Public Document Pack

Committee: Accounts, Audit and Risk Committee

Date: Wednesday 3 December 2014

Time: 7.30 pm

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

Membership

Councillor Mike Kerford-Byrnes (Chairman)
Councillor Dan Sames (Vice-Chairman)
Councillor Ray Jelf
Councillor Nicholas Mawer
Councillor Barry Richards
Councillor Lawrie Stratford
Councillor Douglas Williamson
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 17 September 2014.

6. **Chairman's Announcements**

To receive communications from the Chairman.

7. **Q2 Treasury Management Report and Draft Treasury Management Strategy 2015/16** (Pages 7 - 44)

Report of the Head of Finance and Procurement

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2014-15 for Quarter 2 including an update for position as at 31 October 2014 as required by the Treasury Management Code of Practice.

To provide a review of the draft Treasury Management Strategy 2015-16

Recommendations

The meeting is recommended:

1.1 To note the contents of the Quarter 2 (Q2) Treasury Report

1.2 To note the draft Treasury Management Strategy 2015/16

8. **External Audit reports 2013-14: Annual Audit Letter, Certification of Claims and Returns Annual Report, Audit Scale Fee - late variation (Business Rates)** (Pages 45 - 84)

Report of the Head of Finance and Procurement

Purpose of report

To allow Members to consider Ernst Young’s reports summarising their external audit work for 2013-14.

Recommendations

The meeting is recommended to:

1.1 To note the contents of the Annual Audit Letter

1.2 To note the contents of the Certification of Claims and Returns Annual Report

1.3 To note the contents of the Audit Scale Fee – late variation letter

1.4 To note the Ernst Young's local government audit committee briefing.

9. Internal Audit Progress Report (Pages 85 - 98)

Report of the Head of Finance and Procurement

Purpose of report

To receive the PwC Internal Audit Progress Report.

Recommendations

The meeting is recommended to:

1.1 Consider and note the contents of the Progress Report.

10. Second Quarter Risk Review (Pages 99 - 114)

Report of Head of Transformation and Corporate Performance Manager

Purpose of report

To update the Committee on the management of Strategic, Corporate and Partnership Risks during the second quarter of 2014/15 and highlight any emerging issues for consideration.

Recommendations

The meeting is recommended to:

1.1 review the second quarter Strategic, Corporate and Partnership Risk Register and identify any issues for further consideration.

11. Anti Fraud and Corruption plus Whistle Blowing Update

Verbal Update of Head of Finance and Procurement.

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@cherwellandsouthnorthants.gov.uk or 01295 221554 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.

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 Sharon Hickson, Democratic and Elections
sharon.hickson@cherwellandsouthnorthants.gov.uk, 01295 221554

Sue Smith
Chief Executive

Published on Tuesday 25 November 2014

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 17 September 2014 at 6.30 pm

Present:	Councillor Mike Kerford-Byrnes (Chairman) Councillor Ray Jelf Councillor Nicholas Mawer Councillor Barry Richards Councillor Lawrie Stratford Councillor Barry Wood
Also Present:	Councillor Ken Atack, Lead Member for Financial Management Mick West, Director, Ernst Young, External Auditor Alastair Rankine, Manager, Ernst Young, External Auditor Chris Baston, Ernst Young, External Auditor
Apologies for absence:	Councillor Dan Sames Councillor Douglas Williamson
Officers:	Martin Henry, Director of Resources / Section 151 Officer Nicola Jackson, Corporate Finance Manager Chris Dickens, Chief Internal Auditor Louise Tustian2, Acting Corporate Performance and Insight Manager Natasha Clark, Team Leader, Democratic and Elections Sharon Hickson, Assistant Democratic and Elections Officer

20 **Declarations of Interest**

There were no declarations of interest

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

There were no petitions or requests to address the meeting.

22 **Urgent Business**

There was no urgent business.

23 **Minutes**

The Minutes of the meeting of the Committee held on 25 June 2014 were agreed as a correct record and signed by the Chairman.

24 **Chairman's Announcements**

There were no Chairman’s announcements.

25 **Statement of Accounts 2013/14**

The Committee considered a report of the Director of Resources which sought agreement of the audited Statement of Accounts 2013/14.

In introducing the report, the Corporate Finance Officer explained the changes that had been made from the preliminary “subject to audit” version circulated and considered by the Committee in June 2014. The Corporate Finance Officer summarised the most significant amendments: Castle Quay lease classification, Pioneer Square revaluation, increase in provisions that reduces General Fund balances and income classification within the Collection Fund.

In response to Members’ questions, the Director of Resources confirmed that the amendments had no impact on Council Tax or the financial position of the authority, they were simply the movement of figures from one heading to another in order to ensure the accounts were presented in line with the presentation required this year. The council’s external auditors had reviewed the financial statements and would be reporting their opinion at the next agenda item.

Resolved

(1) That the amendments to the draft 2013/14 financial statement be approved.

(2) That subject to reviewing the contents of the Audit Results Report, the 2013/14 financial statements be approved.

(3) That authority be delegated to the Director of Resources, in consultation with the Chairman, to finalise the 2013/14 financial statements prior to signing by the Chief Financial Officer and Chairman.

26 **External Audit: Audit Results Report 2013-14**

The Committee considered a report of the Director of Resources which presented the External Auditors Results Report 2013-14.

In presenting the report, the External Auditor reported that the financial statement audit had been carried out. There were no issues to report from the risk areas listed in the Audit Plan: risk of management override and implementation of new payroll system.

The Committee was advised that the External Auditor anticipated issuing an unqualified auditor's report in respect of the Council's financial statements.

The External Auditor had concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and expected to present an unqualified value for money conclusion for these arrangements.

As part of the Value for Money review, the External Auditor had paid particular interest to the Bicester Regeneration and Graven Hill projects with no issues to report.

The Committee was advised that in terms of financial resilience, the External Auditor had highlighted a funding gap in the medium term financial planning, underlining that no detailed plans had yet been made to address this and consideration needed to be given imminently.

Members thanked the auditors for their work.

Resolved

(1) That the matters raised in the External Audit Results Report, prior to approval of 2013/14 financial statements be noted.

(2) That the adjustments to the financial statements be noted.

(3) That the letter of representation on behalf of the Council be approved and duly signed by the Chairman and Chief Financial Officer/Director of Resources.

27 **First Quarter Risk Review**

The Committee considered a report of the Head of Transformation and Acting Performance and Insight Manager on the management of Strategic, Corporate and Partnership Risks during the first quarter of 2014/15 and highlighted any emerging issues for consideration.

In introducing the report, the Acting Performance and Insight Manager highlighted new additions to the risk register: Graven Hill, Horton Hospital, Build! and the Waste Framework Directive.

Resolved

(1) That the quarter 1 Strategic, Corporate and Partnership Risk Register be noted.

28 **Internal Audit - Progress Report 2014-15**

The Committee considered a report of the Director of Resources which presented the Internal Audit Annual progress report 2014/15.

In introducing the report, the Chief Internal Auditor advised the committee that discussions had been held with management on the 2014/15 audit plan and individual review scopes would be completed in due course. The 2014/15 plan remained on course to be delivered by 31 March 2015.

The Committee was advised that three additional pieces of work had been delivered against the 2014/15 plan. The Internal Auditor was also undertaking a follow up review from the 2013/14 plan, as requested by Members, and the findings would be reported to the Committee's December meeting.

Resolved

(1) That the report be noted.

29 **Q1 Treasury Management Report**

The Committee considered a report of the Director of Resources on the Council's treasury management performance and compliance with the treasury management policy for 2014-15 for Quarter 1 as required by the Treasury Management Code of Practice.

Resolved

(1) That the report be noted.

30 **Anti-Fraud and Corruption plus Whistle Blowing Update**

The Committee considered the verbal update from the Director of Resources on Anti-Fraud and Corruption plus Whistle Blowing.

The Director of Resources reported that there had been one issue of suspected money laundering. The matter had been referred to the National Crime Agency, who had confirmed the money could be accepted.

The Committee was advised that the Internal Auditor had been requested to review the process followed and the outcome would be reported to a future meeting.

Resolved

(1) That the verbal update be received.

31 **Review of Work Programme**

The Committee considered its work programme 2014/15.

Resolved

(1) That subject to the addition of Housing Benefits Report to December, the work programme 2014/15 be noted.

(2) That it be noted that training on treasury management would be held prior to the December meeting and training on risk management would be held prior to the January meeting.

The meeting ended at 7.55 pm

Chairman:

Date:

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Cherwell District Council

Accounts, Audit and Risk Committee

3 December 2014

Q2 Treasury Management Report and Draft Treasury Management Strategy 2015/16

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2014-15 for Quarter 2 including an update for position as at 31 October 2014 as required by the Treasury Management Code of Practice.

To provide a review of the draft Treasury Management Strategy 2015-16

1.0 Recommendations

The meeting is recommended:

1.1 To note the contents of the Quarter 2 (Q2) Treasury Report

1.2 To note the draft Treasury Management Strategy 2015/16

2.0 Introduction

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

2.2 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. An updated Strategy for Cherwell District Council was approved at a Special Council meeting on 7 July 2014.

2.3 The Council re-appointed Sector Treasury Services Limited (now Capita Treasury Solutions Limited and branded as Capita Asset Services – Treasury Solutions) as its Treasury Management advisor in January 2013. The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 6 months of 2014-15.

3.0 Report Details

2014-15 Performance

3.1 As at the end of September the Council had £58.12m managed in-house (including the balance of the Eco Town funds but excluding the outstanding Icelandic deposit) which fluctuates during the year. The Council regularly reviews each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme, and the need to contribute to efficiency savings.

Update on Cherwell's Treasury Performance

3.2 An updated Treasury Management Strategy for 2014-15, which includes the Annual Investment Strategy, was approved at Special Council on 7 July 2014. It sets out the Council's investment priorities as being: Security of Capital; Liquidity; and Yield.

3.3 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs. However, the Council also seeks out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions. The Council uses Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector (this applies in particular to nationalised and semi nationalised UK banks).

3.4 During the quarter ended 30th September, Capita Asset Services highlighted: -

- After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

  This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far this year.
- In September, the U.S. Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from $85bn to $15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter GDP figures were depressed by exceptionally bad winter weather, but quarter 2 rebounded strongly to 4.6%.
- The Eurozone is facing an increasing threat from deflation. In September, the inflation rate fell further, to reach 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June and September to loosen monetary policy in order to promote growth.

3.5 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme.
The annualised average level of funds available for investment purposes up to September 2014 was £61.361m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and ECO Bicester.

3.6 It is worth noting that the revenue budget for 2014-15 has been prepared utilising only £49,190 of investment income; however, total Investment income within 2014-15 is budgeted as £320,000. The balance above the £49,190 budget will be used to replenish reserves after transferring interest received in respect of Eco Town funds to the Eco Town reserve.

Investment performance for quarter ended 30 September 2014 was:

Fund	Funds invested 30th September 2014	Interest Budget	Actual Interest	Variance	Rate of return %
In House	£58,120,000	£160,000	£194,721	£34,721	0.62
Total	**£58,120,000**	**£160,000**	**£194,721**	**£34,721**	

**Rate of Return is calculated on an annualised basis*

3.7 At this point in the year we are currently projecting to be on target. The variance shown above for in-house investments has arisen through the timing of actual interest due and received.

3.8 The performance as at the **31 October** as follows.

Fund	**Amount at 31st October 2014**	**Interest Budget**	**Actual Interest**	**Variance**	**Rate of return %**
In House	£59,630,000	£186,667	£228,808	£42,141	0.62
Total	**£59,630,000**	**£186,667**	**£228,808**	**£42,141**	

3.9 For Quarter 2, Appendix 1 shows the counterparties that the Council has invested with at the end of September

Draft Treasury Management Strategy 2015-16

3.10 The proposed draft strategy for 2014-15 is based upon the views of the Council's Treasury Management Team. This is informed by market forecasts provided by the Council's treasury advisor, Capita Asset Services.

3.11 In consultation with Capita Asset Services 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.

3.12 The draft strategy meets the requirements included within the CLG's Guidance on local government investments.

Icelandic Investments

3.13 There is currently no further update in respect of funds remaining within Iceland. As reported previously, out of the £6.5m original capital investment £5.7m has been returned to the Council. The remaining capital balance of £729,669 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.

4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the Council for the quarter ended 30 September 2014

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:
Nicola Jackson, Corporate Finance Manager, 01295 221731
Nicola.Jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by:
Kevin Lane, Head of Law & Governance 0300 0030107
Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 It is essential that this report is considered by AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:
Nicola Jackson, Corporate Finance Manager, 01295 221731
Nicola.Jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1 Appendix 2	Treasury Investments Q2 Treasury Management Strategy 2015-16
Background Papers	
Report Author	Kamal Mehta, Interim Technical and Project Accountant
Contact Information	kamal.mehta@cherwellandsouthnorthants.gov.uk 01295 221559

CATEGORY / BANKING GROUP		Issue Date	Maturity Date	Principal @ 30th September 2014
BUILDING SOCIETY				
Coventry BS	Fixed Term Deposit	21/08/2014	21/11/2014	£3,000,000.00
Nationwide BS	Fixed Term Deposit	27/06/2014	03/10/2014	£2,000,000.00
Nationwide BS	Fixed Term Deposit	11/07/2014	11/10/2014	£1,000,000.00
Nationwide BS	Fixed Term Deposit	21/08/2014	21/11/2014	£3,000,000.00
Nationwide BS	Fixed Term Deposit	11/09/2014	11/03/2015	£2,000,000.00
Nationwide BS			**Total**	**£8,000,000.00**
BARCLAYS BANK PLC				
Barclays	Fixed Term Deposit	12/08/2014	12/11/2014	£2,500,000.00
Barclays	Fixed Term Deposit	18/08/2014	18/11/2014	£4,500,000.00
			Total	**£7,000,000.00**
LLOYDS BANKING GROUP				
Lloyds Bank Plc	Fixed Term Deposit	10/04/2014	10/10/2014	£4,000,000.00
Lloyds Bank Plc	Fixed Term Deposit	03/07/2014	05/01/2015	£2,000,000.00
Lloyds TSB Plc	Fixed Term Deposit	03/09/2014	03/09/2015	£1,500,000.00
Bank of Scotland	Fixed Term Deposit	15/11/2013	14/11/2014	£2,500,000.00
Bank of Scotland	Fixed Term Deposit	03/07/2014	05/01/2015	£5,000,000.00
			Total	**£15,000,000.00**
RBS BANKING GROUP				
Ulster Bank	Fixed Term Deposit	25/10/2013	24/10/2014	£5,000,000.00
			Total	**£5,000,000.00**
LOCAL AUTHORITIES				
Dudley MBC	Fixed Term Deposit	26/09/2014	10/10/2014	£2,200,000.00
Lancashire County Council	Fixed Term Deposit	20/12/2013	19/12/2014	£5,000,000.00
			Total	**£7,200,000.00**
CERTIFICATE OF DEPOSIT: CUSTODIAN - KING & SHAXSON				
Barclays Bank Plc	CD	24/09/2014	24/03/2015	£1,000,000.00
Barclays Bank Plc	CD	24/09/2014	27/03/2015	£4,000,000.00
			Total	**£5,000,000.00**
UK GILTS – CUSTODIAN – KING & SHAXSON				£1,750,000.00
MONEY MARKET FUNDS				
Federated Investors (UK) LLP	Short-Term Sterling Prime Fund - 4			£5,000,000.00
Goldman Sachs – Global Liquidity Fund	Sterling Liquid Reserves Institutional Shares Fund No. 630			£1,170,000.00
Icelandic deposit				
Glitnir		06/02/2007	31/03/2013	£729,669.00
		TOTAL INHOUSE FUNDS		**£58,849,669.00**

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CHERWELL DISTRICT COUNCIL
Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Statement

2015-16

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.

