

**AUDIT AND GOVERNANCE COMMITTEE
Thursday, 5th April, 2012**

Place: Council Chamber
Civic Offices, High Street, Epping

Time: 7.30 pm

Democratic Services Officer Gary Woodhall – Office of the Chief Executive
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), C Finn and Ms S Watson

Independent Mrs M Peddle (Vice-Chairman) and R Thompson

PLEASE NOTE THAT, PRIOR TO THE START OF THE MEETING, PRIVATE BRIEFINGS HAVE BEEN SCHEDULED FOR THE COMMITTEE WITH THE EXTERNAL AUDITOR AT 7.00PM AND THE INTERNAL AUDITOR AT 7.15PM.

1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 9 February 2012 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. CORPORATE GOVERNANCE GROUP - 18 JANUARY 2012 (Pages 5 - 10)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 18 January 2012.

7. CORPORATE GOVERNANCE GROUP - 15 FEBRUARY 2012 (Pages 11 - 16)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 15 February 2012.

8. REPORT OF THE SENIOR RECRUITMENT TASK & FINISH SCRUTINY PANEL (Pages 17 - 28)

(Monitoring Officer) To note the report of the Senior Recruitment Task & Finish Panel that was agreed by the Council on 14 February 2012.

9. SUBMISSION OF CORPORATE GOVERNANCE GROUP MINUTES (Pages 29 - 30)

(Assistant to the Chief Executive) To consider the attached report (AGC-023-2011/12).

10. HOUSING REPAIRS SERVICE - CONTROL & RISK MANAGEMENT (Pages 31 - 36)

(Director of Housing) To consider the attached report (AGC-029-2011/12).

11. GRANT CLAIM CERTIFICATION FOR THE YEAR ENDED 31 MARCH 2012 (Pages 37 - 52)

(External Auditor) To consider the attached report (AGC-024-2011/12).

12. AMENDED TREASURY MANAGEMENT STRATEGY STATEMENT (Pages 53 - 82)

(Director of Finance & ICT) To consider the attached report (AGC-025-2011/12).

13. AUDIT & GOVERNANCE COMMITTEE - ANNUAL REPORT 2011/12 (Pages 83 - 92)

(Chief Internal Auditor) To consider the attached report (AGC-026-2011/12).

14. DRAFT INTERNAL AUDIT PLAN 2012/13 (Pages 93 - 98)

(Chief Internal Auditor) To consider the attached report (AGC-027-2011/12).

15. EFFECTIVENESS OF THE ARRANGEMENTS FOR RISK MANAGEMENT (Pages 99 - 122)

(Director of Finance & ICT) To consider the attached report (AGC-028-2011/12).

16. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

17. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;

(2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and

(3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

Agenda Item 6

EPPING FOREST DISTRICT COUNCIL CORPORATE GOVERNANCE GROUP MEETING

WEDNESDAY, 18 JANUARY 2012
(9.30 - 11.15 AM)

Present: D Macnab (Acting Chief Executive) (Chairman) B Bassington (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT) and I Willett (Assistant to the Chief Executive)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

71. DECLARATIONS OF INTEREST

None for this meeting.

72. MINUTES OF THE PREVIOUS MEETING - 14.12.11

Agreed.

73. MATTERS ARISING

(a) Senior Recruitment Task and Finish Panel – Scoping Report (Minute 57(b))

Noted that the Scrutiny Panel had now agreed the final text of its report on recruitment procedures which would now be considered by the next Overview and Scrutiny Committee meeting and the Council in February 2012.

Noted that Counsel was reviewing the Council's Constitution's Employment Rules and an opinion and redrafting was expected over the next few weeks.

(b) Policy on Staff Acting as Executors or Beneficiaries (Minute 63)

Noted that there had been a discussion at the recent meeting of the Public Legal Partnership and a member had indicated that the "Crossroads" Charity had a similar policy.

Noted that this would now be supplied to the Partnership for further consideration.

Noted that Essex County Council did not have such a policy in place.

ACTION:

C O'Boyle to pursue.

(c) Grange Farm Trust (Minute 64)

Noted that a letter had been sent to the Secretary to the Trust requesting details of the grant aid dispersed by the Trust in order that a report could be made to the next Council meeting.

(d) EFDC v Saundercock

Noted that following a discussion earlier in the week among Corporate Governance Group members the Council's Legal advisers had been asked to submit a counter offer of between £30,000 and £55,000 in settlement and, although there had been no formal response from the solicitors acting for the other side, there were indications that a counter offer was more likely to be at the lower end of the scale.

ACTION:

R Palmer to pursue.

74. TERMS OF REFERENCE

Noted.

75. EFDC ANNUAL AUDIT PLAN 2011/12 - PKF

Noted that the Council's external auditors had now submitted their Audit Plan for 2011/12.

Agreed that subject to minor clerical changes already notified by R Palmer and to clarification of the wording in Appendix A (item 2) (New Property Management System) to indicate which of two systems was described.

Noted that this Plan will be submitted to the Audit and Governance Committee at its meeting on 9 February 2012.

ACTION:

R Palmer to pursue.

76. INTERNAL AUDIT - MONITORING REPORT/OCTOBER-DECEMBER 2011

Agreed that the draft report be submitted to the Audit and Governance Committee subject to the following comments/amendments:

(a) include reference to a further report to be made to the Corporate Governance Group and the Audit and Governance Committee on financial appraisals carried out by the Chief Internal Auditor in connection with tendering exercises;

(b) make reference to recent staff sickness and resignation from Internal Audit Section and indicate that the possibility of re-directing staffing resources to support fraud initiatives was being actively considered; and

(c) amend wording of Housing Repairs Service report to clarify the reasons for previous discrepancies in stock records ie due to poor recording procedures.

ACTION:

B Bassington to revise report.

77. AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDIES - "AUDIT OF ACCOUNTS 2010/11"

Noted that the Council had complied with the various audit and signing off of the statutory accounts as indicated in this report.

Agreed that no further action was required.

ACTION:

S Tautz to note.

78. AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDY - "PROTECTING THE PUBLIC PURSE"

Agreed that the report of B Bassington be referred to the next meeting of the Audit and Governance Committee with a copy of the National Audit Study.

Agreed that reference be made in the report to the opportunities for staff in Internal Audit to cover for any possible loss of expertise in fraud matters as a result of any restrictions on the Council's access to fraud staff as a result of the Department of Work and Pension reorganisation.

Agreed that recommendation (1) in the report to the Audit and Governance Committee should make reference to this new fraud initiative.

Noted that training in "money laundering" procedures had already been provided to Finance and Legal staff and a reporting process was already in being.

ACTION:

B Bassington to amend report.

79. EXECUTIVE AND REGULATORY DECISION-MAKING - DRAFT REPORT FOR CONSTITUTION AND MEMBER SERVICES SSP

Draft report agreed subject to the following comments:

(a) wording changes requested by the Director of Planning and Economic Development regarding planning proposals involving Council property which were regarded as having planning permit in regulatory terms.

(b) no reference be made at the present time to New Homes Bonus but the situation be monitored with a view to deciding at a future date as to whether further amendments should be made.

Agreed that C O'Boyle and I Willett fine tune the wording of those changes under (a) to ensure the meaning was absolutely clear.

ACTION:

I Willett to finalise report.

