	8	Liquidity Risk Cash will not be available when it is needed, ineffective management of liquidity creates additional unbudgeted costs, and the organisation's business/service objectives will be compromised.	2	2	4	3	12	The Council has easy access to readily available funds at competitive interest rates from the PWLB. The treasury team monitor and update cash flow forecasts on a daily basis and regularly assess the accessibility of short term funds from the local authority market.	1	2	3	1	3

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