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**Committee:** **Accounts, Audit and Risk Committee**

**Date:** **Monday 19 March 2012**

**Time:** **6.30 pm**

**Venue** **Bodicote House, Bodicote, Banbury, OX15 4AA**

## Membership

**Councillor Tony Ilott (Chairman)**
**Councillor Andrew Beere**
**Councillor Mike Kerford-Byrnes**
**Councillor Rose Stratford**
**Councillor Trevor Stevens (Vice-Chairman)**
**Councillor Colin Clarke**
**Councillor Lawrie Stratford**
**Councillor Barry Wood**

# AGENDA

1. **Apologies for Absence and Notification of Substitute Members**

2. **Declarations of Interest**

   Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. **Petitions and Requests to Address the Meeting**

   The Chairman to report on any requests to submit petitions or to address the meeting.

4. **Urgent Business**

   The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

5. **Minutes** (Pages 1 - 6)

   To confirm as a correct record the Minutes of the meeting of the Committee held on 12 January 2012.

6. **Review of Draft Accounting Policies 2011/12 and 2011/12 Closedown Update** (Pages 7 - 28)

Report of Head of Finance and Procurement

**Summary**

The purpose of this report is to inform members of the draft 2011/12 accounting policies to allow members to consider and endorse the accounting policies under which we prepare our annual Statement of Accounts together with the summary timetable for production.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended:

(1) To approve the accounting policies as set out in Appendix 1.

(2) To agree that delegated authority be granted to Head of Finance and Procurement to make any further changes to the Accounting Policies in preparation for the forthcoming accounts closure for 2011-12

(3) To note the closedown timetable summary as set out in Appendix 2.

7. **Risk Management Update** (Pages 29 - 44)

Report of Corporate Performance Manager

**Summary**

To update the Committee on the management of Strategic, Corporate and Partnership Risks during the third quarter of 2011/12 and highlight any emerging issues for consideration.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Review the quarter 3 Strategic, Corporate and Partnership Risk Register. (Appendices 1 and 2).

8. **Risk Management: A Risk Management Strategy for Cherwell District and South Northamptonshire Councils** (Pages 45 - 72)

Report of Corporate Performance Manager

**Summary**

To agree the joint approach to risk management across the Cherwell and South Northamptonshire Joint Management Team and set the risk strategy for Cherwell District Council.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended:

(1) To consider the proposed approach and identify any issues or additional elements to be included.

(2) To agree Appendix 1 as the risk strategy for Cherwell District Council 2012/13

**9. Internal Audit Progress Report** (Pages 73 - 84)

Report of Chief Internal Auditor

**Summary**

This report provides the Committee with an update of the work of Internal Audit since the last meeting.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Consider and approve this report.

**10. Internal Audit Draft Plan 2012/13** (Pages 85 - 86)

** Please note that appendix 1 to this report: Internal Audit Draft 2012/13 Internal Audit Plan, will follow as the procurement process for the provision of Internal Audit Services from 1 April 2012 was being completed at the time of agenda dispatch **

Report of Chief Internal Auditor

**Summary**

This report provides the Committee with a draft version of the 2012/13 internal audit plan.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Consider and approve this report

**11. External Audit Progress Report** (Pages 87 - 92)

Report of Head of Finance and Procurement

**Summary**

The report provides a progress report on the work of external audit.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Note the contents of the progress report (Appendix 1)

## 12. 2012/13 Treasury Management Strategy and Update on Performance (Pages 93 - 130)

Report of Head of Finance and Procurement

**Summary**

The report provides a review of the 2012/13 strategy that was approved by Council on 27 February 2012 and outlines the differences from the current 2011/12 strategy, and gives an update on current performance.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Note the contents of the report.

## 13. Exclusion of the Press and Public

The following item contains exempt information as defined in the following paragraphs of Part 1, Schedule 12A of the Local Government Act 1972.

3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following item has been marked as exempt, it is for the meeting to decide whether or not to consider each of them in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to pass the following recommendation:

"That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded form the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act."

## 14. Certification of Claims and Returns 2010/11 - Audit Commission - Verbal Update

Work is currently in progress on this matter. The Head of Finance and Procurement will provide a verbal update to the Committee.

**At the conclusion of the meeting, the Corporate Performance Manager will facilitate a briefing session for Members on Risk Management**

**Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.**

## Information about this Meeting

**Apologies for Absence**
Apologies for absence should be notified to democracy@cherwell-dc.gov.uk or 01295 221589 prior to the start of the meeting.

**Declarations of Interest**

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item. The definition of personal and prejudicial interests is set out in the constitution. The Democratic Support Officer will have a copy available for inspection at all meetings.

**Personal Interest:** Members must declare the interest but may stay in the room, debate and vote on the issue.

**Prejudicial Interest:** Member must withdraw from the meeting room and should inform the Chairman accordingly.

With the exception of the some very specific circumstances, a Member with a personal interest also has a prejudicial interest if it is one which a Member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest.

**Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates**

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

**Evacuation Procedure**

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

**Access to Meetings**

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

**Mobile Phones**

Please ensure that any device is switched to silent operation or switched off.

**Queries Regarding this Agenda**

Please contact Natasha Clark, Law and Governance
natasha.clark@cherwellandsouthnorthants.gov.uk, 01295 221589

**Sue Smith**
**Chief Executive**

Published on Friday 9 March 2012

**Cherwell District Council**

**Accounts, Audit and Risk Committee**

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 11 January 2012 at 6.30 pm

| | |
|---|---|
| Present: | Councillor Tony Ilott (Chairman)<br>Councillor Trevor Stevens (Vice-Chairman)<br><br>Councillor Andrew Beere<br>Councillor Colin Clarke<br>Councillor Mike Kerford-Byrnes |
| Also Present: | Councillor Nigel Morris, Lead Member for Change<br>Maria Grindley, District Auditor, Audit Commission<br>Nicola Jackson, Audit Manager, Audit Commission<br>Richard Bacon, Internal Audit<br>Katherine Bennett, Audit Team Leader, Internal Audit |
| Apologies for absence: | Councillor Lawrie Stratford<br>Councillor Rose Stratford<br>Councillor Barry Wood |
| Officers: | Karen Curtin, Head of Finance and Procurement<br>Claire Taylor, Corporate Performance Manager<br>Chris Dickens, Chief Internal Auditor<br>Natasha Clark, Team Leader, Democratic and Elections |

37 **Declarations of Interest**

There were no declarations of interest.

38 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

39 **Urgent Business**

The Chairman reported that he had agreed to add one item of urgent business to the agenda: A Shared Risk Management Strategy for Cherwell District and South Northamptonshire Councils. This was to enable Committee members to consider the draft Strategy before the final version was submitted to the Committee's March meeting for approval. The item would be considered between agenda items 5 and 6.

40 **Minutes**

The Minutes of the meeting of the Committee held on 21 September 2011 were agreed as a correct record and signed by the Chairman.

41 **Risk Management: A Shared Risk Management Strategy for Cherwell District and South Northamptonshire Councils**

The Committee considered a report of the Corporate Performance Manager which proposed a shared approach to risk management across the Cherwell and South Northamptonshire Joint Management Team. This was an opportunity for the Committee to consider the draft strategy before it was submitted to their March meeting for approval.

The Corporate Performance Manager explained that Cherwell District Council (CDC) reviewed its risk management strategy annually. The context for the 2012/13 review had changed in light of the implementation of the Joint Management Team with South Northamptonshire Council (SNC). The existing CDC and SNC risk management strategies had been examined and a draft joint risk management strategy developed. The draft strategy proposed risk management arrangements for both authorities whilst ensuring each council remained sovereign and maintained their own specific risk registers.

**Resolved**

(1) That the proposed approach be noted.

(2) That officers be requested to bring back a final draft of the risk management strategy and supporting documentation to the March Accounts, Audit and Risk Committee.

42 **Certification of Claims and Returns 2010/11 - Audit Commission**

The Head of Finance and Procurement submitted a report which allowed consideration of the Certificate of Claims and Returns Report 2010/11 produced by the Audit Commission. The report reviewed the council's arrangements for the preparation and administration of grant claims within the council.

In introducing the report, the Audit Manager advised the Committee that the Audit Commission was responsible for certifying claims and returns to the value of £106m in 2010/11. A limited review of two claims and a full review of one claim were performed. No errors were found in the two limited reviews. The full review, which related to the housing and council tax benefit scheme required full certification due to a number of errors.

The Audit Manager reported that the housing and council tax benefit subsidy was adjusted as a result of the audit and follow up work was carried out on the pooling of housing capital receipts claims. Due to the errors the Audit Manager undertook extended testing of error rates which gave an extrapolated value across all the cases in the benefit claim. The value of the extrapolated errors took CDC over the threshold for local authority error which meant the Council could lose subsidy.

The Head of Finance and Procurement advised Members that three areas identified within the claim were being examined in detail by the finance team and further testing was underway to determine if this produced a reduced error rate. The Committee was advised that everything possible was being done to mitigate the matter and ensure that the financial cost to the authority was minimal. The Lead Member for Financial Management had been fully briefed on the matter and was supporting the development of a detailed internal action plan to address the matter.

Members agreed that they would like to receive an update report at the Committee's March meeting on the outcomes of the additional testing and proposals for future monitoring arrangements with Capita, who carried out the transactional element of the benefits claim process.

**Resolved**

(1) That the contents of the Certification of claims and returns - annual report be noted.

(2) That the agreed Action Plan in response to the Audit Commission Report be noted.

(3) That a further report be submitted to the March meeting of the Accounts, Audit and Risk Committee reporting on the outcomes of the additional testing and proposals for future monitoring arrangements with Capita.

43 **Annual Audit Letter 2010/11**

The Committee considered a report of the Head of Finance and Procurement which informed the committee of the Annual Audit Letter as prepared by the Audit Commission. The report summarised the findings from the 2010/11 audit of the financial statements and an assessment of the arrangements to achieve value for money in the Council's use of resources.

The District Auditor reported that all work on the financial statements was complete and an unqualified opinion on the statements and value for money conclusion was given on 26 September 2011. The Council received an unqualified conclusion on its arrangements for securing economy, efficiency and effectiveness in the use of resources.

**Resolved**

(1) That the contents of the Annual Audit Letter be noted.

44 **External Audit Progress Report**

The Committee considered a report of the Head of Finance and Procurement which provided a progress report on the work of external audit.

The Audit Manager confirmed that all of the external auditors work for 2010/11 had been completed and planning for the 2011/12 areas of work was underway.

**Resolved**

(1) That the contents of the external audit progress report be noted.

45 **External Audit Annual Plan 2011/12**

The Committee considered a report of the Head of Finance and Procurement which set out the work that the Audit Commission would undertake in order to form an opinion on the financial statements for 2011/12 taking into account risk which satisfied their responsibilities under the Audit Commission's Code of Audit Practice.

In introducing the report, the District Auditor advised the Committee that two significant risks had been identified: Icelandic banks and Cash collection. Both risks would be reviewed throughout the year.

**Resolved**

(1) That the contents of the report be noted.

46 **Internal Audit Progress Report**

The Committee considered a report of the Chief Internal Auditor which summarised the progress made against the internal audit plan 2011/12 for the period from September 2011 to January 2012. The Committee was advised that 61% of the plan had been completed which was in line with the agreed profile of work within the internal audit plan.

The Audit Team Leader reported that following the finalisation of the Joint Management Team with South Northamptonshire Council, the internal auditors had reviewed the 2011/12internal audit plan to ensure it continued to address the risks of the authority. As a result of this review, some changes had been made to the programme of work to incorporate work on IT, Housing Benefits and a Groups Systems workshop.

The Audit Team Leader advised the Committee that since their September meeting five final reports had been issued and draft reports and/or fieldwork commenced in four areas. In addition work had been performed on three further areas.

**Resolved**

(1) That the contents of the Internal Audit Progress report be noted.

47 **Internal Audit Charter**

The Committee considered a report of the Chief Internal Auditor which presented the Internal Audit Charter 2011/12. The Committee was advised that the Charter set out the rationale for how internal audit operated and was reviewed annually.

**Resolved**

(1) That the report be noted.

48 **Joint Working Protocol - Internal and External Audit**

The Committee considered a report of the Head of Finance and Procurement which presented the draft joint working protocol - internal and external audit.

The District Auditor advised the Committee that the protocol set out arrangements to support the commitment of the council's internal and external auditors to apply audit resources efficiently and represent good value for money by working together effectively.

**Resolved**

(1) That the joint working protocol - internal and external audit be noted.

49 **Treasury Management Report**

The Committee considered a report of the Head of Finance and Procurement which presented information on treasury management performance and compliance with treasury management policy for Quarter 3 2011/12 as required by the Treasury Management Code of Practice.

The Head of Finance and Procurement reported that at the end of 31 December 2011 interest received on the Council's investments was higher than budgeted. The Committee was advised that as result of a number of banks being downgraded over the past three months, the Council's treasury management advisors were recommending shorter investment duration than previously recommended.

The Head of Finance and Procurement updated Members on the Iceland funds. The Council had received information relating to the currencies that the deposits would be rapid in. Arrangements for currency conversion had been made, however information relating to the timing of these payments was still awaited.

**Resolved**

(1) That the contents of the report be noted.

50 **Accounts, Audit and Risk Committee Work Programme**

The Head of Finance and Procurement submitted the 2011/12 Accounts, Audit and Risk Committee Work Programme for information.

**Resolved**

(1) That the 2011/12 Accounts, Audit and Risk Committee Work Programme be noted

51 **Exclusion of the Press and Public**

**Resolved**

That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded form the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act.

52 **Treasury Management Report - Exempt Appendices 1a and 1b**

The Committee considered the exempt annexes to the Report of the Head of Finance and Procurement which updated Members on the Council's investments and counterparties at 30 November 2011.

**Resolved**

(1) That the exempt annexes be noted.

The meeting ended at 8.00 pm

Chairman:

Date:

# Accounts, Audit and Risk Committee

## Review of Draft Accounting Policies 2011/12 and 2011/12 Closedown Update

**19 March 2012**

## Report of the Head of Finance and Procurement

**PURPOSE OF REPORT**

The purpose of this report is to inform members of the draft 2011/12 accounting policies to allow members to consider and endorse the accounting policies under which we prepare our annual Statement of Accounts together with the summary timetable for production.

| This report is public |
| --- |

**Recommendations**

The Accounts, Audit and Risk Committee is recommended:

(1) To approve the accounting policies as set out in Appendix 1.

(2) To agree that delegated authority be granted to Head of Finance and Procurement to make any further changes to the Accounting Policies in preparation for the forthcoming accounts closure for 2011-12

(3) To note the closedown timetable summary as set out in Appendix 2.

**Executive Summary**

**Introduction**

1.1 Local Authorities reported their Annual Statement of Accounts for 2010/11 under IFRS (International Financial Reporting Standards). This also requires all local authorities to revise their accounting policies for the preparation of the Annual Statement of Accounts.

1.2 As members will know IFRS was challenging and the number of changes to the statements, notes, accounting policies and closedown tasks was huge. The changes in 2011/12 are minor in comparison.

1.3 This report is to inform members of the draft accounting policies for the 2011/12 Statement of Accounts and the planned timetable to complete them to ensure they are ready by the required date.

## Background Information

### Accounting Polices

2.1 In order for the Council to be able to produce its Statement of Accounts under International Financial Reporting Standards, all of its accounting policies have been reviewed, updated based on the 2011/12 Code of Practice. We have also compared them to policies set by our colleagues at South Northamptonshire Council to ensure that both Councils are using a similar approach. A draft of the 2011/12 Cherwell District Council accounting polices can be seen in Appendix 1.

2.2 The areas that have been updated or where new policies have been inserted have been highlighted so as to compare with the 2010/11 approved policies.

2.3 If, during the 2011/12 closure of accounts, it becomes apparent that further amendments, additions or deletions are required to the policies contained in Appendix 1, they will be reported to members when the accounts are presented for review in June 2012.

### Closedown Update

2.4 Work has begun in earnest on preparing for the 2011/12 closing of accounts. The process is being led by the Corporate System Accountant – Karen Muir and the Interim Technical Accountant - Ed Cooke who is seconded from PriceWaterhouseCoopers will take the technical lead.

2.5 The detailed closedown timetable has been prepared for the 2011/12 financial statements. It contains 210 tasks and a summary of the key dates is in Appendix 2.

2.6 Closedown workshops will be held within the next couple of weeks and the organisation will receive guidance on what is required from their services.

2.7 During the period we will have a continual liaison with the Audit Commission and internal audit as required and regular closedown meetings with the Head of Finance and Procurement will take place to monitor progress.

2.8 Closedown News will be circulated every 2 weeks – this will provide a status report on the preparation of the financial statements and this will be circulated to members of this committee.

2.9 We remain on track to have a first draft of the statements by 25$^{h}$ May 2012. This allows a period of 4 weeks for critical review and updating.

2.10 A robust scrutiny of the financial statements will take place at the next AARC meeting on June 20 2012.

**Key Issues for Consideration/Reasons for Decision and Options**

The following options have been identified. The approach in the recommendations is believed to be the best way forward.

| | |
|---|---|
| **Option One** | Agree the accounting policies as set out in appendix 1. |
| **Option Two** | To approve or reject the recommendations above or request that Officers provide additional information. |

**Consultations**

None

**Implications**

| | |
|---|---|
| **Financial:** | It is envisaged that the accounting policies, noted within this report and shown in Appendix 1, will not have any direct financial implications. These accounting policies will assist the council in ensuring that the Statement of Accounts are more fully reflective of the current operational environment and up to date accounting practices.<br>Comments checked by Karen Muir, Corporate System Accountant, 01295 221559. |
| **Legal:** | Failure to produce accounts under compliant accounting policies will result in the 2011/12 Annual Statement of Accounts not being approved by the Audit Commission.<br>Comments checked by Kevin Lane, Head of Law and Governance, 0300 0030107. |
| **Risk Management:** | Failure to fully assess appropriate accounting policies on the Council will result in a failure to have the accounts for 2011/12 approved by the Audit Commission.<br>Comments checked by Karen Muir, Corporate System Accountant, 01295 221559. |

**Wards Affected**

All

**Corporate Plan Themes**

An Accessible and Value for Money Council

**Executive Portfolio**

Councillor Ken Atack
Lead Member Financial Management

**Document Information**

<table>
<tr><th>Appendix No</th><th>Title</th></tr>
<tr><td>Appendix 1<br>Appendix 2</td><td>Draft Accounting Policies 2011/12<br>2011/12 Accounts Timetable</td></tr>
<tr><th colspan="2">Background Papers</th></tr>
<tr><td colspan="2">(1) The IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom<br>(2) 2011/12 Code Update<br>(3) The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom – Guidance Notes for Practitioners<br>(4) Detailed Closedown Task List/Timetable</td></tr>
<tr><td>Report Author</td><td>Karen Curtin, Head of Finance and Procurement<br>Ed Cooke, Interim Technical Accountant<br>Karen Muir, Corporate System Accountant</td></tr>
<tr><td>Contact Information</td><td>01295 221559<br>karen.muir@cherwell-dc.gov.uk<br>edward.cooke@cherwell-dc.gov.uk</td></tr>
</table>

# APPENDIX 1
# DRAFT - Accounting Policies 2011/12

**Key**
- No change from 2010/11 Policies (consistent with 2011/12 Code Example)
- Update for 2011/12 Policies

Proposal to reposition accounting policies towards the end of the statement of accounts so that the notes to the financial statements flow from the primary statements to support the numbers disclosed without accounting policies separating them.