80. STANDARDS COMMITTEE

(a) Assessments, Reviews, Investigations and Adjudications

Schedule noted.

(b) New Ethical Framework – Member Training (11.2.12)

Noted that over 60 delegates had booked for this training.

(c) DCLG Advice on Implementation

Noted.

(d) PLP – Joint Working on New Standards Arrangements

Progress report noted.

(e) Future Conduct Arrangements – Draft Report for the Standards Committee

Draft report agreed.

ACTION:

I Willett to pursue.

(f) Investigations Conducted by the Monitoring Officer/Deputy Monitoring Officer on behalf of other Essex Councils

Noted that the investigation conducted on behalf of Harlow Council had now been concluded.

Noted that the final report of the investigation conducted for Basildon Borough Council had now been submitted.

81. ANY OTHER BUSINESS

(a) Buckhurst Hill Parish Council – HR Support

Noted that an approach had been received from Buckhurst Hill Parish Council for HR support in connection with the recruitment of a new parish clerk.

Noted that preliminary scoping discussions had been held with the Parish Council by the Assistant Director (Human Resources) and that subject to a service level agreement and full recharging of costs this support could extend to a further review of the Parish Council's staff establishment.

Agreed that, in order to minimise the risk on this Council, the Service Level Agreement should be very clear in placing responsibility for decisions on the HR issues with the Parish Council and that EFDC was operating in an advisory capacity only.

Noted that at an earlier stage, Buckhurst Hill Parish Council had requested training on governance/procedural matters.

Agreed that this would be better left until after the May elections for the parish.

ACTION:

C O'Boyle/I Willett to monitor.

82. DATE FOR FUTURE MEETINGS

15 February 2012 at 9.30 am in the Acting Chief Executive's Office.

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**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 15 FEBRUARY 2012
(9.30 - 11.20 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) B Bassington (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT) and I Willett (Assistant to the Chief Executive)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

83. DECLARATIONS OF INTEREST

None for this meeting.

84. MINUTES OF THE PREVIOUS MEETING - 19.1.12

Agreed.

85. MATTERS ARISING

(a) Minutes of the Meeting on 14.12.11

In relation to Minute 64 (Grange Farm Trust) CGG noted and accepted the clarification by the member of the Audit & Governance Committee that the discussions with the Leader of the Council had been in a personal capacity and not on behalf of the Committee. This had concerned matters relating to Trust following an invitation to consider becoming one of the Council-appointed Managing Trustees.

(b) EFDC v Saundercock (Minute 73)(d)

Noted that in respect of the Council's counter offer, a payment of £35,000 had now been received by the Authority but that work was continuing on other property related matters to secure the remaining sums outstanding.

(c) Buckhurst Hill Parish Council – HR Support (Minute 81(a))

Noted that P Maginnis had an exploratory meeting with the Acting Clerk of Buckhurst Hill Parish Council and two Parish Councillors and it had been agreed that HR support from this Council would be restricted to the recruitment process to appoint a new Parish Clerk and would not be related to any previous or outstanding employment tribunal case.

86. TERMS OF REFERENCE

Noted.

87. CORPORATE RISK REGISTER**(a) Risk Management Group – 6 February 2012**

Noted and agreed.

Agreed that the discussions concerning the Business Continuity Plan should be referred to the next Extended Management Board meeting so as to brief Directors and Assistant Directors.

Action:

M Tipping to prepare a report for the extended Management Board meeting on 28 March 2012.

(b) Corporate Risk Register

Agreed subject to the following amendments/comments:

(i) Paragraph 3.2 (Table of “Above the Line” Risk Clusters) – to be updated in respect of key objectives and medium term aims previously agreed by the Council;

(ii) Risk Register (Risk A2) – add reference to Local Land Charges income and the vehicle workshop at Langston Road;

(iii) Risk Register (Risk 35) (Budget Reductions) – update this section to take account of recent Council decisions on the budget;

(iv) Risk Register (Risk 9) – downgrade risk to E2, add new risk in relation to the absence of an overall Depot Manager (C2) and reflect the lack of resources for provision of CCTV security facilities on site and absence of certain risk assessment documentation;

(v) Risk Register (Risk 32) (On-street Civil Parking Enforcement) – delete as function has transferred to the North Essex Parking Partnership.

Agreed that in relation to Action Plans the Schedule be approved subject to the following comments/amendments:

(a) Risk 27 (Monitoring of Investment Returns and Income) – delete reference to Price Waterhouse Coopers and their study on behalf of the Council;

(b) Risk 31 (Police Liaison etc) – amend Portfolio Holder to Portfolio Holder for Support Services instead of Leader of the Council.

Agreed that the Risk Register and Action Plans be referred to the next meeting of the Finance and Performance Management Cabinet Committee.

(c) Risk Management Group – Terms of Reference

Agreed subject to an amendment to the penultimate paragraph of “Aims and Objectives” to read, in the final sentence, “Individual managers have responsibility and accountability for identifying, assessing and managing the risk associated with their area of activity”.

(d) Risk Management Strategy

Agreed subject to an amendment to the lead Portfolio Holder.

Action:

R Palmer to pursue.

88. RISK AWARENESS TRAINING

Noted that it was intended to arrange a risk management course for members of the Council in order to ensure that the relevant Portfolio Holders etc. meet the required target for knowledge and awareness of the risk management process.

Action:

R Palmer to pursue.

89. CORPORATE GOVERNANCE GROUP MINUTES - SUBMISSION TO AUDIT & GOVERNANCE COMMITTEE

Agreed that the best method of submitting the Corporate Governance Group minutes to the Audit and Governance Committee be discussed at the next meeting of the Committee.

Action:

G Woodhall to place an item on the agenda for the next meeting.

90. "TOUGH TIMES" - AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDY

Agreed that the various recommendations contained in the Audit Commission document were being met by the Council and did not require further attention.

Agreed that the recommendation concerning value for money profiles be investigated further by reference to the Audit Commission toolkit with a view to a further report being made to Management Board.

Action:

S Tautz to pursue.

91. OFFICER EMPLOYMENT PROCEDURE RULES

Noted that the current officer employment rules had been reviewed by Counsel with a view to ensuring that these properly distinguished the redundancy and redeployment policies and procedures relating to the Chief Executive, Deputy Chief Executive, Service Directors, Monitoring Officer, Deputy Monitoring Officer and Chief Financial Officer and also in relation to the terms of reference of the Staff Appeals Panel for dealing with such matters.

Agreed that the proposed alterations recommended by Counsel be approved subject to a consistent use of the term "Chief Officers" for the generic group listed under the

proposed changes and clarification of "Chief Financial Officer" to indicate this was also the Section 155 officer.

Agreed that paragraph 2 of the existing rules (Recruitment of Head of Paid Services and Chief Officers) be amended by the deletion of the words "and it is not proposed that the appointment be made exclusively from among their existing officers" as this was deemed to be misleading.

Agreed that the revisions to the terms of reference of the Staff Appeals Panel and the Officer Employment Procedure Rules be referred to the Constitution and Member Services Standing Scrutiny Panel in the new Council year.

Action:

I Willett to pursue.

92. DATA PROTECTION ACT - DESIGNATED OFFICER

Noted that following discussions between D Macnab and R Palmer it had been agreed that the designation of Data Protection Act Officer would transfer to S Tautz of the Performance Management Unit once relevant training had been completed.