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 (MRP) policy (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

Report 2 - A Mid Year Treasury Management Report (if applicable) – 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. However, the Accounts Audit and Risk Committee will receive quarterly update reports.

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.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Accounts Audit and Risk Committee.

1.3 Treasury Management Strategy for 2015-16

The strategy for 2015-16 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;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

Capital Issues

- the capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) strategy

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.

1.4 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receives appropriate training relevant to their needs and fully understands their roles and responsibilities.

The Council's approach is:

- To identify Members who require training;
- To assess the level of training required and procure training from an external organisation with expertise in this area, including the Council's Treasury Advisor, Capita Asset Services; and
- To monitor the ongoing training needs of Members based on legislative, regulatory and best-practice requirements.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services,Treasury Solutions 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. Capital Prudential Indicators 2015/16 – 2017/18

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £'000	2013/14 Actual	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total	7,451	35,285	26,834	1,500	TBC

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £'000	2013/14 Actual	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total	7,451	35,285	26,834	1,500	TBC
Financed by:					
Capital receipts	(6,585)	(24,384)	(467)	(725)	(TBC)
Capital grants	(539)	(375)	(0)	(375)	(TBC)
Reserves funded through Revenue	(327)	(389)	(0)	(400)	(TBC)
Donated asset Contribution	(0)	(0)	(0)	(0)	(TBC)
External Funding	(0)	(900)	(0)	(0)	(TBC)
Net financing need for the year	**0**	**9,237**	**26,367**	**0**	**TBC**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £TBCm of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	2013/14 Actual	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
Total CFR	**-3,152**	**6,085**	**32,452**	**32,452**	**TBC**
Movement in CFR	**0**	**9,237**	**26,367**	**0**	**TBC**

Movement in CFR represented by					
Net financing need for the year (above)	0	9,237	26,637	0	TBC
Less MRP/VRP and other financing movements	0	0	0	0	TBC
Movement in CFR	**0**	**9,237**	**26,637**	**0**	**TBC**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

The Council has established a company to which it is providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party by the Council.

The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2021, with interest paid under as per the contract.

Once funds are returned to the Council, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (7 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

To ensure that any required changes to this approach can be addressed promptly and prudently the Council has adopted a policy providing delegated authority to the Service Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:

- There is a separately identifiable project with quantified borrowing costs.
- The period from the projects inception to it becoming operational is significantly in excess of 12 months.
- A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
- The borrowing and MRP amounts are material, in excess of £250,000 annually.
- The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Non-HRA	0	0	0	0	TBC

The estimates of financing costs include current commitments and the proposals in the budget report.

3 Borrowing

3.1 The council is currently debt free however the capital programme as detailed in section 2 demonstrates that capital resources are diminishing. Future projects may require the need to borrow and for the council to enter into long term debt arrangements.

3.2 The Head of Finance and Procurement will monitor this situation and if and when there is a requirement to borrow outside of the operational and authorised limits as detailed below an updated version of this strategy will be prepared for member approval.

Treasury Indicators: limits to borrowing activity

3.3 The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	£15m	£40m	£40m	£40m
Other long term liabilities	£0	£0	£0	£0
Total	**£15m**	**£40m**	**£40m**	**£40m**

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	£20m	£45m	£45m	£45m
Other long term liabilities	£0	£0	£0	£0
Total	**£20m**	**£45m**	**£45m**	**£45m**

4. Annual Investment Strategy

4.1 Changes to credit rating methodology

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

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

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

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

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

4.1 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.

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

Using the Capita Asset Services ratings service banks' and building societys' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, Council 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, Capita Asset Services.

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 ***Appendix 3*** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. 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 suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks *	yellow	£15m	5yrs
Banks	purple	£15m	2 yrs
Banks	orange	£15m	1 yr
Banks – part nationalised	blue	£15m	1 yr
Banks	red	£15m	6 mths
Banks	green	£15m	100 days
Banks	No colour	Not to be used	
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m per auth	5 yrs
Money market funds	AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m per fund	liquid

Our 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 a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 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.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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 spreads 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 supporting government.

4.3 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 . The list of countries that qualify using this credit criteria as at the date of this report are shown in ***Appendix 4***. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

4.4 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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2014-15 0.50%
- 2015/16 1.00%
- 2016/17 1.50%
- 2017/18 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2014-15	0.50%
2015/16	1.00%
2016/17	2.10%
2017/18	2.60%

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	2014-15	2015/16	2016/17
Principal sums invested > 364 days	£15m	£15m	£15m

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.4 Icelandic Bank Investments –The council has received repayment of £5.7m of the initial Capital Investment of £6.5m with the remaining capital balance of £730,000 currently remaining in Iceland. The interest element attirbuted to the investment made - £624,000 also currently resides in Iceland.

The Council continues to pursue this with the LGA and Bevan Brittan for the transfer of these funds to the UK. It is too early to provide a definitive policy on how any 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.

4.5 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.

Appendix

1. Interest rate forecasts
2. Economic background
3. Treasury Management practice - Specified and non specified investments and limits
4. Approved countries for investments
5. Treasury management scheme of delegation and the role of the section 151 officer
6. Glossary

Appendix 1: Interest Rate Forecasts 2014-2018

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View														
	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
3 Month LIBID	0.50%	0.60%	0.80%	0.90%	1.10%	1.30%	1.40%	1.60%	1.90%	2.10%	2.10%	2.30%	2.40%	2.60%
6 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.80%
12 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.70%	1.80%	2.10%	2.20%	2.30%	2.40%	2.60%	2.80%	3.00%
5yr PWLB Rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB Rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB Rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB Rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.25%	2.25%	2.50%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	2.60%	3.00%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.40%	4.40%	4.40%
Capital Economics	3.30%	3.50%	3.70%	3.85%	4.05%	4.15%	4.20%	4.25%	4.30%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	5.00%	5.00%	5.00%
Capital Economics	3.85%	4.05%	4.15%	4.25%	4.35%	4.40%	4.50%	4.55%	4.60%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	5.00%	5.00%	5.00%
Capital Economics	3.90%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	-	-	-	-	-

Appendix 2: Economic Background

UK. Strong UK GDP quarterly **growth** of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), means that the UK will have the strongest rate of growth of any G7 country in 2014. It also appears very likely that strong growth will continue through the second half of 2014 and into 2015 as forward surveys for the services and construction sectors are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though recent figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

This overall strong growth has resulted in **unemployment** falling much faster through the initial threshold of 7%, set by the **Monetary Policy Committee (MPC)** last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in **inflation** (CPI) during 2014 after being consistently above the MPC's 2% target between December 2009 and December 2013. Inflation fell to 1.2% in September, a five year low. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1% and then to remain near to, or under, the 2% target level over the MPC's two year ahead time horizon. Overall, markets are expecting that the MPC will be cautious in raising **Bank Rate** as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth has also helped lower forecasts for the increase in **Government debt** by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

The Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable but has made good progress in reducing its annual budget deficit and in returning, at last, to marginal economic growth. Whilst a Greek exit from the Euro is now improbable in the short term, some commentators still view the inevitable end game as either being another major right off of debt or an eventual exit.

There are also particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 24% and unemployment among younger people of over 50 – 60%. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. Any loss of market confidence in the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA. The Federal Reserve started to reduce its monthly asset purchases of $85bn in December 2013 by $10bn per month; these ended in October 2014, signalling confidence the US economic recovery would remain on track. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised). The first estimate of Q3 showed growth of 3.5% (annualised). Annual growth during 2014 is likely to be just over 2%.
The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions. It is currently expected that the Fed. will start increasing rates in mid 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has been mixed. There are also concerns that the Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Over time, an increase in investor confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed.

Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalisation of European banks requiring considerable government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.
- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Appendix 3: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

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+	Fund Manager

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+	Fund Manager	**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 and Fund Manager
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	Fund Manager
UK Government Gilts	UK sovereign rating	In house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AA-	In house buy and hold and Fund Manager
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In house buy and hold and Fund Manager

Sovereign bond issues (other than the UK govt)	AA-	In house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA	In-house
2. Money Market Funds	AAA	In-house
3. Enhanced Money Market Funds with a credit score of 1.25	AAA	In-house
4.Enhanced Money Market Funds with a credit score of 1.5	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+	In- house and Fund Manager	15%	2 years
Commercial paper other	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
Investment in Share Capital of a wholly owned and /or subsidiary company of the Council	Not applicable	In- house	Not applicable	Not applicable

Appendix 4: Approved countries for investments

Based on lowest available rating

AAA

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

AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

Appendix 5: Treasury management 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.

Appendix 6: Glossary

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.
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 Finance in Local Authorities	The capital finance system is based on the Prudential 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.

Cherwell District Council

Accounts Audit and Risk Committee

3 December 2014

External Audit reports 2013-14:
Annual Audit Letter
Certification of Claims and Returns Annual Report
Audit Scale Fee – late variation (Business Rates)

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To allow Members to consider Ernst Young's reports summarising their external audit work for 2013-14.

1.0 Recommendations

The Accounts, Audit and Risk Committee is recommended:

1.1 To note the contents of the Annual Audit Letter

1.2 To note the contents of the Certification of Claims and Returns Annual Report

1.3 To note the contents of the Audit Scale Fee – late variation letter

1.4 To note the Ernst Young's local government audit committee briefing.

2.0 Introduction

2.1 External Audit undertakes its work in line with their Audit Plan and the Audit Commission's Code of Audit Practice. Ernst Young's reports highlight their work for the financial year 2013-14.

3.0 Report Details

3.1 The Annual Audit Letter (appendix 1) summarises the work that external audit undertake on the Council's accounts. External Audit gave an unqualified opinion on the Council's financial statements audit on 25 September 2014. At the same time, they gave an unqualified opinion on the value for value conclusion.

3.2 The Annual Report (appendix 2) summarises the work that external audit undertake on the Council's housing benefit subsidy claim (value £37.6m). Audit testing identified errors which the Council amended and resulted in a small increase (£103) in the grant due. Members should note that there were no delays in receiving reports from the Council's service provider (Northgate) during this year's audit.

3.3 Appendix 3 is the audit scale fee late variation letter (business rates). The additional fee of £900 is required because the certification work on Business Rates (the NNDR3 grant claim) is no longer within the Audit Commission's grant regime – it was withdrawn for 2013-14. Auditors were previously able to use the certification work on the NNDR3 claim as the required assurance for the audit opinion on the financial statements (including the Collection Fund). The Audit Commission has now acknowledged that auditors were required to undertaken these additional audit procedures to be able to gain assurance for the 2013-14 financial statements opinion.

3.4 Appendix 4 is the Local Government Audit Committee Briefing that Ernst Young provides for all its clients.

4.0 Conclusion and Reasons for Recommendations

4.1 The Annual Audit Letter and Annual Report summarise the key issues from External Audit's work during 2013-14.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information from the External Auditor.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:
Denise Taylor, Corporate Accountant, 01295 221982

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:
Kevin Lane, Head of Law & Governance 0300 0030107
Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.

Comments checked by:
Denise Taylor, Corporate Accountant, 01295 221982

8.0 Decision Information

Wards Affected
All wards are affected

Links to Corporate Plan and Policy Framework
All corporate plan themes.

Lead Councillor
None

Document Information

Appendix No	Title
Appendix 1	Annual Audit Letter
Appendix 2	Certification of Claims and Returns Annual Report
Appendix 3	Audit Scale Fee – late variation (Business Rates)
Appendix 4	Local Government Audit Committee Briefing
Background Papers	
None	
Report Author	Nicola Jackson, Corporate Finance Manager
Contact Information	Nicola.Jackson@cherwellandsouthnorthants.gov.uk 01295 221731

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Annual Audit Letter

Cherwell District Council

24 October 2014

Building a better working world

The Members
Cherwell District Council
Bodicote House
Bodicote, Banbury
Oxfordshire
OX15 4AA

24 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Cherwell District (the Council) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance (the Accounts, Audit and Risk Committee) of the Council in our Audit Results Report dated 11 September 2014.

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of Cherwell District Council for their assistance during the course of our work.

Yours faithfully

Mick West
For and behalf of Ernst & Young LLP
Enc

Contents

Executive summary

Our 2013-14 audit work has been undertaken in accordance with the Audit Plan we issued on the 8 January 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- Forming an opinion on the financial statements
- Reviewing the Annual Governance Statement
- Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources
- Undertaking any other work specified by the Audit Commission

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Cherwell District Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2014 we issued an unqualified audit opinion in respect of the Council.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Accounts, Audit and Risk Committee) communicating significant findings resulting from our audit.	On 11 September 2014 we issued our report in respect of the Council.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 26 September 2014.
Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 25 September 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work that we have undertaken.	On 13 January 2014 we issued our annual certification report to the Accounts, Audit and Risk Committee

Key findings

Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified auditor's report on 25 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk: Risk of management override

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Reviewed accounting estimates for evidence of management bias
- Evaluated the business rationale for any significant unusual transactions; for example material movements on reserves and revaluation adjustments

We found that journal entry controls were in place and operating effectively and adequate explanations were provided by management for material adjustments made in preparation of the financial statement. Our review of accounting estimates did not reveal evidence of management bias and business rationales were provided in support of significant transactions.

Other key findings:

Implementation of new payroll system

The Council transferred its payroll system from Chris 21 to Resource Link as from 1 October 2013. We sought assurance that as part of the implementation process the Council managed the migration of data effectively to prevent errors and the material misstatement of payroll costs.

