

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time

Monday, 20 May
2019
at 10.30 am

Place

Committee Room C,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact

Amelia Christopher
Room 122, County Hall
Tel: 0208 213 2838

amelia.christopher@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 Amelia Christopher on 0208 213 2838.

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Dr Peter Szanto, Mr Will Forster and Mr Stephen Spence

Ex Officio:

Mr Tim Oliver (Leader of the Council), Mr Colin Kemp (Deputy Leader), Mr Tony Samuels (Chairman of the Council) and Mrs Helyn Clack (Vice-Chairman of the Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 8 APRIL 2019

(Pages 1
- 6)

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 (*14 May 2019*).
2. The deadline for public questions is seven days before the meeting (*13 May 2019*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND BULLETIN

(Pages 7
- 10)

To review the Committee's recommendations tracker and bulletin.

6 2018/19 DRAFT ANNUAL GOVERNANCE STATEMENT

(Pages
11 - 24)

This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year ending 31 March 2019.

7 CODE OF CORPORATE GOVERNANCE

(Pages
25 - 40)

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

8 2018/19 TREASURY MANAGEMENT OUTTURN REPORT

(Pages
41 - 52)

This report summarises the Council's treasury management activities during 2018/19, 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.

9 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 29 July 2019.

**Joanna Killian
Chief Executive**

Published: 10 May 2019

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MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 8 April 2019 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:

*= In attendance

Mr David Harmer (Chairman)*
Mr Keith Witham (Vice-Chairman)*
Mr Edward Hawkins*
Dr Peter Szanto*
Mr Will Forster*
Mr Stephen Spence*

9/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none..

10/19 MINUTES OF THE PREVIOUS MEETING - 7 FEBRUARY 2019 [Item 2]

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

11/19 DECLARATIONS OF INTEREST [Item 3]

Edward Hawkins declared a non-pecuniary interest in item 9 as he was the Surrey County Council (SCC) appointed Director of Halsey Garton Property Investment Ltd.

12/19 QUESTIONS AND PETITIONS [Item 4]

There were none.

13/19 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]

Key points raised during the discussion:

1. Members noted the Committee's recommendations tracker and bulletin.

RESOLVED:

That the committee noted the report.

14/19 RISK MANAGEMENT REPORT [Item 6]

Witnesses:

Joanna Killian, Chief Executive
Cath Edwards, Service Improvement & Risk Manager

Key points raised during the discussion:

1. The Chief Executive introduced the item and explained that the report set out the approach to risk management for the 2019/20 financial year. Members noted that the Corporate Leadership Team had recently undertaken a full review of the Council's key risks which had resulted in the development of the new Strategic risk register. It was further noted that the register had identified significant risks related to the Council's financial resilience, the delivery of savings plans and Special Educational Needs & Disabilities (SEND) services.
2. The Committee sought clarification on the 'current risk level' section of the register and asked if the assessment of the risk level was at the present time or after mitigation had been implemented. Officers confirmed that the register was an initial focus document and therefore the risk assessments were current, although the document would continue to evolve as mitigation activity was put in place.
3. Members noted risk 'S7' which related to safeguarding. Officers explained that the risk remained high due to the ongoing restructure, activity and partnership work that was taking place within Children's Services.
4. Members suggested it would be appropriate to include further detail around the risks associated with staff retention within the 'workforce' risk section. Officers stated that it was understood that the Council was in a competitive environment for workers and so there were ongoing challenges to recruit and retain its workforce. It was explained that there were projects of work to focus on creating an attractive work environment that allowed the Council's workforce to develop internally. When discussing the use of agency staff, a Member of the Committee highlighted that having more control over lifestyle was an attractive feature for agency staff.
5. Members commented on the number of risks rated as 'high' and stated that it may become difficult to assess the exact level of risk, especially if the risk was to increase further, when all risks were rated at their highest level. Officers explained that the register was a live document that would evolve and adapt to reflect any change or updates. Following further discussion, the Chief Executive agreed to include an additional column to the register which included an estimated risk level following mitigation actions and a second additional column which included details on any progress made.
6. The Committee suggested officers consider incorporating a risk related to the public's opinion of the Council throughout transformation.

Actions/ further information to be provided:

The Chief Executive agreed to include an additional column to the Strategic Risk Register which included an estimated risk level following mitigation actions and a second additional column which included details on any progress made.

Resolved:

The Audit and Governance Committee:

- a. considered the contents of the report and confirmed they are satisfied with the risk management arrangements;
- b. reviewed the Strategic risk register (Annex A)

15/19 ETHICAL STANDARDS ANNUAL REVIEW [Item 7]**Witnesses:**

Geoff Wild, Director for Law & Governance

Key points raised during the discussion:

1. The Director of Law & Governance provided Members with a brief summary of the report and explained that its purpose was to monitor the operation of the Members Code of Conduct over the last year.
2. Members sought clarification on whether the Member was informed that a complaint had been received against them. Officers confirmed that the Member was informed and that they were offered the opportunity to be involved with the process.
3. The Committee noted that, when receiving a Member complaint, it was not currently part of the formal process to inform the Member's group leader. Members discussed whether informing the relevant group's leader would be beneficial as, in some circumstances, it could allow the Member to be provided with additional support from their party. Following further discussion, it was asked that the Director of Law & Governance consider the value of incorporating a notification to the respective group leader when receiving a Member complaint.
4. Members highlighted that each complaint's description lacked detail and felt that it would be helpful to better understand each complaint's context. Officers noted Members' comments and explained that it was the role of the Committee to consider the operation of the Members' Code of Conduct and promote advice, guidance and training for Members.
5. The Committee requested that the Director of Law & Governance consider the appropriateness of the degree of responsibility placed on the Chairman of the Member Conduct Panel.

Actions/ further information to be provided:

That the Director of Law & Governance consider the value of incorporating a notification to the respective group leader when receiving a Member complaint.

That the Director of Law & Governance consider the appropriateness of the degree of responsibility placed on the Chairman of the Member Conduct Panel.

Resolved:

The Audit and Governance Committee:

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- a) noted the Monitoring Officer's report on recent activity in relation to the Code of Conduct and complaints made in relation to member conduct.
- b) considered what further advice, guidance and training should be offered to Members over the next year, or any longer period.

16/19 INTERNAL STRATEGY AND ANNUAL AUDIT PLAN 2019/20 [Item 8]

Witnesses:

Russel Banks, Chief Internal Auditor
Reem Burton, Principal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and provided Members with a brief summary. It was explained that the report asked Members to approve the Internal Audit Strategy, the Internal Audit and Corporate Fraud Plan for 2019/2020 and the Internal Audit Charter.
2. Members noted that the overall level of resource had been reduced by 131 days in 2019/20, primarily as a result of an adjustment to the Surrey share of the Orbis Internal Audit budget relating to income no longer received from external work previously undertaken for Spelthorne Borough Council. The Chief Internal Auditor confirmed that, although there had been a reduction in the number of audit plan days, he was confident that an annual audit opinion could still be provided.
3. The Committee requested that the Internal Audit report on the review of PAMS income 2018/19 be considered at the appropriate select committee.