Noted that it was proposed to make the change with effect from 1 April 2012.

Action:

D Newton to advise staff.

93. WORKING GROUP ON CONTRACT STANDING ORDERS - 26.1.12

Minutes of the meeting were noted.

94. EFDC V SAVVA - LEGAL PROCEEDINGS

Noted.

Agreed that the content of the letter circulated with the agenda should be drawn to the attention of Directors in view of the fact that their positions are quoted in the text.

Action:

C O'Boyle to pursue.

Directors to note.

95. LOCALISM ACT 2011 - GUIDANCE ON REPORTS

Agreed that in view of the introduction in the Localism Act 2011 of a general power of competence for local authorities, existing guidance regarding the completion of the "Legal and Governance" sections of Cabinet and other reports be revised as follows:

- (a) Authors should continue to specify specific statutory powers under "Legal and Governance" relevant to the report in question and by reference to the sections or parts of the relevant Act(s);

(b) Authors should note that if those powers are discretionary, rather than duties, this should also be indicated; and

(c) That if the power which is said to be exercised is the general power of competence it should also state that “no statutory limitation or restriction prohibits the use of the power as exercised by reason of any other statutory power with which the discretionary power might overlap”.

Agreed that this guidance be reported for information to the next Extended Management Board so as to brief Directors and Assistant Directors.

Action:

I Willett to report to the next Extended Management Board meeting.

96. STANDARDS COMMITTEE

(a) Assessments, Reviews, Investigations and Adjudications

Schedule noted.

(b) Standards Committee (2.12.12) and Training Session on 11 February 2012 concerning the new Standards Regime

Noted that there had been a large attendance at the training session on 11 February 2012 and that the Standards Committee at its earlier meeting were making recommendations to the Council in March on the necessary steps to put the new standards regime in place prior to the statutory deadline of 1 July 2012.

(c) Investigations on behalf of other Councils

Noted that the report of the Deputy Monitoring Officer on a complaint concerning a Parish Councillor in the Basildon Borough Council area had now been submitted to the Monitoring Officer for that authority.

97. DATE FOR FUTURE MEETINGS

Agreed that the next meeting would be held on 14 March 2012 at 9.30 am in the Acting Chief Executive's office.

Agreed that the schedule of future meetings for the Corporate Governance Group be approved for the remainder of 2012, namely:

14 March 2012
25 April 2012
23 May 2012
20 June 2012
18 July 2012
15 August 2012
12 September 2012
10 October 2012
7 November 2012
5 December 2012

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SCRUTINY

REPORT OF THE SENIOR RECRUITMENT TASK AND FINISH PANEL

JANUARY 2012

Contact for enquiries:
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1. Chairman's Foreword

1.1 Effective leadership is the key to the success of any organisation. It follows that the recruitment process for key leadership roles should be rigorous and open to scrutiny. This report sets out a proposed procedure, emphasising the need for specialist legal and HR advice in all but routine staff contracts but allowing flexibility of approach depending on circumstances prevailing at the time. I would like to thank my fellow Councillors and officers for their advice and evidence provided to support our conclusions



Councillor Ken Angold Stephen
Chairman, Senior Recruitment Task and Finish Scrutiny Panel
January 2012

2. Introduction

2.1 Following a report to the Council by the Audit and Governance Committee, Overview and Scrutiny Committee were asked to undertake a review of the reporting procedures for the recruitment of the Chief Executive.

2.2 The Overview and Scrutiny Committee, at its meeting on 6 September 2011, agreed to establish a Task and Finish Group to facilitate this review.

2.3 The Committee appointed the following members to serve on the Panel:

Councillors K Angold-Stephens (Chairman), Mrs A Grigg, J M Whitehouse, R Bassett and D Stallan.

2.4 At our first meeting, Councillor David Johnson attended as an Alternate Member for Councillor Bassett who was unable to attend.

2.5 The first meeting of the Panel was held on 10 November 2011. The Panel identified its aims and objectives and Terms of Reference which are reproduced below:

“Aims and Objectives

To bring forward a procedure for the reporting of complex and sensitive contracts to members and a procedure to be followed in the event of such contracts being entered into.

To report their findings to the Overview and Scrutiny Committee for onward consideration by the Council.

To have agreed written procedures in place in time to inform the outcome of the recruitment to the position of Chief Executive which is currently vacant and any issues arising from the review by Ernst and Young in respect of the corporate management structure. “

“Terms of Reference

1. To consider and formulate a written procedure for reporting complex and sensitive senior officer employment contracts to members;

2. To consider the scope and agree positions to which these arrangements should apply (eg. Chief Executive; Deputy Chief Executive; Directors; Assistant to the Chief Executive and other statutory officers);
3. To formulate a procedure on how the Council seek advice on the form of contract and other contractual considerations arising from senior staff appointments taking account of lessons learnt from previous cases;
4. To bring any other recruitment issues arising from the review to the attention of the Committee for the Appointment of the Chief Executive;
5. To report to the Overview and Scrutiny Committee with recommended procedures by 6 March 2012.”

2.6 These were subsequently approved by the Overview and Scrutiny Committee on 29 November 2012

2.7 We have met on three occasions to discuss the issues in this report and have consulted the Council’s Acting Chief Executive, Monitoring Officer, Section 151 Officer and Chief Internal Auditor. Views on this report have also been sought from the Council’s External Auditors.

2.8 Our remit does not include any involvement in current or forthcoming recruitment exercises save advising on an appropriate process that should be followed to ensure members are appropriately advised and involved in future senior recruitment events.

2.9 It is worth mentioning also that we determined very early in our processes that only appointments at Director level and above and senior statutory officer appointments should fall within the remit of the proposals we are recommending.

3. Context

3.1 Senior Recruitment exercises have happened infrequently at the authority. The process is governed by Officer Employment Procedure Rules which are set out in Section M of the Council’s Constitution. The appointment of the Head of the Paid Service is a matter for full Council to determine on the recommendation of a Panel of Members drawn together for the purpose of that appointment. This Panel should comprise members of all political groups and include a member of the Executive. The Council can only approve an appointment where no well-founded objection has been made by any member of the Executive.

3.2 For Directors the appointment is normally undertaken by a Panel of 7 members, including at least one Cabinet member with members being required to undertake recruitment and selection training before taking part in interviews.

3.3 Quite aside from the requirements of the Council’s Constitution, appointments need to be made in accordance with law.

3.4 We have put forward proposals setting out how members are involved in the process of appointment and the steps in such a process that require decisions and/or expert advice being made available to members.

4. Summary of Recommendations

The Panel recommends:

4.1 That the flow chart (Appendix 1 to our report) and guidance note (Appendix 2 to our report) be approved for use in future Senior Recruitment exercises to provide a framework within which the Appointments Panel can work.

4.2 That the process should only apply to Chief Executive; Deputy Chief Executive; Directors; Assistant to the Chief Executive and three statutory officers.

4.3 That careful drafting of delegation to appointments Panel to be clear about extent of powers to recommend to Council any contract variations, appointment, short/long listing etc.

4.4 That reports to members be made in the standard template giving all relevant information which will include financial implications; risk assessments and advice from statutory officers.