We found the Council had put in place adequate controls over the migration of data. Payroll costs were not materially misstated.

Partly because of issues associated with the new payroll implementation, management did not carry out year-end establishment checks (introduced in 2012-13 for the first time) to confirm existence and payroll details of Council employees. We were unable to rely on management controls to provide assurances over completeness of the payroll and the accuracy of payroll data which required us to carry out additional substantive procedures.

Our audit testing was satisfactory and did not identify any errors or matters that we need to draw to your attention

NDR Appeals provision

The Business Rates Retention Scheme came into force on 1 April 2013. Where local businesses believe the current rateable value for business properties is wrong they can appeal. Where rating appeals are successful, monies to settle appeals will come out of the Council's collection fund reducing the rate income shared by the Council with the CLG and

County Council. This includes both claims from 1 April 2013 and claims that relate to periods before the introduction of the scheme. As appeals are to the Valuation Office Agency (VOA), authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

We assessed the reasonableness of the Council’s methodology in estimating the provision in respect of rateable value appeals at the balance sheet date.

This involved consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.

We were satisfied that the Council applied reasonable estimation techniques in determining the amount of provision it included in its accounts.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013-14 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We issued an unqualified value for money conclusion on 25 September 2014. We noted the following issues as part of our audit.

Key findings:

Management of the capital programme

The Council’s capital programme is substantial involving a range of different developers and stakeholders. Regeneration for Bicester represents a significant element of the capital programme.

The Council has adequate arrangements to ensure that bids for capital resources are evaluated prior to approval. Evaluation uses a scoring matrix and the fact that the Council has unallocated capital resources means that decisions on capital spending are determined by need and are not as a rule subject to the imposition of financial limits or quotas.

This will change with Graven Hill and the related Bicester developments as available capital resources are utilised and the Council becomes reliant on borrowing to fund its future capital programme. The Council is aware of the implication for capital resource allocation decisions in the future.

There is close member involvement in the approval and challenge of the capital programme. More recently the effectiveness of member challenge and scrutiny of delivery of capital schemes has been enhanced through greater member focus and better quality information. This is positive, given the changing financial landscape with greater dependence on borrowing in the future and the need to ensure that scarce capital resources are utilised effectively.

The Council’s acquisition of Graven Hill is a key part of the Bicester regeneration programme and represents a significant investment opportunity. As regards the Graven Hill development the Council will act as strategic developer through a 100% owned Company Limited by Share. The Council has sought independent legal advice and is using Localism Act powers for this purpose.

In terms of the wider Bicester regeneration programme the Council has put in place adequate arrangements to provide strategic oversight and management of the related projects. The Council has a dedicated in-house team but where skills or capacity have been lacking, external consultancy support has been purchased, including legal, financial and procurement expertise. The capacity of its Regeneration and Housing Development Team is to be increased by additional recruitment

Management of finances

The Council overspent against its original budget by £250,000 due largely to the higher costs of waste and recycling resulting from unforeseen changes to the terms of the existing waste management contract. Otherwise, the Council's performance was largely in line with budget projections.

The net budget shortfall was after transfers to reserves and was funded from general fund balances.

The Council set a prudent budget for 2014-15 but has a widening budget gap over the medium term. Its financial forecast shows that its general fund balance and available reserves will be exhausted by 2017-18 if no corrective action is taken. This is a serious and worrying position that the Council has recognised it must address.

The Council's medium term financial strategy presented to the Executive in July 2014 recognises the challenges ahead but does not identifiy how this gap is to be closed. The view of your Chief Financial Officer is that the Council's budget strategy needs to change fundamentally and to feed into the detailed budget process for 2015-16 and beyond.

The medium term financial strategy does not yet detail exactly how this will be done but we agree that there needs to be a change in the Council's budget plans if the significant forecast deficit is to be avoided.

We understand that in part that management is planning a series of member-focused workshops over the autumn to consider options for closing the forecast budget gap.

Identifying new income streams through for example the phased release of the New Homes Bonus and additional NDR income is likely to be a central component although there are likely to be savings as a result of further transformational change for which the Council has yet to budget.

The problem is that at present there are no firm costed plans that set out the financial direction of the Council.

There is much that needs to be done on the part of management and Members to further develop the Council's financial plans and there may be many tough decisions facing Members still to be made.

The Council should ensure that medium term financial plans to address the budget gap are developed and agreed as a priority.

Transformational plans

Although the Council's transformational plans are progressing rapidly, the Council and its prospective partners are proceeding in a measured and methodical way. Preparations are in line with good practice. The option appraisal is being undertaken with the support of external advisors and members are engaged in the process.

It is premature to comment on due diligence checks and governance proposals but we have received officer assurance that proper checks and balances will be applied at each critical stage of the process; involving external and independent appraisal.

Project resources are in place and communications between the three Councils (South Northamptonshire, Cherwell and Stratford upon Avon) have been established which management consider are working effectively

Whole of Government Accounts

We reported to the National Audit office on the 26 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We presented our Annual Certification Report for 2012-13 to the 22 January 2014 Accounts, Audit and Risk Committee. We certified one claim and one return worth £108m. We issued qualification letters reporting errors in the claim and return. We will issue the Annual Certification Report for 2013-14 in December 2014.

Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we were required to communicate to those charged with governance (the Accounts, Audit and Risk Committee) significant deficiencies in internal control.

We found no deficiencies during the audit that were of sufficient importance to merit being reported.

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Ernst & Young LLP

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

Cherwell District Council

Certification of claims and returns annual report 2013-14

November 2014

Ernst & Young LLP

Building a better working world

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INVESTOR IN PEOPLE

The Members of the Accounts, Audit and Risk Committee
Cherwell District Council
Bodicote House
Bodicote
Banbury
OX15 4AA

24 November 2014

Ref:

Direct line: 07881518875

Email: mwest@uk.ey.com

Dear Member

Certification of claims and returns annual report 2013-14 Cherwell District Council

We are pleased to report on our certification work. This report summarises the results of our work on Cherwell District Council's 2013-14 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2013-14, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2013-14 certification work and highlights the significant issues.

We checked and certified one claim, the housing benefits subsidy claim, value of £37,576,334. We met the submission deadline. We issued a qualification letter for the claim. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the grant due.

Last year we recommended that the Council liaise with its service provider (Northgate) to agree a shorter response time for the production of bespoke reports if required for extended benefits testing. Alongside this recommendation we also planned to complete our initial benefits testing in July 2014 to allow a greater lead in time for any extended testing that was found to be necessary. This approach worked well and additional testing was completed well in advance of the certification deadline.

Fees for certification work are summarised in section 2. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme.

We welcome the opportunity to discuss the contents of this report with you at the Accounts, Audit and Risk Committee

Yours faithfully

Mick West

Director
Ernst & Young LLP
Enc

Contents

1. Summary of 2013-14 certification work

We certified one claim in 2013-14. The main findings from our certification work are provided below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£37,576,334
Limited or full review	Full
Amended	Amended – subsidy increased by £103
Qualification letter	Yes
Fee - 2013-14 Fee - 2012-13	£11,762 £16,715
Recommendations from 2012-13:	**Findings in 2013-14**
40+ testing was completed very late in the process and close to the submission deadline due to lengthy elapsed time between the Council requesting reports from its service provider (Northgate) and the receipt of these reports. If further 40+ testing had been required, given the timescales involved, the Council would not have had the capacity to complete this by the deadline. To avoid this in future it is recommended that the Council liaise with its service provider (Northgate) to agree a shorter response time for the production of bespoke reports if required for extended 40+ testing.	Recommendation implemented.

Councils run the Government's housing benefits scheme for tenants. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in three areas.

Extended '40+' testing and other testing identified errors which the Council amended. They resulted in a small increase (£103) in the grant due. We have reported underpayments, and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter:

Testing of the initial sample identified:

- One case where the Authority had overpaid benefit as a result of awarding a backdated payment when there was insufficient evidence to support it.
- One case where the Authority had incorrectly recorded a dependent's date of birth, with no impact in subsidy.

- One case where the Authority had incorrectly recorded the number of dependents in the household, with no impact in subsidy.

Extended testing identified:

Incorrectly applied backdate

- This testing identified one further case where a backdated payment had been incorrectly classified as normal subsidy and one case where normal subsidy had been incorrectly classified as backdated subsidy. There was no net impact on subsidy in either case.

Incorrectly recorded dependent's date of birth

- One incorrect date of birth was identified that had no impact on subsidy.

Incorrect number of dependents recorded on the system

- Two errors were identified that resulted in the underpayment of subsidy. As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified did not affect subsidy and were not, therefore, classified as errors for subsidy purposes.

2. 2013-14 certification fees

From 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The 2013-14 fee for certification of housing benefit subsidy claims has been further reduced by 12 per cent, from the indicative fee to reflect the removal of council tax benefit from the scheme.

	2012-13	2013-14	
	Actual fee £	Scale fee £	Actual fee £
Housing (and council tax benefits) subsidy claim	16,715	11,792	11,792
National non-domestic rates return[2]	3,085	N/A	N/A
Certification of claims and returns – annual report[1]			
Total	**19,800**	**11,792**	**11,792**

[1] *Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.*

[2] *National non-domestic rates return no longer requires certification*

3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-15 is £16,660. The actual certification fee for 2014-15 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2012-13 on individual claims or returns.

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2012-13 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements.

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INVESTOR IN PEOPLE

Martin Henry
Director of Resources
Cherwell District Council
Bodicote House
Bodicote
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OX15 4AA

25 November 2014

Ref:
Your ref:

Direct line: 07881518875

Email: mwest@uk.ey.com

Dear Martin

Cherwell District Council - 2013-14 Audit Scale Fee – late variation

We issued our 'Audit Results Report' on the 11 September 2014, to report the outcome from our work in respect of the 2013-14 audit year. Within this report, we set out the 'final' audit fees, as required by the Audit Commission.

However, the Audit Commission has recently consulted on a supplement to the 2014-15 audit scale fees. In that consultation, the Audit Commission applied a permanent variation of £900 to the base scale fee. This reflects the additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund.

This additional work is required because the certification work on Business Rates (the NNDR3 return) is no longer within the Audit Commission's certification regime – it was withdrawn for 2013-14. Auditors were previously able to use the certification work on the NNDR3 return as the required assurance for the audit opinion on the financial statements (including the Collection Fund). As reported in our Certification of claims and returns annual report (January2014), the 2012-13 fee was £3,085.

The Audit Commission has now acknowledged that auditors were required to undertaken these additional audit procedures to be able to gain assurance for the 2013-14 financial statements opinion. Indeed, business rates were included as a significant audit risk within our Audit Plan. In recognising that this applies equally to 2013-14, the Audit Commission has asked us to agree a scale fee variation of £900 to that audit fee with you.

The revised final scale fee in respect of the 2013-14 audit is set out in the table below.

	2013-14	2013-14
	Reported final fee (within Audit Results Report)	Amended final fee (revised and final)
	£	£
Audit Code Scale Fee	68,603	69,503

I appreciate that any increase to the audit scale fee is unwelcome news, but I hope that the narrative above sets out the Audit Commission's rationale for the increase. I think that this increase should be seen in the context of the Audit Commission reducing the 2015-16 scale fee by a further 25%, as a result of its latest procurement exercise.

If you wish to discuss this in more detail please do let me know, so we can arrange a call or a meeting. Otherwise, I would be grateful if this letter could be included within the agenda for the next Accounts, Audit and Risk Committee, as we are required to report the final audit fee to 'those charged with governance' of the Council.

I look forward to catching up with you in due course.

Yours sincerely

Mick West
Director
Ernst & Young LLP

November 2014

Local Government Audit Committee Briefing

Contents at a glance

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.
It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.
Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

Building a better working world

Government and economic news

EY Item Club: Autumn 2014 Forecast

ITEM Club is the only nongovernmental economic forecasting group to use the HM Treasury model of the UK economy, independent of any political, economic or business bias.
The Autumn 2014 report summarises the latest quarterly forecast and gives EY's assessment.

The ONS's recent revisions to the UK's historical economic data have given a very different perspective on the shape of the recession and subsequent recovery.

Consumer spending remains subdued by falling real wages, which has helped to keep inflation at bay. Inflation as measured by the CPI was just 1.2% in September, the lowest reading in five years and ninth successive month that it has been below 2%. Whilst falling prices for food and petrol have played a role in keeping inflation down, underlying price pressures are also well contained. Since consumer spending has been subdued, business investment has now taken over as the engine of recovery; with capital spending accounting for almost half the rise in GDP in the past year. UK GDP has been revised up, meaning it actually passed its previous high-point in 2013, and that output is now well above the 2008 peak.

This picture is more consistent with the strong growth in employment. The upward revisions to business investment have been particularly pronounced; meaning the scope for catch up is less than previously thought. Despite the growing risks and uncertainties, EY Item club is projecting GDP growth of 3.1% in 2014, followed by a slight easing to 2.4% growth in 2015 and 2.3% in 2016, and then a modest uptick in 2017.

Contracting out public services to the private sector

In the last briefing we considered the response of the House of Commons Committee of Public Accounts (the 'PAC') to evidence including the National Audit Office report 'The role of major contractors in the delivery of public services' and submissions from central government bodies.

The PAC made a range of recommendations in four key areas.
In the previous briefing we looked at contract management and delivery. We will now consider Capability, Transparency and Ethical Standards.

Capability

The PAC found that, often, there is a lack of expertise within central government to extract the greatest value from contracting with private providers.

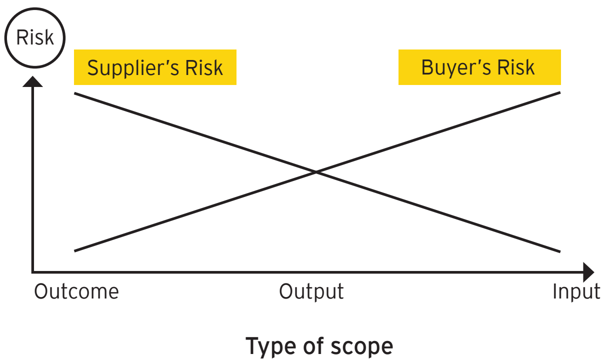
We often find that both public and private sector organisations lack clear lines of responsibility for contract management, which falls between procurement, operations and finance functions. A greater focus on contract governance would enable local authorities to ensure that accountability is clear and that experienced contract managers have the necessary training and skills for this important role.

Transparency

Calls for increased transparency include recommendations that the public sector makes greater use of 'open-book' accounting. This is something we would endorse, especially where contracts are constructed around the purchase of 'inputs' such as labour on a daily or hourly rate.