Actions/ further information to be provided:

The Committee requested that the Internal Audit report on the review of PAMS income 2018/19 be considered at the appropriate select committee

Resolved:

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

- (i) The Internal Audit Strategy
- (ii) The Internal Audit and Corporate Fraud Plan (Appendix A)
- (iii) The Internal Audit Charter (Appendix B)

17/19 GRANT THORNTON: 2018/19 EXTERNAL AUDIT PLAN [Item 9]

Witnesses:

Marcus Ward, Grant Thornton
Anna D'Alessandro, Interim Director- Corporate Finance

Key points raised during the discussion:

1. The representative from Grant Thornton introduced the report and highlighted that it was the first time that both the Surrey County Council and Pension Fund external audit plan was considered in a single report, rather than separately. It was further noted that the audit scope also included the subsidiaries of the Council which included Halsey Garton Property Limited, Surrey Choices Limited and South East Business Services Limited.
2. Members noted that the Audit Plan had identified a series of 'significant' risks and 'reasonably possible' risks. The risks had been identified in accordance with auditing standards and were consistent with the risks identified across Grant Thornton's local government clients, rather than being specific to Surrey County Council.
3. Members noted that the representative from Grant Thornton would not be working directly with the teacher's pension due to his wife occupation as a teacher.

Resolved:

The Audit and Governance Committee approved the attached Audit Plan.

18/19 DATE OF NEXT MEETING [Item 10]

The date of the meeting was noted as 20 May 2019.

Meeting ended at: 11.35 am

Chairman

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Audit & Governance Committee
20 May 2019

RECOMMENDATIONS TRACKER AND BULLETIN

PURPOSE OF REPORT:

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

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: Amelia Christopher, Democratic Services Assistant
amelia.christopher@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
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 ‘Introduction 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. July 2018 – The Chairman highlighted that he intended to request a report on business continuity and emergency management towards the end of the Council’s transformation.
A16/18	26/07/18	Internal Audit & Counter Fraud Annual Report And Opinion 2017-18	Officers agreed to follow up on the Police investigation regarding the misuse of pre-paid credit cards.	Audit Manager	27/09/2018 - the Audit Manager confirmed that he had followed up on the police investigation but had not yet received a full response. 12/12/18 - officers confirmed there were ongoing discussions with the Police on this matter and that the situation would continue to be monitored.
A1/19	07/02/19	Treasury Management Strategy 2019/20	To circulate benchmarking data from similar two-tier local authorities to compare interest income.	Finance Manager	Information to be circulate following the end of the financial year 2018/19.
A5/19	07/02/19	Internal Strategy and Annual Audit Plan 2019/20	The Committee requested that the Internal Audit report on the review of PAMS income 2018/19 be considered at the appropriate select committee.	Democratic Services Assistant	Item to be added to the relevant Select Committee’s forward plan.

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A2/19	08/04/2019	Risk Management Report	The Chief Executive agreed to include an additional column to the Strategic Risk Register which included an estimated risk level following mitigation actions and a second additional column which included details on any progress made.	Chief Executive	Action directed to relevant officer.
A3/19	08/04/2019	Ethical Standards Annual Review	That the Director of Law & Governance consider the value of incorporating a notification to the respective group leader when receiving a Member complaint.	Director of Law & Governance	Action directed to relevant officer.
A4/19	08/04/2019	Ethical Standards Annual Review	That the Director of Law & Governance consider the appropriateness of the degree of responsibility placed on the Chairman of the Member Conduct Panel.	Director of Law & Governance	Action directed to relevant officer.



**Audit & Governance Committee
20 May 2019**

2018/19 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 2019.

Recommendations

It is recommended that the 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. Once signed by the Leader of the Council and the Chief Executive, the Annual Governance Statement is incorporated in the Statement of Accounts.

Annual Governance Statement 2018/19

- 2 The 2018/19 draft Annual Governance Statement is attached at Annex A and includes:
 - A summary of the key activities during the year and the main elements of the governance framework;
 - An update on the actions taken on the key issues identified in the 2017/18 AGS; and
 - An action plan for the issues identified in this year's AGS.

3 Consultation

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

Monitoring and review

- 4 Governance update reports will be presented to the Audit and Governance Committee throughout the year as appropriate.

Implications

- 5 **Financial**
There are no direct financial implications arising from this report. Continued improvements in governance will support the delivery of the council's objectives.
- 6 **Equalities**
There are no direct equalities implications of this report.
- 7 **Risk management**
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 25 June 2019, signed by the Chief Executive and the Leader of the Council and then incorporated into the council's Statement of Accounts for 2018/19.

REPORT AUTHOR: Cath Edwards, Service Improvement and Risk Manager, Finance

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

SOURCES/BACKGROUND PAPERS: Annual review of governance working papers. Code of Corporate Governance. CIPFA/SOLACE Framework for *Delivering Good Governance in Local Government*.

DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19

Surrey County Council has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, that there is a sound system of governance, appropriate controls are in place and that public money is safeguarded and properly accounted for. This Annual Governance Statement describes the key activities during 2018/19, progress against key issues raised in last year's governance review, summarises the main elements of the council's governance framework and identifies key areas of focus for 2019/20.

Context

In early 2018 the council appointed a new Chief Executive, Joanna Killian, who put in place a new leadership structure and appointed to a number of new Executive Director roles during the year, adding much needed senior capacity and capabilities. A new leader, Councillor Tim Oliver, was elected later in the year, and he put in place a new Cabinet, creating a new role of Cabinet Member for Finance.

Recognising the need for a different organisational culture, which is open and honest about where improvements are required, the priority for the new leadership team is to put in place and deliver a significant programme of transformational change. Over the next 3-5 years, the focus is to address a number of performance and financial issues. There is a need to develop a more sustainable, effective organisation and ensure the council can deliver improved outcomes for residents, with a focus on prevention and earlier intervention. The scale of the challenge requires a new vision, revised priorities and robust control mechanisms, including significant change capacity alongside a deep culture change programme.

Transforming outcomes for children and families in Surrey is an absolute priority, with new leadership arrangements having been put in place during the year with the aim of strengthening professional practice, management oversight and providing robust assurance.

The scale and pace of the council's change programme is extremely challenging and covers all aspects of the council: how we provide services, how we operate and how we engage with our residents and partners. The key elements of the change programme include:

- An updated **vision and strategy** to reflect the changing needs and expectations of our residents;
- A council-wide **transformation programme** to reform the function, form and focus of the organisation to help deliver on our shared ambitions;
- Ensuring ongoing **financial sustainability** by minimising the use of one-off funding sources and ensuring we operate within available resources; and
- A review of our **organisational culture** to ensure that we are well equipped to deliver the scale of change required.