## 12. Accounting Policies

### 12.1 General principles

The Statement of Accounts summarises the Council's transactions for the financial year 2011/12 and its position at the year end. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2010/11, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These are supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The move to an IFRS-based Code in 2010-11 resulted in a number of significant changes in accounting practice. For 2011-12 the key amendments to accounting practice are:

- The 2011/12 Code requires additional disclosures in respect of remuneration and exit packages; these disclosures affect all jurisdictions. Disclosure of remuneration and pension contributions in respect of senior employees is required in England and Wales; this requirement was introduced in amendments to the Accounts and Audit Regulations. In addition, the Code has introduced a requirement to disclose the number and cost of exit packages agreed. This requirement applies in England, Wales, Scotland and Northern Ireland, and is consistent with the requirement to disclose similar information elsewhere in the public sector (set out in the Government's Financial Reporting Manual);
- The 2011/12 Code adopts the requirements of FRS 30 *Heritage Asset.* Heritage assets are carried at valuation where possible and additional disclosures are required. The Code also permits, but does not require, authorities to adopt the measurement and disclosure requires within FRS 30 for community assets. These changes amount to changes in accounting policy that may require additional disclosures in both the 2011/12 and 2010/11 financial statements.

### 12.2 Accruals of Income and Expenditure

Income and expenditure is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 12.3 Cash and Cash Equivalents

Cash and Cash Equivalents comprises of cash on hand and demand deposits which are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. They must be held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

They must be repayable without penalty on notice of not more than 24 hours. Investments must mature in three months or less from the date of acquisition.

### 12.4 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

The Council has no Exceptional Items in 2011/12. To be updated where applicable for 2011/12

The Council had one Exceptional Item in 2010/11, the impact of the change in valuation of the Councils pension fund from Retail Price Index (RPI) to Consumer Price Index (CPI).

### 12.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting policy no longer need to be material to result in a Prior Period Adjustment.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Accounting policies that relate to statutory accounting requirements are accounted for in the same manner as other accounting policies.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

No material errors have been made in prior year accounts that need to be amended in the 2011/12 accounts.

## 12.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations.

Depreciation, revaluation and impairment losses and amortisations are replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## 12.7 Employee Benefits

### 12.7.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flex-leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the service account, but then reversed out through the Movement in Reserves Statement so that holiday benefits accrual has no impact on Council Tax and holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### 12.7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

**12.7.3 Post Employment Benefits**
Employees of the Council are members of the Local Government Pension Scheme, administered by Oxfordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government scheme is accounted for as a defined benefit scheme.

The liabilities of the Oxfordshire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings of current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond. The discount rates are based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index.

The assets of the Oxfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value and include quoted securities at current bid price and property at market value.

The change in the net pension's liability is analysed into seven components:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- **Interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **Expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **Gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- **Actuarial gains and losses** – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; and

- **Contributions** paid to the Oxfordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### 12.7.4 Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### 12.8 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 12.9 Financial Instruments

#### 12.9.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

#### 12.9.2 Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

The Council has financial assets comprising of long-term and short-term investments, long-term debtors, short-term debtors (excluding statutory debts such as Council Tax, Non-

Domestic Rates, rent allowances, precepts, etc) and cash & cash equivalents. These are assets that have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

The Council has no available for sale financial assets,

### 12.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**Area Based Grant**
Area Based Grant (ABG) is a general grant allocated by central government directly to local Council's as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## 12.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## 12.12 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## 12.13 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital

Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### 12.14 Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and are not required to prepare group accounts.

## 12.15 Jointly Controlled Operations and Jointly Controlled Assets

The Council has carried out a comprehensive review and concludes that there are no jointly controlled operations of a material financial nature.

## 12.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### 12.16.1 The Council as Lessee

**Finance Leases**
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**Operating Leases**
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

**12.16.2 The Council as Lessor**

**Finance Leases**
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**Operating Leases**
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## 12.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

The exceptions to the absorption costing principle are:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## 12.18 Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**12.18.1 Recognition**
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

**12.18.2 Measurement**
Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located if the cost is above the £10,000 deminimis threshold.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- land and buildings – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- infrastructure, community assets and assets under construction – depreciated historical cost; and

- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. At Cherwell District Council this applies to our sports centres.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits taken to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

At Cherwell District Council, all property valuations are carried out by John Slack MRICS, Head of Regeneration and Estates. The bases of valuations are undertaken in accordance with the Statement of Asset Valuation Practice and Guidance Notes, published by the Royal Institute of Chartered Surveyors (RICS).

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**12.18.3 Impairment**
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**12.18.4 Depreciation**
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer and/or Responsible Officer for that asset; and
- infrastructure – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer, and/or Responsible Officer and/or valuer for that asset.

Newly acquired assets and capital enhancements are depreciated from the year after acquisition, unless the variation in change is considered material. In this respect only, the Council does not fully comply with the requirements of IAS16 Property, Plant & Equipment but this is not a material consideration for the Council.

Useful life of an asset is shown below for the relevant categories

| | |
|---|---|
| • Infrastructure | 10, 20 or 40 years |
| • Buildings | 10, 20 or 50 years |
| • Vehicles | 5, 6 or 7 years |
| • Computer Equipment / systems | 3, 5 or 10 years |
| • Other | 3, 5 or 7 years |

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. All assets with a gross value over £50,000 are considered for componentisation. If on consideration a component is assessed to be greater than 20% of the total cost of the asset, it is componentised and the separate components depreciated using appropriate useful lives. Components that are individually less than 20% of the total cost of the asset are not treated as separate components for accounting purposes. They are valued and depreciated as part of the building structure.

The Council has a deminimis limit of £10,000 for capital expenditure purposes which results in the capitalisation of expenditure above that limit as an asset in the balance sheet. Items below this limit charged to revenue.

A materiality level of £50,000 for property assets has been determined by analysing the gross book values of building assets and assessing the impact of using different thresholds. Using a £50,000 limit means that 75% and £78.5m of the Councils £79.1m property portfolio will be assessed for componentisation (figures correct as at 31$^{st}$ March 2010).

The following five components have been identified:

1) Land;
2) Structure of Building;
3) Roof;
4) Electrical & Mechanical (inc. Plant & Equipment); and
5) Other / specialist.

Each component is considered to depreciate on a straight line basis. The useful life of a component will vary according to the type of property in which it is located and the amount of use to which it is put. The useful life of a component will be determined by the valuer when a component part is identified.

Where a component is replaced or restored, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected at the cost or new carrying value.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**12.18.5 Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale and are kept under their original category.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings and 50% for land, net of statutory deductions and allowances) are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**12.19 Heritage Assets**

**12.19.1 Tangible and Intangible Heritage Assets**

The Council’s Heritage Assets are held in the Council’s Museum. The Museum has collections of heritage assets which are held in support of the primary objective of the Council’s Museum (increasing the knowledge, understanding and appreciation of the Council’s history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis.

There is an annual programme of valuations and items are valued by an external valuer. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate insurance values and commercial markets using the most relevant and recent information from sales at auctions.

#### 12.19.2 Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, for example, where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see accounting policy 7.1.17.3). The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

### 12.20 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### 12.21 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### 12.22 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 12.23 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### 12.24 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### 12.25 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income. The amount of VAT irrecoverable is negligible.

### 12.26 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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## Appendix 2

## 2011/12 YEAR-END SUMMARY TIMETABLE

| **Activity** | **2011/12 Deadline** |
|---|---|
| Deadline for receiving invoices into Creditors | 12pm Wed 28th Mar |
| Deadline for authorising invoices for payment in 2011/12 on Agresso | 5pm Thurs 29th Mar |
| Deadline for raising Debtor invoices | 12pm Fri 30th Mar |
| Final cheque and BACS payments run | Fri 30th Mar |
| Accounting period 12 closed on Agresso | 5pm Fri 30th Mar |
| Purchase Orders for goods not received by 31st March to be rolled forward into the next financial year. Where the goods/services have been received and we do not have an invoice, a Goods Received Note needs to be produced on Agresso (by 30th March) and an accrual will be automatically raised. | Mon 2nd Apr |
| Deadline for submission of Accruals forms to Finance | 5pmTue10th Apr |
| Deadline for all accruals to be processed | Fri13th Apr |
| Final deadline for receipt of Internal Invoices | Fri13th Apr |
| Petty Cash / Imprest accounts balanced and certificates returned to Finance | Mon16th Apr |
| Impairment review to be completed | Tue 17th Apr |
| Period 13 Draft Budget Monitoring reports produced | Mon 23rd Apr |
| All Capital transactions finalised | Fri 27th Apr |
| Inventory Certificates returned to Finance | Mon 30th Apr |
| All final period 13 adjustments and Revenue Accounts closed | Fri 18th May |
| Issue final period 13 Budget Monitoring Report for sign-off | Tue 22nd May |
| All Balance Sheet accounts closed and reconciled | Tue 22nd May |
| "Draft" Statement of Accounts | Fri 25th May |
| Informal review of Statement of Accounts at AARC | Wed 20h June |
| Sign "subject to audit" Statement of Accounts at AARC | Wed 27th June |
| Revenue Out-turn forms completed and returned to CLG | Fri 13th July |
| Accounts on deposit | July (TBC) |
| Audit of the Statement of Accounts 2011/12 | Aug (TBC) |
| Public Inspection | Aug (TBC) |
| Sign-off final audited Statement of Accounts | Wed 21st Sept |

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# Accounts, Audit and Risk Committee

## Risk Management - Third Quarter Review

## 19 March 2012

## Report of Corporate Performance Manager

**PURPOSE OF REPORT**

To update the Committee on the management of Strategic, Corporate and Partnership Risks during the third quarter of 2011/12 and highlight any emerging issues for consideration.

| This report is public |
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**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Review the quarter 3 Strategic, Corporate and Partnership Risk Register. (Appendices 1 and 2).

**Executive Summary**

1.1 In advance of 2010/11 the Council undertook a fundamental review of its risks and the reporting requirements. This provided the opportunity to consider the underlying principles of the overall approach to managing risk. The review also resulted in a streamlined set of core strategic, corporate and partnership risks and the requirement that operational risks are monitored at the service level. These core risks are now monitored on a monthly basis.

1.2 As part of this review the Council established a high level strategic risk register which integrated performance and risk reporting using Performance Plus, the Council's corporate performance management system. Risks are reviewed monthly and monitored by the Corporate Management Team. There is effective oversight by members through the Executive and the Accounts Audit and Risk Committee.

1.3 Each year there is an audit of risk and this has been completed for 2011. Matters arising will be addressed as part of the work to implement the new risk strategy for 2012/13.

1.4 In summary this report sets out the following:

- The principles by which the Council manages risk (paragraph 1.5)
- The quarter 3 risk report review (paragraph 1.6 and appendix 1).

- The risk register for 2011/12 (paragraph 1.7 and appendix 2).
- The timetable for reporting risks to the Executive and the Accounts Audit and Risk Committee 2011/2012 (paragraph 1.8).
- An update on operational risk management (paragraphs 1.9 - 1.10)

**Proposals**

1.5 **Underlying Principles** the following principles continue to be used for the management of risk:

**Core Risks** These are the core set of risks that are recorded in the Council's Risk Register and are monitored and reported through the corporate Performance Management Framework. They are monitored by JMT on a monthly basis and by the Executive and Account, Audit and Risk Committee on a quarterly basis. These risks are defined as strategic, corporate and partnership risks (see 'types of risk' below).

**Net Risk** This is a measure of impact and likelihood after the proposed mitigating actions or controls have been taken into account. This is given a score using a 5x5 matrix which can then range from 1 to 25, with 25 being the highest level a risk can score. Changes in net risk are highlighted in the risk monitoring reports to draw attention to any increase or decrease in risk and any new controls required.

**Types of Risk** the Council distinguishes between types of risk and those defined as strategic, corporate or partnership are held on the Council's core risk register. Operational risks are managed at the service and directorate level and not corporately through the performance management framework. Our definitions are as follows:

- **Strategic** risks that are significant in size and duration and will impact on the reputation and performance of the Council as a whole and in particular on its ability to deliver its four strategic priorities.
- **Corporate** risks to corporate systems or processes that underpin the organisation's overall governance, operation and ability to deliver services.
- **Partnership** risks to a partnership meeting its objectives or delivering agreed services/ projects.
- **Operational** risks specific to the delivery of individual services/service performance or specific projects.

1.6 **Quarter 3 Strategic, Corporate and Partnerships Risk Review**

Strategic, corporate and partnership risks are reviewed on a monthly basis and reported via the performance and risk management framework to the Executive on a quarterly basis. The contents of the risk register as a whole are reviewed at least annually to ensure its contents reflect current priorities and circumstances. In addition, the lead Member for performance and organisational change is briefed with regards to risk and performance on a monthly basis.

The table below highlights where risks have remained constant, increased or decreased between quarters 2 and 3. Full details are attached at Appendix 1.

| Changes | Risk name | | Comments |
|---|---|---|---|
| Risk rating remained constant | STRAT01 | Deprivation and Equalities | • New programme theme leads in place, workshop held to induct new theme leads. |
| | STRAT02 | Eco Town | • Good progress on scheme. |
| | STRAT03 | Local Development Framework | • Work continues on progressing the LDF. |
| | STRAT04 | Economic and Social Changes | • New economic development strategy completed, remaining concerns regarding impact of funding cuts. |
| | STRAT05 | Horton Hospital | • Risk reviewed, see comments in appendix 1. |
| | STRAT08 | Financial Resources | • MTFS under review work is well underway on the 2012/13 budget |
| | STRAT09 | Shared Services | • Risk reviewed and controls are in place. |
| | STRAT10 | Managing new policy and legislative change | • JMT meet fortnightly keeping policy change under review, |
| | CORP01 | Health and Safety | • Risk reviewed no matters arising, impact of shared services has been mitigated. |
| | CORP02 | Capital Investments | • MTFS agreed at September Executive. |
| | CORP04 | Equalities Legislation | • Risk reviewed no changes in quarter 3. |
| | CORP06 | Civil Emergency | • Risk reviewed no matters arising. |
| | CORP07 | Managing Data and Information | • Risk reviewed no matters arising. |
| | CORP08 | Corporate Fraud | • Risk reviewed no matters arising. |
| | PART03 | Community Safety Partnership | • Risk reviewed no matters arising. |
| | PART04 | Local Enterprise Partnerships (LEPs) | • Risk reviewed no matters arising. |
| | PART06 | Health and Wellbeing Partnership | • New Oxfordshire H&WB Board and |

| | | | |
|---|---|---|---|
| | | | partnership proposals under consideration. Specific District Council roles proposed under an Oxfordshire Health Improvement Board |
| Risk rating improved | STRAT06 | The Natural Environment | • Environment strategy on track, actions monitored through PMF, carbon reduction on target. |
| | CORP03 | ICT Systems | • Business Continuity Workshop scheduled for March 2012. |
| | PART02 | Local Strategic Partnership | • Additional funding being allocated and new membership in place. |
| | PART05 | Oxfordshire Waste Partnership | • Progress on financial basis of partnership via discussions with directors. |
| Risk added to register at end of second quarter | CORP09 | Shared Information Services with SNC | • Risk reviewed net score remains 9 (medium risk) detailed project risk log in place reviewed weekly by ICT team |
| | CORP10 (shared risk) | Insource of SNC ICT | • See comment above |

1.7 **Risk Register 2011/12**

In October 2011 the new Cherwell and South Northamptonshire Councils' Joint Management Team was implemented. The existing strategic, corporate and partnership risks on the Council's register have been allocated to the new team and a session on performance and risk management was held as part of the induction process. This has been supported during the last quarter through a JMT risk workshop.

Appendix 2 provides an overview of the latest risk register for 2011/12. This register provides the basis for on going risk management during 2011/12.

1.8 **On-going Reporting Arrangements**

For 2011/12 the reporting of the Strategic, Corporate and Partnerships Risk Register will continue to be integrated into the quarterly performance report to the Executive, as set out below:

- Quarter 1- 05 September 2011 (completed)
- Quarter 2- 06 December 2011(completed)
- Quarter 3- 05 March 2012 (completed)
- 2011/12 Year end review June/July 2012

It is also proposed that the performance of all the risks on the Strategic/Corporate/Partnerships Risk Register is reported to the Accounts, Audit and Risk Committee on a quarterly basis as outlined below:

- Quarter 1- 21 September 2011(completed)
- Quarter 2- 11 January 2012(completed)
- Quarter 3- 19 March 2012 (completed)
- Quarter 4 (and year end review) – June/July 2012

**Operational Risks**

1.9 Operational risks are not included in the strategic, corporate and partnerships risk register. These risks are managed and monitored locally at the directorate and service level. However, managers are able to use the same performance and risk monitoring system as they do for strategic risks. As with service performance indicators, any issues arising from these operational risks may be escalated via the performance and risk reports to the Corporate Management Team. In the event of this occurring they would also be reported to the Executive and Accounts, Audit and Risk Committee in their quarterly reports. Operational risks are reviewed on a quarterly basis.

1.10 During 2011 three operational risk training sessions have been held to support staff to identify and add operational risks to the performance plus system. In addition a series of one to one meetings have been undertaken to support the assessment and monitoring of operational risk. Risks have also been identified through the development of service plans for 2011/12. Currently there are 48 operational risks on departmental registers, including operational partnerships.

**Development and emerging issues**

1.11 The implementation of a Joint Management Team (JMT) across Cherwell and South Northamptonshire has meant that a joint approach to risk management is required. This strategy has been developed and after being reviewed in draft by this committee in January 2012 has been available in draft for comment. The consultation period is now closed and the final draft is a separate item on this agenda to be agreed.

1.12 This strategy takes the strengths of both councils' existing polices and ensure that there is a single risk assessment and management process. It should be noted that each council remains a sovereign body and as such not all risks will be shared. Where shared risks do exist they will be clearly identified. As such the councils will have a common approach to risk management, a single risk management strategy but separate risk registers which include shared risk where they exist.

1.13 As part of the business planning process for 2012/13 strategic, corporate and partnerships have been reviewed by JMT for the coming year. Operational risks for 2012/13 will be identified in departmental service plans. An update on these registers will be given at the next committee meeting.

**Conclusion**

1.14 Since 1 April 2010 a number of significant changes to the way risk is managed at the Council have been introduced. These changes were built on an already strong performance that has been recognised by the Audit Commission. By integrating risk and performance management, we have a clearer understanding of the risks which may prevent the Council achieving its strategic objectives and in improving the accountability to Members we have taken the management of risk to a higher stage of development. The new risk strategy for 2012/13 (reviewed by the committee at their meeting in January 2012) will serve to strengthen this approach.

During the third quarter of 2011/12 all risks on the strategic, corporate and partnership risk register have been monitored and reviewed. No risks have worsened in this quarter.

Two new risks associated with the shared ICT services project were added to the register at the end of the last quarter and they have subsequently been reviewed on a monthly basis.

## Background Information

2.1 The Council has now implemented a single Performance and Risk Management Framework which integrates the reporting processes for performance and risk and embeds the Risk Strategy adopted by this Committee at its meeting on 13 December 2010. An updated Risk Strategy for the committee to adopt is a separate item on this agenda.

2.2 From 1 April 2010 the Council has used Performance Plus to monitor the Council's high level risks (Strategic, Corporate and Partnership). This move allows an integrated approach to managing risk and organisational performance and rationalises the administration involved. During the first quarter of 2011/12 this approach has been embedded with support given to staff to ensure risks are recorded and reviewed. During the third quarter this work was revisited to ensure all strategic risks were owned and understood by the new joint management team.