Government and economic news

Furthermore, we would recommend that the public sector considers whether it can purchase services based around outcomes, rather than inputs, as these can help to mitigate the buyer's risk as illustrated below:



Ethical standards

The PAC emphasised the value of effective whistleblowing policies. Our experience shows that many private sector suppliers have whistleblowing policies. However, these tend not to provide a direct link from the potential whistleblower to the public sector buyer, sometimes reducing the effectiveness of these policies.

However, in order for whistleblowing to be a truly effective contract management tool, the buyer needs to have appropriate routes to provide rights of access to a contractor's employees as well as its accounting records, plus the teams with the necessary skills and experience to investigate contract performance.

Summary

At a time when local authorities continue to look for savings, the PAC Report provides a timely reminder that effective contract management can both:

- Be a means by which savings can be achieved
- Help to improve public confidence in the use of public funds

Councils face a £5.8 billion shortfall in funding says LGA

The Local Government Association (LGA) has published its Future Funding Outlook 2014, which notes that the funding gap, created by a combination of funding cuts and spending pressures, is growing at an average rate of £2.1 billion per year. Spending on social care and waste management, both of which have significant statutory elements, is taking up an increasing proportion of the funding available to councils, which means that according to the LGA model, funding for other council services will drop by 43% in cash terms by the end of the decade. Council expenditure has fallen significantly since 2010-11 in all areas other than public transport, children's social care, adult social care and waste management and other environmental services. However, assuming consistent service levels, and taking into account cost drivers and assumed efficiency levels, the LGA model predicts that total expenditure will rise from £51.1 billion in 2013-14 to £55.7 billion in 2019-20, whereas total funding will fall by £10.6 billion when the impact of ring-fenced funding for public health is excluded. Bringing together the predicted income and expenditure trends, the LGA forecasts a gap of £12.4 billion between funding and net expenditure by 2019-20. LGA research indicates that in many authorities savings are starting to come from service reductions rather than efficiencies, and that in 2015-16, savings will be achieved more through service reductions than through efficiencies. The funding gap by the end of 2015-16 is forecast to be £5.8 billion, of which £1.9 billion relates to adult social care.

Government and economic news

Independent commission on local government finance

The Local Government Association and the Chartered Institute for Public Finance Accountancy have together established the Independent Commission on Local Government Finance, which is chaired by Darra Singh, a partner in EY's Government and Public Sector team. The Commission aims to build on the work of the LGA and CIPFA, who individually set out proposals for public service reform, and will consider five key challenges:

- Promoting economic growth and investment in infrastructure
- Ensuring sufficient housing is provided in every
- Integrating the health and social care systems to promote independent living, including preventing unnecessary health
- Achieving a welfare benefits system that promotes work and protects the vulnerable
- Supporting families and developing young lives through early intervention

The Commission aims to shape the debate on local government finance, and to influence the next government. It published an interim report in October, and its final recommendations are due out in early 2015.

The interim report contains the following key points:

- The need for reform is urgent and creates an opportunity to establish a funding system for local government which is largely self-sufficient.
- Councils have a role to play in addressing the chronic housing shortage, and should be able to borrow to invest in social housing.
- The Commission will be looking at the option of creating central funds which offer to match-fund local partnership contributions in order to support early intervention for children and families.
- Larger investment in transformation is needed for the delivery of integrated care.

Accounting, Auditing and Governance

Future of Local Audit

As part of its consultation on Local Audit Regulations associated with the Local Audit and Accountability Act, which ended on 18 July 2014, the government is proposing to bring forward the dates for the accounts to be signed and certified by the Responsible Financial Officer, then approved and published, from 30 June and 30 September respectively to 31 May and 31 July respectively. They propose that this change would take place from the 2017–18 accounts, but hope that authorities will move to the new timetable as soon as possible.

The consultation also covers collective auditor procurement by a specified person. Under the intended regulations, authorities would be able to opt in to sector-led procurement arrangements, and have an auditor appointed on their behalf, rather than appointing their own auditor locally. Under the draft regulations, the Secretary of State may specify the Appointing Person, and may specify different appointing persons for different groups or types of audited bodies.

Grant claim certification results

The Audit Commission has published a report on its findings from the 2012–13 grant claim certification process. As well as adjustments to claims worth £17.3 million, auditors issued qualification letters for 360 claims and returns. This included:

- 255 Housing Benefit subsidy claims, 78% of the total,
- 55 Teachers' Pensions returns, 36% of the total,
- 39 National Non-domestic Rates returns, 12% of the total

From 2013–14, non-domestic rates returns no longer require auditor certification. Teachers' Pensions has decided to make its own certification arrangements for 2013–14, however the Audit Commission and, after March 2015, its successor transitional body will continue to make certification arrangements for housing benefit subsidy. Council tax benefit was replaced in 2013–14 with local authority run schemes, which do not require auditor certification. Other grant paying bodies will need to make their own assurance arrangements from 2014–15 onwards.

The purpose of qualification letters is to make a grant paying body aware of issues with a claim or return, typically issues for which it is not possible or cost-effective to quantify the full financial impact. The Department for Work and Pensions issued a subsidy circular (HB S4–2014) in May 2014, reiterating the responsibilities of local authorities to ensure their subsidy claims are:

- Completed accurately and in accordance with HB subsidy guidance and circulars
- Supported by systems of internal control, including systems of financial control and internal audit
- Completed in a timely manner
- Supported by adequate working papers
- Subject to supervision and review before completion of the authority's certificate
- Certificate given by an appropriate officer, typically the responsible finance officer

The circular also states the Department's intention to contact all local authorities whose subsidy claims have been qualified. It will require an outline of the actions taken to address the issues raised. In cases with recurrent qualification issues, the Department will also visit those authorities.

Protecting the public purse: 25 years on

Detection of fraud in England in 2013-14 by Councils and other local government bodies was at its highest level since the recording of fraud was established some 25 years ago by the Audit Commission. The total figure of £188mn was a 10 fold increase on

Accounting, Auditing and Governance

the first recorded figure in 1990. The Audit Commission was and is the sole provider of comprehensive data on all types of fraud detected by local authorities. This is due to the statutory powers the Commission has, to demand that local government bodies provide such data.

The Audit Commission's Chairman, Jeremy Newman commented: 'I urge the government to mandate the provision of fraud data from all local authorities, after the Commission's closure, to ensure that future reports are able to provide as complete and authoritative a picture of fraud detection as 'Protecting the Public Purse'. This would help preserve the high levels of transparency and accountability that English councils currently exhibit in their approach to countering fraud and prevent those councils that are not yet playing their part in the fight against fraud, from avoiding public scrutiny.'

The Audit Commission has also released a checklist for elected members, designed to help them analyse their council's results and assess how the NFI is integrated into the council's processes and counter-fraud policies. The Commission recommends that public audited bodies should consider whether it is possible to make better use of matches, and use NFI matches in conjunction with matching services from other providers. It also recommends that local authorities should ensure they retain sufficient capability to investigate non-housing benefit fraud, after the introduction of the Single Fraud Investigation Service.

The Commission's Fraud Team will be moving to CIPFA as part of the closure of the Audit Commission.

The Cabinet Office and the Audit Commission will be working together to ensure the smooth transfer of the NFI functions when the Audit Commission closes in March 2015.

Audit fees at a 25 year low as part of the Audit Commission's legacy

In its last full year of operation before being officially wound down on 31 March 2015 the Audit Commission has announced that it is reducing audit fees by approximately £30 million between 2015-2017. If the government decides to extend and lock in the 2012 and 2014 audit contracts until 2020, it is expected that the total value of savings to local government, police, fire and NHS bodies would be approximately £440mn.

Chairman of the Audit Commission, Jeremy Newman says: 'We have driven down prices for audit services, showing again that bulk procurement is the best way to maintain a competitive market and provide taxpayers with value for money. The resulting savings are part of the legacy the Commission will leave after March 2015, and will be enjoyed by local authorities and NHS bodies for years after our closure. Fees should be preserved at this level for 2016–17 and we hope the government will take the opportunity we have secured to lock in and extend the savings we have achieved up to 2020.'

In addition to the above savings, the Commission also intends to return approximately £6mn as a rebate to Local Government and NHS bodies in 2014-15

A transitional body, Public Sector Audit Appointments Limited (PSAAL), has been established by the Local Government Association to oversee the management of the Audit Commission's external audit contracts until they end in 2017 or are possibly extended until 2020. The PSAAL will be responsible for setting fees, appointing auditors and monitoring the quality of auditors' work. They will also be responsible for publishing the Commission's Value for Money Profile tool.

Regulation News

Open and Accountable Government

The government has introduced a new law allowing the press and public to film and digitally report (including tweeting and blogging) from all public meetings of local government bodies. These rules will apply to all public meetings including town and parish councils, and fire and rescue authorities. The regulations also give members of the press and public rights to see information related to significant decisions made outside meetings by officers acting under general or specific delegated powers.

Whistleblowing

The Department for Business, Innovation and Skills (BIS) has recently launched a consultation, which closed at the end of September 2014, seeking views on the practical implementation of a legal power requiring prescribed persons to report annually on whistleblowing disclosures. Because of the duty of confidentiality binding prescribed persons, and a lack of legal obligation to investigate, BIS found that whistle-blowers do not have confidence that their reports are investigated. The Department is therefore introducing a reporting requirement in order to ensure more systematic processes across prescribed bodies, and to provide greater reassurance to whistle-blowers that their reports are being acted on. The reports would not provide specific detail enabling the whistle-blower or the organisation about which the report is made to be identified, but would contain more generic information about the number of disclosures made, and the characteristics of those disclosures, such as whether they required further investigation or referral to an alternative body.

Meanwhile, the Parliamentary Commission on Banking Standards (PCBS) has published recommendations for enhancing corporate transparency, governance and integrity. Eleven of the PCBS' recommendations relate specifically to whistleblowing. The Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) have indicated their intention to adopt all eleven and consequently we can expect change to the regulatory landscape in the near future. We also noted earlier, that whistleblowing was an area raised by the PAC, who emphasised the value of effective whistleblowing policies.

Whistleblowing is therefore clearly a key area for consideration, for both the public and private sectors.

EY has produced a whistleblowing flyer to help you to consider your whistleblowing framework's effectiveness, and whether your culture encourages employees to raise concerns.

Key Questions for the Audit Committee

What questions should the Audit Committee be asking itself?

- Do we have clear lines of responsibility for contract management?
- Have we considered whether use of outcome based contracts could mitigate our 'buyers' risk'?
- Have we responded to the questions raised in Appendix 2 of the latest NFI report?
- How effective is our whistleblowing policy?

Find out more

EY Item Club: Autumn 2014 Forecast

Find EY Item Club's Autumn 2014 forecast at:

http://www.ey.com/Publication/vwLUAssets/EY-ITEM-Club-Autumn-Forecast-2014-full-report/$FILE/EY-ITEM-Club-Autumn-Forecast-2014-full-report.pdf

Contracting out public services to the private sector
Read the NAO report at:

http://www.nao.org.uk/wp-content/uploads/2013/11/10296-001-BOOK-ES.pdf

To find out how EY can help with contract management, contact a member of your engagement team.

Councils face a £5.8 billion shortfall in funding says LGA

Read the LGA's press release, on what they have termed the '£5.8bn funding black hole' at

http://www.local.gov.uk/web/guest/finance/-/journal_content/56/10180/6309034/NEWS.

Find the full report at:

http://www.local.gov.uk/documents/10180/5854661/L14-340+Future+funding+-+initial+draft.pdf/1854420d-1ce0-49c5-8515-062dccca2c70

Independent Commission on Local Government Finance

Read the Commission's interim report at:

http://www.localfinancecommission.org/-/media/iclgf/documents/l14536%20interim_report_web_v2.pdf

Future of Local Audit

https://www.gov.uk/government/consultations/local-audit-regulations

Grant Claim Certification Results

Read the full Audit Commission report at:

http://www.audit-commission.gov.uk/wp-content/uploads/2014/06/Local-government-claims-and-returns-final-17-June-2014.pdf

The DWP circular is also available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/309613/s4-2014.pdf

Find out more

Audit fees at a 25 year low as part of the Audit Commission's legacy

Read the full Audit Commission press release at:

http://www.audit-commission.gov.uk/2014/10/wpsf1516pr/

Protecting the Public Purse: 25 years on

Read the final NFI report produced by the Audit Commission before its closure in March 2015 at:

http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf

Open and Accountable Government

The guide for press on attending and reporting meetings of local government is available at:

https://www.gov.uk/government/publications/open-and-accountable-local-government-plain-english-guide

Whistleblowing

Feedback from the consultation is currently being analysed. The output from the consultation when it becomes available will be accessed via:

https://www.gov.uk/government/consultations/whistleblowing-prescribed-persons-reporting-requirements

To download the EY flyer on whistleblowing, visit:

http://www.ey.com/Publication/vwLUAssets/EY_-_Whistleblowing_-_change_is_coming/$FILE/EY-whistleblowing.pdf

For more information on how EY can help you enhance your existing whilstleblowing framework, speak to a member of your engagement team.

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About EY

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Cherwell District Council

Accounts Audit and Risk Committee

3 December 2014

Internal Audit – Progress Report 2014-15

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To receive the PwC Internal Audit Progress Report.

1.0 Recommendations

The meeting is recommended to consider and note the contents of the Progress Report.

2.0 Introduction

2.1 Internal Audit undertakes its work in line with their Audit Plan issued March 2014.

3.0 Report Details

3.1 Internal Audit is on track to deliver its planned programme of work for the year (attached in Appendix 1).

4.0 Conclusion and Reasons for Recommendations

4.1 The progress report summarises internal audit's work for 2014-15.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not applicable as this report is for information. However, members may wish to request further information from the Chief Internal Auditor.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
01295 221731 Nicola.Jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by: Kevin Lane, Head of Law & Governance
0300 0030107 Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
01295 221731 Nicola.Jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected All wards are affected

Links to Corporate Plan and Policy Framework All corporate plan themes.

Lead Councillor None

Document Information

Appendix No	Title
Appendix 1	PwC Progress Report 2014-15
Background Papers	
None	
Report Author	Chris Dickens, Chief Internal Auditor
Contact Information	Chris.Dickens@uk.pwc.com 07720 427215

Internal Audit Progress Report

Update to the Accounts, Audit and Risk Committee on Internal Audit activity

Cherwell District Council

December 2014

pwc

Contents

Introduction

We are committed to keeping the Accounts, Audit and Risk Committee up to date with internal audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the committee and to bring to your attention matters that are relevant to your responsibilities as members of the committee.