Vision & Strategy

A lack of clear direction and uncertainty about the future, coupled with an historic tendency to not look outside of the organisation and learn from others, meant that there was a clear need to develop a new vision, and this work was a priority in the early part of 2018/19. A new Community Vision for Surrey in 2030 (the Vision) has been endorsed, which was informed by extensive stakeholder engagement. The Vision recognises the need for, and value of, a shared set of priority outcomes across all our partners, as we collectively strive to improve the lives of everyone who lives in the county.

COMMUNITY VISION FOR SURREY IN 2030

By 2030 we want Surrey to be a uniquely special place where everyone has a great start to life, people live healthy and fulfilling lives, are enabled to achieve their full potential and contribute to their community, and no one is left behind.

We want our county's economy to be strong, vibrant and successful and Surrey to be a great place to live, work and learn. A place that capitalises on its location and natural assets, and where communities feel supported and people are able to support each other.



The council has developed an integrated suite of plans to support its vision:

- An **Organisation Strategy** that sets out how the council will work with residents and partners and direct resources to where they will have the most impact.
- A **Financial Strategy** that sets out the overall framework within which the council will manage its financial resources.
- The '**Our People 2021**' strategy sets out how we will develop our capacity and capability, drive transformational change and create a high performance culture.

Transformation

The council also agreed a Transformation Programme, shaped around six thematic areas, which will reform the function, form and focus of the organisation to help us deliver the Vision.

At the heart of the transformation programme is the need to develop very different service models and approaches that can help prevent problems escalating and better support residents and communities to be independent. In addition the transformation programme includes a number of projects which are critical to embedding the Target Operating Model (TOM) design principles, which are guiding how we develop and change our services and ways of working to ensure we become a responsive, modern and effective organisation.

Transformation on this scale represents a complex challenge for the council and it is vital that our residents and stakeholders have their say on proposed changes. Proposals for the re-design of the first phase of service transformation have been developed and extensive consultation and engagement has been carried out with a range of stakeholders using public consultations, surveys and face to face discussions.

It is vital that the governance arrangements in place to monitor the effectiveness and track delivery of the transformation programme are robust. Two boards have been established, a member-led Change Management Board which sets the overall direction and priorities, and an officer-led Transformation Steering Board, which monitors delivery and ensures alignment across the wider change agenda. These Boards will collectively work together to deliver the change and ensure the council continues to evolve and develop over time.

Whilst there is a current defined set of projects and programmes to deliver, we will need to keep reviewing our progress and re-assessing our plans and priorities, responding to the new

opportunities that will emerge through closer working with our partners and residents, new legislation, and technological advances. A Director of Transformation has recently been appointed to lead the Transformation Support Unit and work with the Corporate Leadership Team and Cabinet on the transformation agenda. As one of her early actions she has carried out a lessons learnt review to identify actions to strengthen programme management. The outcome from this review will be used by the Leadership Team to shape future transformation projects.

Financial Sustainability

During the year, the strength of the council's finances, and the arrangements for managing them, were highlighted as areas of concern in external reviews.

The council's External Auditors' 2017/18 report on value for money, published in December 2018, gave a qualified conclusion: *'We are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018'*. This was due to the continued rating of the council's Children's Services as 'Inadequate' by Ofsted and a failure to demonstrate sustainable deployment of resources, as evidenced by a continued use of reserves to balance the budget in successive years.

In May 2018 the council commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a review of the council's finances and finance function. The review concluded that the council faced a significant budget shortfall and needed to fundamentally reengineer its financial management arrangements, both within the Finance function and across the organisation. The Finance function needed to reform its impact, capacity and capability as well as introduce new practices across the organisation. In order to enable the organisation to achieve transformational efficiencies, the Finance function recognised that it first needed to modernise itself.

A new interim Executive Director of Finance commenced in September 2018 and set up a two year Finance Improvement Programme. This included the review of the Finance function TOM and the enablement of a culture of financial discipline and accountability across the organisation that will meet the future needs of the council. An enhanced learning and development programme aimed at increasing financial management capability both within Finance and across the organisation, will be introduced during 2019/20.

Early in 2018/19, the council's finances were placed under significant strain as a result of an increasing level of overspend in relation to Special Educational Needs. It also became clear that pressure was beginning to grow in other services. Against this challenging backdrop, there was also a recognition that there needed to be a strategy that reduced the reliance on reserves. As a result, in September 2018, Cabinet agreed additional in-year savings of £40m, bringing the target in the year to £106m.

Responding to the worsening in-year position and the findings from CIPFA's review, during the summer, the council restated its fundamental principles of strategic budget setting and financial management accountability. This included a change in approach to setting the budget for 2019/20. In November 2018, the council published the draft budget strategy, the 'Preliminary Financial Strategy'. This set out, much earlier than in previous years, the council's plans to achieve financial sustainability and without relying on reserves to balance the budget.

The Preliminary Financial Strategy included a set of guiding principles and priorities and the use of a 'budget envelope' approach to strengthen financial management and focus accountability on budget holders. This 'budget envelope' framework emphasised the fundamental importance of budget managers' responsibility of delivering within available resources whilst identifying solutions to

financial challenges. These principles include a move away from one-off funding sources to setting a balanced budget as well as removing the use of reserves.

Starting the budget process earlier enabled us to better plan for the future and carry out extensive engagement and consultation with residents and stakeholders. The outcomes of the consultation was considered by Cabinet in January 2019 in a draft budget, in advance of setting the final budget and council tax which was approved by County Council in February 2019.

For 2019/20, all of the council's budget managers are required to sign a Budget Accountability Statement (BAS), confirming acceptance of their budget management responsibilities and the requirement to deliver service objectives within their envelope. The Financial Regulations were also reviewed and updated to reflect the council's financial environment and the requirements of the BAS. A number of budget meetings have been established to kick-off the financial year with the Cabinet Member for Finance, his Cabinet colleagues and senior officers, focussing on key areas of council spend to ensure everyone is aware of their budgetary responsibilities. Discussing the deliverability of the savings plan in each Service is a cornerstone of these meetings.

The positive change in the financial performance of the council in 2018/19, as a result of the identification and delivery of in-year management actions, gives greater confidence in the ability to deliver significant savings targets in 2019/20 than has been the case in previous years. It also demonstrates the ability of the council to be flexible and react to changing circumstances to protect its financial position. Whilst these are positive developments, the level of risk contained in the 2019/20 budget proposals should not be underestimated and the target of £82m will be challenging to deliver. The council is developing a mechanism to ensure it closely tracks, monitors and reports the actions to achieve the required £82m of ongoing savings and monitor and manage the risks.