2.3 During 2011/12 Performance Plus has been available for managers to use to store their operational risks. Monitoring of operational risk remains a departmental responsibility but where a risk needs to be escalated to the strategic risk register CMT will have the opportunity to do so as part of their monthly review of performance and risk.

2.4 As part of its corporate management role the Joint Management Team (EMT – comprised of service heads) reviewed the 2010/11 at their meeting on 8 February 2011. The changes have been reflected in the risk register for 2011/12. On 22 February 2012 this process was repeated in order to prepare the 2012/13 risk register.

## Key Issues for Consideration/Reasons for Decision and Options

3.1 All risks have been reviewed in quarter three. In addition the Joint Management Team has undertaken a risk review and agreed a joint approach to risk management for the future that will further embed the good practice in place at

Cherwell District Council.

The following options have been identified. The approach in the recommendations is believed to be the best way forward.

| | |
|---|---|
| **Option One** | To support the current approach and having considered the Strategic, Corporate and Partnership risks, report any concerns arising to the Executive. |
| **Option Two** | To reject the current approach and proposals and report any concerns arising to the Executive. |

**Implications**

| | |
|---|---|
| **Financial:** | The Council has identified the impact of the current economic climate and financial pressures on the Council's ability to deliver its corporate priorities as a Strategic Risk. There is also a Corporate Risk arising from the Council's ability to fund its activities because of a reduction in investment income or income from other capital assets such as buildings.<br>Comments checked by Karen Curtin, Head of Finance and procurement, 01295 221551 |
| **Legal:** | There are no direct legal implications arising from this report but the Council has to ensure it is aware of any risks to its delivering what is required by law.<br>Comments checked by Nigel Bell, Team Leader – Planning & Litigation, 01295 221687 |
| **Risk Management:** | The lead officer responsible for risk reporting is the author of this report.<br>Comments checked by Ros Holloway, Performance and Risk Officer, 01295 2211751 |

**Wards Affected**

**All**

**Corporate Plan Themes**

**All**

**Document Information**

| Appendix No | Title |
|---|---|
| Appendix 1 | Quarter 3 Risk Report |
| Appendix 2 | Risk Register 2011/12 |
| **Background Papers** | |
| 1. Risk Management Strategy<br>2. Executive Report 5 March 2012 Quarter 3 Performance and Risk Management Framework | |

| | |
|---|---|
| **Report Author** | Claire Taylor, Corporate Performance Manager |
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Appendix 8

## Risk Register 2011/2012 : Quarter 3

| Risk Heading | Owner | Description | Quarter 2 30 Sept 2011 Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | Controls | Quarter 3 31 Dec 2011 Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | Direction of Travel | Comments this quarter |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Strategic Risks** | | | | | | | | | | | | | |
| RS01 Deprivation & Health Inequalities | Ian Davies | The risk in not breaking the cycle of deprivation and addressing inequalities across the District is that the life opportunities of residents in the greatest need will not be improved. As a result the reputation of the Council will suffer. The risk is particularly acute in areas such as the Neithrop, Ruscote and Grimsbury wards in Banbury where there is a high level of deprivation as measured by the Government's indices of multiple deprivation. | High Medium 12 | A ! | Medium 9 | A | • RS.01a Long term approach to support (people/communities) as many issues can only be addressed so<br>• RS.01b Multi agency action with clear and common objectives<br>• RS.01c Additional funding from Government grants to supplement current resources<br>• RS.01d LSP focus on Brighter Futures in Banbury programme<br>• RS.01e Contingency fund made available in CDC budget<br>• RS.01f Programme co-ordination role in place<br>• RS.01g Quarterly performance management in place | High Medium 12 | A ! | Medium 9 | A | ➡ | Ongoing multi agency activities in the targeted wards. All local government tiers councillors workshop held for activity and performance update and to provide future direction. OCC's Early Intervention Hub opened at Woodgreen. Changes in theme lead and other personnel requiring review of structure and programme organisation |
| RS02 Bicester Eco Town | Calvin Bell | The risks are that national and local policy support and resources will be inadequate to support the development of the NW Bicester Eco-Town. As a result the Council may fail to fully exploit the Eco-Town as an opportunity to develop a centre of excellence in terms of sustainable living. | High 16 | R | Medium 9 | A | • RS.02a Planning policy development through Local Development Framework<br>• RS.02b Eco Bicester Town Project plan & related partnerships with private/public sector partners<br>• RS.02c Dedicated Project Team | High 16 | R | Medium 9 | A | ➡ | |
| RS03 Local Development Framework | Adrian Colwell | The risks are that the Local Development Framework is not prepared adequately, in time, or is found unsound at public examination. Such outcomes would result in further risks arising from speculative planning applications, undesirable major developments and / or expense for the Council in contesting planning appeals. An unsound plan would mean that the Council would have to repeat 2 to 3 years work at high cost. | High 16 | R | High Medium 12 | A ! | • RS.03a Liaison with CLG regarding appropriate procedures<br>• RS.03b Take legal advice as necessary, to further inform our position<br>• RS.03c Ask our MP to raise questions to Govt. Ministers if clarity is required on Localism Bill<br>• RS.03d Engage in public consultation on new population figures that informs emerging Core Strategy<br>• RS.03e Work with LDF Advisory Panel in formulating revised policies & Councillor involvement | High 16 | R | High Medium 12 | A ! | ➡ | |
| RS04 Economic & Social Changes | Adrian Colwell | The risk is that the Council does not identify and respond to general economic and social changes and as a result would not fulfil its role as a community leader and a provider of top quality services driven by a clear understanding of community and individual needs. | High 16 | R | High Medium 12 | A ! | • RS.04a Service and financial planning process<br>• RS.04b Sustainable Community Strategy, Economic Development Strategy, related partnership activities<br>• RS.04c Service specific plans & strategies | High 16 | R | High Medium 12 | A ! | ➡ | |
| RS05 Horton Hospital | Ian Davies | The risks to maintaining the Horton Hospital as a facility that meets community aspirations for local health provision are the deliverability and affordability of a revised consultant delivered service model for paediatrics and obstetrics. Failure of either will jeopardise current service provision and could result in a service reduction from the Horton. | High 16 | R | High Medium 12 | A ! | • RS.05a Support to the PCT in challenging ORHT proposals<br>• RS.05b Providing evidence of deliverability of consultant delivered services elsewhere<br>• RS.05c Gaining consensus locally that this is important<br>• RS.05d Ensuring local Councillors are briefed & engaged to play a community leadership role<br>• RS.05e Support local stakeholder group with ORHT/GP/OCC representation | High 16 | R | High Medium 12 | A ! | ➡ | Community Partnership Network in transition to examine a range of new roles regarding communication and public engagement in North Oxfordshire across the whole health and social care sector. Horton General Hospital still a very important part of that along with new clinical commissioning arrangements and changes in social care. Still ongoing budgetary pressures at the Horton leading to ongoing service changes but based on established principles through the Better Healthcare Programme |
| RS06 The Natural Environment | Ed Potter | The risk is that the Council does not take the necessary actions to meet its obligation, as set by National Government, to ensure its own operations and that of its District's residents and businesses reduce their carbon footprints. | High Medium 15 | A ! | Medium 9 | A | • RS.06a Environmental Strategy for a changing climate<br>• RS.06b Clear responsibility for delivery plans for the Environmental Strategy<br>• RS.06c Relevant delivery groups<br>• RS.06d Cherwell Climate Change Partnership | High Medium 15 | A ! | Medium 6 | A | ⬇ ✔ | The Use of Natural Resources group are delivering reductions in energy use and consequently reductions in Carbon emissions. The group has support from across the organisation and consequently the risk of achieving future environmental targets is diminishing |

Appendix 8

# Risk Register 2011/2012 : Quarter 3

| Risk Heading | Owner | Description | Quarter 2 30 Sept 2011 | | | | Controls | Quarter 3 31 Dec 2011 | | | | Direction of Travel | Comments this quarter |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | | Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | | |
| **Strategic Risks** | | | | | | | | | | | | | |
| RS08<br>Financial Resources | Karen Curtin | The risk is that in an uncertain economic and financial climate the Council will not have the resources to deliver its corporate priorities. Poor economic conditions also tend to produce increased demand on services. As the Council's income from capital reduces our dependency on interest to support revenue expenditure must also reduce and capital assets will need to be rebuilt to fund future infrastructure investments. Failure to do either will result in budgetary shortfall, service reductions, above inflation increases to council tax and lack of capital to fund future community schemes. | High 16 | R | Medium 9 | A | • RS.08a Budget 2011/12<br>• RS.08b Medium financial strategy and sensitivity analysis<br>• RS.08c Workforce planning<br>• RS.08d Dashboard - budget monitoring<br>• RS.08e Public promise of £1m cost reduction<br>• RS.08f Shared Senior Mgt team with SNDC<br>• RS.08g Executive Planning Workshops<br>• RS.08h Building Block Templates | High 16 | R | Medium 9 | A | | |
| RS09<br>Shared Management Services with South Northamptonshire District Council | Martin Henry / Anne-Marie Scott | The risk that the shared management arrangements fail to be effectively managed and implemented and will adversely impact upon the Council's financial position and ability to balance its budget with further cutting service budgets. Other potential adverse affects include:<br><br>• Loss of key staff and declining morale<br>• Loss of organisational reputation<br>• Legal challenge<br>• Decline in organisational performance<br>• Failure of ICT system to be effectively integrated for shared management<br>• Political Change<br><br>There is a comprehensive list of risks established in the development of the shared management business case and these are detailed in Appendix 6 of the business case and contain details of risk, controls and mitigations. | High 16 | R | Medium 9 | A | • RS09a Joint Arrangement Steering Group and terms of reference in line with S113 agreement<br>• RS09b Steering group supported with professional legal and HR advice<br>• RS09c Steering group includes senior elected members and managers from both organisations<br>• RS09d Steering Group will provide regular reports and keep risk under review.<br>• RS09e Professional recruitment consultants appointed<br>• RS09f Communications briefings in place<br>• RS09g Business case developed and agreed<br>• RS09h Joint ICT work programme in place | High 16 | R | Medium 9 | A | | |
| RS10<br>Managing Policy & Legislative Change | Claire Taylor | The risk that the Council fails to implement the requirements of new legislation or policy change. In addition there is a risk that the council does not capitalise on new opportunities. Key areas of change are the impact of the localism bill, the big society agenda, peer assessment, changed models of service delivery, new financial requirements etc.<br>Failure to address policy change could result in the council not being legally compliant, failing to maximise new opportunities such as new funding streams or pathfinder projects, a negative impact on the council's reputation as a high performer and a community leader, possible damage to local partnerships. | High 16 | R | Medium 6 | A | • RS.10a CIP identifies areas of emerging policy & allocates additional support via Improvement Team<br>• RS.10b CIP monitored through the PMF system monthly<br>• RS.10c CMT review policy & legislative requirements on an ongoing basis<br>• RS.10d EMT consider policy changes at regular meetings<br>• RS.10e Emerging new policy requirements entered and monitored via Risk Register | High 16 | R | Medium 6 | A | | Risk reviewed |

| Indicated by:- | |
|---|---|
| High | **Requires Active Management**<br>High impact / High Probabilty: this risk requires active management to manage down and maintain the exposure at an acceptable level. Escalate upwards. |
| High Medium | **Contingency Plans Required**<br>A robust contingency plan is required, together with early warning mechanisms to detect any deviation from the profile. Escalate upwards. |
| Medium | **Monitoring Required**<br>This risk may require some additional risk mitigation to reduce the likelihood (if it can be done cost effectively), but good housekeeping to ensure that the impact remains low should be adequate. Monitor to identify any change in the risk. |
| Low | **Review Periodically**<br>This risk is unlikely to require further mitigating actions, but the status should be reviewed quarterly to ensure that conditions have not changed. |
| | **Risk rating stayed the same**<br>Last quarter compared to this quarter |
| | **Risk rating improved**<br>Performance increased (risk rating decreased)<br>Last quarter compared to this quarter |
| | **Risk rating worsened**<br>Performance declined (risk rating increased)<br>Last quarter compared to this quarter |

Appendix 8

# Risk Register 2011/2012 : Quarter 3

| Risk Heading | Owner | Description | Quarter 2 30 Sept 2011 | | | | Controls | Quarter 3 31 Dec 2011 | | | | Direction of Travel | Comments this quarter |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | | Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | | |
| **Corporate Risks** | | | | | | | | | | | | | |
| RC01 Health & Safety | Andy Preston | The risk is that a failure to comply with health and safety and welfare legislation and policies could lead to injuries and death, high sickness absence and claims and litigation against the Council. | High 20 | R | High Medium 10 | A ! | • rc.01a Wide range of health and safety policies and procedures<br>• rc.01b Training is given to all relevant staff undertaking manual work<br>• rc.01c Relevant safe working practice notes are issued as part of standard induction procedures | High 20 | R | High Medium 10 | A ! | | |
| RC02 Capital Investments | Karen Curtin | The risk is to the Council's ability to fund its activities because of a reduction in investment income or income from other capital assets such as buildings. | High 16 | R | High Medium 12 | A ! | • rc.02a Treasury management<br>• rc.02b Annual investment strategy complies to CIPFA code<br>• rc.02c Minimise empty properties<br>• rc.02d Budget 2011/12<br>• rc.02e Medium term financial strategy<br>• rc.02f Asset Management Strategy<br>• rc.02g Dashboard - budget monitoring<br>• rc.02h Annual Treasury Management Strategy<br>• rc.02i Counterparty Lists | High 16 | R | High Medium 12 | A ! | | |
| RC03 ICT Systems | Karen Curtin | 1) ICT unable to provide Disaster Recovery Services as required by the Business Continuity Plan.<br>2) Loss of ICT systems that would have a significant negative impact on service delivery and cause exceptional costs to the Council. | High 20 | R | High Medium 12 | A ! | • rc.03a 6 monthly testing of Disaster Recovery Plan<br>• rc.03b External quality assurance of architecture and implementation<br>• rc.03c Annual compliance with ISO 27001<br>• rc.03d construction of DR Site at Thorpe Lane Depot<br>• rc.03e All IT equipment relocated to new Server Room<br>• rc.03f Reinstallation of DR line | High 20 | R | Medium 8 | A | | Disaster Recovery arrangements under regular monitoring<br>A Disaster Recovery test will be scheduled for Q4 with the Business Continuity Plan officer. |
| RC04 Equalities Legislation | Claire Taylor | The risk is the Council may be open to litigation and loss of reputation if it is not compliant with equalities legislation. | High 20 | R | High Medium 12 | A ! | • rc.04a Equalities scheme<br>• rc.04b Mandatory equalities training<br>• rc.04c Equalities performance monitored through PMF<br>• rc.04d Equalities Officer Support for EQIA<br>• rc.04d IDEA peer assessment planned for 2010<br>• rc.04e Equalities steering group and communications plan<br>• rc.04f Network of consultative panels for EQIA | High 20 | R | High Medium 12 | A ! | | Risk reviewed. Must ensure service plans and budgets for 2012/13 are considered. Work to be undertaken in the final quarter of 2011/12. |
| RC06 Civil Emergency | Andy Preston | The risk is that Civil Emergency arrangements are not adequate, leading to loss of property, personal injury or death, civil unrest and loss of confidence in local authority leadership. | High Medium 15 | A ! | High Medium 10 | A ! | rc.06a As a Category 1 Responder the Council has a duty to prepare and maintain an Emergency Plan<br>• rc.06b Annual testing and exercise schedule<br>• rc.06c Training to relevant staff | High Medium 15 | A ! | High Medium 10 | A ! | | |
| RC07 Managing Data & Information | Claire Taylor | The risk is that unreliable data sources are used to support decision and policy making putting the Council at risk of making poor decisions. Decisions are made on the basis of information about the population and the nature of the district. If data is out of date, incomplete or inaccurate, those decisions may turn out to be inappropriate and they could be challenged.<br>Lack of effective information management means that the Council will not be able to effectively respond to FOI or EIR requests putting CDC at risk of a complaint to the Information Commissioner.<br>Poor information will also mean that the Council is unable to deliver against the transparency agenda. | High 16 | R | Medium 9 | A | • rc.07a Single trusted data source for all decision makers<br>• rc.07b Use external trusted & reliable data source as the basis for our own information.<br>• rc.07c Internal audit programme for performance indicators<br>• rc.07d Clear Data Quality policy<br>• rc.07e Guidance issued to managers | High 16 | R | Medium 9 | A | | Risk reviewed 2011/12 audit completed. 1 issue found and addressed through staff training. |
| RC08 Corporate Fraud | Karen Curtin | As with other large organisations the size and nature of our services puts us at risk of loss due to fraud both from within and outside the Council. We have always taken this risk seriously and have many structures and control mechanisms in place to counter fraud. According to research, fraud in the workplace is likely to accelerate during the global economic downturn. This is because managers may falsify figures to make performance look better and debt-strapped employees are more likely to commit fraud. | High Medium 12 | A ! | Medium 9 | A | • rc08.a Fraud Investigation Team to prevent, detect, investigate and sanction cases of fraud under the<br>• rc08.b Corporate and Benefit fraud awareness training to all staff<br>• rc08.c In-depth training, including Bribery Act to front line staff & other staff as required<br>• rc08.d Participation in the National Fraud initiative & Housing Benefits matching exercises<br>• rc08.e Application of Councils Policies (Anti-fraud & Corruption, Sanctions, Bribery)<br>• rc08.f Networking/Benchmarking arrangements with other Councils & DW&P | High Medium 12 | A ! | Medium 9 | A | | |

Appendix 8

# Risk Register 2011/2012 : Quarter 3

| Risk Heading | Owner | Description | Quarter 2 30 Sept 2011 Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | Controls | Quarter 3 31 Dec 2011 Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | Direction of Travel | Comments this quarter |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RC09 Shared Information Services with South Northants Council | Karen Curtin | Restructure and increased service demand during transition may impact performance and service continuity at CDC | High 16 | R | New Risk | | • rc.09a Fully policed change control to ensure all resources focus on insource work & BAU<br>• rc.09b No unnecessary change work taken on during the transition.<br>• rc.09c Recruitment of additional transition resources, specified in the business case<br>• rc.09d Strong project management to limit unforeseen events | High 16 | R | Medium 9 | A | **new risk** | |
| RC10 Insource of ICT | Karen Curtin | Failure to manage the end of the existing outsourced IT contract and development of collaborative solutions with Cherwell effectively could lead to loss of key business systems and services. | High 16 | R | New Risk | | • rc.10a Audit of existing (and CDC) IT estate<br>• rc.10b Contract negotiations with Capita and other suppliers.<br>• rc.10c Clear roadmap of future provision of IT services after the end of current Capita contract<br>• rc.10d Independent review of future proposed architecture (complete<br>• rc.10e Procure new solutions as required with legal, financial, procurement input into process<br>• rc.10f Costed Business Case for consideration by Members<br>• rc.10g Regular reviews within SNC by portfolio holders<br>• rc.10h Regular review of shared service proposals by Joint Arrangements Steering Group IT Subgroup | High 16 | R | Medium 9 | A | **new risk** | |

| **Indicated by:-** | |
|---|---|
| High | **Requires Active Management**<br>High impact / High Probability: this risk requires active management to manage down and maintain the exposure at an acceptable level. Escalate upwards. |
| High Medium | **Contingency Plans Required**<br>A robust contingency plan is required, together with early warning mechanisms to detect any deviation from the profile. Escalate upwards. |
| Medium | **Monitoring Required**<br>This risk may require some additional risk mitigation to reduce the likelihood (if it can be done cost effectively), but good housekeeping to ensure that the impact remains low should be adequate. Monitor to identify any change in the risk. |
| Low | **Review Periodically**<br>This risk is unlikely to require further mitigating actions, but the status should be reviewed quarterly to ensure that conditions have not changed. |
|  | **Risk rating stayed the same**<br>Last quarter compared to this quarter |
|  | **Risk rating improved**<br>Performance increased (risk rating decreased)<br>Last quarter compared to this quarter |
|  | **Risk rating worsened**<br>Performance declined (risk rating increased)<br>Last quarter compared to this quarter |