4.5 That specialist legal advice be made to members through the PLP and HR advice through VINE or another appropriate bodies and budgeted for by Council.

4.6 That an evaluation process be carried out as a matter of course after each senior recruitment event and reported to the Overview and Scrutiny Committee.

4.7 That after the conclusion of the current exercise, the Officer Employment Procedure Rules be redrafted to:

- (i) incorporate the applicability of section 4 to the Statutory Officer positions; and.
- (ii) include more detail of the objection to appointment process set out in the constitution; and
- (iii) consider its ongoing appropriateness;

It is further suggested by the Panel that the Constitution and Members Services Scrutiny Panel undertake this task.

4.8 That the Committee for the Appointment of a Chief Executive be asked to consider the following issues specific to the post of the Chief Executive:

- (i) clear and measurable performance management and supervision arrangements;
- (ii) ensuring those undertaking performance management and supervision to have undertaken appropriate training and have access to advice; and authority from Council to undertake this role.
- (iii) whether there should be any process put in place for dealing with employment issues short of formal dispute.

4.9 That the new arrangements be reviewed after one year of operation and thereafter annually.

5. Report

5.1 We have been charged with formulating a procedure on how the Council seeks advice on the form of contract and other contractual considerations arising from senior staff appointments taking account of lessons learnt from previous cases.

5.2 As part of our consideration we have reviewed copies of the existing relevant information as follows:

- (1) Report of the Audit and Governance to the Council dated 26 July 2011 (Restricted report)
- (2) Motion moved by the Leader in response to (1) above.
- (3) Extract of the Council minutes dated 26 July 2011; and
- (4) Copy of the agreed Terms of Reference of the Committee for the Appointment of the Chief Executive.
- (5) Officer employment procedure rules – taken from the current council constitution (also see paragraph 5.7 below).
- (6) A process diagram for Senior Officer Recruitment (see appendix 1);
- (7) Chief Officer Recruitment – Guidance Note (see appendix 2);
- (8) Chief Executive – Job Profile;
- (9) Example Council Contract;
- (10) Responses from officers on the proposed review where received;
- (11) Copies of previous reports to Council on appointments in 2007 and 1992 (Restricted Council Reports)

5.3 In addition we have:

- (1) Sought views on the process from the Acting Chief Executive, Assistant Director HR, Chief Internal Auditor and Chief Finance Officer.
- (2) Sought views from other authorities about these type of processes;
- (3) Taken evidence from the Assistant Director HR on matters of process and have discussed the proposed documents discussed below.

5.4 Although there is a procedure for the appointment of senior officers we have discovered that no written guidance sets out how members undertake these key recruitment exercises and ensure effective reporting to members. We understand equally that no two exercises are the same and any process that we devise must be adaptable to each circumstance. We have worked with officers to bring forward two documents. Firstly, a Senior Officer Recruitment flowchart which provides a framework within which members can work for future appointments. This is attached at Appendix 1 to our report.

5.5 Additionally we are commending the use of a guidance note (Appendix 2) which should be read in conjunction with the flowchart and adds more information about the stages in such an exercise.

5.6 We are recommending that the Council, in drafting its delegation arrangements it should give careful consideration about all aspects of the recruitment, particularly:

- (1) The Panel/Committee's Terms of Reference;
- (2) The Panel/Committee's delegated authorisations e.g. to carryout the process and recommend an appointment to Council, or recommend a long list/short list, interview process etc;
- (3) Timescales;
- (4) The relevant officers to be involved, i.e. HR Advisor, Legal Advisor, Finance Advisor (if required), Committee support;
- (5) To establish a budget for any structural change, recruitment and potential legal costs;
- (6) To nominate the 'Proper Officer' in accordance with the Council's Constitution.

5.7 We have also suggested that all future reports are made in a standard format which should ensure that members are able to fully understand the implications of the proposals put to the Council. This report format should give all relevant information including financial implications; risk assessments and advice from statutory officers.

5.8 As part of our consultation process we approached a number of other authorities to seek their views on where difficulties in recruitment exercises might lie. Anecdotal comments suggest two main reasons for difficulties: (i) Changes in the Chief Executive and/or the Leadership; and (ii) lack of clarity during advertising and recruitment as to what would be expected of the post holder. It is, therefore, essential that members can access the appropriate advice on contracts and employment as and when they are required. Sources of such advice have been suggested to us. We are recommending accordingly.

5.9 We consider that an evaluation stage should be included for this and future recruitment exercises in order that our suggested procedures can be reviewed in the light of operational use. We are suggesting that this review comes before Overview and Scrutiny Committee.

5.10 We have received copies of the Officer Employment Procedure Rules that form part of the Constitution. We believe that once the current recruitment exercise is completed it would be timely to review this document to:

- (i) review section (4) to include the statutory officer positions;
- (ii) consider whether greater detail is required within the procedure on the 'Executive' objection process; and
- (iii) its ongoing appropriateness.

It will be matter for Council to determine how this is carried out but we are recommending that the Constitution and members Services Panel could undertake this role.

5.11 Arising from our discussions we are recommending that the Committee for the Appointment of the Chief Executive, specific to the current recruitment, consider how performance management

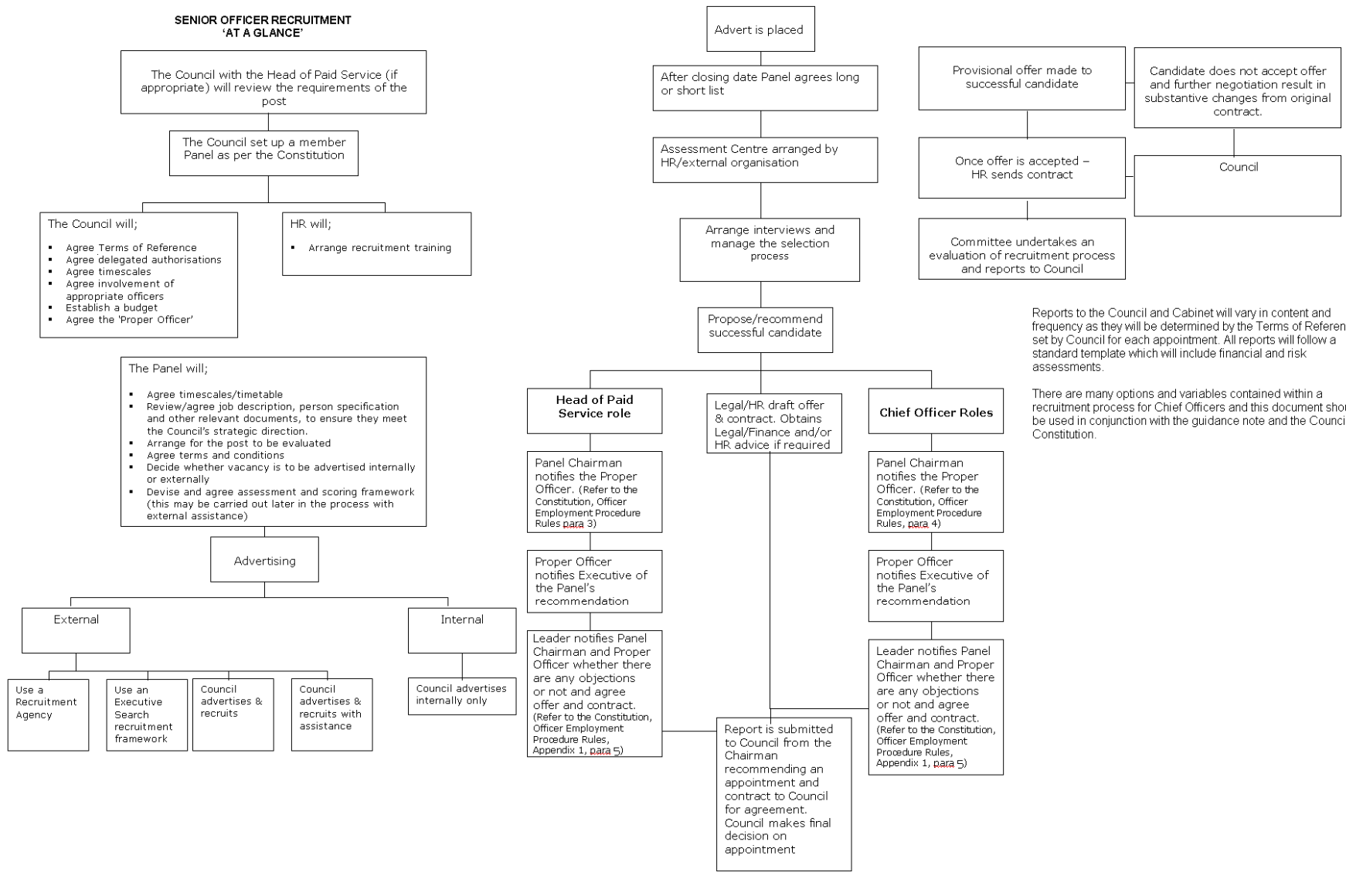
and monitoring of the Council's progress towards meeting the Council's Forward Plan targets can be undertaken.