Budget planning for the medium-term continues to require significant savings to be identified and delivered. Financial sustainability continues to be both a challenge and a focus for the council. The level of transformation required to achieve ongoing resilience is achievable, but does require the council to make some rapid and tough decisions.

Organisational Culture

In recognition that the council's culture is central to the transformation agenda, a fundamental review was led by organisational consultants, Linguistic Landscapes, which focused on discovering our 'unwritten rules'. Their work identified a series of cultural characteristics that could, if left unchecked, make it more difficult to achieve the council's ambitions and to operate in the interests of our residents.

Some of the negative characteristics identified included poor cross team working, a lack of willingness to learn or seek best practice from elsewhere, as well as a need to address perceptions by others that we are difficult to work with. Linguistic Landscapes helped us become more aware of our culture and has given us some practical working principles to help us consciously align our culture to our strategy.



We continue to engage with colleagues across the organisation to develop our organisational culture, behaviours and values, supported by revised pay and reward mechanisms and a new style of performance reviews.

Service specific governance considerations:

In addition to the organisation wide areas discussed above, there are some service specific governance arrangements to consider:

Children's Services

The council, with its partners, is going through a process of major change in response to two consecutive Ofsted ratings of 'Inadequate' and the organisation's own acknowledgement that improving outcomes for our most vulnerable children had not been prioritised in the past. The Department for Education appointed an external Commissioner in June 2018 and his final recommendations will be published in September 2019. Services for children and families are being transformed at pace with a much needed focus on quality and consistency of practice and the first stage of the improvement programme will conclude in April 2019. A new organisational structure, underpinned by reformed practice models, focussed use of resources, early intervention principles and leadership from an experienced group of professionals, are key components of our new, best practice approach.

The biggest single challenge will be recruiting quality front line staff in sufficient numbers. There are advanced plans in place to develop recruitment strategies that will deliver a permanent workforce. These are underpinned by the Surrey Children's Services Academy, launched in January 2019, which will support colleagues who work with families to drive up standards of practice and partnership working. The Academy is something of a national first in terms of the scale of partnership involved, bringing together all the learning and development across all the services and agencies working with children and young people. The improvement journey is likely to take three to four years.

Key initiatives to achieving a sustainable model for our Children's Services also include a strategy to reduce costly out-of-county placements for children in care and the Special Educational Needs and Disability (SEND) programme which places a much greater emphasis on early intervention and prevention.

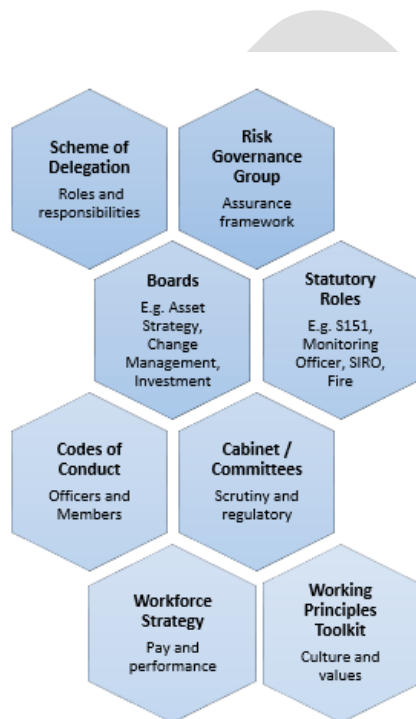
Health

The health and care system in Surrey is complex, with a complicated governance architecture across multiple NHS partnership boundaries, (and a resultant large number of meetings needing attendance and servicing) which have contributed to making working towards closer integration between the County and the NHS challenging.

However, during 2018/19 the council has continued to progress work with NHS partners to integrate health and social care. Commissioning arrangements established under the Surrey Heartlands devolution agreement (Joint Commissioning Committee) have evolved with a Surrey-wide decision-making forum being established and due to meet for the first time in June 2019. A review of the Surrey Health and Wellbeing Board has also been concluded in 2018/19, aligned to the new Surrey Health and Wellbeing Strategy, resulting in a revised membership drawn from a wider range of organisations to reflect a stronger focus on the wider determinants of health and improving health outcomes for residents.

Waste Private Finance Initiative (PFI)

The council has a waste PFI contract through which it manages the recycling and disposal of waste, and develops and operates waste infrastructure. The contract attracts government grant (PFI credits) over its 25 year term, currently £2m per year, and due to increase once the Eco Park has been delivered. Completion of the Eco Park is currently delayed, which has a number of implications including changes in the timing and level of costs. The council is currently assessing available options on the future of the waste contract to allow an informed decision to be made.



Governance Framework

The diagram shows some of the key parts of the council's governance framework that support good governance and help to us to do things in the right way, for the right people in a timely, open, honest and accountable way.

A review of the council's key democratic decision making processes and scrutiny arrangements is taking place that will ensure there is transparency and strong engagement on key issues and decisions that impact residents and communities

The project will make changes that strengthen the role and impact of all Members and ensure that decision making within the council is based on effective engagement with residents and partners

Compliance & Risk

The council's financial management arrangements during 2018/19 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The previous Director of Finance and the current interim Executive Director of Finance met their financial responsibilities during the year and ensured financial management arrangements were in place. They reported directly to the

Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor, External Auditor and other Executive Directors.

The council's strategic risk arrangements have now been refreshed and a new Strategic risk register is in place, which will be continually developed and form part of the overall performance monitoring framework.

The Chief Internal Auditor has provided partial assurance that the council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019. In reaching that view he has explained that the results of internal audit activities during the year resulted in a number of partial or minimal audit opinions being issued, some of which are potentially significant. Where the need for improvements in control have been identified, Internal Audit has not always seen sufficient evidence that management have taken appropriate remedial action in a timely manner.

The Chief Internal Auditor has, however, recognised that significant effort is now being made by the organisation to strengthen governance, risk management and internal control, with major transformational programmes commenced during the year. Whilst these are still in development, with the major impacts likely to begin materialising during 2019/20, he has seen clear evidence of a commitment from management and Members to secure improvement. The direction of travel is therefore positive and something which internal audit will monitor over the year ahead.

Performance Reporting

An effective corporate performance monitoring system has not been in place for a number of years. Our Business Planning and Performance Management Framework is being updated to ensure we can track and understand the impact of our people, projects and programmes for our residents. A new system is being put in place during 2019/20 and will include:

- A new Vital Signs Report – quarterly reporting to the Corporate Leadership Team and Cabinet on key performance indicators;
- Reporting to residents – covering high level outcome measures on Surrey County Council's contribution to the Surrey 2030 Community Vision;
- Outcome Delivery Plans – these will be short documents covering critical activity and delivery against the 10 strategic outcomes in the Organisation Strategy;
- A new approach to staff performance management in the shape of "Performance Conversations", designed to create a strong positive performance culture across the organisation. This is supplemented by more robust accountability arrangements for the Chief Executive and Corporate Leadership Team in the form of "performance contracts", which clearly set out the role each individual has in achieving the council's priorities;
- A new scrutiny model.