# Risk Register 2011/2012 : Quarter 3

| Risk Heading | Owner | Description | Quarter 2 30 Sept 2011 Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | Controls | Quarter 3 31 Dec 2011 Gross Risk Rating | Gross RAG | Net Risk Rating | Net RAG | Direction of Travel | Comments this quarter |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Partnership Risks** | | | | | | | | | | | | | |
| RP02 Local Strategic Partnership | Claire Taylor | The risk is the failure of the Local Strategic Partnership to deliver its objectives having a negative impact on service delivery to the public, the Council's reputation with other local agencies and this being reflected in national reputation.<br>There is also a risk that with the reduced focus on partnership working, opportunities for increased efficiency and improved services are lost due to less effective networks and relationships | High Medium 12 | A ! | High Medium 12 | A ! | • RP.02a Partnership governance review implemented<br>• RP.02b Performance Management Framework<br>• RP.02c Develop Partnership Handbook<br>• RP.02d Management Group to support implementation of LSP decisions<br>• RP.02e Annual self assessment of performance<br>• RP.02f Ongoing review & information exchange to capitalise on emerging issues & opportunities<br>• RP02.1 Develop a Partnership Development Plan | High Medium 12 | A ! | Medium 9 | A | | Risk reviewed and membership gaps being filled currently. Risk impact has increased due to additional LAA funding that is now available to the Board. The Board has agreed a protocol for allocating funds. |
| RP03 Cherwell Community Safety Partnership | Chris Rothwell | The risk is the failure of the Community Safety Partnership to work collaboratively to deliver safer communities and achieve reduction in crime and fear of crime | High Medium 12 | A ! | Medium 9 | A | • RP.03a Bi-monthly monitoring of 4 Action Groups plans to deliver the priorities of the partnership<br>• RP.03b Quarterly reporting to Strategic Partnership meetings<br>• RP03c Monitored via Performance Management Framework | High Medium 12 | A ! | Medium 9 | A | | Risk reviewed |
| RP04 Local Enterprise Partnerships (Oxford City & South East Midlands) | Adrian Colwell | The risk is the failure of the Local Enterprise Partnerships to establish themselves as effective bodies locally and in relations with National Government. The consequences may be reduced funding for the local area and failure to fully exploit economic growth, development and infrastructure provision opportunities.<br>A related risk is the ability/inability of Cherwell District Council to influence the work of the Partnerships to the benefit of the District. | High Medium 12 | A ! | Medium 9 | A | • RP.04a Partnership Work Programme/Forward Plan<br>• RP.04b Resource provision for Partnership work | High Medium 12 | A ! | Medium 9 | A | | |
| RP05 Oxfordshire Waste Partnership - Financial Arrangements | Ed Potter | Financial arrangements exist to regulate funds flowing between the collection authorities in Oxfordshire and the disposal authority (Oxfordshire County Council). These are legally binding. However Oxfordshire County Council have indicated that they are not prepared to continue all these payments (landfill diversion payments) in the future. This could threaten the future of the Oxfordshire Waste Partnership | High 16 | R | High Medium 12 | A ! | • RP05.a Work with other collection authority partners to achieve greater voting power<br>• RP05.b Full partnership participation to address moved by County Council to reduce payments | High 16 | R | Medium 9 | A | | Discussions regarding financial arrangements have commenced involving strategic directors & finance officers. |
| RP06 Health & Wellbeing Partnership | Ian Davies | The risk is that failure to effectively participate in and influence new county wide partnership arrangements will put CDC at risk of not meetings its Safe, Healthy and Thriving Strategic Objective. The potential role of County Councils as the public health authority under new legislation will require effective partnership arrangements to ensure Cherwell's priorities are reflected and issues around health inequalities are addressed | Medium 9 | A | Medium 6 | A | • RP06.a Strategic Director leadership role on health related issues<br>• RP06.b Participation in county-wide partnership discussions<br>• RP06.c support local stakeholder group to hold service commissioners and providers to account<br>• RP06.d Communicate the health sector changes to the wider population | Medium 9 | A | Medium 6 | A | | New Oxfordshire H&WB Board and partnership proposals under consideration. Specific District Council roles proposed under an Oxfordshire Health Improvement Board |

| Indicated by:- | |
|---|---|
| High | **Requires Active Management**<br>High impact / High Probability: this risk requires active management to manage down and maintain the exposure at an acceptable level. Escalate upwards. |
| High Medium | **Contingency Plans Required**<br>A robust contingency plan is required, together with early warning mechanisms to detect any deviation from the profile. Escalate upwards. |
| Medium | **Monitoring Required**<br>This risk may require some additional risk mitigation to reduce the likelihood (if it can be done cost effectively), but good housekeeping to ensure that the impact remains low should be adequate. Monitor to identify any change in the risk. |
| Low | **Review Periodically**<br>This risk is unlikely to require further mitigating actions, but the status should be reviewed quarterly to ensure that conditions have not changed. |
| | **Risk rating stayed the same**<br>Last quarter compared to this quarter |
| | **Risk rating improved**<br>Performance increased (risk rating decreased)<br>Last quarter compared to this quarter |
| | **Risk rating worsened**<br>Performance declined (risk rating increased)<br>Last quarter compared to this quarter |

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| Risk Type | 2010.11 | 2011.12 |
|---|---|---|
| s1 | Deprivation and equalities | Deprivation and equalities |
| s2 | Eco Town | Eco Town |
| s3 | LDF | LDF |
| s4 | Economic and Social Change | Economic and Social Change |
| s5 | Horton Hospital | Horton Hospital |
| s6 | Natural Environment | Natural Environment |
| s7 | Managing Change | Managing Change - now covered by s9 and s10 |
| s8 | Financial resources | Financial resources |
| s9 | Shared Services | Shared Services |
| s10 | n/a | New for 2011.12 Managing legislative and policy change |
| c1 | Health and Safety | Health and Safety |
| c2 | Capital Investments | Capital Investments |
| c3a&b | ICT Systems | ICT Systems |
| c4 | Equalities Legislation | Equalities Legislation |
| c5 | Job Evaluation | Deleted for 2011.12 |
| c6 | Civil Emergency | Civil Emergency |
| c7 | Data Quality | Revised for 2011.12 Managing Data and Information |
| c8 | n/a | New for 2011.12 Corporate Fraud |
| c9 | n/a | New for 2011/12 q3 - ICT impact of a shared ICT service on CDC capacity |
| c10 | n/a | New for 2011/12 q3 - ICT insource CDC and SNC |
| p1 | LAA | Deleted for 2011.12 |
| p2 | LSP | LSP |
| p3 | Community Safety | Community Safety |
| p4 | SPIP | Revised for 2011.12 LEP |
| p5 | n/a | New for 2011.12 Oxfordshire Waste Partnership |
| p6 | n/a | New for 2011.12 Health and Wellbeing |

| | | |
|---|---|---|
| Total | 20 | 22 |

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# Accounts, Audit and Risk Committee

## Risk Management:
## A risk management strategy for Cherwell District and South Northamptonshire Councils

## 19 March 2012

## Report of the Corporate Performance Manager

**PURPOSE OF REPORT**

To agree the joint approach to risk management across the Cherwell and South Northamptonshire Joint Management Team and set the risk strategy for Cherwell District Council. .

| This report is public |
|---|

**Recommendations**

The Accounts, Audit and Risk Committee is recommended:

(1) To consider the proposed approach and identify any issues or additional elements to be included.

(2) To agree Appendix 1 as the risk strategy for Cherwell District Council 2012/13

**Executive Summary**

1.1 Cherwell District Council has a strong track record with regards to risk management and reviews its approach on an annual basis. For the 2012/13 review the context has changed and the impact of the new Joint Management Team needs to be taken into account in terms of how best to manage risk in the future.

1.2 As part of this review it was proposed that both Councils adopt a joint risk management strategy and set of risk business processes, whilst at the same time maintaining separate risk registers. The aim of this approach is to maintain the interests and sovereignty of each council but streamline risk processes and ensure they are consistent, understood across both councils and firmly embedded. This approach was endorsed by the committee at their meeting in January 2012 and the draft strategy has been open for comment and feedback. Appendix a1represents the final draft of the strategy taking into consideration feedback received.

1.3 In summary this report sets out the following:

- A short summary of the rational for developing a shared approach to risk management across the two councils and the process by with the strategy was drafted.

- A risk management strategy to be used across Cherwell District and South Northamptonshire Councils (appendix 1).

**Proposals**

1.4 **Harmonising approaches to risk**

The Joint Management Team shared between Cherwell and South Northamptonshire Councils was implemented in October 2011. To support this team a number of core business processes and governance arrangements need to be harmonised in order to ensure business process are as efficient and coherent as possible. During November and December a review of risk management processes at both organisations has been undertaken and as a result it is proposed that a shared risk management strategy is developed.

This is based on the following rationale:

- A shared approach to risk management will ensure consistency across both councils

- A shared approach will ensure risks are identified as part of a clear business process

- A single suite of templates and a single assessment model will ensure data is comparable and of higher quality across both councils

- A single approach will reduce the resources required to manage risk but ensure both councils can maintain sovereign risk registers as not all risks will be common to both authorities

- Where risks are identified as shared they can be managed through the same single process and be clearly identified as shared.

Given this context a draft shared risk management strategy has been drafted and consulted upon. The final version is now ready for adoption.

1.5 **Developing a joint risk management strategy**

The joint risk management strategy is attached at appendix 1. This strategy is comprehensive and proposes risk management arrangements for both organisations. The strategy ensures that each council remains sovereign and is able to maintain council specific risk registers. The strategy clearly outlines risk appetite, an approach to identifying and assessing risk and clear roles and responsibilities for risk management at both the officer and Member level.

The objectives set out in the risk management strategy are to:

- maintain a register that identifies, assesses and ranks all significant risks and opportunities facing both councils, which will assist the councils in achieving their objectives through pro-active risk management

- rate all significant risks in terms of likelihood of occurrence and potential impact upon the councils and ensure effective controls are in place to mitigate significant risks

- allocate clear roles, responsibilities and accountability for risk management

- facilitate compliance with best practice in corporate governance, which will support the Annual Governance Statements (issued with the annual statement of accounts)

- raise awareness of the principles and benefits involved in the risk management process, and to obtain staff and Member commitment to the principles of risk management and control

1.6 **Reporting Arrangements for 2012/13**

As for 2011/12 it is proposed that Account, Audit and Risk Committee review the risk register on a quarterly basis. In addition the Executive will continue to receive quarterly risk updates as part of the integrated risk and performance reports.

The Joint Management Team will review risks on a quarterly basis and take a fundamental look at risk on an annual basis. At the operational level the Corporate Performance Team will keep an on-going check on risk and escalate any issues arising. Service managers will also be expected to review operational risks on a quarterly basis and the Corporate Performance Team will quality assure this process.

1.7 **Additional Information**

In addition to the shared risk management strategy a suite of documents, training and support will be offered to ensure the new approach to risk management is embedded.

1.8 **Review**

The success of the new arrangements will be reviewed after a six month period. Additional assurance will be provided through the annual process of internal audit which will take place in the third quarter of 2012/13.

**Conclusion**

1.9 Cherwell District Council has a strong track record of effective risk management. The proposed shared risk management strategy retains many of the current risk management arrangements, including the scoring system, the integration between risk and performance and the core responsibilities of the Accounts, Audit and Risk Committee, the Executive and the Joint Management Team.

A joint approach to risk identification, assessment and management across the two councils is essential in order to ensure that the Joint Management Team is able to manage risks effectively, consistently and equitably across both councils. A shared approach will also mitigate against any potential inconsistencies or data quality issues.

The councils remain sovereign bodies and the proposed approach enables distinct risk registers to be held. However, it also ensures that where shared risks are identified they will be clearly identified as such and managed in the same way across both councils.

## Background Information

2.1 As part of the development of the joint risk management strategy both councils existing practices have been reviewed. Where good practice exists (from either authority) it has been retained. In addition good practice from elsewhere has been reviewed and incorporated.

2.2 Performance Plus will continue to be used to record all types of risk (i.e. strategic and operational.

2.3 As part of its corporate management role the Joint Management Team will review risks on a quarterly basis. In addition a risk workshop will be held on an annual basis (in the final quarter of the year) to identify any emerging risks or changing requirements in terms of risk management. The Corporate Performance Team will keep risk management issues under review and highlight them to the Joint Management Team and Accounts, Audit and Risk committee as any emerge.

2.4 As well as a risk strategy supporting guidance and training will be offered, including a risk management handbook and quick guide to risk. In addition a single set of templates will be agreed and a shared glossary/overview of frequently used terms.

## Key Issues for Consideration/Reasons for Decision and Options

3.1 The Council's approach to risk management has been reviewed in the context of a Joint Management Team across Cherwell and South Northamptonshire Councils. It is recommended that harmonising the approach to risk management is undertaken and to begin this process a shared risk management strategy has been proposed.

The following options have been identified. The approach in the recommendations is believed to be the best way forward.

**Option One**

1. To consider the proposed approach and identify any issues or additional elements to be included.

2. To agree Appendix 1 as the risk strategy for Cherwell District Council 2012/13

## Implications

| | |
|---|---|
| **Financial:** | There are no direct financial implications arsing from this report.<br>Comments checked by Karen Curtin, Head of Finance, |
| **Legal:** | There are no direct legal implications arising from this report but the Council has to ensure it is aware of any risks to its delivering what is required by law.<br>Comments checked by Nigel Bell, Team Leader – Planning & Litigation, 01295 221687 |
| **Risk Management:** | The lead officer responsible for risk reporting is the author of this report.<br>Comments checked by Ros Holloway, Performance and Risk Officer, 01295 221578 |

## Wards Affected

**All**

## Corporate Plan Themes

**All**

## Document Information

| **Appendix No** | **Title** |
|---|---|
| Appendix 1 | Joint Risk Management Strategy |
| **Background Papers** | |
| None | |
| **Report Author** | Claire Taylor, Corporate Performance Manager |
| **Contact Information** | claire.taylor@cherwelland southnorthants.gov.uk<br>0300 0030113 |

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# Risk and Opportunities Management Strategy

# FINAL DRAFT

## Cherwell District and South Northamptonshire Councils

# Contents

Document Version Control

| | |
|---|---|
| **Author** | Corporate Performance Manager |
| **Type of document (strategy/policy/procedure)** | Strategy (the risk handbook outlines risk management policy and procedure) |
| **Version number** | 1.3 |
| **Document file name** | CDC SNC Risk Management Strategy |
| **Issue date** | March 2012 |
| **Approval date and by who (JMT, Cabinet, Executive, R&D / AARC)** | Audit Committee (SNC)<br>Account, Audit and Risk Committee (CDC)<br>Executive (CDC as part of the performance and risk management framework) |
| **Document held by (name/division)** | Claire Taylor / Transformation / Performance Management |
| **Document on available on Council website – Y/N, if Yes where** | Yes |
| **Review Date** | January 2013 |

Change History

| Issue | Date | Comments |
|---|---|---|
| 1.0 | December 2011 | Consultation draft for JMT |
| 1.1 | January 2012 | Consultation draft for members |
| 1.2 | February 2012 | Draft reflecting feedback – additional comments on assurance, staff training and quarterly review |
| 1.3 | March 2012 | Final draft |

# Section 1: Introduction

## 1.1 An overview of Risk Management

The purpose of this strategy is to outline the overall approach to risk and opportunities management for Cherwell District and South Northamptonshire councils.

The fundamental aim of the risk management strategy is to help both councils identify and manage risk especially with regards to those risks (both financial and non-financial) that pose a threat in terms of the organisations meeting their objectives, but also in terms of risk that have an impact on the operation of the business or may impact on services, programmes or projects.

Risk, can therefore be defined as:

“The threat that an event or action will adversely affect the council’s ability to achieve its objectives, perform its duties or meet the expectations of its stakeholders.”

Both organisations are aware that risks will always arise and most risks can not be fully eliminated, only managed to an acceptable level. Within this context the councils’ are committed to managing risk in order to reduce the impact on the organisations their priorities and on service provision.

Risk management will be embedded within the daily operations of the councils, from strategy and policy formulation through to business planning and general management processes. It will also be applied where the councils work in partnership with other organisations, to ensure that partnership risks are identified and managed appropriately.

Through understanding risks, decision-makers (councillors and managers) will be better able to evaluate the impact of a particular decision or action on the achievement of the councils’ objectives.

Risk management is recognised as being concerned with both the positive and negative aspects of risk; that is to say opportunities as well as threats. This strategy therefore applies to risk from both perspectives.

## 1.2 Benefits of Risk Management

Effective risk management is an important part of corporate governance and performance management. It adds value by:

- Raising awareness of significant risks with priority ranking assisting in the efficient control of the risks

- Allocation of responsibility and accountability for risks and associated controls and any actions required to improve controls

- Aiding the process of strategic and business planning
- Identification of new opportunities and supporting innovation
- Providing a framework for the for the effective management of significant risks
- An aid in effective partnership working, particularly in terms of identifying shared/joint risks
- An aid to identifying opportunities that may be open to the organisation.

## 1.3 Strategy Objectives

The objectives of the Risk and Opportunities Management Strategy are to:

- maintain a register that identifies, assesses and ranks all significant risks and opportunities facing both councils, which will assist the councils in achieving their objectives through pro-active risk management
- rate all significant risks in terms of likelihood of occurrence and potential impact upon the councils and ensure effective controls are in place to mitigate significant risks
- allocate clear roles, responsibilities and accountability for risk management
- facilitate compliance with best practice in corporate governance, which will support the Annual Governance Statements (issued with the annual statement of accounts)
- raise awareness of the principles and benefits involved in the risk management process, and to obtain staff and Member commitment to the principles of risk management and control
- ensure that good quality risk information is provided to senior managers and Members (link to the data quality strategy)
- Provide a framework for assurance, that is that the controls identified to mitigate a risk are operating effectively

## 1.4 Risk Appetite

Risk management should not focus upon risk avoidance, but on the identification and management of an acceptable level of risk. Both councils' aim to proactively identify, understand and manage the risks inherent in services and associated with plans, policies and strategies, so as to support responsible, informed risk taking and as a consequence, aim to improve value for money. The councils will not support reckless risk taking.

As such, both Cherwell District and South Northamptonshire Councils will use risk management to add value. They will aim to achieve a balance between under-managing risks (i.e. being unaware of risks and therefore having little or no control over them), and over-managing them (i.e. a resource heavy and bureaucratic level of management and control which could stifle innovation and creativity).

Appropriately managed and controlled risk-taking and innovation will be encouraged where it supports the delivery of the councils' objectives and priorities.

## 1.5 Embedding Risk Management

The introduction of risk as a frequent item on the Joint Management Team agenda ensures that identification and consideration of risk corporately and across services is emphasised and highlighted regularly. The SNC Audit Committee and the CDC Accounts, Audit and Risk Committee receive regular risk management updates and review the strategic risk register. This oversight of risk ensures there is senior officer level and political commitment to effective risk management.

The inclusion of risk registers within service plans and risk logs in key programmes and projects seeks to reinforce the importance of assessing and being aware of the risks associated with each service and major projects. Key risk management activities should be included within service plans and progress monitored. As such the integration of risk into business planning, corporate objectives and performance management is an essential part of the drive to embed risk management.