We have also attached again for reference some of the latest publications that might be of interest to you as members of the committee (these are included in Appendix 1).

2014/15 audit plan update

We continue to have discussions with management on the draft audit plan for 2014/15 and plan to have further discussions over December with a view to agree appropriate scopes for the non-financial systems reviews and delivery prior to March 2015.

Please find a summary of the latest position against the plan. We remain on course to deliver the plan by 31 March 2015, with the exception of the year end support which again is scheduled for June 2015 when the draft statement of accounts are prepared and does not form a review of the control environment.

As previously reported in our September update to the committee.

Graven Hill: Phase 2 Review – Final Report

We completed our second phase review over the Council's Graven Hill business case and have reported back our key findings to officers. There was no risk rating provided for this review and was a report summarising our findings against the governance arrangements around the Council's business case.

There were no matters that we wanted to draw out over the Councils' controls and approach to its business case over the proposed Graven Hill development.

Additional work delivered

We reported in September that we have delivered three additional pieces of work against the 2014/15 plan.

We have completed two special investigations at the request of the interim Head of Finance and Procurement and Director of Resources respectively, relating to a couple of specific matters raised to us.

Our findings have been reported back to key officers and individuals following completion of these special reviews. Should members want any additional information or a copy of the reports these can continued to be made available on request.

Following on from one of the special investigations we have also helped facilitate and deliver an anti-money laundering workshop for officers in August 2014.

Since the September report there are two further items to draw to your attention.

HCA Compliance Audit

We have also delivered an additional review in relation to HCA procedural compliance regime. This was delivered outside of the internal audit plan under a separate engagement letter given the nature of the work. The estimated fees for this are £5,000. We signed the audit report on 24 November 2014 and submitted to the HCA in that week ahead of the required deadline.

Anti-money laundering workshop

Following on from the anti-money laundering workshop we facilitated for officers in August 2014, we have agreed to do an additional session in January 2015 for those officers who were unable to attend the workshop in August and is of relevance for their job role.

Reporting activity and progress

A summary of the 2014/15 Audit Plan and amendments made are included in the summary below.

Ref	Auditable Unit	Original Plan Days	Updated Plan Days	Update
A	Cross-cutting Processes			
A.1	**Finance Systems** • General Ledger (4) • Payroll (4) • Collection Fund (Council Tax and NNDR) (6) • Housing Benefits (4) • Treasury (4)	22	22	There are no significant matters to be raised to date on the reviews where the testing has been completed. We have completed the payroll, housing benefits and treasury reviews. These are in a process of review, quality assurance and reporting. We have the general ledger review scheduled for December. We are discussing with management the best timing for the collection fund review given notification of key staff contact change in this area. We will summarise the findings for each of these reviews to the committee once the reports are finalised.
A.2	**IT Systems (Finance System - Civica)** Ongoing review and support in change management and finance system upgrades	7	7	No change. We will discuss how best to utilise IA days given the decision to change finance systems to Civica across the three councils.
A.3	**Review of Corporate Costs** • Corporate Telephony Costs	3	3	No change.
	Specific Follow Up Review	0	6	We will summarise the detail findings against follow up actions and recommendations and present alongside our annual report. There are no specific areas of concern that we wish to draw out at the present time.
	TOTAL	**32**	**38**	
B	Department Level			

B.1	**Programme Management** Ongoing support to consider programme management and key ways of working on major programmes across the council, to be agreed during the plan year. Key projects include: • Graven Hill • Bicester Town Centre Redevelopment • Build Programme	12	12	No change. We will continue to work with the project office to identify areas/projects for additional support and review.
B.2	**Risk Management / Governance** Review the adequacy of risk management arrangements within the Council and we will provide you with a view on your Joint Risk Management arrangements.	5	5	No change. We will deliver this review in quarter 4.
B.3	**IT**	6	6	We will continue to liaise with the IT team and identify areas for review and support utilising the findings of our IT diagnostic report from the 2013.14 plan as areas for potential focus.
B.4	**Housing – Planning Applications** Review the processes you have put in place to manage the changes and alter your systems to process applications effectively.	6	6	No change.
B.7	**Service Redesign – VfM assessments** To review current service plans and operational design and arrangements to benchmark performance on selected service. • Strategic Planning and the Economy • Regeneration and Housing • Environmental Services	6	0	Used for specific follow up review for all 13/14 completed reviews as annual report prior recommendations update. See above.
B.8	**Finance Year End Support** To support you at year end. This support will include a critical review of your draft accounts, accountancy support and attendance at your close down group.	4	4	No change.

	Graven Hill: Phase 2 Business Case Review	0	7	Governance review completed on the business case prepared for its Graven Hill development options. Final Report Issued. There were no matters that we wanted to draw out over the Councils' controls and approach to its business case over the proposed Graven Hill development.
	TOTAL	**39**	**40**	
VE	Value Enhancement			
VE.1	**Joint Working and Transformation Programme** Review of the governance and business cases for efficiencies and savings for three way working. • Future Service delivery and Governance Concept • Governance Models • New Ways of Working	15	15	No change. We will work with the Transformation Group Lead and identify specific themes and areas for review or input and advice over.
VE.2	**Service Redesign – Income Optimisation / Commercialisation** To review current service plans and operational redesign and arrangements to maximise efficiencies and potential income streams and to consider the commercialisation of revenue schemes. Covering key areas including: • Contract assurance; and • Fees and Charges. On selected service from: • Strategic Planning and the Economy; • Regeneration and Housing; and • Environmental Services.	5	5	No change. We will work with the Transformation Group Lead and identify specific themes and areas for review or input and advice over.
	TOTAL	**20**	**20**	
PM	Project Management			
PM1	Project management	25	25	No change.
PM 2	Contingency	7	0	Used for Graven Hill Business Case as reported earlier in this update report.
	TOTAL	**32**	**25**	
	UPDATED PLANNED DAYS	**123**	**123**	

Appendix 1 – 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.

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

The Public Matters – Autumn 2014

As we head towards the general election in May 2015, debate is heating up on the key issues for 2015 and beyond. But all too often the public's told what it should think, not asked.

Over five years, PwC has worked with BritainThinks to bring the public's views to the fore. Through our Citizens' Juries, we've assembled people from across the country to consider questions of national importance. And most recently, PwC and BritainThinks held Citizens' Juries at the Labour, Conservative and Liberal Democrat Party Conferences.

The Public Matters is a special edition of our bi-annual Whitehall Matters newsletter reporting on the findings of our party conference season citizens' juries.

This issue includes articles on what we found. We share the public's perspectives on reforming public services and dealing with the deficit, lifting living standards and delivering good growth and good jobs. We also explore the role of deliberative research in policy making, more widely.

Decentralisation Decade report: a plan for economic prosperity, public service transformation and democratic renewal

Decentralisation is firmly in the sights of politicians nationally and locally, but is the tide in favour of decentralisation strong enough to make change substantial and irreversible?

IPPR's report 'The Decentralisation Decade', which we have supported, sets out the prospects and priorities for decentralisation in England over the next 10 years.

Decentralisation Decade sets out five broad principles for decentralisation in England:

- **Decentralisation must be for a broad and clear purpose.** Decentralisation is not an end in itself, but a means to achieve improved outcomes in terms of good growth and public services.
- **Decentralisation must be joined-up.** A coherent and co-ordinated approach is needed across different departments, at different spatial scales and between a wide range of public, private and voluntary actors and enthusiastic citizens too.
- **Decentralisation needs to be asymmetrical.** A multi-speed approach to decentralisation is the way ahead, driven by those areas with the appetite to take on additional powers and responsibilities. Meanwhile government at the centre needs to do more to enable ground-up localisation: the focus should be on enabling a more organic approach to collaboration at local and, where appropriate, regional levels.
- **Decentralisation needs time.** A decade of decentralisation is needed to make the adaptations necessary, develop local capacity and embed a culture of decentralisation.
- **Decentralisation needs cross-party support.** To make a genuine shift in power from the central to the local level requires engagement from across the political spectrum, with national and local governments work in unison rather than in conflict over the long term.

Who's accountable now? The public's view on decentralisation

Decentralisation is firmly in the sights of politicians nationally and locally in the UK, but is it really possible for government to 'let go' in such a centralised political culture?

As part of our work with IPPR on the 'Decentralisation Decade' we have refreshed our 2009 research exploring who the public hold accountable for public services and for the economy.

Our new research reinforces our 2009 findings: if real powers are transferred to highly accountable bodies then public perceptions of responsibility will change. The public tends to have a relatively good awareness of whether particular bodies have the powers to act in a particular area. But real accountability depends on fully aligning decision-making, budgets and delivery when decentralising.

Key implications
There are three important implications for those seeking to decentralise:

- Politicians need to hold their nerve: for at least a period of time 'the centre' will still be blamed for failures, either being seen as responsible for the act of devolution or because the public didn't notice or understand that devolution has occurred.
- The public usually needs time to get used to understanding who is responsible for exercising newly decentralised powers. As such, a route map to decentralisation spanning years, not months, is needed to rise to the challenge of letting go of power in our centralised political culture.
- Decentralisation needs to be a two-way process between central government and local bodies: in particular, local government needs to be focussed when negotiating for additional powers and ensure it has the capacity to make best use of them, as shown in the City Deals process.
- If perceptions of accountability are to shift, communications and engagement are essential. Building the case for change and engaging the public in the debate on accountability is, therefore, an essential step if we are to deliver a Decentralisation Decade.

Additional publications
We would also recommend revisiting the following publications as still relevant to the current climate within local government and public sector finances.

Productivity in the public sector - what makes a good job?
This new Talking Points publication from PwC and Demos explores what can be done to lift productivity and how the public sector can play its part.

The UK as a whole has a productivity problem. Its workers produce less per hour than their counterparts in France, Germany and the US, with the gap widening since the onset of the financial crisis. The question of how to improve productivity is where debates on growth, living standards and deficit reduction come together. And the public sector has a key role to play in finding the answer.

By creating the right environment for business through their policies, government at all levels can help places build on their strengths and attract the talent and investment that companies need to succeed. And the public sector - as a huge employer - has the potential to make a unique impact to this issue.

In this Talking Points publication from PwC and Demos, we examine the issue of low productivity and the challenges ahead for the public sector, consider the role of the workforce as a partner in solving these dilemmas and draw together discussions over a series of three roundtables on 'good jobs', to present some potential responses including:

- Job design for high productivity working
- Learning and development for an adaptable public sector workforce
- Pay and rewards and their links to productivity

Redefining local government
Prolonged austerity is driving an important shift in local government. The early years of austerity have been characterised by authorities taking action to reduce costs through a range of traditional 'supply side' cost reduction measures. However, given that austere public finances will last well into the next parliament, local government needs to raise its sights and shift beyond traditional cost reduction approaches.

Many authorities are already reaching a tipping point where it is no longer possible to undertake the same activities as before. Local authorities now have to fundamentally redefine their role and purpose.
Local public services need to be viewed in a much more holistic way, with a focus on how multiple organisations, and citizens themselves, can contribute to securing desired outcomes.

This new landscape will require fundamentally different organisational cultures and behaviours to make it successful, along with an intense focus on digital innovation and intelligent and insightful data collection and management.

This will be a complex journey. In our latest Talking Points we set out the six steps that will help to create the right foundations to deliver more effectively against this agenda.

Opening out? New approaches to service delivery
The new world of Open Public Services presents valuable opportunities for improvement and innovation, replacing 'top down monopolies' with diverse and dynamic markets of suppliers, competing to deliver the most effective and cost-efficient public services. But for this model to work, multiple barriers must be overcome, requiring more effective collaboration and procurement.

We explore how to address these obstacles in this Pressure Points publication, including innovative models of partnership between the private and not-for-profit sector in order to build the capacity and capability of new, and existing, providers.
The key risk here is that government assumes too much of the market too soon. Politicians and policy makers need to hold their nerve and commissioners should engage the market in the right way, so that new and more diverse public service providers can succeed.

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Cherwell District Council

Accounts, Audit and Risk Committee

3 December 2014

Second Quarter Risk Review

Report of Head of Transformation and Corporate Performance Manager

This report is public

Purpose of report

To update the Committee on the management of Strategic, Corporate and Partnership Risks during the second quarter of 2014/15 and highlight any emerging issues for consideration.

1.0 Recommendations

The meeting is recommended to:

1.1 review the second quarter Strategic, Corporate and Partnership Risk Register and identify any issues for further consideration.

2.0 Introduction

2.1 The Council sets out its approach to managing risk in its Risk and Opportunities Management Strategy. This document is reviewed and updated on an annual basis and sets out the framework for managing risks of all types.

2.2 Risks are reviewed on a quarterly basis, undertaken by the Accounts, Audit and Risk Committee and Joint Management Team (JMT). This takes the form of reviewing the strategic risk register. Operational risks are reviewed at the departmental level but can be escalated to the strategic risk register if required. Risks may be identified and added to the strategic risk register at any point during the year. However, a formal review is undertaken annually to refresh the strategic risk register and identify any new or emerging risks or opportunities.

2.3 In summary this report sets out the following:

- the principles by which the Council manages risk
- quarter two Risk Review (Appendix 1) and Risk Heat Map (Appendix 2)
- issues outstanding from 2013/14 Risk Audit

3.0 Report Details

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

Core Risks: these are the core set of strategic and high level risks that are recorded in the Council's Risk Register and are managed by JMT. They are monitored by the Accounts, Audit and Risk Committee and JMT on a quarterly basis. These risks are defined as strategic, corporate and partnership risks (see 'types of risk' below).

Residual/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 residual 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 strategic risk register. 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.

3.2 The Council's Risk and Opportunities Strategy was fully reviewed and redeveloped during 2011/12 to take into account the new joint management arrangements within Cherwell District Council and South Northamptonshire. This strategy ensures that the joint management team use a single approach to risk management. Risks are clearly identified as Cherwell, South Northants, shared or 3 Way (to reflect current shared working with Stratford District Council) and managed to reflect this status.

The strategy has been reviewed as part of an annual process and minor adjustments have been made. These reflect the recommendations made as part of the audit and changes to the information management and data collection system that underpins the process.

As part of the business planning process for 2014/15 strategic, corporate and partnerships were reviewed and updated by JMT to ensure its contents reflect current priorities and circumstances. Two further risks are currently being crafted for JMT agreement and will be reported in quarter three:-

- Land Assets / Asset Management Programme
- Banbury Developments

Second Quarter Risk Review

3.3 The risk register is attached as Appendix 1. The register has been reviewed by the risk owners and members of JMT. Each risk has commentary for quarter two included.