A new corporate Insight, Analytics and Intelligence team was formed at the end of 2018/19 which will provide greater leadership around the council's performance management framework, and is leading on the development of a community of practice for business intelligence across the council.

A new Performance Intelligence Service has also been established within the Children's, Families, Education and Lifelong Learning directorate. A significant number of dashboards have been developed through a visualisation tool (Tableau) that enables 'near live' performance reporting and gives managers access to information that can be viewed at an individual child level, as well as by team, services, area and countywide performance. This will enable the service to intervene and take any appropriate action on a timely basis. Some specific examples of performance improvement include the timeliness of Initial Child Protection Conferences, Health Assessments for Looked after

Children and the recording of management oversight and case supervision. These are key indicators to help provide an overview that the 'pulse' of the directorate is healthy and that outcomes for children are at the heart of the work undertaken.

Conclusion

This past year has seen an intense period of change for the council. Whilst we will see further progress on our transformation plans we have stabilised the organisation and now need to move into an intensive phase of operational delivery, with confidence that our plans will translate into better outcomes as well as offering good financial value for our residents. We recognise that robust governance must be in place to ensure that public money is safeguarded and services are delivered effectively to residents. We will continue to strengthen arrangements to deliver our Vision that Surrey residents' money is being spent, wisely and securely, and that no one is left behind.

The challenges ahead are not to be underestimated, however the work to date has embedded the foundations for longer term change and continuous improvement in the best interests of our residents.

2017/18 Annual Governance Statement Action Plan – Follow Up

Issue identified in 2017/18	Action taken during 2018/19
<p>Budget Accountability Increasing financial challenge requires a stronger and more robust control framework of tracking and monitoring savings, pressures and the overall budget throughout the year.</p>	<p>Budget Accountability Statements have been put in place for all accountable budget holders. The need for in year management actions was identified and appropriate action taken to reduce the projected overspend and negate the need for the use of reserves to balance the budget.</p> <p>Despite this, the council continues to face significant financial challenges.</p>
<p>Financial Sustainability Significant levels of savings to be achieved and ongoing use of reserves to balance to budget.</p>	<p>2019/20 budget was set without use of reserves.</p> <p>Major transformation programme initiated with governance Boards in place.</p> <p>Need to develop more robust savings monitoring process to ensure cost drivers and impact of activity is understood.</p>
<p>Children's Services Governance arrangements have not had sufficient impact or provided sufficient oversight to deliver safe outcomes for children and families.</p>	<p>Ofsted Priority Action Board established in September 2018 to oversee delivery of the Children's Improvement Plan, now independently chaired with representatives from the Department for Education, Children's Commissioner, police, health, education and 3rd sector.</p> <p>Regular reporting to Cabinet on the improvements to children's services.</p>
<p>Learning Disability Services Ensuring that ways of working are improved to manage demand and enable better outcomes.</p>	<p>All Age Learning Disabilities transformation project in place across Children's and Adults.</p>

Issue identified in 2017/18	Action taken during 2018/19
<p>Assessing and approving care packages Internal audit to carry out a review of mechanisms and controls in place for assessing and approving care packages and accurately forecasting future costs, in both Children's and Adults Services.</p>	<p>Children's Services: The audit provided an opinion of Minimal Assurance and identified a significant number of control weaknesses across the process for care package assessment and approval. A detailed set of actions were agreed with management, and a follow-up audit is due in Q1 of 2019/20 in order to assess progress made. The audit has been called in for scrutiny by the Children and Education Select Committee, which will also receive a copy of the follow-up review.</p> <p>Adults: The audit identified appropriate controls and processes were in place and operating as expected for care package assessments in Adult Services. Whilst a number of lower priority actions were agreed, the overall opinion given was Reasonable Assurance. Progress against agreed actions will be monitored by Internal Audit through ongoing action tracking.</p>
<p>Compliance culture Need to reinforce and support a culture of compliance through appropriate information, communication and training.</p>	<p>A Financial Management Partnership Agreement, including roles and responsibilities, and a supporting learning and development plan is being developed as part of the Finance Improvement Programme.</p>
<p>Financial Regulations Fundamental review of Financial Regulations is required.</p>	<p>Financial Regulations were reviewed and updated in October 2018.</p>
<p>Risk Management Leadership risk register requires a review.</p>	<p>A new strategic risk register is in place.</p>
<p>Financial Management CIPFA has been commissioned to carry out a review of the financial capacity and capability of the finance function across the organisation.</p>	<p>The conclusions of the CIPFA review have been used to develop and implement a 2 year Finance Improvement Programme targeted at improving the financial management capabilities across the organisation and ensuring the finance service is fit to meet the future requirements of the organisation.</p>
<p>Head of Legal and Democratic Services vacancy Following the retirement of the Head of Legal and Democratic Services, the role needs to be appointed to permanently.</p>	<p>An interim Director of Law and Governance is in place following unsuccessful permanent recruitment.</p>

2018/19 Improvement Plan

Issue identified during 2018/19	Action being taken during 2019/20
<p>Financial Sustainability Significant level of risk in the 2019/20 budget, including challenging savings targets.</p>	<p>We have established a balanced budget for 2019/20 including £82M of savings to be delivered by services. To ensure their delivery, all plans are being underpinned by detailed activities, costs and benefits. This information will be reported monthly to the Corporate Leadership Team and Cabinet, with remedial actions where off plan. There are also a series of meetings which the Cabinet Member for Finance will be leading across all service areas, including his Cabinet colleagues and senior officers, to undertake a detailed review of all 19/20 budgets and associated risks. All budget holders have been asked to sign-off their budgets and savings targets for 2019/20, most of which have now been signed with the rest to be completed by the end of the April.</p>
<p>Organisational Culture Ensure the organisational culture is aligned to our strategy.</p>	<p>Embed the Linguistic Landscape toolkit, supported by our values.</p>
<p>Children's Services Major change in response to two consecutive Ofsted ratings of 'Inadequate.'</p>	<p>Continue to deliver against the Children's Improvement Plan with regular progress reports to Cabinet and the Ofsted Priority Action Board. Transition from Local Safeguarding Children's Board to Safeguarding Partnership from September 2019. Priorities for the 2019-2020 year include; developing our managers with greater investment in training and support; improve supervision and focus on staff wellbeing; improve frontline outcome-focussed practice; develop deep and productive relationships with partners; ensure technology, resources and systems support the work of practitioners.</p>
<p>Decision Making Ensure transparency and strong engagement on key issues and decisions.</p>	<p>Review and update the council's key democratic decision making processes and scrutiny arrangements.</p>
<p>Performance Reporting Lack of council performance monitoring.</p>	<p>Ensure we have the data and insight required to drive effective decision making, improvement, service design, through a new performance reporting framework.</p>
<p>Partnerships Progressing the Vision for Surrey ambition of closer working with our partners</p>	<p>Strengthen partnership working across the county and streamline partnership governance to make it easier to navigate. Work with our districts and boroughs to create new locality partnerships.</p>