The on-going challenge is to ensure that risk continues to be embedded within both organisations and adds value in terms of effective and value for money outcomes. Activities such as training, communication and clear risk management support arrangements can help to embed risk. The following list summarises the key activities undertaken to ensure risk management continues to be embedded across the councils.

1. A quarterly process of risk review covering both the strategic and operational risk registers.

2. Quarterly monitoring reports will be presented to relevant council committees to ensure Councillors have good access to risk information.

3. Risk management awareness training sessions will be facilitated for Councillors and employees. Members of the committees with specific responsibility for the management of risk will be offered dedicated training events. The potential of risk management awareness to be included on induction programmes will be explored.

4. An internal audit of risk management will take place annually.

5. The Joint Management Team takes responsibility for ensuring that management actions highlighted in the risk registers are implemented.

6. Support is available to risk owners when assessing new risks. The 'bow tie' risk analysis model is available to use as part of the process.

7. A process of annual review is undertaken by the Joint Management Team to ensure the risk register remains up to date and that obsolete risks are removed.

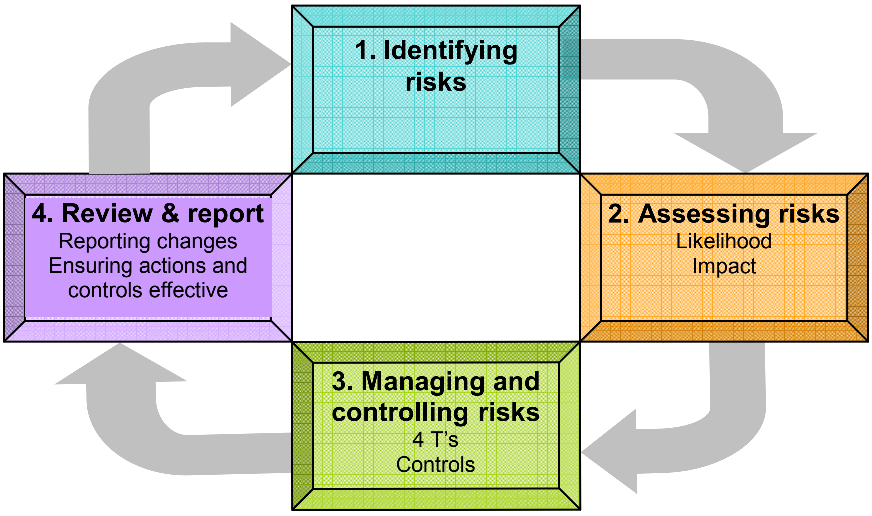
8. Officer working groups as required to embed, review or develop risk practices.

9. The councils will seek to learn from other organisations where appropriate, and to keep up to date with best practice in risk management.

# Section 2: Risk Management Processes

## 2.1 The Risk Management Process

Risk Management follows a four stage process. Identifying risks, assessing risks, managing and controlling risks and reviewing and reporting upon risks.




Each of these four stages is set out in more detail (paragraphs 2.2 - 2.5) and in the accompanying risk management handbook.

The most significant feature of this process is that risk management is seen as a comprehensive management process that helps both organisations meet their objectives and avoid issues, losses and situations that could result in failing to meet strategic priorities, failure of corporate systems or failure of significant partnerships, services, programmes and projects.

To ensure this process is effectively undertaken the councils maintain and review a register of their strategic, corporate and partnership risks and opportunities and where possible link them to strategic business objectives. Ownership is assigned for each risk. The Joint Management Team identifies risks and reviews the register and both councils have committees that also undertake a monitoring and oversight role.

## 2.2 Identifying Risk and Opportunity

The process of identifying risk is both formal (as part of business and project planning) and also informal, as part of everyday activity. This section sets out the organisational process for identifying risk, however it must also be recognised that Members and staff should be risk aware and as such may identify, assess and add a risk to the register at any time.

For each risk identified the following should be considered:

- An assessment of each risk for its likelihood and impact
- The identification of mitigating (key) controls currently in place
- The assurances on the key controls that have already been established
- Gaps in keys controls
- Gaps in assurance
- Appropriate management actions and allocation of responsibility for the implementation of further mitigating management action and (where possible) an implementation date

For each opportunity identified the following should be considered established:

- Details of the opportunity identified
- Allocation of responsibility for the opportunity
- Any additional risks that this opportunity raises
- Actions necessary to make use of the opportunity and mitigate risks, if appropriate.

## Identifying different types of risk

**Strategic Risks**

Strategic risks can be defined as those that are significant in size and duration and will impact on the reputation and performance of the councils as a whole and in particular on its ability to deliver their strategic priorities.

Within the category of strategic risks are corporate risks, those risks that apply to corporate systems or processes that underpin the organisations' overall governance, operation and ability to deliver services.

Finally partnership risks are those that apply to a significant partnership meeting its objectives or delivering agreed services/ projects.

Taken together strategic, corporate and partnership risks form the basis of both councils' strategic risk registers. Generally strategic risks are owned by a JMT member but on occasion may be devolved to a senior manager to oversee.

Strategic risks will be fully reviewed by JMT on an annual basis in the fourth quarter as part of the business planning process for the forthcoming year. The result of this discussion will also be considered by the relevant council committees. This provides a clear opportunity to identify new risks in association with the new business plans. At any point in the year JMT and council committees may identify new risks. If this is the case the risk assessment method is followed and the corporate performance team adds the risk to the register.

**Operational / Service Risks**

Operational risks should be identified and owned by the service management team, led by the head of service. The annual service planning process provides an opportunity to fully review all current operational risks and delete risks that are no longer relevant and identify any new risks.

However, the identification of risk is not limited to a single point in the year and new risks may be added at any time.

The corporate performance team is able to support services by running risk workshops as required. Performance and risk champions in service areas may also help to identify risks and directors should encourage heads of service to identify and manage operational risks by reviewing risks at departmental/directorate management team meetings (it is recommended that risk and performance are reviewed at the departmental level on at least a quarterly basis and that new risks are considered as part of this process).

**Programme / Project Risks**

Risk management should be incorporated into programme and project management right from the outset. The size and scope of the project will dictate the best way of managing the risks. However, all programmes/projects must undertake full risk assessments.

All significant programmes and projects should use a risk log which will be managed by the programme/project manager and reviewed by the relevant board.

For programme and projects which are likely to have an impact on the councils' ability to meet its strategic objectives or have a budgetary impact of over £100,000 the additional requirements are in place:

- The high level risk and its controls will be recorded and managed through the councils' strategic risk register. Detailed risks associated with the programme/project will be recorded in its risk log.

- Risk should be a frequent item on each programme/project board meeting to review existing risks and the effectiveness of their controls and to identify any new risks.

- Risk management in programmes and projects will be supported as necessary by the Programme Manager and the Corporate Performance manager.

For minor projects (low value or single service based) a risk log should still be maintained as part of good project management. However, it is unlikely that the project risks will appear on the councils' strategic risk register unless they have the potential to have significant reputational, health and safety or service provision risks, or the potential loss could exceed £100,000. If this is the case then the approach set out above with regards to significant programme / project risks should be followed.

**Shared/Joint risks**

A risk can be described as shared when it has an impact on both organisations' priorities/services (although it may not be an equal impact), when both organisations must work together to mitigate and control it or when it is elated to a joint service or programme / project. If a risk is identified as shared it will appear on both councils' risk registers and will be highlighted as a shared risk.

## 2.3 Assessing Risk

Once a risk has been identified (of any type, strategic, operational or project) it needs to be assessed. The assessment process considers the likelihood that the risk may occur and its potential impact. This allows for risks to be ranked and prioritised, as not all risks represent equal significance to the councils.

The councils' use a risk scoring matrix to work out the inherent risk score (likelihood' times the 'impact'). The inherent risk score helps to make decisions about the significance of risks to the organisations, how they will be managed, the controls required and the treatment of the risk.

The owner of the risk undertakes this assessment. For strategic risk this is checked by the corporate performance team, for programme/ project risks by the relevant board and for operational risk by the Head of Service.

| | | Likelihood | | | | |
|---|---|---|---|---|---|---|
| | | Remote 1 | Unlikely 2 | Possible 3 | Probable 4 | Highly Probable 5 |
| Impact | 5 Catastrophic | 5 ↑ | 10 ↑ ↑ | 15 ↑ ↑ | 20 ↑ ↑ ↑ | 25 ↑ ↑ ↑ |
| | 4 Major | 4 = | 8 ↑ | 12 ↑ ↑ | 16 ↑ ↑ ↑ | 20 ↑ ↑ ↑ |
| | 3 Moderate | 3 = | 6 ↑ | 9 ↑ | 12 ↑ ↑ | 15 ↑ ↑ |
| | 2 Minor | 2 = | 4 = | 6 ↑ | 8 ↑ | 10 ↑ ↑ |
| | 1 Insignificant | 1 = | 2 = | 3 = | 4 = | 5 ↑ |

*NB inherent risk is sometimes referred to as gross risk.*

The risk management handbook and 'new risk template' explain in greater detail what makes up the likelihood and impact scores.

The inherent risk score will determine how the risk is controlled and managed with treatment, toleration, transfer and terminate the main options (see section 2.4).

Once controls and actions to mitigate the risk have been identified a net risk score should be assessed. The inherent and net risk scores, along with the controls and actions then form the basis of the quarterly review.

**Organisational risk profile**

Once strategic risks and mitigating controls/actions have been assessed the results are then plotted on a risk matrix which is included as part of the strategic risk register.

Service/projects risks may be plotted in a similar way if required.

**Sources of additional information**

To support the assessment of risk there is a simple risk management guide, a template to set up the risk, and a risk analysis tool (the risk bow tie) that an be used in groups on individually to help assess the nature and impact of the risk. The corporate performance team will also provide support as required.

## 2.4 Managing and Controlling Risk

Once risks have been identified and assessed, the next step is to control and manage them. This will involve the consideration of cost-effective action, which is aimed to reduce the inherent risk rating. These management actions should be focussed on gaps in terms of risk controls and assurance**.**

The proposed action(s) to control the risk will then be mapped against the specified risk together with an implementation date, and a named person will be designated as responsible for 'owning' the risk. The 'net' risk rating is the assessment of the risk after these controls/actions have been put in place.

These actions/controls should be included in risk documentation and/or service plans. Where a risk is associated with a programme or project it should be entered into the relevant risk log.

Managing risk is an on-going process and the commentary provided as part of the quarterly risk review process should reflect the activity taken within the quarter to control the risk.

**The Four T's**

The level of the inherent risk will help determine the best treatment for a risk, whether strategic or operational. The risk owner has a number of options:

1. TOLERATE: The councils' may tolerate a risk where

    - The risk opens up greater benefits
    - These risks must be monitored and contingency plans should be put in place in case the risks occur.
    - The risk is effectively mitigated by controls, even if it's high risk
    - The risk cannot be mitigated cost effectively

2. TREAT: This is the most widely used approach.

    The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it through either containment actions (these lessen the likelihood or consequences of a risk and are applied before the risk materialises) or contingency actions (these are put into action after the risk has happened, reducing the impact. These must be pre-planned)

3. TERMINATE: Doing things differently and therefore removing the risk.

    This is particularly important in terms of project risk, but is often severely limited in terms of the strategic risks of an organisation.

4. TRANSFER: Transferring some aspects of the risk to a third party.

   For example via insurance, or by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks, or risks to assets. However it is a limited option – very few strategic risks are insurable and only around 15 -20% of operational risks can be insured against.

## 2.5 Reviewing and Reporting on Risk

As a minimum a quarterly process of reviewing and reporting on risk will be undertaken and where necessary the risk will be reviewed more frequently. This review involves consideration of all significant risks facing both councils, with risks broken down into strategic, which could impact on the achievement of council objectives, corporate risks which could impact across more than one service, and significant partnership risks.

The review should focus on four key factors:

1. Whether there are any changes to the inherent/residual risk scores
2. Whether new controls or actions are required
3. To what extent are there any gaps in the assurance of identified controls
4. Whether the risk is still relevant

Operational/service risks and programme/project risks will be monitored and reviewed locally, on a quarterly basis. Operational/service risks will be health checked by the corporate performance team at least twice a year. Programme and project risks will be owned and reviewed by the relevant board.

All risks will be clearly defined together with the controls that currently exist to manage them. Risk ratings will be reviewed and where relevant commentary to identify progress against planned action or any emerging issues.

It is important that the internal systems and procedures in place are adequate to manage the identified risk. Where control weaknesses are identified, these should be noted so that action can be taken to remedy such weaknesses. Action to address these weaknesses should be included within the report.

## 2.6 Linking risk to business plans and performance

**Linking Strategic Risk to Council Business Plans**

The Strategic Risk and Opportunities Register is owned and monitored by the JMT and managed by the corporate performance team. Where appropriate risks will be associated with council priorities and objectives (n.b. the priorities or one or both councils). On occasion a risk may sit outside a council priority, for example where it affects all priorities or has whole organisation impact (e.g. the risk of systems failure).

**Incorporating Operational Risk into Service Plans**

Each service is required to produce a service plan on an annual basis. The format of the service plan is common across the two councils and ensures there are clear links between council priorities and objectives and service deliverables.

Each service plan is required to identify operational risks associated with service delivery and ideally they should be directly linked to service priorities. Likewise actions to control risks should be included within the service plan or the risk documentation itself.

Responsibility for monitoring operational risk lies with the Head of Service and service managers.

**Integrating Risk and Performance Management**

Performance and risk will follow the same quarterly monitoring regime and performance risks will be clearly highlighted in reports. Where possible risk monitoring information will be captured using the same process as performance information.

# Section 3: Roles and Responsibilities

## 3.1 Accountability

There will be clear accountability for risks and risk management. This is supported through each councils' Annual Governance Statement signed by the Chief Executive and the Leader of the Council, and by making both councils' risks and risk management process open to regular Member overview, internal audit and external inspections.

The overall responsibility for the effective management of risks rests with full council (at CDC and SNC) and the SNC Cabinet/CDC Executive (lead member/portfolio holder) as advised by its senior management. The overall risk champions at each council are the Director of Resources (as the Joint Management Team lead) and the Chairman of the SNC Audit Committee and the CDC Accounts, Audit and Risk Committee.

The CDC Accounts, Audit and Risk Committee and the SNC Audit Committee have specific responsibility for monitoring the councils' risk management arrangements, for undertaking an annual review of this strategy to ensure it remains current and up to date and reflects current best practice in risk management, and for making recommendations to the Cabinet/Executive if it is considered that any improvements or amendments are required.

CDC Executive Members and SNC Portfolio Holders will be briefed regularly by Heads of Service to ensure they are aware of significant risks affecting their service areas/portfolios and any improvements in controls which are proposed.

Sections 3.2 and 3.3 of this strategy outline specific Councillor and Officer accountabilities and responsibilities with regards to risk management.

## 3.2 Council Committees

**Audit Committee (South Northamptonshire Council)**

The committee will monitor the effective development and operation of the council's risk management, including consideration of the risk register. The committee provides independent assurance to the Council on the effectiveness of risk management and internal control arrangements and performance effectiveness to the extent it affects exposure to risk and to inform the Annual Governance Statement.

**Accounts, Audit and Risk Committee (Cherwell District Council)**

The committee will ensure that corporate governance arrangements (including risk) are in place, they consider the statement of assurance and monitor the effectiveness of risk management. The committee also commissions the risk management strategy and endorses it for Executive to adopt.

**Cabinet (South Northamptonshire District Council)**

The South Northamptonshire Cabinet will receive a quarterly update on risk as part of the performance exceptions report. The risk management strategy will be included on an annual basis.

**Executive (Cherwell District Council)**

The Cherwell District Council Executive receives a quarterly update on risk as part of the integrated performance and risk management report. This includes the adoption of the risk management strategy and performance management framework on an annual basis.

Reflecting the roles of these committees the relevant Chairmen, Lead Members (CDC) and Portfolio Holders (SNC) will be briefed on risk matters and act as risk champions where appropriate.

## 3.3 Section 151 Officer

The councils' Section 151 Officer is the lead officer for risk management and ensures that the councils' have robust risk management strategies in place that effectively support the system of internal control.

## 3.4 Joint Management Team

The Joint Management Team has a number of roles with regards to risk management. As the senior management team they are likely to own many of the strategic risks on the councils' risk registers. As such they are responsible for risk review and monitoring, and as part of the performance management framework they review the strategic risk register on a quarterly basis.

JMT also have a role in identifying and highlighting new risks and working with the Corporate Performance Team to ensure they are assessed, recorded and managed.

## 3.5 Corporate Performance Team

The Corporate Performance Team is responsible for preparing and updating the risk management strategy, for compiling and managing the strategic risk register (including preparing quarterly reports) and for ensuring operational risk management is undertaken by services and as part of programme and project management. The team researches risk best practice and helps the councils' set their risk appetites.

In addition the team provides risk related support to managers, officer and councillors (through officers groups and risk management training) and helps prepare the Annual Governance Statement.

## 3.6 Team Managers, Officers and Staff

Service managers and team leaders will often be responsible for operational and project risks. This includes risk identification, assessment and management. At this level risks should be included in service and project plans. For some projects a separate risk log will be required.

In some cases JMT members may devolve the day to day responsibility for managing a strategic, corporate or partnership risk to a service manager. If this is the case the manger will be expected to update the strategic risk register on a quarterly basis.

Staff without direct responsibility for owning and managing a risk still have an essential role to play in helping teams identify potential risks associated with service delivery and implementation of projects. As such staff should be involved in risk discussions within teams as they would be with regards to performance management.

## 3.7 The Performance and Risk Working Group

At Cherwell District Council a Performance and Risk Management Working Group will meet regularly to promote risk management throughout all departments and to ensure continuous improvement in performance, risk and opportunity management. Similar arrangements at South Northamptonshire Council will be explored during 2012/13.

# Section 4: Monitoring and Review

## 4.1 Annual Review of the Risk Strategy

The Risk and Opportunities Management Strategy will be reviewed on an annual basis and this review will take into account any issues highlighted by the internal audit of risk management. In addition the strategic risk register will be fully reviewed by the Joint Management Team during the fourth quarter and as part of the annual service planning process managers will be asked to fully review their operational risks.

## 4.2 Quarterly Monitoring of the Strategy and Register

As part of the risk and opportunities management process it is expected that risks (whether strategic or operational) are reviewed on a quarterly basis.

A quarterly report will be taken to the Accounts, Audit and Risk Committee (Cherwell District Council) and the Audit Committee (South Northamptonshire Council) providing a summary of this quarterly review and in addition highlighting any issues arising with regards to the implementation of or compliance with the Risk Strategy. The review will include commentary regarding the current risk score, the controls in place and whether any gaps have been identified in terms of the assurance that the controls are effective.

## 4.3 Internal Audit

Internal Audit will be in a position to provide assurance on the internal control environment, in line with their planned programme of work. Internal Audit will plan the annual audit coverage based on a risk assessment, and on the levels of assurance that can be obtained from other assurance providers. The Code of Practice for Internal Audit in Local Government in the United Kingdom defines Internal Audit as;

‘An assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources’.

It is envisaged that Internal Audit and Risk Management will co-ordinate assurance by:

- Independently reviewing the risk management strategy and process.
- Completing risk based reviews of the key controls identified to mitigate the principal risk to the councils achievement of their strategic objectives.
- Referring to the councils’ risk registers when planning audit work.

## 4.4 External Audit and Review

**External Audit**

External Audit is a key source of assurance and both councils should take into account the external audit management letter and reports. However, it is worth noting that the work of external audit has to be independent and the councils should not rely on external audit for advice and guidance as that is not their role.