5.12 Finally, we are suggesting arrangements for the review of the new procedures after a year and then annually thereafter.

6. Appendices

Appendix 1 – 'At a Glance' Flowchart

Appendix 2 - Chief Officer Recruitment – Guidance Note



Reports to the Council and Cabinet will vary in content and frequency as they will be determined by the Terms of Reference set by Council for each appointment. All reports will follow a standard template which will include financial and risk assessments.

There are many options and variables contained within a recruitment process for Chief Officers and this document should be used in conjunction with the guidance note and the Council's Constitution.

Chief Officer Recruitment – Guidance Note

Council

Where a vacancy arises at Chief Officer level, including the Chief Executive role, the Council is required to;

- Review whether post is required. Can work be carried out a different way? This should be carried out with the Executive if recruiting to a Chief Officer role.
- Set up a member Panel as per the Constitution.
- Agree;
 - The Panel's Terms of Reference
 - The Panel's delegated authorisations i.e. to carryout the process and recommend an appointment to Council, or recommend a long list/short list, interview process etc
 - Timescales
 - The relevant officers to be involved, i.e. HR Advisor, Legal Advisor, Senior Committee Secretary
 - To establish a budget for recruitment and potential legal costs
 - To nominate the 'Proper Officer' in accordance with the Council's Constitution.

(This list is not exhaustive. Council will be presented with a checklist of terms/authorisations to consider along with any further items Council wish to include)

Recruitment Panel

The Panel should;

- Agree timescales/timetable for the campaign
- Review/agree job description, person specification and other relevant documents, to ensure they meet the Council's strategic direction.
- Arrange for the post to be evaluated if appropriate
- Agree terms and conditions that the post will be offered on. This will be subject to legal advice, (which may only be to confirm that it meets the Council's objectives and that there are no unintended consequences), HR and finance advice. The Panel may be required to obtain the Council's agreement at this stage, however, this will depend on their Terms of Reference and delegated authorisations.
- Decide whether vacancy is to be advertised internally and/or externally
- The Panel will be required to devise and agree their assessment and scoring framework
- HR will arrange recruitment training for the Panel, including its responsibilities contained within the Constitution.
- HR will arrange a procurement briefing for the Panel if required.

Membership of Recruitment Panel

- To recruit to the Head of Paid Service/Chief Executive - Members, HR advisor and assisting organisation if appropriate
- To recruit to Chief Officer - Members, Head of Paid Service/ Chief Executive, HR advisor and assisting organisation if appropriate

Advertising

If the Panel wish to advertise the role externally there are a number of options they could consider;

- Using a Recruitment Agency with no recruitment advertising campaign
- Using an Agency/consultancy/executive search. There are a number of frameworks which already exists that the Council can use;
 - Essex County Council
 - London Boroughs (will have to pay a fee to join approx £250)
- Advertise and recruit ourselves
- Advertise and recruit ourselves with assistance from the East of England Local Government Association (EELGA), or the Essex HR Partnership (Vine HR)

The Panel can decide to advertise internally only. The Panel still may wish an external organisation to manage the process.

Process

Once the job description, person specification, salary and terms & conditions are agreed an advert can be placed.

Once the closing date has passed a long or short list is agreed using the agreed assessment and scoring framework. The Panel can work with their consultants to do this or task them to draw up a long list in the first instance.

The Council can work with a Recruitment Agency/Consultants/Executive Search organisation to develop/organise an 'assessment centre' i.e. psychometric tests, presentations, reports, interviews, group & individual exercises.

Or this could be devised arranged internally with assistance from Vine HR or EELGA.

The Panel/Committee will decide at the time of procuring external consultancy what tasks it wants them to carryout. This may be amended as the process is progressed but it should not vary too much from the initial brief, due to procurement rules and that there is likely to be an additional cost.

Appointment/Offer

The Panel is required to follow the appointment process set out in the Council's Constitution. (Refer to Officer Employment Procedure Rules, para 3, para 5 and Appendix 1 para 4).

If the provisional offer is not accepted by the successful candidate which results in further negotiations and substantive changes from the original contract then agreement will be required from Council.

Constitution

The relevant information for the appointment of Senior Officers is contained in the Council's Constitution in the section titled 'Officer Employment Procedure Rules'.

Contract

HR/Legal will draft the provisional offer letter and Statement of Particulars and submit them to Counsel or the Public Law Partnership or another suitable body for advice.

Reports to Council/Cabinet

Reports to the Council and Cabinet will vary in content and frequency as they will be determined by the Terms of Reference set by Council for each appointment. All reports will follow a standard template which will include financial and risk assessments.

Evaluation

The Appointment Panel will undertake an evaluation of recruitment process, reviewing what worked well and not so well and submits a report to Council on their conclusions and key learning issues.

Report to Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-023-2011/12
Date of meeting: 5 April 2012

Report of: Assistant to the Chief Executive

Subject: Submission of Corporate Governance Group Minutes

Officer Contact: Ian Willett (01992 564243)

Committee Secretary: Gary Woodhall (01992 564470)

Recommendation:

(1) To review the current practice of submitting Corporate Governance Group (CGG) minutes to meetings of this Committee.

Report:

1. At the last meeting of this Committee, there was a discussion about a minute of a CGG meeting the content of which was clarified by a member of this Committee. This clarification was subsequently accepted by the CGG at its next meeting.