Issue identified during 2018/19	Action being taken during 2019/20
	Strengthen relationships with partners through the Executive Director of Transformation, Partnerships and Prosperity.
<p>Property & Assets Improve capacity and capability of property services in line with recommendations from external review.</p>	An Asset & Place Strategy is being developed to address the Council's failing to optimise the use of its Land assets. The Property function is being revamped with the introduction of new leadership, a new structure and ways of working
<p>Corporate Resource Capacity Recognise the need for more/improved corporate resources to support the organisation through period of significant change?</p>	The Council has been hampered by a back office which is ineffective and not fully fit for purpose. As well as embarking on a transformation journey for the Council's front-line services, improvements are also being undertaken to all the corporate areas and these are at varying stages of implementation.
<p>Agile Workforce Need to ensure clear contribution of the Agile workforce transformation project to deliver core business objectives and to the savings they could enable.</p>	Re-define the scope of the Agile Workforce transformation project to ensure alignment with the Closer to Residents project, recognising the dependency of this project on an agile workforce. Need to utilise the opportunity to maximise potential savings opportunities.

Leader of the Council

June 2019

Chief Executive

June 2019

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Audit and Governance Committee
20 May 2019

Code of Corporate Governance

Purpose of the report:

This report provides the committee with an update on the changes made to the council's Code of Corporate Governance.

Recommendations

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

Code of Corporate Governance

- 1 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.
- 2 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.
- 3 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.

Implications

- 4 **Financial**
There are no direct financial implications of this report.
- 5 **Equalities**
There are no direct equalities implications of this report.

6 Risk management

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.

REPORT AUTHORS: Cath Edwards, Service Improvement and Risk Manager, Finance

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

SOURCES/BACKGROUND PAPERS: Annual review of governance working papers. Code of Corporate Governance. CIPFA/SOLACE Framework for *Delivering Good Governance in Local Government*.

Code of Corporate Governance

May 2019

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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 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.

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.

GOOD GOVERNANCE PRINCIPLES

7

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 Organisation Strategy and Governance Strategy.

We will focus on our purpose to optimise the achievement of intended outcomes for Surrey and its local communities.

We will meet this by:

- Making the best use of our resources available to ensure best value is achieved; and
- Promoting decision making that is rigorous and transparent.

Members and officers will behave with integrity and demonstrate a strong commitment to ethical values.

We will meet this by:

- Demonstrating and communicating our values; and
- Understanding, monitoring and maintaining our ethical standards.

We will ensure openness and effectively engage with our stakeholders.

We will meet this by:

- Demonstrating, documenting and communicating our commitment to openness; and
- Engaging with residents, partners, businesses and other stakeholders in the development of services.

We will develop the capacity and capability of members and officers to continue to be effective.

We will meet this by:

- Clarifying roles and responsibilities; and
- Ensuring members and officers have the appropriate skills, knowledge, resources and support to perform well in their roles.

We will manage risks and performance through robust internal control and strong public financial management.

We will meet this by:

- Ensuring integrated and effective risk management arrangements are in place; and
- Monitoring service delivery.

We will implement good practice in transparency and reporting to deliver effective accountability.

We will meet this by:

- Reporting to stakeholders in an understandable way; and
- Having good quality information that is easy to access.

SUPPORTING GOVERNANCE DOCUMENTS

7

There is a robust framework of council policies and processes that are of key importance in maintaining good governance, support the achievement of our Organisation 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 Executive Directors, aside from statutory functions that fall within the personal responsibility of the Section 151 Officer or the Monitoring Officer.

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. The method of annual review is agreed by the Governance Group, who ensures that the Council has a robust method of scrutiny and appraisal of Governance. The group 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 Governance Group terms of reference are shown at Annex D.

The annual review of governance may consist of:

CUSTODIAN ASSURANCE

Custodian Assurance Statements completed by Governance Custodians provide an overview of key changes to governance documents and any communications and training activities that have taken place. Recommendations are made, as appropriate, to the Governance Group on any specific areas to be reviewed by Internal Audit as part of the governance compliance work.

GOVERNANCE COMPLIANCE

A number of methods are used by Internal Audit to test governance compliance on identified areas as appropriate:

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

Key findings from Internal Audit testing is presented to the Governance Group and any significant areas will be included in the AGS.

REPORT ON INTERNAL CONTROL

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 Group and any significant areas will be included in the AGS.

ASSESSMENT OF THE CORE GOVERNANCE PRINCIPLES

An annual assessment of the core governance principles is carried out and consists of:

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

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

ADDITIONAL GOVERNANCE INFORMATION

The Governance Group reviews 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.

AGS

The draft AGS is developed by the Governance Group and reviewed by the Corporate Leadership Team before the AGS is presented to the Audit and Governance Committee and the Cabinet for approval. The AGS is then signed by the Chief Executive and the Leader of the Council and incorporated into the Statement of Accounts.

The Governance Group 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

7

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"> • Approves the AGS for publication with the Statement of Accounts • Monitors any governance improvements required
Audit & Governance Committee	<ul style="list-style-type: none"> • Reviews the draft AGS and advise the Cabinet as appropriate • Monitors the effectiveness of governance arrangements • Monitors compliance with the Code of Corporate Governance • Approves relevant governance policies
Corporate Leadership Team	<ul style="list-style-type: none"> • Commissions remedial action to address issues as appropriate • Reviews related reports en route to the Cabinet e.g. AGS
Governance Group	<ul style="list-style-type: none"> • Refer to the Terms of Reference – Annex D
Executive Directors and Assistant Directors	<ul style="list-style-type: none"> • Appoint Governance Custodians • 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"> • Coordinates the corporate governance review • Carries out the annual assessment of core principles • Annually reviews the Code of Corporate Governance
Internal Audit Team	<ul style="list-style-type: none"> • Conducts governance compliance testing as necessary • Provides 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, Governance Manager, Finance

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)	A submission from each Governance Custodian providing assurance that each policy is up to date and detailing any key updates that have been undertaken.
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 Group	Reviews governance information and develops the AGS. It advises Corporate Leadership Team, 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 (Director of Law and Governance)	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 (Executive Director of Resources)	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.