3.4 Changes to the full risk register during this quarter are summarised below:-

Risk Type	Risk Ref	Risk Name	Comments/Actions
Strategic	S12	CDC Local Plan – County SHMA	**Risk closed Quarter 2** Impact of SHMA led to modifications to increase Local Plan to 22,800 (2011-2031) – now complete
Strategic	S07	Customer Service Improvements	**⇧ Increase in residual risk scores** SNC staffing issues are being closely monitored as the team lost 2 FTE from the start November, and will subsequently lose .91 from 7.2 FTE operational CSO by start of December. Posts are currently being advertised and we intend recruiting for a start date early December. However to train these staff as well as continue to work on delivery for The Forum will have a detrimental effect on performance. It may be possible to use CDC resources as an interim measure and this will be explored. Probability scores have increased to reflect this position

Risk Type	Risk Ref	Risk Name	Comments/Actions
Corporate	C06	Member Decision Making	⇧ **Increase in residual risk scores** There was an instance at SNC of a Committee decision being taken other than on a fully informed basis because some key information was omitted from a report that was not signed off by a JMT member. It is appropriate to increase the score at this stage pending the further mitigation referred to in the update on actions having proven effect.

3.5 **Operational Risks**

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. As with service performance indicators, any issues arising from these operational risks may be escalated via performance and risk reports to JMT. In the event of this occurring they would also be reported to the Accounts, Audit and Risk Committee in their quarterly reports.

3.6 Operational risks have already been identified through the development of 2014/15 service plans and will be further reviewed as part of the 2015/16 Service/Business planning process. The need for Operational risk training to support staff through the process of identification of new risks, evaluation of those risks and inclusion onto service risk registers has been recognised and training is being sourced.

3.7 Issues outstanding from 2013/14 Risk Audit – Price Waterhouse Coopers (PWC)

Recommendations from the audit, with resolutions, are detailed below:-

Audit Recommendation	Resolution
Review of Operational Risks	Operational Risk Review is planned for quarter three to align with the Service Planning process
Standardise format for Service Risk Registers	This issue will be addressed in the Operational Risk Review 2014/15 We are currently testing risk data capture using SharePoint

Progress on these issues will be reported as part of future quarterly risk updates.

4.0 Conclusion and Reasons for Recommendations

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

Option 1 To support the current approach and having considered the Strategic, Corporate and Partnership risks, report any concerns arising to the Executive.

Option 2 To reject the current approach and proposals and report any concerns arising to the Executive.

5.0 Consultation

5.1 Both CDC Accounts, Audit and Risk Committee and SNC Audit Committee have been consulted on the development of the Risk Strategy

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1 To reject the current approach and proposals and request recommend an alternative approach to risk management. This option is not recommended as it departs from the Council's stated approach to risk management as set out in its risk and opportunities strategy.

7.0 Implications

Financial and Resource Implications

7.1 There are no specific financial implications arising from this report.

Comments checked by: Nicola Jackson, Corporate Finance Manager,
Tel: 01295 221731, E-mail: nicola.jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no specific legal implications arising from this report,
Comments checked by: Kevin Lane, Head of Law and Governance,
Tel: 0300 0030 107, Email: kevin.lane@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

All strategic priorities

Lead Councillor

Councillor Kieron Mallon
Lead Member for Banbury Developments, Communications and Performance.

Document Information

Appendix No	**Title**
Appendix 1	Quarter 2 Risk Register 2014/15
Appendix 2	Quarter 2 Heat Map
Background Papers	
Report Author	Louise Tustian, Acting Corporate Performance Manager
Contact Information	Louise.tustian2@cherwellandsouthnorthants.gov.uk 01295 221786

Ref No	SNC or CDC	Owner	Updater	Risk Name	Risk Description	Priority	Type of Risk/ Opportunity	Inherent Probability	Inherent Impact	Gross Risk	Mitigating Actions	Due Date	Controls in Place	Residual Probability	Residual Impact	Net Risk	Update on Actions	Assurance	UPDATE THIS FOR Q2 REVIEW	Date Closed If applicable
S1	Common	Kevin Lane		Policy and legislative change	The councils fail to adequately respond to the implications of changing national policy resulting in loss of opportunity, reputational damage or legal challenge	CBP SNC	Political / Social / Economic	4	5	20	The impact on both Councils' MTFP of reduced revenue grant support has been the subject of reports to Executive and Cabinet		JMT forward plan, Executive and Cabinet Forward plans, Scrutiny Committees. Business and Service Planning. Business Planning meetings to brief Executive and Cabinet. Highly professional, competent, qualified staff Good networks established locally, regionally and nationally National guidance interpreting legislation available and used regularly Members aware and are briefed regularly including lead members/portfolio holders in one to one's with JMT members. JMT undertake policy oversight role	3	4	12	Executive and Cabinet away days have taken place in Q2 to brief members on new policy and legislative changes and their impact on business planning	No legal challenge has been made to any decision by either Council alleging misapplication of the law	This is an on-going risk which, as in previous quarters, has been mitigated by appropriate briefing of members ahead of decision taking. The away days for Executive and Cabinet have particularly addressed this risk in a business planning context.	
S2	Common	Martin Henry		Financial resilience	The impact of external financial shocks, new policy and increased service demand reduces the councils medium and long term financial viability	CBP4 SBP4	Political / Social / Economic	4	4	16	Medium Term Financial Strategy Complete		Highly professional, competent, qualified staff Good networks established locally, regionally and nationally National guidance interpreting legislation available and used regularly Members aware and are briefed regularly Participate in NFO and OTA work streams Programme management approach being taken	2	4	8		Budget and Financial Strategy Committee (SNC) Budget Planning Committee (CDC) Executive, Cabinet, Audit Committee and Accounts, Audit and Risk Committee, Scrutiny Committees	Risk reviewed. New Head of Finance and Procurement has started and has settled in well getting to grips with a number of issues. The fixed term appointment appears to have given a greater level of stability to the team.	
S3	Common	Martin Henry		Capital Investment and Asset Management	Poor investment and asset management results in the Councils' not maximising financial return or losing income.	CBP4 SBP4	Political / Social / Economic	3	4	12			Treasury management policies in place Investment strategies in place Regular financial and performance monitoring in place Independent third party advisers in place and different ones used at each Council Regular bulletins and advice received from advisers Fund managers in place Property portfolio income monitored through financial management arrangements on a regular basis Experienced professionally qualified staff employed at both Councils. Asset Management review and conclusions expected to be reported at both Councils by the end of the year.	2	3	6		Budget and Financial Strategy Committee (SNC) Budget Planning Committee (CDC) Executive, Cabinet, Audit Committee and Accounts, Audit and Risk Committee, Scrutiny Committees	Risk reviewed - No change to risk description or controls	
S4	SNC	Chris Stratford		Moat Lane Roadworks Phase 1	Failure to obtain full and satisfactory Technical Approval of all aspects of the required road works in a timely manner may cause the planned programme to overrun and because this is linked to a Planning Condition (PC), the Community Building cannot be occupied until the road works are completed.	SBP4	Political / Social / Economic	4	5	20	Shared Risk with Towcester Regeneration Limited (TRL)		Towcester Regeneration Limited (TRL)/Morgan Sindall Construction (MSC) have engaged a Highways Consultancy (Curtin's) to resolve these issues with the Northamptonshire County Council Highways Authority and the Highways Agency.	4	5	20		These are under the complete control of TRL/MSC.	The programme, overall, remains on track. And the contractor has confirmed practical completion of the building will be 2nd March. At this time, even allowing for the previous and current issues concerning the S278, it is not anticipated that a significant over run will occur. Therefore, the 2nd March is the date by which the scheme will be completed, at this time.	
S5	SNC	Adrian Colwell		SNC Managing Growth and capitalising on opportunities	Failure to capitalise on the growth agenda results in lost opportunities in terms of economic, community and infrastructure development and financial gains (e.g. business rates retention). The ultimate impact is long term and impacts upon the strategic objectives of the council and quality for life for local residents and communities.	SBP1 SBP3	Political / Social / Economic	4	4	16	JCS approved at JPC Examination resumed in April 2014		Master planning process Core strategy Economic development strategy Inward investment plan	2	3	6		Planning Policy and Regeneration Strategy Committee	Report is now published JPC to consider in December Masterplan sites are being implemented	

Ref No	SNC or CDC	Owner	Updater	Risk Name	Risk Description	Priority	Type of Risk/ Opportunity	Inherent Probability	Inherent Impact	Gross Risk	Mitigating Actions	Due Date	Controls in Place	Residual Probability	Residual Impact	Net Risk	Update on Actions	Assurance	UPDATE THIS FOR Q2 REVIEW	Date Closed If applicable
S6	SNC	Adrian Colwell		HS2	Failure to engage on HS2 matters and failure to plan to mitigate potential impacts of HS2 result in: A higher negative impact on the district in terms of environment, disruption and economy than would be the case if the best mitigation outcomes are achieved. Failure to be seen to be acting in the best interests of the district and attempting to influence decision making may also have an impact on the Council's reputation	SBP1 CBP3	Political / Social / Economic	5	5	25	Petition submitted to Parliament on 15 May 2014. Negotiations continue with HS2 Ltd on mitigation required - including 03/09/2014 meeting		Member and Officer representation on the main 51M board Part of the Oxfordshire and Northants planning group (working with developers to manage the impact) Involvement with local community groups Working with local parish councils Member of HS2 Route Planning Forum	3	2	6		Cabinet and Planning Policy and Regeneration Strategy Committee	SNC have met with HS2 on issues ahead of the Parliamentary Bill hearing SNC attended MP visit on HS2 matters to South Northants.	
S7	Common	Natasha Barnes and Liz Crussell		Customer Service Improvement	Failure to increase internet usage or self service and improve customer service processes results in higher costs and decreased customer satisfaction	CBP4 SBP4	Customer Citizen / Service Delivery / Operational	4	3	12	Following suspension of two way project on CRM and Channel shift, interim measures are being considered with ICT pending revised strategic consideration of three way customer service requirements.		CDC – customer service standards in place (e.g. voicemail) Web – both councils redesign undertaken and on-going development is undertaken – this includes online forms and payment Managers discuss service changes with customer services to mitigate any negative impact on customer service On-going review of the web (SNC you said we did page – noting actions taken from customer feedback) Customer communications in local / residents newsletters Customer complaints process JMT highlight service changes to customer service teams to ensure web/service team can deliver	4	3	12	Lagan upgrade taking place at SNC	Project governance, performance management reporting, customer insight reporting.	SNC staffing issues are being closely monitored as losing 2 FTE from start November, and then .91 from 7.2 FTE operational CSO by start of December. Posts are currently being advertised and we intend recruiting for a start date early December. However to train these staff as well as continue to work on delivery for The Forum will have a detrimental effect on performance. It may be possible to use CDC resources as an interim measure and this will be explored. Probability scores have increased to reflect this position	
S8	SNC	Adrian Colwell		Silverstone Masterplan	Failure to capitalise on the opportunities afforded to the district through the Silverstone development and failure to manage the risks associated with the programme result in: • Failure to maximise long term economic benefit to the district • Negative impact on the a43 – (impact of transport risks) • Negative impact on council's reputation	SBP1 SBP3	Political / Social / Economic	4	4	16	Currently considering LDO for whole development area with AVDC. Utilities investment committed by MEPC		Planning negotiation processes (to cover transport delivery) Section 106 process to cover economic gains Strong working relationship with Silverstone	2	2	4		Silverstone Masterplan coordination group established.	Liaison with MEPC and BRDC continues	
S9	SNC	Adrian Colwell		SNC Local Plan	Failure to ensure sound local plan is submitted results in inappropriate growth in inappropriate places. This leads to negative (or failure to optimise) economic, social, community and environmental gain. There is also potential negative impact on the council's ability to deliver its strategic objectives and manage its reputation.	SBP1	Political / Social / Economic	4	5	20	Issues consultation completed. Review of confines underway. Parish Councils involved. GVA Employment Land Study complete		Partnership working with the JPU will deliver some elements of the plan (this partnership is recorded on the risk register as a separate item) For issues which are solely within the control of SNC polices, plans and resources are in place. Work is well advanced on rural settlements, village confines draft planning guidance and development control polices are underway. A statement of community involvement is in place	3	4	12		Cabinet and Planning Policy and Regeneration Strategy Committee	Local Plan figures and policies are determined by the Joint Core Strategy which as yet is unadopted but due in December 2014. Preparatory work continues	
S10	CDC	Ian Davies		Deprivation and Health Inequalities	Failure to deliver the Brighter Futures in Banbury programme results in long term health and deprivation objectives not being met	CBP1 CBP3	Political / Social / Economic	3	3	9			Long term commitment to support local people and communities as many issues can only be addressed on this basis Multi agency actions with clear and common objectives Additional funding from Government grants to supplement current resources LSP focus on Brighter Futures in Banbury programme Contingency fund made available in CDC budget Programme co-ordination role in place Quarterly performance management in place	2	3	6		Project governance LSP oversight, Quarterly reporting Annual Report	Improved multi-agency engagement now in place and 2014/15 priorities have been established. Wider agency involvement from the voluntary, faith and education sectors underway. Several new projects in place.	