2. This issue has raised the issue of the best way of maintaining the link between CGG and the Committee.

Background

3. CGG comprises the following designated statutory officers of the Council, namely:

- Head of Paid Service (Chief Executive)(Chairman);
- Monitoring Officer (Solicitor to the Council/Director of Corporate Support Services);
- Chief Financial Officer (Director of Finance & ICT);
- Chief Internal Auditor; and
- Deputy Monitoring Officer (Assistant to the Chief Executive).

4. CGG meets on a monthly basis and for some years minutes of its proceedings have been submitted to the Committee to ensure a corporate link between the statutory officers and the Council on audit, governance and related matters.

5. The maintenance of this link is important but the manner in which this is achieved should be reviewed in view of the comments made at the last meeting.

Options

6. The Committee is asked to review current practice viz:

- (a) could the link be preserved by electronic notification to Audit and Governance Committee members, via the modern.gov system without those minutes being

circulated with agenda?

(b) would it be appropriate for any item from minutes notified under (a) on which a member of the Committee wished to receive a report be raised with the Chairman of the Committee and officers?

(c) should the present arrangements continue?

(d) are there other options?

Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference: AGC-029-2012/13
Date of meeting: 5 April 2012

Portfolio: Housing

Subject: Housing Repairs Service - Control and Risk Management

Responsible Officer: Paul Pledger (01992 564281)

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the control measures and Risk Management arrangements within the Housing Repairs Service as set out in the report be noted.

Executive Summary:

At its meeting on 9 February 2012, the Audit and Governance Committee asked that a further report on the new control and risk management arrangements within the Housing Repairs Service and Maintenance Depot be submitted to the next meeting. This followed the Committee considering a Depot Audit in 2011 which was attributed a substantial assurance.

This report sets out the new control and risk management arrangements currently in place or planned within the Housing Repairs Service.

Reasons for Proposed Decision:

This is a follow-up report at the request of the Audit and Governance Committee at its previous meeting in February 2012.

Other Options for Action:

This report is for noting only. No other options are available for action.

Report:

Background

1. In September 2009, the Audit and Governance Committee received a presentation on a review of the Housing Repairs and Building Maintenance Works Unit. That presentation was around 12-months after a Corporate Restructure, which saw the Building Maintenance Works Unit join the Housing Directorate. The Committee at that time were advised of the controls and changes that had taken place, and also of plans that were in place for the future.

2. The committee heard about the relocation of the Housing Repairs Service to the Epping Depot to enable closer working with the Building Maintenance Works Unit; the introduction of pre-inspections by tradesmen enabling Repairs Officers to undertake more Post-Inspections; trackers being installed in all fleet vehicles; Tool-box talks with all staff,

including office based staff, technical Officers as well as the manual workers; the commencement of electronic ordering using the Council's Corporate "Marketplace" to replace the manual order pads; the introduction of pre-vacation inspections for voids to highlight to tenants the need to hand back properties in a better condition (allowing quicker turn-around for voids and reducing the burden of having to recharge tenants for damage they may have caused); a reduction of the routine repair target from 8 to 6-weeks; the phasing out of ad-hoc sub-contractors not on contract and the use of framework contractors to undertake certain capitalised repairs; weekly stores spot checks; and a crackdown on sickness absence in line with the Managing Absence Procedures.

3. To put this into perspective and to give an example of the outcome of closely managing absence, it is worth noting that between November 2008 and January 2012 there has been a 45% reduction in the amount of unproductive time lost as a result sickness absence (from 8.32 days per employee to 5.41 days per employee on average)

4. Another example is the reduction in the use of sub-contractors not engaged through formal contracts. In 2008/9 the total expenditure with sub-contractors not engaged through a contract was £848,977. However, that has reduced to around £317,000 in 2010/11.

5. In terms of future plans, the Committee were advised of plans to introduce a commercial Repairs Management Contractor to help the Council to operate in a more controlled and commercially orientated manner to ensure good services to our tenants and value for money at the same time. The committee also heard of plans to restructure the Housing Repairs Section and the Building Maintenance Works Unit to create one combined Housing Repairs Service. Each of these were considered and monitored by a Repairs Advisory Group consisting of the Housing Portfolio Holder, the Finance and Performance Management Portfolio Holder, the Chairman and Vice-Chairman of the Housing Scrutiny Panel, the Chairman and Vice-Chairman of the Tenants and Leaseholders Association as well as the Director and Assistant Director of Housing (Property).

Restructure of the Housing Repairs Service

6. The formation of the Housing Repairs Service was a combination of Housing Repairs and the Building Maintenance Works Unit. This restructure saw the separation of the administrative back-office functions from the more technical and supervisory functions. The service was separated into an North and South split with Area Managers and Assistant Area Managers supervising a share of the trade operatives. This significantly increased the level of supervision beyond what was previously in place.

7. More customer focus was put in place with a new Customer Repairs Manager, Customer Repairs Team Leader and a Tenant Liaison Officer. Along with the Customer Repairs Assistants, these new posts form the "back-office" administrative support, who focus on answering calls, raising orders (on OHMS or on Marketplace), make appointments, manage the materials stores, monitor performance as well as deal with complaints.

8. The Cabinet approved the restructure of the Housing Repairs Service at its meeting in November 2009, which saw savings of around £60,000 per annum, equivalent to 10.6% of the salary budget.

Appointment of the Repairs Management Contractor

9. The appointment of the Repairs Management Contractor was an innovative approach to combining the public and private sectors to get the best of both and to minimise risks to the Council.

10. The tenants and Leaseholders Federation have previously supported the in-house Repairs Service and were certainly not supportive of a wholesale out-source of the service. Tenant satisfaction has always been recorded in excess of 98% locally and in the top quartile based on independent "Status" surveys. The term "If it is not broken then don't fix it" often came up at meetings from tenants. However, this needed to be balanced with the continued failure to meet repairs completion targets. The targets themselves were not challenging either when compared to other benchmark organisations.

11. Therefore, "In-sourcing" was seen as an innovative solution that would inject commercial best practice into a customer orientated organisation. Since there were no other examples of this kind of contract, the Council sought expert procurement advice and an EU procurement exercise was undertaken. The outcome was the appointment of Mears, which was endorsed by the Cabinet in March 2011.

12. In terms of risk, the benefits of in-sourcing are such that the staff remain as Council employees, but are managed by a Housing Repairs Manager employed by Mears. Should Mears cease trading or perform poorly enough for the Council to determine the contract, then the service itself could continue to operate with little impact.

13. The contract is based on three priced elements. These are the day to day management of the Housing Repairs Service as well as other commercial and specialist advice and support (Services costs); lump-sums for the implementation of five very specific projects (key deliverables); and an incentive payment for achieving a set of defined performance targets, all of which would achieve top-quartile performance.

14. The new management structure of the Housing Repairs Service combined with the three elements to the Repairs Management Contract are what drives the Housing Repairs Service to performance to a higher standard, puts in place better day to day management controls and risk management.