SUPPORTING GOVERNANCE DOCUMENTS

Annex A

RESIDENTS Actively involving local people and stakeholders	QUALITY Ensuring a high quality service													
Organisation Strategy, including Community Vision for Surrey in 2030 Equality, Inclusion, Fairness and Respect	Customer Promise People Strategy													
VALUE Taking informed and transparent decisions that promote value for money	PEOPLE Maintaining high standards of conduct													
Cabinet Forward Plan Procurement and Contract Standing Orders Scheme of Delegation Standing Orders	<table border="0"> <tr> <td>Behaviours Framework</td> <td>Disciplinary</td> </tr> <tr> <td>Capability</td> <td>Grievance Resolution</td> </tr> <tr> <td>Change Management</td> <td>Member/Officer Protocol</td> </tr> <tr> <td>Codes of Conduct (officers and Members)</td> <td>Safer Employment</td> </tr> <tr> <td colspan="2">Ending Harassment, Bullying, Discrimination and Victimisation</td> </tr> <tr> <td colspan="2">Arrangements for dealing with complaints about Members</td> </tr> </table>		Behaviours Framework	Disciplinary	Capability	Grievance Resolution	Change Management	Member/Officer Protocol	Codes of Conduct (officers and Members)	Safer Employment	Ending Harassment, Bullying, Discrimination and Victimisation		Arrangements for dealing with complaints about Members	
Behaviours Framework	Disciplinary													
Capability	Grievance Resolution													
Change Management	Member/Officer Protocol													
Codes of Conduct (officers and Members)	Safer Employment													
Ending Harassment, Bullying, Discrimination and Victimisation														
Arrangements for dealing with complaints about Members														
PARTNERSHIPS Having clear relationships	STEWARDSHIP Ensuring effective risk and performance management systems													
Various arrangements exist for partnerships, including: <ul style="list-style-type: none"> • Memorandums of Understanding • Joint Working Arrangements Surrey Compact Surrey Heartlands devolution	<table border="0"> <tr> <td>Data Governance</td> <td>Resilience policy</td> </tr> <tr> <td>Financial Regulations</td> <td>Risk Management Strategy</td> </tr> <tr> <td>Health and Safety policy</td> <td>Counter Fraud Strategy</td> </tr> <tr> <td>IT Security policy</td> <td>Whistleblowing policy</td> </tr> <tr> <td>Premises Security policy</td> <td></td> </tr> <tr> <td colspan="2">Regulation of Investigatory Powers Act (RIPA)</td> </tr> </table>		Data Governance	Resilience policy	Financial Regulations	Risk Management Strategy	Health and Safety policy	Counter Fraud Strategy	IT Security policy	Whistleblowing policy	Premises Security policy		Regulation of Investigatory Powers Act (RIPA)	
Data Governance	Resilience policy													
Financial Regulations	Risk Management Strategy													
Health and Safety policy	Counter Fraud Strategy													
IT Security policy	Whistleblowing policy													
Premises Security policy														
Regulation of Investigatory Powers Act (RIPA)														

GOVERNANCE DOCUMENT CUSTODIANS

Annex B

Document	Custodian
Arrangements for dealing with complaints about Members	Director of Law and Governance
Cabinet Forward Plan	Senior Manager Governance
Capability	Head of HR and OD
Change Management	Head of HR and OD
Code of Conduct for Members	Director of Law and Governance
Code of Conduct for Staff	Head of HR and OD
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, Inclusion, Fairness and Respect strategy	Head of HR and OD
Ending harassment, bullying, discrimination and victimisation	Manager – Wellbeing and Inclusion
Financial Regulations	Director of Corporate Finance
Grievance Resolution	Head of HR and OD
Health and Safety policy	Executive Director of CTE
IT Security policy	Chief Information Officer
Member / Officer Protocol	Director of Law and Governance
Organisation Strategy	Director of Intelligence, Analytics and Insight
People Strategy	Director of HR and OD
Performance Conversations Framework	Director of HR and OD
Premises Security policy	Deputy Chief Property Officer
Procurement and Contract Standing Orders	Director of Procurement
Regulation of Investigatory Powers Act (RIPA)	Head of Trading Standards
Resilience Policy	Head of Emergency Management
Risk Management Strategy	Service Improvement and Risk Manager
Safer Employment	Head of HR and OD
Scheme of Delegation	Director of Law and Governance
Standing Orders	Cabinet Business Manager
Whistle blowing policy	Head of HR and OD

GOVERNANCE DOCUMENT APPROVAL

Annex C

Member approval

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

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

Officer approval

Data governance policy	Information Governance Risk Board
Health and Safety policy	Central Joint Safety Committee
IT Security policy	Chief Information Officer
Premises Security policy	Chief Property Officer
Resilience policy	Head of Emergency Management

Scope

The Governance Group (the group) ensures that the Council has a robust method of scrutiny and appraisal of Governance. The group 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 group reviews reports from Internal Audit, Risk & Governance, External Audit and other relevant documents.

The Role of the Governance Group

The Governance Group 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 CLT and A&GC.

Membership

The following officers form the Governance Group:

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



Audit & Governance Committee
20 May 2019

2018/19 Treasury Management Outturn Report

Purpose of the report:

This report summarises the Council's treasury management activities during 2018/19, 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 committee:

1. Note the content of the Treasury Management Annual Report for 2018/19; and
2. Adopt the 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 and Prudential Indicators for 2018/19 were approved by Council in February 2018. The Authority has continued its policy of borrowing money on a short term basis, and made temporary deposits of cash. While this does lead to lower interest costs in the short term, the Council remains 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 significant move during the year have been the Bank of England's Monetary Policy Committee (MPC) increasing the Bank Rate by 0.23% to 0.75% in August 2018. Inflation continued to rise, in line with the Bank's forecast in February Inflation Report, to 1.9%, which remains within the 2% target. A further 0.25% rise could be on the horizon later this year if inflation continues this trajectory.

- 4 Treasury Management will always operate with a degree of risks, due to its exposure to outside influences. The updated Risk Register shown in Annex 2 presents the principal risks faced by the Council in its treasury management function and the actions undertaken to mitigate these risks.

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- 5 On 31st March 2019, the Authority had net borrowing of £635m arising from its revenue and capital income and expenditure, an increase of £70m since 31 March 2018. 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 2018/19, approved by Council in February 2018, 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 £13.7m as at 31 March 2019. The Council accounts for this as short term borrowing. The treasury management position as at 31st March 2018 and the year-on-year change in show in table 1 below.