Ref No	SNC or CDC	Owner	Updater	Risk Name	Risk Description	Priority	Type of Risk/ Opportunity	Inherent Probability	Inherent Impact	Gross Risk	Mitigating Actions	Due Date	Controls in Place	Residual Probability	Residual Impact	Net Risk	Update on Actions	Assurance	UPDATE THIS FOR Q2 REVIEW	Date Closed If applicable
S11	CDC	Adrian Colwell		CDC Local Plan	Failure to ensure sound local plan is submitted results in inappropriate growth in inappropriate places. This leads to negative (or failure to optimise) economic, social, community and environmental gain. There is also potential negative impact on the council's ability to deliver its strategic objectives and manage its reputation.	CBP1	Political / Social / Economic	4	5	20	Local Plan submission to Secretary of State		A Local Development Scheme is in place which details the timeframes and deliverables to underpin the work Resources are in place to support delivery including QC support	3	4	12		Executive and Full Council	Plan resumes, Examination on 09/12/14. All milestones are met in preparing modifications	
S12	CDC	Adrian Colwell		CDC Local Plan - County SHMA	There is a risk that CDC will need to consider additional housing in 2014 to meet the unmet need of Oxford.	CBP1	Political / Social / Economic	4	5	20	Publication of new SHMA had major impact on Cherwell Local Plan under Paragraph 147 NPPF. This led to suspension of EIP and need for major modifications.		SPIP and OPPO are actively engaged in addressing the issues arising through the preparation of the SHMA.	3	4	12	Impact of SHMA led to modifications to increase Local Plan to 22,800 (2011-2031)	SPIP	This is now complete	30/09/2014
S13	CDC	Karen Curtin		North West Bicester (Eco-Town)	Failure to deliver the project results in loss of economic benefit, local dissatisfaction and reputational damage to the Council	CBP1	Political / Social / Economic	4	4	16	Revised terms of reference of the CPN agreed and to commence in 14/15 including clarification over engagement and consultation processes for change		Planning policy development through Local Plan Eco Town Project plan & related partnerships Working with private & public sector partners Programme Board in place Lead Member in place	3	3	9		Programme Governance Performance Management	No changes to risk controls or scores Project deliverables on track at end of Quarter 2	
S14	CDC	Karen Curtin		Bicester Town Centre Development	Failure to deliver the project results in loss of economic benefit, local dissatisfaction and reputational damage to the Council	CBP1	Political / Social / Economic	3	4	12	Planning Permission achieved in June 2014 Discussion commenced regarding construction contract award to deliver the building by Autumn 2015		Project manager in lead role Project Board Legal agreements in place Joint venture with the developer (underpinned by legal agreements) Monthly performance / projects reports Resources and technical advice provided as part of the developer agreement	3	3	9	Project delayed due to price negotiations with contractor and request to Council for additional funds. Start on site now scheduled for Jan 2015.	Project Governance	Risk reviewed - no change to risk scores	
S15	CDC	Karen Curtin		Graven Hill	Failure to deliver the project results in severe loss of economic benefit, local dissatisfaction and damage to reputation	CBP1	Political / Social / Economic	3	4	12	Planning Permission granted Deliver programme monitored		Project Manager Project Board Companies set up Business Plan and Finance Plan being monitored	3	3	9	S106 and land purchase completed on 8 and 11 August 2014 JR period has passed and we are preparing an implementation plan.	Project Governance	Project deliverables on track at Q2 No changes to risk controls or scores	
S16	CDC	Ian Davies		Horton Hospital	Failure to retain Horton services locally results in loss of local services and less access to health care for local people	CBP3 SBP2	Political / Social / Economic	4	4	16	Regular engagement with OUHT via the community partnership network quarterly meetings and engagement in service change processes Revised terms of reference of the CPN agreed and to commence in 14/15		Support to the Oxford University Hospitals Trust (OUHT) and emerging GP commissioning structure to maintain services Providing evidence of deliverability of consultant delivered services elsewhere Gaining consensus locally that this is important Ensuring local councillors are briefed and engaged to play a community leadership role Continuing to support a local stakeholder group (CPN) with OUHT, GP and OCC representation to hold service commissioners and providers to account and to communicate the health sector changes to the wider population.	3	3	9		LSP oversight and annual report to Executive	Oxfordshire Clinical Commissioning Group (OCCG) five year strategy emphasises better health and social care sector integration and extended care in community settings Additional diagnostic elective surgery and outpatient services offered. Specialist surgery moved to Oxford.	

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S17	3Way	Sue Smith	Claire Taylor	Joint Working (three way)	Failure to deliver against the Transformation Programme could result in failure to deliver the savings required in the medium term revenue plans. It will also have a detrimental impact on the councils' reputations and a failure to deliver against the TCA bid.	CBP4 SBP4	Resource / Financial / Human	4	4	16	Adopt three way organisational change policy	01/09/2014	Programme Plan Monthly programme updates (to Member working group TJWG) CEOs to sponsor key elements of the work programme Officer steering group Business case process	3	4	12	Transformation Joint Working Group Joint Arrangements Steering Group Corporate performance management (quarterly updates)	Audit JASG (Joint Arrangements Steering Group – Member led) Legal advice (external) covering governance proposals Overview and scrutiny MO and S151 sign off of business cases	Risk reviewed - no changes to risk profile or rating. As business cases are developed HR and legal advice is sought	
S18	CDC	Chris Stratford	Helen Town	Build! ® Development Programme	Failure to deliver the Build! Programme resulting in financial loss, loss of economic benefit, local dissatisfaction and damage to the Council's reputation ,	CBP1 CBP4	Political / Social / Economic	3	5	15	Corporate Finance Team support Strong Contract Management Weekly project reviews Customer engagement		• Delivery Manager and Project Board • Legal Agreements in place for land acquisitions and contracts with consultants and contractors • Monthly project/performance reports • Business Plan and Financial Plan monitoring • Professional Construction Management • Effective Communications Management • Catastrophic would be a serious (fatal) health and safety incident which is always possible in a construction project but mitigated by sound H & S procedures and CDM measures. • Financial risks are major given the level of investment but mitigated by budget management and professional construction management • Overall reputational risk is major given the profile of this project locally and nationally but managed by communications and strong project management	3	4	12		• Programme Governance • Information Management System (IMS) with the HCA • HCA Programme Audit (annually) • HCA Design and Quality Audit • Considerate constructor scheme • Fortnightly Project Boards	The project controls for finance have been improved through a process of the Head of Finance and the Regeneration and Housing Manager working collaboratively to develop a more 'user friendly' reporting and budget monitoring system. The Project Board continue to meet fortnightly and liaison with the HCA continues on a weekly basis.	
C1	Common	Jackie Fitzsimons		Business Continuity	That plans are not in place to ensure services can be delivered in the event of a issue resulting is service failure and reputational damage	CBP4 SBP4	Business Continuity	4	5	20	Business Continuity Strategy refreshed during Quarter 4 ICT arrangements now complete		Business continuity strategy in place All services prioritised and recover plans reflect the requirements of critical services ICT disaster recovery arrangements in place JMT lead identified Incident management team identified All services undertake annual business impact assessments	4	3	12		Audit and business continuity plan refresh Quarter 4	Service review and completion of plans underway	
C2	CDC	Martin Henry	Balvinder Heran	ICT loss of systems	Failure of ICT services including telephones and remote access. Leading to a negative impact on customers, loss of business continuity and cost to the council (in terms of resources and reputation.)	All CBP4	Business Continuity	4	4	16	Achieved ISO 22301 Business Continuity Plan updated		BCP Plan Disaster recovery arrangements (CDC) Recovery site (CDC) Back up of systems Process and standards (compliance regime)	3	3	9		External accreditation	A capital bid was approved to improve the restore time at the DR centre in the event of a major loss. This is currently being reviewed and an update will be provided in Q3.	
C3	SNC	Martin Henry	Balvinder Heran	ICT loss of systems	Failure of ICT services including telephones and remote access. Leading to a negative impact on customers, loss of business continuity and cost to the council (in terms of resources and reputation.	All SBP4	Business Continuity	4	4	16	Achieved ISO 22301		BCP Plan Disaster recovery arrangements (Limited) Back up of systems Process and standards (compliance regime)	3	4	12		External accreditation	All systems at SNC are backed up to tape and stored off site. There are no DR arrangements for SNC or site to re-locate to in the event of a DR situation. Documentation is in place for the recovery using the tape system but in the event of a total failure at SNC there would be a considerable delay in bringing back systems due to the nature of the tape recovery systems. When the move to the Forum is made a bid will be made to put in place a direct link between the Forum and Tove Depot plus all the costings to have a DR site. This will be compared with other DR solutions available such as third party contracts. On way to test this and put something in place short term is to extend the SDC DR contract with a third part. Prices will be obtained for SNC to have short term DR in place and to enable the joint ICT team to test the third party arrangements.	

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C4	Common	Martin Henry		Corporate Fraud	Lack of corporate governance and control results in fraud from either within or outside the Councils.	CBP4 SBP4	Legal & Professional	4	4	16	SFIS (Single Fraud Investigation Service) implementation date post October 2014 - potential emerging risk to be discussed during Q4 in connection with this risk. TUPE advice and guidance being sought		Professionally qualified finance staff. Communication of anti-fraud messages. Dedicated fraud teams and Anti-fraud trained staff at both authorities. Specific corporate fraud resource within the Finance project team at SNC. Fraud risk assessments carried out periodically. Audit Committee at SNC, Accounts, Audit and Risk Committee at CDC Benefit fraud campaigns advertised. Benefit fraud identification and convictions communicated to the local press. Internal controls processes and procedures (segregation of duties, checking of information etc.) Periodic checking of data (single person discounts, Audit Commission data matching etc.) Membership of National Anti Fraud Network. Role of S151 and monitoring officers. Fraud detection & prevention corporate policies in place such as Whistle Blowing and Anti-fraud & Corruption Policy. Standard agenda items on Accounts, Audit and Risk Committee and Audit Committee.	2	4	8		Budget and Financial Strategy Committee (SNC) Budget Planning Committee (CDC) Executive, Cabinet, Audit Committee and Accounts, Audit and Risk Committee, Scrutiny Committees	Risk reviewed - No change to risk description or controls, although proposals are being progressed for a shared fraud team to deal with residual corporate risks once Housing Benefit fraud detection transfers to the DWP.	
C5	Common	Jo Pitman	Lou Tustian	Managing Data and Information	Poor data quality or lack of relevant information results in poor decision making	CBP4 SBP4	Legal & Professional	4	4	16	Audit reports received - review recommendations and implement as appropriate		Audit and data quality health checks Annual target setting process Annual PMF review Data quality policies in place	3	3	9	Review of performance framework to be undertaken during quarter 3	Audit, data quality checks as part of performance management framework.	No change to risk controls or scores at this time	
C6	Common	Kevin Lane		Member Decision Making	That members do not have access to information and support to make effective decisions	CBP4 SBP4	Legal & Professional	4	4	16	Member reporting template for both Councils includes mandatory insertion of legal implications arising from the recommended decision.		Attendance of professionally qualified and experienced officers at all Member decision taking meetings. Business Planning meetings at Executive and Cabinet. Council Constitutions. Member Development Programmes. Legislative requirements. Call in processes. Sign off of Council/Executive/Cabinet/Committee reports by JMT member	3	4	12	Requirement for JMT member sign off of Committee reports has been reinforced at JMT	No decision has been made by either Council which is inconsistent with the policy framework or legal requirements	There was an instance at SNC of a Committee decision being taken other than on a fully informed basis because some key information was omitted from a report that was not signed off by a JMT member. It is appropriate to increase the score at this stage pending the further mitigation referred to in the update on actions having proven effect.	
C7	SNC	Jo Pitman	Pat Simpson	Moat Lane Relocation and Change (MLR)	That failure to effectively manage the Moat Lane relocation and organisational change project results in increased costs, reputational damage and loss of opportunity to improve the Council's performance and accessibility.	SBP4	Customer Citizen / Service Delivery / Operational	5	4	20	Use a tried and tested project management approach to ensure controlled and transparent planning, specifically in respect of time, cost, quality and communications. The involvement of staff at all levels across the organisation to identify potential issues and opportunities. Engagement with customers to ensure the new service access channels are fit for purpose. A "D-day" time plan for the period immediately after PC (inc weekends) A detailed removal plan comprising (and linking) individual service moving plans		An agreed budget and formal change control to ensure transparency around variances Project Team and delivery group meeting fortnightly Project Board receiving updates Monthly Dedicated communications resource Staff panel and Members group providing sounding boards and solutions to practical issues Fortnightly updates and issues raising with JMT EIA for each new service access approach planned Detailed planning for the post PC period taking an approach that can flex according to the specific dates once they are known. Identification of BAU activities potentially at risk during relocation, and preparing a risk approach that meets the corporate needs of the Council	3	4	12	Change control is in place and working effectively, as is the regular meeting and reporting framework The project has successfully recruited a new dedicated communications resource which is proving effective. Staff and member panels are providing useful, and the introduction of the regular JMT sub-group is an aid to raising and driving the resolution of issues, and cementing the link between the build and relocation timetables. EIA's will take place as service access plans are developed Post-PC plan is currently in development in liaison with all workstream leads and JMT, highlighting all the activities that must be done in the period between practical completion and the council moving into the building. All BAU activities and performance reporting requirements scheduled for the relocation period are also being collated in order that the Project Board can take a view on what is the highest priority to protect during the short disruption period. Removal plan and staff guide to moving will be prepared October 2014. The loss of the Business Change project manager is being addressed with a recruitment under way now. Additional resources for back scanning are being recruited to ensure the paper mountain is cleared before relocation.	Project Board, Senior Sponsor	Risk reviewed and updated. New controls introduced around planning in detail for the relocation period. Resource reviews have led to a recruiting drive for additional back scanning resources. The resource gap left by the business change project manager is currently being filled by the rest of the team. No change to scores	

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C8	Common	Martin Henry		Joint Working	Failure to implement and manage joint working results in not meeting savings targets or a decline in performance and/or reputational damage	CBP4 SBP4	Customer Citizen / Service Delivery / Operational	5	4	20			Leading members and Joint Management Team committed to partnership working and reducing associated costs wherever possible Programme management approach ensures regular review, monitoring and delivery Number of business cases progressing well Initial discussion taking place with other potential partners Financial imperative to deliver savings built into the budget	3	4	12		Executive, Cabinet, Joint Arrangements Steering Group	Risk reviewed - no change to risk description or controls.	
C9	Common	Jo Pitman	Janet Ferris	Communications	Failures to manage internal and external communications results in reputational damage to the council or reduced performance/staff morale	CBP4 SBP4	Reputation / Communication	4	4	16	Member Training		Centralised press office function Members attributed and sign of press releases Communications strategy in place Members media training Social Media Policy Specific communications plans in place for major projects	3	3	9	Social media training for Members has now taken place	SNC members communications panel, CDC member lead for communications, Quarterly performance reporting, CDC annual satisfaction survey includes comprehensive communications section.	No change to risk controls	
C10	Common	Jo Pitman	Caroline French	Equalities	Failure to comply with equalities legislation results in legal challenge, costs and reputation damage	All CDC SNC	Legal & Professional	4	4	16	2013/2014 Self Assessment completed evidencing compliance against Equality Legislation and a refreshed areas of improvement document implemented within the 2014/2015 Equality Action Plan.	Q1	Rolling programme of equality assessments Equality policy and corporate plan in place Equalities requirements to be identified in service plans Equalities training available for staff and members Equalities awareness programme at CDC (knowing our communities)	4	3	12	Planning taking place for a specific Knowing Your Communities event on Dementia Awareness scheduled for Q3. Q2 Equality Actions monitored through the Equality Scorecard within Performance Matters.	Annual update to Cabinet and Executive. Quarterly performance reporting. EIA rolling programme and action plan. Steering group to co-ordinate work.	Risk reviewed and no changes to controls or scores required	
C11	Common	Jo Pitman	Dave Bennett	Health and Safety	Failure to comply with health and safety legislation leads to injury, sickness, absence and litigation against the council	All CDC SNC	Legal & Professional	4	5	20	Full review of policies and procedures across both CDC and SNC		Both Councils have policies, procedures, and arrangements in place to mitigate the risks of accidents to staff, members of the public and contractors that may be affected by the Councils actions	3	5	15	Review of current SNC/CDC policies/procedures with a view to creating a single Policy/Procedure		Both organisations will continue to work within their current procedures until the process is complete. Risk reviewed No change to risk description, controls, actions or scores at this time	
C12	Common	Jackie Fitzsimons		Emergency Planning	That plans are not in place to ensure the Council responds effectively in the event of a civil emergency and local residents are not supported. This could result in casualties, unnecessary hardship, impact on the local environment, costs and reputation.	All CDC SNC	Customer Citizen / Service Delivery / Operational	3	4	12	Reviewing arrangements for review and updating and to secure improved coordination of this and the BCP's		Emergency plan reviewed quarterly and on activation.	2	4	8		OCC EP Division have accepted our EP as being sufficient and suitable. OCC have also led on desk top studies of implementation.	No change except exercise planned for Quarter 3 and regular update process in place for manual	
C13	CDC	Andy Preston		CDC Planning (Major Applications)	That planning performance (major planning applications) does not meet the planning inspectorate threshold and is subject to special measures	CBP3	Reputation / Communication	5	4	20	Developers encouraged to have as much information ready in advance of the applications being submitted Controls introduced following development of action plan continue to be effective		*Closer management monitoring of progress, including a mid-point review. *Identifying early if there is a need for senior management and political steer. *Agreeing extensions of time with applicants. *Monthly performance review meetings with Head of Service and Director	3	4	12	No additional actions required.	Head of Service and Director oversight	The improvement measures introduced last year continue to show sustained level of performance, well above target and well above government criteria	