**Review Agencies and Inspectorates**

Aspects of the organisations' activities may be subject to independent inspection, assessment, quality or peer review (for example investors in people, charter mark etc.). These reports are likely to identify areas of strength and issues to address and may also provide some assurance. Reports from the Local Government Ombudsman may also provide a further source of assurance.

# Section 5: Corporate Governance

## 5.1 Annual Governance Statement

Regulation 4 of the Account and Audit Regulations (2003) requires audited bodies to conduct a review, at least once a year, of the effectiveness of their systems of internal control. This review is incorporated within the Annual Governance Statement that is published alongside the statement of accounts for both councils.

The purpose of the Annual Governance Statement is to provide a continuous review of the effectiveness of an organisation's internal control and risk management systems, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process. The process of preparing the Annual Governance Statement will add value to the corporate governance and internal control framework of an organisation.

The statement needs to be approved separately to the accounts and signed as a minimum by the Chief Executive and the Leader of the Council. At each council the production of the Annual Governance Statement will be reliant upon the contents of some or all of the following. These sources of assurance are:

- Internal audit annual report
- External audit management letter
- Review Agencies and Inspectorates (where appropriate)
- Other internal review mechanisms
- The Strategic Risk and Opportunities Register, including controls and actions
- Operational Risk Registers, including controls and actions
- Statements of Assurance
- Identification of risks highlighted by the Joint Management Team
- Audit Committees at both councils
- Performance Management Framework
- Health and Safety Adviser

## 5.2 Statements of Assurance

In order for the Chief Executive and the Leader of the Council to be able to sign off the Annual Governance Statement there is a requirement for each Head of Service to complete a statement of assurance taking responsibility for their individual service/operational risk registers and the implementation of the management actions contained within it. These statements of assurance will be completed on a 6 monthly basis.

The Chief Executive or, in the absence of the Chief Executive, a Director/Section 151 Officer, needs to sign a statement of assurance for the Strategic Risk and Opportunities Register.

# Section 6: Contacts and Further Guidance

## 6.1 Contacts

- Martin Henry – Director of Resources and S151 Officer
  martin.henry@cherwellandsouthnorthants.gov.uk
  0300 003 0102

- Claire Taylor – Corporate Performance Manager
  claire.taylor@cherwellandsouthnorthants.gov.uk
  0300 003 0113

- Ros Holloway – CDC Performance and Risk Officer
  ros.holloway@cherwell-dc.gov.uk
  01295 221737

## 6.2 Supporting Documents / Guidance

In addition to this strategy the following documents provide information and guidance with regards to risk management:

1. A quick guide to risk management – a three page summary of the councils' approach to risk

2. New risk assessment template – a single page template that takes you through the process of assessing a new risk or fully reviewing an existing risk

3. The risk management handbook – a comprehensive guide to risk management

4. The performance management framework – a comprehensive guide to performance management including how it should relate to risk

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# Accounts Audit and Risk Committee

## Internal Audit Progress Report

## 19 March 2012

## Report of Chief Internal Auditor

**PURPOSE OF REPORT**

This report provides the Committee with an update of the work of Internal Audit since the last meeting.

| This report is public |
|---|

## Recommendations

The Accounts, Audit and Risk Committee is recommended to:

(1) Consider and approve this report

## Executive Summary

### 1.1 Introduction

This report provides the Committee with an update of the work of Internal Audit since the last meeting. It includes a high level overview of final reports issued and issues raised.

### 1.2 Proposals

No specific proposals included

### 1.3 Conclusion

The Accounts, Audit and Risk Committee is recommended to consider and approve this report and the amendments made to the audit plan

## Background Information

Internal Audit has undertaken work in accordance with the 2011/12 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee. Progress reports are taken to this committee to outline the work performed and conclusions forged to date.

## Implications

| | |
|---|---|
| **Financial:** | n/a |
| **Legal:** | n/a |
| **Risk Management:** | The progress of the Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors. This risk has been assessed on the Council's risk register, entry number 0264.<br>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215 |

## Wards Affected

All

## Document Information

| Appendix No | Title |
|---|---|
| Appendix 1 | Internal Audit Progress Report |
| **Background Papers** | |
| n/a | |
| **Report Author** | Chris Dickens, Chief Internal Auditor |
| **Contact Information** | 07720 427215<br>Chris.Dickens@cherwell-dc.gov.uk |

# Internal audit summary report for Accounts, Audit and Risk Committee

*March 2012*

# Table of Contents

# Plan outturn

## 2011/12 Audit Plan

We have undertaken work in accordance with our 2011/12 Internal Audit Plan and have agreed one change to this plan since the previous meeting. To assist with the preparation of the Council's Statement of Accounts, we have agreed the secondment of a specialist technical accountant to the finance team for the period of March-June 2012. It has been agreed that the days allocated for the Fixed Assets, Close Down and Local Strategic Partnership reviews will be utilised for this secondment to reflect the importance of timely and accurate preparation of the accounts. The member of staff seconded from PricewaterhouseCoopers LLP has not been previously involved with the delivery of Internal Audit at Cherwell District Council (CDC) and is therefore sufficiently independent to perform this role.

Our revised plan and an outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix 1. At present we have completed **160 days out of a total planned 180 days (89%).** We have 3 reports to finalise ahead of issuing our Annual Report to the June meeting and we do not anticipate any delays in these areas. Performance of our "Group Systems" workshop for Joint Members has been delayed until a date for the next meeting of this forum is agreed. As this review is deemed "value enhancement" it does not impact on our ability to form a year end opinion.

## 2012/13 Audit Plan

We are delighted that we have been reappointed as the Internal Auditors for Cherwell District Council. As a result of our reappointment we have been able to hold meetings with all Directors, Heads of Service and the Chair of this Committee during March to conclude our planning for 2012/13 on a timely basis. Our draft plan has been brought in full to this meeting.

# Reporting Activity and Progress

## *Final reports issued since the previous meeting*

**Creditors**

We have classified our findings in this area as **Medium Risk**, which is comparable to our risk rating in 2010/11. Significant efforts have been made to clear the credit note balance highlighted in prior year and at the date of audit this stood at £516. Despite work performed in this area, all issues raised in this report are prior year open findings. The Council should ensure that effective recommendation tracking processes are put in place to monitor implementation of agreed actions.

One high risk issue has been noted relating to non purchase orders. Our audit showed that no purchase order was in place for 84% of invoices received in year. In the majority of cases, these relate to purchases with small suppliers or invoices received for repairs works where it is felt that an initial cost cannot be estimated. Performance in this area is comparable to prior year (85%). If purchase orders are not raised, there is an increased risk that unauthorised purchases may not be identified until invoices are received. In addition, the Council is not able to monitor commitments unless a purchase order is posted to the system. This increases the risk that the budget position is not fully understood.

Two low risk issues were noted around the absence of documented authorisation of payment runs and new creditors. The Council should ensure that reminders are issued to officers to improve compliance in these areas.

**Risk Management**

**Low Risk.** Controls around risk management have improved from last year. The Performance Plus (P+) system is now more embedded within the Council and this has improved links between risk and performance management. In order to increase knowledge sharing and risk management training, a new steering group (the Perfomance and Risk Officers' Working Group) has been introduced. In addition to this, regular and detailed reports are produced for the Accounts, Audit and Risk Committee (AA&RC) and Corporate Management Team (CMT) to facilitate scrutiny of corporate risks and risk management arrangements. Internal Audit continue to work closely with the Council on risk mangement issues and have aided in training to both the risk working group and AA&RC.

Six of the seven issues raised in prior year have been implemented in line with the agreed timescales. No operating effectiveness issues were noted in year which implies high levels of compliance with risk management procedures.

That said, issues were noted around control of risk at a service level. The Council does not currently monitor service risks corporately and review of registers identified a number of ommissions with information at this level. Further work should be performed to establish controls to provide assurance over these devolved responsibilities.

**Trade Waste**

We reviewed the controls around procurement of trade waste vehicles and the processes in place for receiving income for this service. We issued a **Medium Risk** rating in this area. The controls around the procurement of waste vehicles are strong, with no issues noted during our review. All purchases tested were in line with a robust set of procedures jointly developed with central procurement and ensured that the Council has obtained good value for money in this area through obtaining a number of quotes.

The invoice raising process is largely reliant on the corporate debt recovery team. There are controls in place around the section of the process which is administered from the Trade Waste side. Customer requests are received via the internet or the customer service team. Invoices are then raised on an invoice request form and sent to the CDRT for processing. One issue was noted aroundthe retention of the invoce request forms.

The account setup process was also examined and issues were noted around the retention of the forms used to set up new debtors and also around the recording of new customers on the Uniform client database. It was also recommended that the Council verify new customers to Business Rates bills to ensure they are legitimate.

A further recommendation was raised around the lack of procedure notes available for account set up and invoice raising. This could lead to a loss of corporate memory if a key team member leaves the Council. The Trade Waste process uses both the Agresso financials system to invoice customers and the Uniform client database to maintain their details and recurring orders.

**IT Business Case – Critical Friend**

We were asked to review the joint ICT working initiative between South Northamptonshire Council (SNC) and Cherwell District Council (CDC) to determine if planning is sufficiently sound to achieve the desired outcomes. This was a "value enhancement" review and as such no risk rating has been provided.

We found the programme was well designed, providing tranches of work in separate projects that build towards the realisation of longer term objectives. Overall, we found no significant issues with the development of the programme. However the following areas were under represented in the documentation:

- the need to develop new non-technical service management structures and procedures to deal with the changes in managing finance and capacity utilisation; and
- Business Continuity (BC) / IT Disaster Recovery (IT DR) planning strategy and designs that go beyond the transition stages which may influence future architecture choices.

**Joint Management Validation**

Our plan includes a regular verfication exercise of the costs and recharges associated with the Joint Management Team. As part of this review we examined the budget information and spend incurred in quarters 1-3 of 2011/12. We noted 2 minor issues with the information reported. These related to the need to reforecast the budget for redundancy costs and a minor difference in the salary of the Chief Executive. Both issues are to be corrected in the quarter 4 outturn. This was a "value enhancement" review and as such no risk rating has been provided.

**Eco Town**

The Department for Communities and Local Government (DCLG) requires Internal Audit to comment on the controls in place around the Eco Town project. We noted no material weaknesses in Council's processes but have made the following recommendations to management:

- A revised structure chart should be drawn up and circulated to all members of the Strategic Delivery Board (SDB);
- Regular reports showing budget to actual should be reported to the SDB to ensure effective budget monitoring of project spend; and
- Going forward, the SDB should consider approving a suite of performance indicators (qualitative and quantitative) which will enable process against key objectives to be monitored

No issues were noted with a sample of 20 expenditure items made in year using the Eco Town grant. In each case, the expenditure could be verified back to supporting documentation, was accounted for in the correct year and has been spent in accordance with the grant terms.

# *Fieldwork and draft reports*

Draft reports have been issued and/or fieldwork has commenced in the following areas: -

- Budgetary Control
- Housing Benefits
- Firewall follow up

# *Appendix 1 – Plan Progress*

| Ref | Auditable Unit | Indicative number of audit days | Status/Revisions to the plan |
|---|---|---|---|
| A | Cross-cutting Processes | | |
| A.1 | General Ledger | 5 | Fieldwork completed. Final report issued. |
| A.2 | Debtors | 5 | Fieldwork completed. Final report issued. |
| A.3 | Creditors | 5 | Fieldwork completed. Final report issued. |
| A.4 | Payroll | 5 | Fieldwork completed. Final report issued |
| A.5 | Budgetary Control | 7 | Fieldwork commenced. |
| A.6 | Collection Fund | 10 | Fieldwork completed. Final report issued |
| A.7 | Cashiers | 5 | Fieldwork completed. Final report issued. |
| A.9 | Housing Benefits | 8 | Fieldwork completed. Draft report issued |
| A.10 | Fixed Assets | 5 | Days utilised for financial accountant secondment |
| A.12 | Car Parking | 5 | Fieldwork completed. Final report issued. |
| A.14 | Risk Management/Governance (in conjunction with B.6) | 5 | Fieldwork completed. Final report issued. |
| | **TOTAL** | **65** | |
| B | Department Level | | |
| B.5 | Legal and Democratic Services - Transparency Agenda | 5 | Fieldwork completed. Final report issued. |
| B.6 | Strategy and Performance LDF Partnership Review | 5 | Days utilised for financial accountant secondment |
| B.7 | Strategy and Performance -Performance Management (in conjunction with A.14) | 10 | Fieldwork completed. Final report issued. |
| B.7 | Finance – Year end | 5 | Days utilised for financial accountant secondment |
| B.8 | Information Technology – Firewall and Disaster Recovery | 10 | Fieldwork commenced |
| B.9 | Information Technology- Critical Friend support | 10 | Fieldwork completed. Final report issued. |
| B.10 | Environmental Services – Trade Waste and Vehicles | 5 | Fieldwork completed. Final report issued. |
| | **TOTAL** | **50** | |
| VE | Value Enhancement | | |
| VE.1 | Shared Management – Validation of key milestones | 10 | Fieldwork completed. Final report issued. |

| | | | |
|---|---|---|---|
| VE.2 | Eco Town – Governance and Finance | 5 | Fieldwork completed. Final report issued. |
| VE.3 | Fraud Awareness Training | 5 | Training delivered |
| VE.4 | Shared Management – Group Systems Workshop | 10 days equivalent | To commence in June 2012 |
| | **TOTAL** | **30** | |
| PM | Project Management | | |
| PM1 | Follow up | 5 | Ongoing |
| PM 2 | Audit Management | 30 | Ongoing |
| | **TOTAL** | **35** | |
| | **TOTAL PROPOSED DAYS** | **180** | |

## Summary of recommendations (cross cutting and departmental only)

| Assignment | High (10 points) | Medium (3 points) | Low (1 point) | TOTAL POINTS | Overall Risk Rating |
|---|---|---|---|---|---|
| Cash Collection | 0 | 1 | 2 | 5 | LOW |
| Car Parking | 0 | 1 | 1 | 4 | LOW |
| Transparency Agenda | 0 | 1 | 1 | 4 | LOW |
| General Ledger | 0 | 4 | 3 | 15 | MEDIUM |
| Collection Fund | 0 | 3 | 2 | 11 | MEDIUM |
| Payroll | 0 | 1 | 0 | 3 | LOW |
| Performance Management | 0 | 1 | 1 | 4 | LOW |
| Debtors | 0 | 2 | 0 | 6 | LOW |
| Creditors | 1 | 0 | 2 | 12 | MEDIUM |
| Risk Management | 0 | 1 | 1 | 4 | LOW |
| Trade Waste | 0 | 2 | 2 | 8 | MEDIUM |
| **Total** | **1** | **17** | **15** | **-** | |

# Appendix 2 – Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

## Taking Responsibility – Government and the Global CEO

Global economic recovery appears not only fragile but also unbalanced, with developing economies still growing but more mature economies, particularly in Europe, flat-lining or facing double-dip recession.

Economic uncertainty and volatility continue to impact on business confidence to invest and grow. Governments need to provide political leadership to lay the foundations for a stable and lasting global recovery, with fiscal austerity the order of the day.

This report assesses the changing relationship between government and business and sets out the policy and public sector delivery responses needed to address the challenging conditions businesses are facing.

**Key findings:**

- **65%** of CEOs are concerned about governments' responses to fiscal deficits and the debt burden. Prioritisation, making tough choices and doing more for less (or increasingly the same for less) is the key to success.
- **48%** of CEOs believe the global economy will decline further in the next 12 months: indeed, only about 1 in 7 (15%) CEOs believe the global economy will improve in the next year.
- **54%** of CEOs are concerned about the availability of key skills as a threat to growth

## Cloud Computing

Cloud computing provides a valuable business solution to transform capabilities, deliver cost savings, gain business agility and competitive advantage. CIOs must develop a proactive strategy to leverage the benefits.

CIOs must develop a cloud computing strategy at the outset or run the risk of disparate approaches within ministries or groups.

CIOs who take a reactive, “wait-and-see” approach to developing a cloud computing strategy run the risk of having the strategy and protocol dictated onto them, leaving little room for control

## Fighting Fraud in Government

Since our 2009 Global Economic Crime Survey, governments around the world have taken action to address their faltering economies and this has directly impacted on those who work for, and with, the public sector.

This public sector analysis of our 2011 Global Economic Crime Survey examines the current fraud landscape, taking a close look at who is committing economic crime, what new types of fraud are emerging and how they can be addressed.

All publications can be read in full at ***www.psrc.pwc.com/*** .

# Accounts Audit and Risk Committee

## Internal Audit Draft Plan 2012/13

## 19 March 2012

## Report of Chief Internal Auditor

### PURPOSE OF REPORT

This report provides the Committee with a draft version of the 2012/13 internal audit plan.

| This report is public |
|---|

### Recommendations

The Accounts, Audit and Risk Committee is recommended to:

(1) Consider and approve this report.

### Executive Summary

### 1.1 Introduction

This report provides the Committee with a final internal audit plan for 2012/13. This is based on our Strategic Plan for 2012-15 and has drafted updated following consultation with members and officers. This report will be brought in final to the next meeting.

### 1.2 Proposals

No specific proposals included

### 1.3 Conclusion

The Accounts, Audit and Risk Committee is recommended to consider and approve this report

## Background Information

Internal audit is required to produce a risk based plan on an annual basis. Our draft audit plan has been drafted order to ensure that that the risks facing Cherwell District Council's are effectively addressed and internal audit resources are effectively utilised. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdome

## Implications

| | |
|---|---|
| **Financial:** | n/a |
| **Legal:** | n/a |
| **Risk Management:** | The Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors. This risk has been assessed on the Council's risk register, entry number 0264.<br>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215 |

## Wards Affected

All

## Document Information

| Appendix No | Title |
|---|---|
| Appendix 1 | Internal Audit Draft 2012/13 Internal Audit Plan ~ to follow |
| **Background Papers** | |
| n/a | |
| **Report Author** | Chris Dickens, Chief Internal Auditor |
| **Contact Information** | 07720 427215<br>Chris.Dickens@cherwell-dc.gov.uk |

# Accounts, Audit and Risk Committee

## External Audit Progress Report

## 11 January 2012

## Report of Head of Finance and Procurement

**PURPOSE OF REPORT**

The report provides a progress report on the work of external audit.

| This report is public |
|---|

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) Note the contents of the progress report (Appendix 1)

**Summary**

1.1 Appendix 1 contains the latest progress report and the Engagement manager Nicola Jackson will be able to address any issues that the Committee would like to raise at the meeting.

**Key Issues for Consideration/Reasons for Decision and Options**

The following options have been identified. The approach in the recommendations is believed to be the best way forward:

**Option One** To note the contents of the report
**Option Two** To raise issues or questions relating to this report

**Implications**

| | |
|---|---|
| **Financial:** | The audit fee can be contained within 2011/12 budget of £127,518<br>Comments checked by Karen Muir, Corporate System Accountant 01295 221559. |
| **Legal:** | There are no implications arising from this report.<br>Comments checked by Karen Muir, Corporate System Accountant 01295 221559. |

| | |
|---|---|
| **Risk Management:** | There are no implications arising from this report<br><br>Comments checked by Karen Muir, Corporate System Accountant, 01295 221559. |

**Wards Affected**

All wards are affected.