Table 1: Treasury Management Summary

	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m
Long-term borrowing	397	-	397
Short-term borrowing	193	62	255
Surrey Police	18	(4)	14
Total borrowing	608	58	666
Short-term investments			
Cash and cash equivalents	43	(12)	31
Total investments	(43)	12	(31)
Net borrowing	565	70	635

Borrowing Activity

- 9 At 31 March 2019, the Authority held £666m of loans, an increase of £58m 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

	31.3.18 Balance £m	2017/18 Movement £m	31.3.19 Balance £m	31.3.19 Rate* %
Public Works Loan Board	387		387	4.10
Banks (fixed-term)	10		10	5.0
Local authorities (short-term)	193	62	255	0.84
Surrey Police & Crime Commissioner	18	(4)	14	0.68
Total borrowing	608	58	666	

*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 2018/19, 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 continuing risk and low returns from short-term unsecured bank investments, the Authority has kept its cash balances and investments low throughout 2018/19 and invested funds principally in Money Market Funds to ensure liquidity. During the year, the Authority's investment balance ranged between £0.6m and £113m. The year-end investment position and the year-on-year change in show in table 3 below:

Table 3: Investment Position (Treasury Investments)

	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	31.3.19 Rate* %
Banks & building societies (unsecured)	0	0	0	0
Government (incl. local authorities)	0	0	0	0
Money Market Funds	43	(12)	31	0.63
Total investments	43	(12)	31	0.63

*Weighted average maturity

- 15 The weighted average return on all investments the Council received in the year to 31 March 2019 was 0.63%. This compares favourably against the 0.51% average 7-day London Interbank Bid Rate (LIBID) for the same period.

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	6.6	4.2	(2.4)
Interest Received	(0.3)	(0.7)	(0.4)
MRP	18.4	15.1	(3.3)

- 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 2018/19 was £3.3 less than expected when the budget was set. This was due to underspends in the general capital programme for 2017/18.
- 18 The variance of £2.4m on interest payable relates mainly to the contribution from the investment strategy. These are made to cover the cost of borrowing for these investments. Due to additional investment the contribution has been higher than expected, which has been 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 Executive Director of Finance is pleased to report that all treasury management activities undertaken during 2018/19 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 5: Debt Limits

	2018/19 Maximum £m	31.3.19 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Borrowing	711	666	1,059	1,643	✓

- 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 2018/19.

Table 6: Investment Limits

	2018/19 Maximum £m	31.3.19 Actual £m	2018/19 Limit	Complied
UK Central Government			Unlimited	✓
Money Market Funds	113	31	£100m	✓
Any group of pooled funds under the same management			£25m	✓
Any group of organisations under the same ownership	0	0	£20m	✓
Any single organisation, except the UK Central Government			£20m	✓
Unsecured investments with Building Societies	0	0	£10m	✓

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.

Table 7 – Historic Debt Rates

	Amount	Historical experience of default	Adjustment for market conditions	Estimated maximum exposure to default
	£000s	%	%	£000s
	31/03/2019	31/03/2019	31/03/2019	31/03/2019
	(a)	(b)	(c)	(a x c)
Deposits with banks and financial institutions				
Local Authorities	0	0.00%	0.00%	0
AAA rated counterparties	30,700	0.00%	0.00%	0
AA rated counterparties	0	0.02%	0.02%	0
A rated counterparties	0	0.05%	0.05%	0
Other counterparties				
Total	30,700			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:

	31.3.19 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate exposure:			
• Fixed long term borrowing			
• Fixed short term borrowing	100%	100%	✓
• Fixed short term investments			
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:

	31.3.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	40%	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	58%	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.

	2018/19
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 2018 CIPFA Code 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:
- £136m of directly owned property
 - £234m of loans to Halsey Garton Ltd (property investment)
 - £3m of loans to other local businesses & subsidiaries
 - £93m 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 £5.7m of investment income for the Authority after taking account of direct costs and interest payable.

Implications

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

Equalities

27 There are no direct equalities implications of this report.

Risk management

The risk management arrangements in relation to treasury management are discussed in paragraph 21. Annex 2 presents the revised Risk Register.

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 2019, and a full year report for 2019/20 in May 2020.

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Sources/background papers:

Capital Budget, Prudential Indicators & Treasury Management Strategy 2018/19
CIPFA Code of Practice for Treasury Management
CIPFA Prudential Code

ANNEX 1 – Economic Context & Regulatory Changes

Economic commentary

1. 2018/19 has been a year dominated globally by continuing tensions between US and China over trade policies, and more locally by continued uncertainty over the UK leaving the EU.
2. The UK economy reflected many of these tensions. After rising to 0.6% in the third calendar quarter from 0.4% in the second, the fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
3. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.
4. While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering from downturns in manufacturing alongside continued domestic political unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.
5. **Financial markets:** The FTSE 100 (a good indicator of global corporate sentiment) fell in pure price terms by around 13% during 2018. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.
6. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.
7. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth, which ended 2018 by falling 1.8% year-on-year. A large proportion of this

downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background:

8. Credit Default Swap (CDS), which are a form of insurance against loan defaults, drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms.
9. The deadline for new EU regulations for Money Market Funds (MMFs) was no later than 21st January 2019. The ring-fencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) entities during the year.
10. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
11. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Local Authority Regulatory Changes

12. Following the significant changes to regulations on local authority treasury management in 2017/18, there were very few changes for the year ending 31 March 2019. The main change was the introduction of International Financial Reporting Standard (IFRS) 9 – Financial Instruments, which was brought in due to the previous standard being viewed as too complex, inconsistent in the management of risk and also deferred the recognition of credit losses.
13. The largest impact of this new standard is to financial assets and includes new classification tests for the categories of financial assets based on the purposes behind holding them. Existing financial assets are reclassified and re-measured as at the transition date (01/04/2018), and an annual impairment assessment carried out each year-end based on forward looking expectations and expected future losses. This may result in additional charges to the general fund as well as additional disclosure requirements within the Statement of Accounts. Financial liabilities remain largely unchanged by the new standard.
14. For Surrey County Council, this has led to an assessment of its loans to and equity investments in local authority commercial entities and other third parties into the likelihood of any potential loss. A provision for this has been charged to the general fund.

Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions	Impact			Likelihood	Total risk score
			Financial	Reputation	Total				Financial	Reputation	Total		
Financial	1	Continuing uncertainty over the UK's withdrawal from the European Union causes volatility 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 Sterling, resulting in possible inflationary pressure and changes in interest rates.	2	2	4	4	16	Since the Referendum, the UK has been downgraded to AA. However, this has not to date had any adverse impact on gilt prices. The Treasury Management Centre of Expertise 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 future interest rate rises.	1	2	3	4	12
Financial	2	Interest Rate Risk The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	3	2	5	3	15	As part of the current Treasury Management Strategy, short term borrowing is undertaken to reduce the levels of interest paid. The Treasury Management Centre of Expertise continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level. Investments levels remain low and this reduces the impact of interest rate changes. The interest payable budget includes some allowance for future interest rate rises.	2	1	3	3	9
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	3	4	2	8	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 services and/or 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.	2	3	5	1	5
Financial	5	Credit and counterparty risk The risk of 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.	3	4	7	2	14	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.	3	4	7	1	7
Operational	6	Fraud, Error and Corruption The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of 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 Management Centre of Expertise 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 risk that the organisation itself, 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 The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.	2	2	4	3	12	The Council has easy access to readily available funds at competitive interest rates from the PWLB. The Treasury Management Centre of Expertise 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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