15. Four of the five "Key Deliverables" as part of the Mears appointment are all linked to the implementation of a new contractor focused IT system. The system put forward and now implemented at the Epping Depot by Mears was their own MCM programme. MCM records each job on a database and then processes that job all of the way through to completion. This includes making the appointment, allocating the job to a tradesman via a mobile smart-phone (or PDA), photographing all repairs before and after, records materials used and also collects the tenant satisfaction survey. As the system is live, it date stamps every stage of the process and records who actions each keystroke on the database and PDA. The PDA are also tracked by GPS in the same way as the vehicles

16. Details of the controls (and benefits) are set out below. However, it should be noted that the IT system went live on 9th January 2012 on a phased implementation, so the controls are not applicable to every member of staff at the time of writing:

(a) The whole process is IT driven, eliminating the need for any paper tickets. Since access is password protected, each action is audit stamped against an individual, with authorisation levels set depending on responsibility.

(b) Each operative is issued with a PDA, which is sending and receiving live data. Each job is allocated to the tradesman in an order that is determined by a "Planner" who can see all jobs on a screen as they come in and can also see each tradesman's allocated work in the diary. The Planner can then control which job is allocated to which operative based on his/her knowledge of their impressed material stock on the van, the skill level of the craftwork, the geographical position of each tradesman, and any other appointments they may have already booked in.

(c) When a repair request is received, an appointment is made (based on am or pm) and a text message is sent to the tenant to confirm that appointment. A further text message is sent to the tenant the day before the appointment to remind them an operative will be calling the next day. Once the tradesman completes the previous job and therefore receives the next job, they are prompted to estimate the length of time it will take them to arrive at the next address. This prompt then generates a further automated text message to the tenant to say the tradesman is on his way and will arrive in "X" minutes time. This has resulted in a substantial drop (around 70%) in the number of "No Access" calls where the tenant is not in, a far higher rate of jobs being completed by our operatives and a drop in the reliance on sub-contracted labour.

(d) Each PDA has an in-built camera, which operatives are expected to take before and after photos of each job. Where variations are necessary, or advice is needed from a line manager, then a photo can help that supervisor to understand the circumstances and help give advice or a decision on the spot.

(e) Each data input entry on the PDA is date and time stamped. In addition, it is geographically stamped using GPS technology so that any job can be interrogated for date, time and location.

(f) As each job is recorded live, performance against targets is measured to the nearest second. This generates regular reports for each Area Manager on the productivity of each operative.

(g) Each job can be accurately costed based on time taken to complete a repair and the materials used, making recharges for leaseholders much easier to present and evidence.

(h) Repairs inspectors are also using the PDA's to receive appointments, photograph and register responsive repairs.

(i) Since the PDA is a smart-phone device, and is always actively searching for a signal or is connected to the internet, this significantly reduces risk to staff who work on their own out on site in line with the Council's No Lone Working Policy.

17. It is clear from the above points that the IT system has significantly enhanced the controls and risk management over the Housing Repairs Service. However, with such a stepped change in working practices has to be managed with adequate consultation, training and support put in place for staff, which is the role of the Mears Housing Repairs Manager. Mike Gammack is based at the Depot on a full time basis and is constantly Supervising the Managers and meeting with staff to explain the benefit and the demonstrate the functions of the IT system. Other specialist support from Mears is also on hand, and regularly called upon to provide H&S advice and spot site inspections; giving procurement advice on materials supply; providing IT and Customer Care support for front line staff dealing with tenants on the phone etc.

18. Since 9 January 2012 when the MCM system went live, the Housing Repairs Service has undertaken approximately 3,300 responsive repairs, a high percentage of which are undertaken by appointment. The average job cost for each of these is £80. Comparing this to other contracts that Mears are involved with, that average cost is around £10 per job less when compared to similar Local Authorities outside of London, and some £25-40 per job cheaper when compared to some London Authorities.

19. The final "Key Deliverable" relates to the supply of materials and overcoming the

previous past weakness in the day to day operation of a materials stores. The Council has recently issued an OJEU notice and has short-listed five potential suppliers for materials supply. This is aimed at improving administrations efficiencies (by linking to MCM) obtaining better value on price and also reducing risk associated with materials missing from the stock inventory. Tenders are due to go out later in the summer with a target start date around October 2012.

Management of Voids

20. Good, top quartile void performance statistics have eluded the Housing Repairs Service in the past. As a result of the restructure, and with the help of Mears, time has been devoted to exploring ways to improve the void management procedures and practices.

21. A Customer Repairs Focus Group, which is a panel of tenants, have considered and agreed a void standard, which is now the benchmark for all voids at the point of letting. A pilot scheme has recently been tested with one of the Council's Framework Contractors, which has seen the turn-around times for voids reduce from an average of 30 days to 10 days. The quality of the works have been tested through joint inspections between Officers and a Tenant Representative from the Customer Repairs Focus Group.

22. Following the success of the pilot, other Framework Contractors are now being introduced to the programme as well as our own Operatives.

The Future of the Housing Repairs Service

23. With potentially all of the 5 initial "Key Deliverables" being implemented and operational within the first 18 months of the contract, the Repairs Advisory Group will consider further key deliverables to be set for Mears to deliver over future years. These will be costed based on the framework of rates included in the tender.

24. With the MCM IT system expected to be fully functional by May 2012, with all Operatives receiving their works instructions via PDA's, it is expected that the Council will start to see a stepped improvement in KPI results.

25. With better controls in place to manage the performance and productivity of the Council's own workforce, the Repairs Advisory Group have, and will continue to, monitor the performance of the Repairs Management Contractor.

26. Throughout the period since the Repairs Refresh Programme commenced in 2008 leading up to and since the appointment of Mears as the Repairs Management Contractor, tenant satisfaction remains at over 98%. It was always feared that satisfaction would go down if the Housing Repairs Service adopted a more commercial approach to the way it operated. However, to date, this has not proved to have been the case.

27. As an innovative concept, Officers of the Council and Mears have jointly attended a number of nationally organised Housing related conferences and have given presentations on the benefits of "In-sourcing", with many other organisations now looking to follow a similar approach. Housing Associations are the biggest beneficiaries of such an approach since they would benefit from a 20% saving in VAT on the labour element of a responsive repairs service compared to an "Out-Sourced" model that most currently have. In addition, with a number of high profile Contractors ceasing to trade, this low risk option is now more appealing than ever before.

Resource Implications:

N/A.

Legal and Governance Implications:

Housing and Regeneration Act 2008.
Housing Act 1985.

Safer, Cleaner and Greener Implications:

N/A.

Consultation Undertaken:

None.

Background Papers:

Internal Audit Report dated January 2012.
Cabinet reports on the restructure of the Housing Repairs Service and the appointment of the Repairs Management Contractor.
Reports to the Repairs Advisory Group, tender and contract documentation relating to the appointment of the Repairs Management Contractor.

Impact Assessments:

Risk Management

Nothing to add other than as set out in the report.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-024-2011/12

Date of meeting: 5 April 2012

Portfolio: Finance and Economic Development

Subject: Report from the External Auditor

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To consider and note the report of the external auditor.**

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor. The report is on Grant Claim Certification for the year ended 31 March 2011. This report summarises the main issues arising from the grant claim certification work and includes recommendations and an agreed action plan.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure the proper consideration of these reports.

Other Options for Action:

Members could ask for additional information on the audit processes applied to any of the grant claims.