**Document Information**

| Appendix No | Title |
|---|---|
| Appendix 1 | External Audit Progress Report |
| **Background Papers** | |
| None | |
| **Report Author** | Karen Curtin, Head of Finance and Procurement |
| **Contact Information** | Karen.Curtin@Cherwellandsouthnorthants.gov.uk<br>0300 003 0106 |

# Progress Report

## Cherwell District Council

## March 2012

| Area of work | Date | Comments |
|---|---|---|
| **2011/12 audit** | | |
| Fees letter | April 2011 | Scale fee set by the Audit Commission:<br>fees letter to Chief Executive on 20 April 2011. |
| Opinion audit plan | Dec 2011 | Presented to January Accounts, Audit and Risk Committee |
| Annual governance report | Sept 2012 | |
| Opinion on accounts and VFM conclusion:<br>■ interim visit<br>■ final accounts<br>■ vfm conclusion | Sept 2012 | We are required to issue an opinion on the financial statements. To support this work we review key financial systems including the evaluation and testing of key controls (reliance on internal audit as appropriate).<br>This fieldwork was completed in February, and the results of our work is summarised in this progress report. |
| Annual Audit Letter | Oct 2012 | |
| Grant claims 2011/12:<br>■ NNDR<br>■ Housing benefit<br>Annual grants report | <br>Sept 2012<br>Nov 2012<br>Dec 2012 | |

## Interim systems audit

**1** We audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). One of our main objectives is to give an opinion on the financial statements.

**2** We develop our testing strategy to determine the appropriate level of testing needed to give our opinion on the financial statements. To do this, we carry out a review of all systems which we identify as material to the financial statements and then assess the level of assurance that we can get from the proper operation of those systems. We liaise with Internal Audit in planning and performing our audit work. Our work involves:

- documenting all material systems;
- walkthrough testing for all material systems to assess whether the system and controls are operating as described;
- developing our testing strategy; and
- testing the key controls which we need to place reliance on, as determined by the testing strategy.

**3** The material systems where we place reliance on the on proper operation of controls are: general ledger; payroll; accounts payable; accounts receivable; fixed assets; housing benefits; council tax/NNDR; car parking; treasury management and cash receipting/bank.

**4** Our interim work is complete. We highlighted three control weaknesses with officers: retaining evidence to support the checking of Capita's work on Council Tax; reconciling Pay and Display car park income from the machines to the bank account; and reconciling the Co-op bank account. Recommendations are included in our action plan.

**5** We are required to understand and evaluate the Council’s IT controls and environment that support the material financial systems. We completed our work in February. We did not identify any weakness that would indicate a risk of material misstatement.

**6** We highlighted two issues with officers: IT policies have not been updated since 2010; and disaster recovery testing hasn't taken place yet. The IT policies will not be updated until the shared IT service between Cherwell and South Northants is in place. Also, the disaster recovery has not been completed as the recovery site is currently being rebuilt. A test is due later in 2012 when work is complete.

## Housing benefit & council tax benefit subsidy 2010-11

**7** At the last Accounts, Audit and Risk Committee, we discussed the results of our benefits claim certification work. Officers said that they intended to undertake further work on the extended testing that we reported to the DWP in November. We have received this additional work on "start dates" and are awaiting the testing on "employment earnings". We will report the results of our additional work to the DWP and bring a summary to the next Accounts, Audit and Risk Committee.

## Action Plan

| Recommendation: Council Tax | |
|---|---|
| The number of properties on listed on the Council Tax Valuation Office report should be reconciled to the number of properties on the Northgate system monthly. Council staff indicated that Capita carry out this check but it is not evidenced as reviewed. | |
| Rating | medium |
| Recommendation | Retain evidence to support the checking of the number of properties on the Valuation Office (VO) reports to the Northgate system. |
| Response | The schedules themselves are actioned weekly on receipt from the VO. They are checked monthly as part of the KPIs. The schedules are checked for accuracy and to ensure they are done within time limits. The evidence is readily available if required and there is nothing to stop a copy being sent weekly or as they are actioned. Evidence of the checking will be requested by Capita. |

| Recommendation: Car parking income | |
|---|---|
| Issue: Car Parking Income | |
| There is no reconciliation between machine audit trails and banked income to ensure that Pay & Display car parking income received into the bank account is consistent with that paid into car parking machines by customers. | |
| Rating | high |
| Recommendation | Ensure that Pay and Display Car Parking income received into the bank account is reconciled to machine audit trails. |
| Response | The daily totals are checked against the summary sheet provided by the cash collection company and the bank reconciliation. Any discrepancies are reconciled but not all totals are checked back to individual audit tickets from each car park machine. The procedure will be reviewed to check one day per week back to all audit tickets and accuracy levels will be monitored. |

| Recommendation: Co-op bank account | |
|---|---|
| Council staff check the bank statement by ticking off each receipt to match what has been sent in the daily uploads from cash receipting. However, the bank statements are not formally reconciled to the general ledger to ensure that amounts received have been reflected properly in Agresso. | |
| Rating | medium |
| Recommendation | Ensure that the Co-op bank account is reconciled on a monthly basis. |
| Response | There is a year end opening reconciliation and will be a year end reconciliation. All inputs are reconciled on the face of the bank statement. All withdrawals are then picked up in the main bank account reconciliation which is reconciled with a formal working paper monthly. We will adopt a similar procedure to provide monthly bank reconciliations for the Co-op account as opposed to a year end procedure with effect from April 2012. |

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# Accounts, Audit and Risk Committee

## 2012/13 Treasury Management Strategy and Update on Performance

## 19 March 2012

## Report of the Head of Finance and Procurement

**PURPOSE OF REPORT**

The report provides a review of the 2012/13 strategy that was approved by Council on 27 February 2012 and outlines the differences from the current 2011/12 strategy, and gives an update on current performance.

| This report is public |
| --- |

### Recommendations

The Accounts, Audit and Risk Committee is recommended:

(1) To note the contents of the report.

### Executive Summary

1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance and our compliance with counterparties being used.

1.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. This strategy was approved by Council on 27 February 2012.

1.3 The highest standard of stewardship of public funds remains of the upmost importance to the Council. This document sets out the Council's priorities and policies for making, and managing investments made by the Council in the course of undertaking treasury management activities during the 2011/12 financial year.

## Background Information

### Treasury Performance and 2012/13 Treasury Strategy

2.1 The Council has £11.5m and £11.6m respectively invested with fund managers Tradition UK and Investec. In addition it has around £56.7m managed in-house (including Eco Town funds of £11.5m) which fluctuates during the year.

2.2 These funds are currently invested in accordance with the 2011/12 strategy and there have been no breaches of this policy.

2.3 The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment.

2.4 The proposed strategy for 2012/13 is attached in Appendix 1 and is based upon the views of the Chief Financial Officer, Head of Finance and Procurement and the Council's Treasury Management Team. This is informed by market forecasts provided by the Council's treasury advisor, Sector.

2.5 In consultation with Sector and with full reference to the CIPFA Code of Practice, the Council has reviewed its risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.

2.6 The strategy detailed in Appendix 1 covers:

- The Current Treasury Position
- Prospects for interest rates
- The borrowing strategy
- Prudential Indicators
- The investment strategy
- Creditworthiness policy
- Policy on use of external service providers.

2.7 There are 3 main changes to the 2011/12 strategy:

- revised CIPFA Treasury Management Code of Practice 2011
- revised CIPFA Prudential Code 2011
- a number of downgrades to counterparty ratings

### The Revised CIPFA Treasury Management Code of Practice 2011

2.8 The revised Code has emphasised a number of key areas including the following:-

2.9 CIPFA revised the Treasury Management Code of Practice (TM Code) and associated Guidance Notes in November 2011. This revision is an update to the Treasury Management Code and Guidance Notes last published in November 2009.

2.10 The TM Code has been reviewed and updated following recent developments and anticipated regulatory changes relating to the Localism Bill 2011, including housing finance reform and the introduction of the General Power of Competence.

2.11 The new TM Code contains an expansion of the risk management chapter. (There is also now a new chapter covering the treasury management implications of the housing reform which is not applicable to this Council as it no longer has housing stock.)

2.12 This document sets out the principal changes to the TM Code and associated Guidance Notes, and outlines the impact this could have on Councils' Treasury Management Strategy Statements. Key changes are as follows:

- Authorities are to explicitly state in their TMSS whether they plan to use derivative instruments to manage risks, and ensure they have the legal power to do so
- Authorities are to make reference to their high level approach to borrowing and investment in their Treasury Management Policy Statement
- Less focus is placed on the 'minimum credit limits' for investment counterparties, with more focus on the 'minimum acceptable credit quality'
- There is a New treasury indicator: Upper limits on the proportion of net debt to gross debt; to highlight where an authority may be borrowing in advance of its cash requirement
- Authorities may wish to create a new treasury indicator which considers credit risk
- Expansion of the risk management chapter
- New Section in the TM Code Guidance Notes on the 'Treasury Management Implications of the Housing Self-Financing Reform' – this is not applicable to this Council.

2.13 This strategy statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be considered for approval annually by the full Council and there will also be a mid year report.

2.14 In addition there will be monitoring reports and regular review by members in both executive and scrutiny functions.

2.15 The aim of these reporting arrangements is to ensure that those with responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities relating to delegation and reporting.

2.16 This Council adopts the reporting arrangements outlined in Annex 1 of Appendix 3 which is in accordance with the requirements of the revised Code.

**The Revised CIPFA Prudential Code**

2.17 CIPFA has issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. (Three of these indicators are classified as Treasury Indicators rather than Prudential Indicators):

- Actual External Debt
- Gross and net debt
- Interest rate exposures
- Maturity structure of borrowing
- Principal sums invested for periods longer than 364 days
- Credit risk.

(All indicators are presented together as a suite of indicators in Annex 1 of Appendix 3)

**Counterparty Ratings**

2.18 Following on from advice received by our Treasury Advisors, the Council will select financial institutions with a minimum long-term rating of A and short-term rating of F1/P-1/A-1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

2.19 The long-term rating of A is lower than the minimum of A+ adopted in 2011/12 and is in response to downgrades in the autumn of 2011 to the ratings of many institutions considered to be systemically important. The downgrades did not reflect deterioration in the financial strength of the UK government or the financial system; rather they were a result of the agencies' assessment that the various policy recommendations of the Independent Commission on Banking will most likely result in extraordinary government support for financial institutions being relatively lower and less certain than before.

2.20 The Council will also assess other indicators, such as credit default swaps, share prices, the sovereign's economic fundamentals, corporate developments highlighted through news articles and market sentiment. If any of these indicators give rise to concern, the counterparty may be suspended from further use irrespective of the existing credit rating.

2.21 The highest standard of stewardship of public funds remains of the upmost importance to the Council. This strategy sets out the Council's priorities and policies for making, and managing investments made by the Council in the course of undertaking treasury management activities during the forthcoming 2012/13 financial year.

**Investment Income / Icelandic Banks**

2.22 At the closure of the 2010/11 accounts the Council had assumed a prudent position with regard its Icelandic investments, accounting for a loss in value of its investment portfolio (known as impairment) until the challenge to priority creditor status at the court of appeal was resolved.

2.23 Following appeal, the Council was awarded priority creditor status for its Icelandic investments with Glitnir - total £6.5m and this decision is now final.

2.24 Consequently, it is anticipated there will be a complete repayment of the £6.5m due from Glitnir Bank before the 31 March 2012. In accounting terms the loss shown last year will be reversed and the average cash position available for investment that has been budgeted will improve. The latest position will be given at the meeting.

2.25 The Council's investment income budget for 2012/13 has been compiled on the basis of close tracking of actual and likely interest rates and with the help of external advice. The emphasis has been on the least risky places to invest the Council's money and this, along with the continued low interest rates on offer and the agreed use of capital receipts has led to a significant reduction in the investment income built into the budget. In budgetary terms this is prudent and places the Council at less risk of exposure in-year.

## Key Issues for Consideration/Reasons for Decision and Options

The following options have been identified. The approach in the recommendations is believed to be the best way forward.

**Option One** Agree the recommendations

**Option Two** To approve or reject the recommendations above or request that Officers provide additional information.

## Consultations

None

## Implications

**Financial:** This report has no specific financial implications. The budget monitoring reports consider investment returns on a monthly basis.

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

**Legal:** There is a requirement for the Council to fulfils two key requirements of the Local Government Act 2003:-

- approval of the Treasury Management Policy in accordance with the CIPFA Code of Practice on Treasury Management
- approval of the Investment Strategy in accordance with the DCLG investment guidance.

Comments checked by Kevin Lane, Head of Law and Governance, 0300 0030107.

**Risk Management:**

- Risk of capital loss – the prime objective of treasury management activities is to ensure the security of the amounts invested. This is managed by using a counterparty list which only includes organisations having a suitable credit rating and which has a maximum amount that can be invested with each organisation at any one time.

- Liquidity – investments are linked to known future cash flows to ensure sufficient funds are available as and when they are required.
- Interest Receivable – this is regularly monitored against budget and reported through the Performance management Framework.

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

## Wards Affected

All

## Corporate Plan Themes

An Accessible and Value for Money Council

## Executive Portfolio

Councillor Ken Atack
Lead Member Financial Management

## Document Information

| Appendix No | Title |
|---|---|
| Appendix 1 | 2012/13 Strategy |
| **Background Papers** | |
| 2011/12 Budget Monitoring Reports and dashboard<br>Sector TMSS template<br>Local Government Act 2003<br>CIPFA's revised Prudential Code for Capital Finance in Local Authorities<br>CIPFA's revised Treasury Management Code of Practice<br>Prudential Indicator working files<br>Capital Programme 2011-2016<br>Medium Term Financial Strategy<br>2012/13 Budget Booklet | |
| **Report Author** | Karen Curtin, Head of Finance and Procurement<br>Karen Muir, Corporate System Accountant |
| **Contact Information** | 01295 221559<br>karen.muir@cherwell-dc.gov.uk |

# APPENDIX 1

# CHERWELL DISTRICT COUNCIL

## Treasury Management Strategy

Annual Investment Statement

2012/13

# 1. Introduction

## 1.1 Background

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "*

## 1.2 Reporting requirements

The council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee.This role is undertaken by the Accounts Audit & Risk Committee.

**Report 1 - Treasury Strategy including Prudential and Treasury Indicators** (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators)
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time) - Not applicable to CDC
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators
- an investment strategy (the parameters on how investments are to be managed).

**Report 2 - A Mid Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

**Report 3 - An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## 1.3 Treasury Management Strategy for 2012/13

The strategy for 2012/13 covers two main areas:

**Treasury management issues**

- the current treasury position
- treasury indicators which will limit the treasury risk and activities of the council
- prospects for interest rates
- the borrowing strategy
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

**Capital issues**

- the capital plans and the prudential indicators

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

# 2. Treasury Management Strategy

The treasury management function ensures that the council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy. The treasury management function works in accordance with the treasury management practices that are reviewed annaully bt the Accounts, Audt and Risk Committee.

## 2.1 Current treasury position

The council has £11.5m and £11.6m respectively invested with fund managers Tradition UK and Investec. In addition it has around £56.7m managed in-house (including Eco Town funds of £11.5m) which fluctuates during the year.

The 2011/12 interest projections as at January 31st 2012 show an expected investment income of £1.06m which is over budget and of this up to £216k will be added to Eco Town funding pots with the residual considered in the Quarter three report to the Executive. All investments are compliant with the strategy.

The 2011/12 Annual Report on Treasury Management will be presented to the Accounts, Audit and Risk Committee and the Executive in June 2012 along with the Revenue and Capital Outturn reports. This report will give full information on the performance of the council's fund managers and in-house operation.

## 2.2 Treasury indicators which will limit the treasury risk & activities of the council

Prudential and Treasury Indicators (annex 1 to this report) are relevant for the purposes of setting an integrated treasury management strategy. These indicators will be approved by the council as part of the 2012/13 Budget process in February 2012.

The council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Code was adopted on 1st March 2002 by the full council.

## 2.3 Prospects for Interest Rates

The council has appointed Sector as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. Annex 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

| Annual Average % | Bank Rate | Money Rates | | PWLB Borrowing Rates | | |
|---|---|---|---|---|---|---|
| | | 3 month | 1 year | 5 year | 25 year | 50 year |
| March 2012 | 0.50 | 0.70 | 1.50 | 2.30 | 4.20 | 4.30 |
| June 2012 | 0.50 | 0.70 | 1.50 | 2.30 | 4.20 | 4.30 |
| Sept 2012 | 0.50 | 0.70 | 1.50 | 2.30 | 4.30 | 4.40 |
| Dec2012 | 0.50 | 0.70 | 1.60 | 2.40 | 4.30 | 4.40 |
| March 2013 | 0.50 | 0.75 | 1.70 | 2.50 | 4.40 | 4.50 |
| June 2013 | 0.50 | 0.80 | 1.80 | 2.60 | 4.50 | 4.60 |
| Sept 2013 | 0.75 | 0.90 | 1.90 | 2.70 | 4.60 | 4.70 |
| Dec 2013 | 1.00 | 1.20 | 2.20 | 2.80 | 4.70 | 4.80 |
| March 2014 | 1.25 | 1.40 | 2.40 | 2.90 | 4.80 | 4.90 |
| June 2014 | 1.50 | 1.60 | 2.60 | 3.10 | 4.90 | 5.00 |

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

This challenging and uncertain economic outlook has a several key treasury mangement implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods
- Investment returns are likely to remain relatively low during 2012/13
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Annex 3 provides more on the current econimic background.

## 2.4 Borrowing Strategy

The council is debt free and has no plans to enter into any long term debt arrangements. As such this section is irrelevant for the 2012/13 Treasury Management Strategy. This would be reviewed in subsequent years if there was a decision to go back into debt.

## 2.5 Annual Investment Strategy

### 2.5.1 Investment Policy

The council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Sector.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in annex 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the council's Treasury Management Practices – Schedules.

### 2.5.2 Creditworthiness policy

This council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the duration for investments. The council will therefore use counterparties within the following durational bands

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be (Fitch or equivalents) Short Term rating F1, Long Term rating A-, Viability ratings of BB+.There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service:

- if a downgrade results in the counterparty / investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately
- in addition to the use of credit ratings the council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

### 2.5.3 Country limits

The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in annex 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### 2.5.4 Investment Strategy

**In-house funds**

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

**External fund managers**

Currently £23m (28%) of the council's funds are externally managed on a discretionary basis by Investec and Tradition UK. The council has used external fund managers since 1997. These fund managers and amounts held are currently under review as we look to rebalance funds as expenditure in our capital programme continues.

The council's external fund managers will comply with the Annual Investment Strategy. The agreement between the council and Investec additionally stipulate guidelines and duration and other limits in order to contain and control risk.

All investments held with Investec can be liquidated immediately if required and do not have to be held to maturity. Obviously there may be a cost implication which would impact on the total returns.

**Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

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

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

| | |
|---|---|
| 2012/13 | 0.70% |
| 2013/14 | 1.00% |
| 2014/15 | 1.60% |
| 2015/16 | 3.30% |
| 2016/17 | 4.10% |

For its cash flow generated balances, the council will seek to utilise its business reserve accounts 30 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

### 2.5.5 Icelandic Bank Investments

The Icelandic courts have supported the view that the council will be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The actual repayment is currently expected to be partially in foreign currency assets. It is currently too early to provide a definitive policy on how this exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

### 2.6 End of year investment report

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

### 2.7 External fund managers

£11.5m of the council's funds are externally managed on a discretionary basis by Investec. The council's external fund manager will comply with the Annual Investment Strategy. The agreement(s) between the council and the fund manager(s) additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The minimum credit criteria to be used by Investec is as follows: -

| | Fitch | Moodys | Standard and Poors |
|---|---|---|---|
| **Long term** | A | A2 | A |
| **Short term** | F1 | P-1 | A-1 |
| **Viability Rating** | B B+ | BB+ | N/A |

All investments held with Investec can be liquidated immediately if required and do not have to be held to maturity. Obviously there may be a cost implication which would impact on the total returns:

### 2.8 Policy on the use of external service providers

The council uses Sector as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

### 2.9 Scheme of delegation and Role of the section 151 officer

Please see annex 7.