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C14	Common	Nicola Riley		Safeguarding Children	Failure to follow our policies and procedures in relation to safeguarding children or raising concerns about children and young people welfare	All CBP3 SBP2	Political / Social / Economic	4	5	20	Action plan for Child sexual exploitation and improving the profile of safeguarding within the authority. Section 11 return completed and Action Plan established to improve arrangements. New training programme to be established. Senior Management responsibility identified. Safeguarding Policy in place and updated.		Clear lines of responsibility established. Safeguarding Policy and procedures in place Information on the intranet on how to escalate a concern Staff training - at SNC this is being rolled out using new NCC e-training module Safer recruitment practices and DBS checks for staff with direct contact Action plan developed by CSE Prevention group as part of the Community Safety Partnership Local Safeguarding Children's Board Northamptonshire (LSCBN) pathways and thresholds Data sharing agreement with other Partners Attendance at Children and Young People Partnership Board (CYPPB) 2014 Section 11 return being compiled	2	5	10	New Safeguarding lead in place. Section 11 for SNC completed CDC underway deadline 1/12/14. New simplified training pathway being established for all staff using some e-training, some face to face.	Safeguarding champions to promote the welfare of children and be a point of contact for cascading information Annual Audit of activity JMT and LSP also have specific actions and/ or meeting times JATAC (Joint Agency Tactical and Co-Ordination Meeting) at CDC where issues of CSE are currently discussed with partner agencies.	Risk reviewed and no change required	
C15	Common	Ed Potter		Waste Framework Directive	Failure to meet new legislation coming into effect on 01/01/2015 will increase cost of recycling for both authorities, reduce service delivery and increase customer dissatisfaction (New Legislation requires LA to collect glass, paper, plastics and metals separately unless it is Technically Economically Environmentally not Practical (TEEP) to do so.)	CBP2 SBP2	Environment	3	4	12	Prove that it is not TEEP to change. Prepare full report for Executive / Cabinet to show current recycling collection is of high quality and that collection systems meets TEEP	01/01/2015	Working with other Authorities using the WRAP Route Map. Full report to be presented at Executive and Cabinet in November 2014	1	4	4	Report for Exec & Cabinet underway. Following the WRAP Route map	Cabinet / Executive Reports	Provided correct processes are followed the likelihood of challenge and action from the regulator (EA) is low	
P1	SNC	Jackie Fitzsimons		SNC Community Safety Partnership	The partnership doesn't add value to the work of the Council Undertakes projects that don't align with strategic objectives of the Council. Council is unable to influence the partnership's agenda. Leading to failure to achieve corporate objectives and loss of reputation	SBP2	Customer Citizen / Service Delivery / Operational	3	3	9	CSP Forward Plan established. Regular (monthly) updates on performance reported to the CSP. New priorities agreed and proposals developed for the PCC Solutions Fund		Elected member representation at CSP Board level. Partnership has a clear strategy with measurable targets: clear and informative performance management document produced each month. Local action plans for multi-agency groups in Towcester and Brackley areas.	2	2	4			Funding from Police and Crime Commissioner for 14-15 is set against performance outcomes which were agreed in consultation with SNC ; Approval of funding and work streams by Budget and Financial Strategy Committee in Q1; performance monitoring also carried out quarterly and signed off by SNC and PCC office	
P2	Common	Jackie Fitzsimons	Mike Grant	Policing and Crime Commissioner	The Council fails to engage/influence the PCC/ PCP Doesn't add value to partnership work of the Council PCC commissions projects that don't align with strategic objectives of the Council. Loss/reduction of funding to Community Safety. Becomes isolated from PCC. Leading to failure to achieve corporate objectives and loss of reputation	SBP2 CPB2	Political / Social / Economic	3	3	9	PCC action plan results reported via OCC quarterly funding agreed for 2014-15, template for funding for 2015 onwards to be agreed		Effective local Community Safety Partnership meetings Elected member representation at PCP Elected Member representation at Northamptonshire and Oxfordshire Board (OSCP) arrangements. Elected Member representation at CSP Alignment with PCC Policing Plan Elected membership in accordance with agreed PCP Steering Group Policy	2	2	4	PCC has informed CXs that funding for 2015/16 will be the same as for 14/15	PCC subject to scrutiny by PCP. CDC chair of CSP sits on PCP	Risk reviewed , there are no changes to the risk or controls this quarter	
P3	CDC	Nicola Riley	Kevin Larner	CDC Local Strategic Partnership	Failure or reduced effectiveness of the partnership could lead to: • Key partners adopting policies or projects inconsistent with each other, • Opportunities being missed for effective partnership working • Existing LSP sponsored projects failing to deliver their objectives Any of the above could result in wasted resources and reputational damage to the Council and the Partnership	CBP3	Political / Social / Economic	3	2	6	5 Key Priorities agreed		Board meetings 5x per year. Annual "Reference Group" conference to report to and gain guidance from the wider community CDC officer time dedicated to servicing the partnership and maintaining links between partners Annual "Reference Group" conference to report to and gain guidance from the wider community CDC officer time dedicated to servicing the partnership and maintaining links between partners	2	2	4	Reference Group Conference will be combined with 12 November Parish Liaison Meeting.	Reference Group	Currently the LSP is kept 'ticking over'. It does not have an active CDC sponsor at a sufficiently senior level to ensure appropriate breadth of agenda and continuing senior-level engagement by partners.	

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P4	CDC	Jackie Fitzsimons	Mike Grant	CDC Community Safety Partnership	The partnership doesn't add value to the work of the council, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda. Leading to failure to achieve corporate objectives and loss of reputation	CPB2	Political / Social / Economic	3	3	9	Agree funding for 2015/16		CSCP meetings attended, funding secured 2014-15 OSCB business plan approved PCC priorities updated	2	2	4	Attendance at CSCP meetings. Funding agreed 2014-15 OSCB business plan approved and PCC priorities updated	PCC / OCC to audit spending, CSP reports to OSCP an subject to CDC ,PCC and PCP scrutiny	Risk reviewed , there are no changes to the risk or controls this quarter	
P5	CDC	Adrian Colwell		Oxfordshire LEP	The partnership doesn't add value to the work of the council, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda.	CBP1	Political / Social / Economic	4	4	16	Officers commenced regular series of liaison meetings with OLEP. Board Members from CDC to secure alignment of work streams		Partnership Work Programme / Forward Plan, Resource provision for Partnership work, Senior management and Member Involvement	3	4	12			Work continues on new LEADER programme to support business growth in the rural parts of the District	
P6	Common	Nicola Riley		Health and Wellbeing Partnerships /Boards	Failure of the new partnership arrangements results in both Councils not being able to meet its safe and healthy objectives.	CBP3 SBP4	Political / Social / Economic	3	3	9	Board and Locality Forum both meet quarterly. Healthier Northamptonshire programme has been set up to support priorities. Increased focus on integration of Health and Social Services and on Transitional funding.		Engagement with CC structures - note structures are different in each County. Oxfordshire has a clear structure and acknowledges the need for the District Council's direct contribution. However, greater Supporting People budget risk exists which is of more relevance to CDC. SNC engagement has commenced but there is a reliance on each District to set up its local forum with no clear guidance on the contribution mechanism of that to the county structure.	3	3	9	SNC Health and Wellbeing forum established and well received.	Spending in localities is determined by the Board. There is limited opportunity for Districts to directly influence.	Risk reviewed and no change required	
P7	Common	Adrian Colwell		South Midlands LEP (SEMLEP)	The partnership doesn't add value to the work of the councils, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda.	CBP1 SBP4	Political / Social / Economic	4	4	16	Participate in all SEMLEP activities. Both Councils support of 'Velocity' rollout to support business growth		Partnership Work Programme / Forward Plan, Resource provision for Partnership work, Senior management and Member Involvement	3	4	12			Implementation of LEADER Programme has begun	
P8	SNC	Adrian Colwell		SNC Joint Planning Unit (JPU)	Failure to effectively manage the council's partnership with the JPU results in a failure to adopt a sound local plan. This relates to strategic risk s10 as without a sound local plan the long term strategic objectives of the council will be jeopardised and there is a potential negative impact on the council's reputation.	SBP1	Political / Social / Economic	4	4	16	SNC now JPC Chair and provides legal advice, finance advice and clerking to meetings of the JPC		Partnership governance arrangements in place Working groups to support technical issues are in place (with both member and officer input) Retained QC for legal advice	3	3	9		Cabinet and Planning Policy and Regeneration Strategy Committee	JPC meetings and associated Local Development Scheme to oversee work of JPU are up to date	

Q2 RISK HEAT MAP : INHERENT RISK

		Likelihood (Probability)				
	2014/15	Remote (1)	Unlikely (2)	Possible (3)	Probable (4)	Highly Probably (5)
Impact	**Catastrophic (5)**	**5**	**10**	**15** S18 : CDC Build! ® Programme	**20** S01 : Policy & Legislative Change S04 : SNC Moat Lane Roadworks S09 : SNC Local Plan S11 : CDC Local Plan S12 : CDC Local Plan SHMA C01 : Business Continuity C11 : Health and Safety C14 : Safeguarding Children	**25** S06 : SNC HS2
	Major (4)	**4**	**8**	**12** S03 : Capital Investment S14 : CDC Bicester Town Centre S15 : CDC Graven Hill C12 : Emergency Planning C15 : Waste Framework Directive	**16** S02 : Financial Resilience S05 : SNC Managing Growth S08 : SNC Silverstone Master Plan S13 : CDC NW Bicester (Eco Town) S16 : CDC Horton Hospital S17 : 3-Way Working C02 : CDC ICT Loss of Systems C03 : SNC ICT Loss of Systems C04 : Corporate Fraud C05 : Managing Data/Information C06 : Member Decision Making C09 : Communications C10 : Equalities P05 : CDC Oxfordshire LEP P07 : South Midlands LEP P08 : SNC Joint Planning Unit	**20** C07 : SNC Moat Lane Relocation & OC C08 : Joint Working C13 : CDC Major Planning Apps
	Moderate (3)	**3**	**6**	**9** S10 : CDC Brighter Futures P01 : SNC Community Safety P'ship P02 : Policing & Crime Commissioner P04 : CDC Community Safety P'ship P06 : Health and Wellbeing Boards	**12** S07 : Customer Service Improvements	**15**
	Minor (2)	**2**	**4**	**6** P03 : CDC Local Strategic P'ship	**8**	**10**
	Insignificant (1)	**1**	**2**	**3**	**4**	**5**

Q2 RISK HEAT MAP : RESIDIAL RISK   Arrows indicate direction of travel compared with Q1

	2014/15	Likelihood (Probability) Remote (1)	Unlikely (2)	Possible (3)	Probable (4)	Highly Probably (5)
Impact	**Catastrophic (5)**	**5**	**10** ⇔ C14 : Safeguarding Children	**15** ⇔ C11 : Health and Safety	**20** ⇔ S04 : SNC ML Roadworks	**25**
	Major (4)	4 ⇔ C15 : Waste Framework Directive	**8** ⇔ S02 : Financial Resilience ⇔ C04 : Corporate Fraud ⇔ C12 : Emergency Planning	**12** ⇔ S01 : Policy & Legislative Change ⇔ S09 : SNC Local Plan ⇔ S11 : CDC Local Plan ⇔ S12 : CDC Local Plan SHMA ⇔ S17 : 3-Way Working ⇔ S18 : CDC Build! ® Programme ⇔ C03 : SNC ICT Loss of Systems ⇧ C06 : Member Decision Making ⇔ C07 : SNC ML Relocation & Change ⇔ C08 : Joint Working ⇔ C13 : CDC Major Planning Apps ⇔ P05 : CDC Oxfordshire LEP ⇔ P07 : South Midlands LEP	**16**	**20**
	Moderate (3)	**3**	**6** ⇔ S03 : Capital Investment ⇔ S05 : SNC Managing Growth ⇔ S10 : CDC Brighter Futures	**9** ⇔ S13 : CDC NW Bicester (Eco Town) ⇔ S14 : CDC Bicester Town Centre ⇔ S15 : Graven Hill, Bicester ⇔ S16 : CDC Horton Hospital ⇔ C02 : CDC ICT Loss of Systems ⇔ C05 : Managing Data & Information ⇔ C09 : Communications ⇔ P06 : Health & Wellbeing Boards ⇔ P08 : SNC Joint Planning Unit	**12** ⇔ C01 : Business Continuity ⇧ S07 : Customer Service Improvements ⇔ C10 : Equalities	**15**
	Minor (2)	**2**	**4** ⇔ S08 : SNC Silverstone Masterplan ⇔ P01 : SNC Community Safety P'ship ⇔ P02 : Policing & Crime Comm ⇔ P03 : CDC Local Strategic P'ship ⇔ P04 : CDC Community Safety P'ship	**6** ⇔ S06 : SNC HS2	**8**	**10**
	Insignificant (1)	**1**	**2**	**3**	**4**	**5**