# Appendicies

1. Prudential & Treasury Indicators
2. Interest rate forecasts
3. Economic background
4. Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits
5. Treasury Management practice - Specified and non specified investments and limits
6. Approved countries for investments
7. Treasury management scheme of delegationan and the role of the section 151 officer
8. Glossary

# Annex 1 - Prudential and Treasury Indicators

## Existing Investment & Debt Portfolio Position

| | 31/01/12 Actual Portfolio £m |
|---|---|
| **External Borrowing:** | |
| - Total External Borrowing | 0 |
| **Other Long Term Liabilities:** | |
| - Finance Leases | 0 |
| **Total Gross External Debt** | **0** |
| **Investments:** | |
| **Managed in-house** | |
| - Short-term monies (Deposits/ monies on call / MMFs) | 51,755 |
| - Long-term investments | 5.000 |
| **Managed externally** | |
| - By Fund Managers | 23,000 |
| - Pooled Funds (please list) | 0 |
| **Total Investments** | **79,755** |

**Background**

It is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

**Net Borrowing and the Capital Financing Requirement**

This is a key indicator of prudence. In order to ensure that over the medium-term net borrowing will only be for a capital purposes, the local authority needs to ensure that the net external borrowing does not (except in the short term) exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Director of Resources reports that the authority had no difficulty meeting this requirement in 2011-12, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

**Estimates of Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, considers the impact on council tax.

The council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This total expenditure can be paid for immediately by resources such as capital receipts, capital grants etc. However, where these resources are insufficient any residual expenditure will form a borrowing need.

| | **2010/11 Actual £000s** | **2011/12 Estimated £000s** | **2012/13 Estimated £000s** | **2013/14 Estimated £000s** | **2014/15 Estimated £000s** |
|---|---|---|---|---|---|
| Capital Expenditure | 5,817 | 13,923 | 13,761 | 4,712 | 2,583 |
| **Financed by:** | | | | | |
| Capital receipts | (4,509) | (11,926) | (12,107) | (4,712) | (2,583) |
| Capital grants | (383) | (375) | (375) | - | - |
| Revenue funded reserves | (925) | (1,622) | (1,279) | - | - |
| Direct Revenue Financing | **-** | **-** | **-** | **-** | **-** |
| **Net financing need for the year** | **-** | **-** | **-** | **-** | **-** |

**Ratio of Financing Costs to Net Revenue Stream**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

| Ratio of Financing Costs to Net Revenue Stream | 2011-12 Approved % | 2011-12 Revised % | 2012-13 Estimate % | 2013-14 Estimate % | 2014-15 Estimate% |
|---|---|---|---|---|---|
| **Total** | **0** | **0** | **0** | **0** | **0** |

**Capital Financing Requirement**

The Capital Financing Requirement (CFR) measures the council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of council's underlying borrowing need. The council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

The council is debt free and has no plans to enter into any long term debt arrangements. As such this section is largely irrelevant but is included for completeness if there was a decision to go back into debt. Therefore, the council has a nil Minimum Revenue Provision for 2011/12.

The council is asked to **approve a NIL CFR projection.**

**Actual External Debt**

This indicator is obtained directly from the council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

| Actual External Debt as at 31/03/2011 | £m |
|---|---|
| Borrowing | 0 |
| Other Long-term Liabilities | 0 |
| **Total** | **0** |

**Incremental Impact of Capital Investment Decisions**

This is an indicator of affordability that shows the impact of capital investment decisions on the council tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

| Incremental Impact of Capital Investment Decisions | 2011-12 Estimate £ | 2012-13 Estimate £ | 2013-14 Estimate £ | 2014-15 Estimate £ |
|---|---|---|---|---|
| Increase in Band D Council Tax | 0.36 | -0.44 | 0.23 | 0.13 |

The council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, revenue and capital receipts) and that any increase in the underlying need to borrow is supported through the Revenue Support Grant system.

**Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the council has adopted the principles of best practice.

| Adoption of the CIPFA Code of Practice in Treasury Management |
| --- |
| The council is to approve the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 27th February 2012. |

The council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

This council is aware that there is now a new indicator on net debt which has been considered; however, this is not detailed further as the council have no plans to go into debt during the 2012-13 financial year.

**Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

These indicators allow the council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure has been set to ensure that the council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments:

| | **Existing level (or Benchmark level) at 31/03/11 %** | **2011-12 Approved £m or %** | **2011-12 Revised £m or %** | **2012-13 Estimate £m or %** | **2013-14 Estimate £m or %** | **2014-15 Estimate £m or %** |
| --- | --- | --- | --- | --- | --- | --- |
| Upper Limit for Fixed Interest Rate Exposure | -£0.030 | -£0.030 | -£0.030 | -£0.030 | -£0.030 | -£0.030 |
| Upper Limit for Variable Interest Rate Exposure | -£0.012 | -£0.012 | -£0.012 | -£0.012 | -£0.012 | -£0.012 |

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the council's treasury management strategy.

As the council's investments are substantially in excess of its borrowing, these calculations have resulted in a negative figure.

**Maturity Structure of Fixed Rate borrowing**

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

| Maturity structure of fixed rate borrowing | Existing level (or Benchmark level) at 31/03/11 % | Lower Limit for 2012/13 % | Upper Limit for 2012/13 % |
|---|---|---|---|
| Less than twelve months | 0% | 0% | 100% |
| 12 months – 10 years | 0% | 0% | 100% |
| 10 years plus | 0% | 0% | 100% |

**Credit Risk**

The council considers security, liquidity and yield, in that order, when making investment decisions with Security the most important. With the uncertainty in market, the council is seeking to place investments for a short term and is effectively forgoing return in order to protect capital.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the council's assessment of counterparty credit risk.

The council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic fundamentals, such as a country's net debt as a percentage of its GDP)
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

**Upper Limit for total principal sums invested over 364 days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the council having to seek early repayment of the sums invested.

| Upper Limit for total principal sums invested over 364 days | 2011-12 Approved £m | 2011-12 Revised £m | 2012-13 Estimate £m | 2013-14 Estimate £m | 2014-15 Estimate £m |
|---|---|---|---|---|---|
| | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |

# Annex 2 - Interest Rate Forecast 2011/2015

| Sector's Interest Rate View | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Now | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Sector's Bank Rate View | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 2.00% | 2.25% | 2.50% |
| 3 Month LIBID | **0.87%** | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.75% | 0.80% | 0.90% | 1.20% | 1.40% | 1.60% | 2.10% | 2.40% | 2.60% |
| 6 Month LIBID | **1.16%** | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.10% | 1.20% | 1.40% | 1.60% | 1.80% | 2.00% | 2.50% | 2.70% | 2.90% |
| 12 Month LIBID | **1.65%** | 1.50% | 1.50% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.20% | 2.40% | 2.60% | 3.10% | 3.20% | 3.30% |
| 5yr PWLB Rate | **2.25%** | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.10% | 3.30% | 3.50% | 3.70% |
| 10yr PWLB Rate | **3.33%** | 3.30% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 4.00% | 4.20% | 4.40% | 4.60% | 4.80% |
| 25yr PWLB Rate | **4.24%** | 4.20% | 4.20% | 4.20% | 4.30% | 4.30% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% |
| 50yr PWLB Rate | **4.26%** | 4.30% | 4.30% | 4.30% | 4.40% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.30% |
| **Bank Rate** | | | | | | | | | | | | | | | |
| Sector's View | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 2.00% | 2.25% | 2.50% |
| UBS | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **2.25%** | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.10% | 3.30% | 3.50% | 3.70% |
| UBS | **2.25%** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Economics | **2.25%** | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **3.33%** | 3.30% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 4.00% | 4.20% | 4.40% | 4.60% | 4.80% |
| UBS | **3.33%** | 3.45% | 3.45% | 3.50% | 3.60% | 3.65% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **3.33%** | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **4.24%** | 4.20% | 4.20% | 4.20% | 4.30% | 4.30% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% |
| UBS | **4.24%** | 4.80% | 4.90% | 4.90% | 4.90% | 4.90% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **4.24%** | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **4.26%** | 4.30% | 4.30% | 4.30% | 4.40% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.30% |
| UBS | **4.26%** | 4.80% | 4.95% | 4.95% | 5.00% | 5.00% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **4.26%** | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | - | - | - | - | - |

# Annex 3 - Economic Background

### 3.1 Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers any optimistim for the outlooks for 2011 and 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either “orderly” or “disorderly”, and/or also include exit from the €uro bloc.

As if that were not enough there is growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and the lack of political will to address the need for fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

**The US economy** offers little to lift spirits. With the next Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the economy in which growth is stalling. High levels of consumer indebtedness, unemployment and a moribund housing market are weighing heavily on consumer confidence and so on the abiltity to generate sustained economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite tightening monetary policy to suppress inflationary pressures, but some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

### 3.2 UK economy

The Government’s austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has virtually flatlined and concerns at the risk of a technical recession (two quarters of negatibe growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

**Economic Growth -** GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecasts for 2011 and 2012 have been revised lower on a near quarterly basis as the UK recovery has, effectively, stalled. With fears of a potential return to recession the Bank of England embarked on a second round of Quantitive Easing to stimulate ecomnomic activity.

**Unemployment -** With the impact of the Government's austerity strategy impacting the trend for 2011 of steadily increasing unemployment, there are limited prospects for any improvement in 2012 given the deterioration of growth prospects.

**Inflation and Bank Rate -** For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation standing at 5.2% at the start of quarter 4 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

**AAA rating -** The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy at deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and with the safe haven status from Eurozone debt also drawing in external investment the pressure on rates has been down, and looks set to remain so for some time.

### 3.3 Sector's forward view

Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself
- the impact of the Eurozone crisis on financial markets and the banking sector
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot
- a continuation of high levels of inflation
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both
- stimulus packages failing to stimulate growth
- elections due in the US, Germany and France in 2012 or 2013
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited.  There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

# Annex 4 - Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

**SPECIFIED INVESTMENTS**

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

| | **Minimum 'High' Credit Criteria** | **Use** |
|---|---|---|
| Debt Management Agency Deposit Facility | -- | In-house |
| Term deposits – local authorities | -- | In-house |
| Term deposits – banks and building societies | Green | In-house |
| Term deposits – banks and building societies | Short-term F1, Long-term A, ,Viability BB+ | Investec |

**Term deposits with nationalised banks and banks and building societies**

| | **Minimum Credit Criteria** | **Use** | **Max £** | **Max. maturity period** |
|---|---|---|---|---|
| UK part nationalised banks | Green | In-house | **£15m including Investec's limit** | **364 days** |
| UK part nationalised banks | UK sovereign rating or Short-term F1, Long term A ,Viability BB+ | Investec | **Max 15% of fund** | **364 days** |

| | | |
|---|---|---|
| Collateralised deposit | UK sovereign rating | In-house and Fund Managers |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | Green | In-house |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | Short-term F1, Long-term A, Viability BB+ | Investec |
| UK Government Gilts | UK sovereign rating | Investec |
| Bonds issued by multilateral development banks | AA- | Investec |
| Sovereign bond issues (other than the UK govt) | AA- | Investec |
| Treasury Bills | UK sovereign rating | In house and Fund Managers |

| **Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -** | | |
|---|---|---|
| 1. Government Liquidity Funds | AAA | In-house |
| 2. Money Market Funds | AAA | In-house |

**Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this council. To ensure that the council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**Non-specified investments**

A maximum of 30% will be held in aggregate in non-specified investment

Maturities of ANY period:

| | *** Minimum Credit Criteria** | **Use** | **Max % of fund** | **Max. maturity period** |
|---|---|---|---|---|
| Commercial paper issuance covered by a specific UK Government (explicit) guarantee | Short-term F1, Long-term A, Viability BB+ | Investec | 15% | 2 years |
| Commercial paper other | Short-term F1, Long-term A, Viability BB+ | Investec | 15% | 2 years |
| Other debt issuance by UK banks covered by UK Government (explicit) guarantee | Short-term F1, Long-term A, Viability BB+ | Investec | 15% | 2 years |

# Annex 5 - Treasury Management Practice (TMP1) Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This council adopted the Code on 01/03/2002 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its Treasury Management Practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments
- The principles to be used to determine the maximum periods for which funds can be committed
- Specified investments that the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)
2. Supranational bonds of less than one year's duration
3. A local authority, parish council or community council
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies

5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum short term rating of F1, P-1, or A-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

**SPECIFIED INVESTMENTS**

(All such investments will be sterling denominated, with **maturities up to maximum** of **1 year**, meeting the minimum 'high' rating criteria where applicable)

| | **Minimum 'High' Credit Criteria** | **Use** |
|---|---|---|
| Debt Management Agency Deposit Facility | -- | In-house |
| Term deposits – local authorities | -- | In-house |
| Term deposits – banks and building societies | Green | In-house |
| Term deposits – banks and building societies | Short-term F1, Long-term A,<br>Viability BB+ | Investec |

**Term deposits with nationalised banks and banks and building societies**

| | **Minimum Credit Criteria** | **Use** | **Max £** | **Max. maturity period** |
|---|---|---|---|---|
| UK part nationalised banks | Green | In-house | **£15m including Investec's limit** | **364 days** |
| UK part nationalised banks | Short-term F1,<br>Long-term A,<br>Viability BB+ | Investec | **Max 15% of fund** | **364 days** |

| | | |
|---|---|---|
| Collateralised deposit | UK sovereign rating | In-house and Fund Managers |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | Green | In-house |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | UK sovereign rating or Short-term F, Long-term A,<br>Viability BB+ | Investec |
| UK Government Gilts | UK sovereign rating | Investec |
| Bonds issued by multilateral development banks | AA- | Investec |
| Sovereign bond issues (other than the UK govt) | AA- | Investec |
| Treasury Bills | UK sovereign rating | In house and Fund Managers |

| **Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -** | | |
|---|---|---|
| 1. Government Liquidity Funds | AAA | In-house |
| 2. Money Market Funds | AAA | In-house |

**Non-Specified Investments**

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

| | Non Specified Investment Category | Limit (£ or %) |
|---|---|---|
| a. | **Supranational Bonds greater than 1 year to maturity**<br>**(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). | AA- long term ratings |
| b. | **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. | 100% |

**The Monitoring of Investment Counterparties**

The credit rating of counterparties will be monitored regularly. The council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources or Head of Finance & Procurement, and if required new counterparties which meet the criteria will be added to the list.

**Use of External Fund Managers**

It is the council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the council's investment strategy. The performance of each manager is reviewed at least monthly by the Head of Finance & Procurement and the managers are contractually required to comply with the annual investment strategy.

# Annex 6 - Approved countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- UK

AA+

- Hong Kong
- USA
- France

AA

- Kuwait
- UAE
- Belgium

AA-

- Japan
- Qatar
- Saudi Arabia

# Annex - 7 Scheme of Delegation

## 6.0 Scheme of delegation

### 6.1 Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

### 6.2 Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

### 6.3 Accounts Audit & Risk Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

### 6.4 Role of the section 151 officer

**The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

# Annex 8 - Glossary

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|---|---|
| **Asset Class Limits** | Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies |
| **Asset Life** | The length of the useful life of an asset e.g. a school |
| **Borrowing / Investment Portfolio** | A list of loans or investments held by the council. |
| **Borrowing Requirement** | The amount that the council needs to borrow to finance capital expenditure and manage debt. |
| **Callable deposit** | Funds placed with a financial institution without a fixed maturity date (i.e. the money can be 'called' or withdrawn at any time). |
| **Capitalisation direction** | Government approval to use capital resources to fund revenue expenditure. |
| **Cash deposits** | Funds placed with a financial institution with a fixed maturity date and interest rate. |
| **Certificates of deposits** | (CD). CDs evidence fixed maturity time deposits with issuing banks or other deposit-taking institutions. Maturities range from less than a week to five years. They are normally negotiable and enjoy a liquid secondary market. They state the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties. |
| **CIPFA Code of Practice on Treasury Management** | A code of practice issued by CIPFA detailing best practice for managing the treasury management function. |
| **Collaterised Deposit** | Term deposits with UK institutions where such deposits are secured against a collateral pool comprised of loans made to UK local authorities. |
| **Counterparty** | Banks, Building Societies and other financial institutions that the council transacts with for borrowing and lending. |
| **Credit Arrangements** | Methods of financing such as the use of finance leases |
| **Credit Ratings** | A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poors to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions. |
| **Creditworthiness** | How highly rated an institution is according to its credit rating. |
| **Debt Management Office** | An agency of the HM Treasury and its responsibilities include debt and cash management for the UK Government |
| **Debt Rescheduling** | Refinancing loans on different terms and rates to the original loan. |
| **Financial instrument** | Document (such as a bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money. |
| **Fitch Ratings** | A credit rating agency. |

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| **Forward commitment** | Written agreement by a lender to advance a loan on a future date at a specified interest rate. It automatically expires if not exercised by the potential borrower. |
| **Gilts** | Also known as Gilt-edged Securities. UK central Government debt. It may be dated (redeemable) or undated. Undated gilts are perpetual debt, paying a fixed periodic coupon but having no final redemption date. Gilt yields are conventionally quoted in the UK markets on a semi-annual basis. |
| **Interest Rate exposures** | A measure of the proportion of money invested and what impact movements in the financial markets would have on them. |
| **Lender Option Borrower Option (LOBO)** | Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan. |
| **Limits for external debt** | A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the council could afford. |
| **Liquidity** | Access to cash that is readily available. |
| **Lowest Common Denominator** | Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the council's lending list. |
| **Maturity** | The date when an investment is repaid or the period covered by a fixed term investment. |
| **Maturity Structure of Borrowings** | A profile of the council's loan portfolio in order of the date in which they expire and require repayment. |
| **Minimum Revenue Provision** | The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt. |
| **Money Market Funds** | Open ended collective investment fund that invests in highly-liquid short-term financial instruments (with maturities typically 90 days to less than one year). |
| **Moody's** | A credit rating agency. |
| **Non Specified Investments** | Investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during |
| **Portfolio** | A number of different assets, liabilities, or assets and liabilities together, considered as a whole. For example, a diversified investment portfolio. An investor in such a portfolio might hold a number of different investment assets within the portfolio, with the objectives of growing the total value of the portfolio and limiting the risk of losses. |
| **Prudential Borrowing** | Borrowing undertaken by the council that does not attract government support to help meet financing costs. |
| **Prudential Code for Capital** | The capital finance system is based on the Prudential |

| | |
|---|---|
| **Finance in Local Authorities** | Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford. |
| **Prudential Indicators** | The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this. |
| **Public Works Loan Board (PWLB)** | A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow. |
| **Credit Rated** | Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors. |
| **Risk Control** | Putting in place processes to control exposures to events. |
| **Security** | Placing cash in highly rated institutions. |
| **Sovereign debt rating** | Assessment of the international rating agencies of the likelihood that a particular country will default on its loans. |
| **Specified Investments** | Investments that offer high security and liquidity. They must have a maturity of no longer than 364 days. |
| **Standard and Poors** | A credit rating agency. |
| **Supranational Institutions** | Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank |
| **UK Government Investments** | Debt Management Office (DMO) deposits and bonds (gilts) for which maturity date at time of purchase is less than 365 days away |
| **Yield** | The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today's yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today's market value to the redemption amount payable at maturity. |