Report:

1. The report will be presented to the Committee by Ms Lisa Clampin, Director of Assurance & Advisory.

Resource Implications:

The fees for the 2010/11 audit year have been allowed for in the Council's revised estimates for 2011/12.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the District.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

Risk Management

An action plan has been agreed to address the areas of risk identified in the preparation of grant claims.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A



Accountants &
business advisers

Epping Forest District Council

Grant Claim Certification for the year ended 31 March 2011

February 2012

Contents

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2	Summary of certification	1
3	Fees charged	5
4	Conclusions.....	5

Appendix

- A Progress against prior year recommendations
- B Action plan

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Statement of Responsibilities of Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

1 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2011. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.
- 1.2 After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. Sample sizes and methodology for this work are prescribed by the Audit Commission.

2 Summary of certification

- 2.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2011.

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on subsidy £
Pooling of housing capital receipts	738,601	Unqualified	1	14
Housing and council tax benefit subsidy	43,570,316	Qualified	12	1,377
Disabled facilities grant	290,000	Unqualified	0	0
National non domestic rates return	27,625,258	Unqualified	1	1,000
Housing Revenue Account subsidy (2010/11)	9,931,411	Unqualified	1	0
Housing Revenue Account subsidy base data return (2012/13)	N/A*	Qualified	6	N/A*
Total for 2010/11	82,155,586	2 Qualified	21	2,391
Total for 2009/10	83,046,599	2 Qualified	29	121,074

*N/A because this claim does not give rise to grant payment, it certifies property numbers upon which subsidy for future years is calculated and no associated monetary value is recorded in the claim.

Grants risk assessment

- 2.2 Our risk assessment concluded that overall, taking into account known historical problems, there is a medium risk of grant claims and returns submitted for audit not being in compliance with the CI prescribed by the Audit Commission and the grant paying body.

- 2.3 Historically the Council produces more accurate draft claims where the transactions included within the claims are low volume or not complex in nature and/or where there is consistency of preparation by a named individual member of staff. The two claims qualified this year are the same two claims that were qualified in the previous year, for similar reasons, as set out in the detailed findings section of this report.
- 2.4 Further improvement to the accuracy of draft claims submitted for audit could be achieved through strengthening the overall claims preparation control environment. Although senior staff have implemented some essential control environment checks the nature of the errors identified as a result of audit work suggests that these are not as effective as they could be. Further recommendations have been made at Appendix B.

Detailed findings

- 2.5 There were no matters arising from the audit of the disabled facilities grant claim. The remaining five grant claims all had amendments made before final certification. Although this is not as good as the previous year the financial impact of amendments on subsidy has significantly reduced in the year.
- 2.6 Two of the six claims audited, the Housing and Council Tax Benefit Subsidy and the HRA Subsidy Base Data Return 2012/13, were qualified due to issues relating to non compliance with the CI and, therefore, the requirements of the grant paying body.

Pooling of housing capital receipts claim

- 2.7 The adjustments made to this claim related to a late payment interest charge for quarter 1 which had not been included on the original grant claim.
- 2.8 In accordance with CI CFB06, the Council should have included these costs within line 12 of the claim therefore an amendment had to be made.

Housing and council tax benefit subsidy claim

- 2.9 The audit of the Housing and Council Tax Benefit Subsidy claim was smoother than previous years. In addition, a greater proportion of the necessary "40+" testing (an additional sample of 40 must be tested where non isolated errors are found in the original sample) was completed initially by senior benefit team staff, which facilitated a reduction in audit inputs and a more efficient audit despite there being more "40+" testing required than in previous years (10 additional 40+ samples for 2010/11 compared to 5 for 2009/10).
- 2.10 The Academy system reconciliation was attempted in May, prior to submission of the draft claim, but there were unreconciled differences. Despite further work being completed to try to resolve them there remained two unreconciled differences of £63.44 and £456.75, which were reported within the qualification letter.
- 2.11 As with the prior year, there were a number of amendments made to the Housing and Council Tax Benefit Subsidy claim.
- 2.12 In 2009/10, a number of amendments were made to cells relating to non-HRA cases, as a result of misclassification of HRA Rent Rebate cases as non-HRA Rent Rebate cases. These amendments were processed through the benefits system in 2010/11; however, the claim form needed manual adjustments to take account of amendments which had already been carried out in the previous year. These amendments were not processed in the original claim form but were amended as a result of the audit.
- 2.13 The Council undertook a review of all non-HRA Rent Rebate cases at the beginning of the year to ensure that there was no further misclassification of HRA Rent Rebate as non-HRA Rent Rebate cases. As part of our testing we identified one case, which arose during the year and so was not captured by the Council's initial checks, which should have been classified as HRA Rent Rebate rather than non-HRA Rent Rebate. Additional testing did not identify any other issues therefore this case was treated as an isolated error.

- 2.14 An amendment was made for Council Tax prior year overpayments which were incorrectly classified as current year overpayments. Where the Council had investigated a prior year overpayment on the system in the year, and then subsequently processed an amendment on the claim at a later date, the system was incorrectly categorising the overpayment as current year. All prior year overpayments included within the relevant current year overpayment cell were reviewed to ensure they had been correctly categorised. This resulted in an amendment to the claim which we tested and were satisfied with.
- 2.15 A number of errors were identified during the course of the baseline testing of 87 benefit cases. This necessitated testing of six additional "40+" samples in addition to the areas discussed above.
- 2.16 By agreement, the testing on the additional sample of cases selected for "40+" testing was completed by both the Council's own staff and by PKF staff in a combination designed to achieve the maximum efficiency in the time available.
- 2.17 We reviewed the work carried out by the Council's own staff and completed re-performance testing on a sample of the cases in order to confirm that it was appropriate for us to place reliance on that testing. Our re-performance testing found that we did not concur with the conclusion drawn on one case in a sample of eight re-performed in respect of checking the accuracy of Council tax eligible overpayments. This necessitated re-performance of the remaining 32 cases. We identified one additional case which the conclusions drawn differed to our own. As a result of the errors identified we re-performed a greater number of cases on the areas of "40+" testing carried out by the specific officer. All other testing was satisfactory and we were able to rely on the remaining work completed by the Council in forming and reporting our conclusions.
- 2.18 In addition to the amendments made to correct quantifiable errors the claim was qualified, primarily due to:
- Misclassification of eligible overpayments in the Rent Rebate, Rent Allowance and Council Tax benefit types. Misclassification of overpayments was also a cause of qualification in the last two years.
 - The rent liability for Rent Allowance cases not being correctly applied resulting in claimants being overpaid housing benefit. This was because changes in rent liabilities were not correctly input for the year under audit.

Housing Revenue Account (HRA) subsidy

- 2.19 The Council applied to the Secretary of State for approval to transfer a number of shops from the HRA to the General Fund as at 31 March 2011. In June 2011, the Council received approval from the Secretary of State to transfer these properties accordingly; however, this did not retrospectively apply for grant purposes where a dwelling was attached to a shop. The Council had a total of 30 properties where a dwelling was attached to a shop. This affected the Capital Financing Requirement (CFR) calculation and had the potential to impact upon the claim.
- 2.20 We reviewed a sample of leases to confirm that the dwellings were included within the same lease as the shop, and therefore, under right to buy legislation, were correct not to be transferred as a separate entity. This impacted on the CFR calculation as dwellings attached to shops are classed as "other" property and therefore attract a transfer rate of 50% rather than 75%. No issues were identified from this work. However the Council had included an incorrect transfer amount when calculating the mid year CFR position as this included all properties when the dwellings should have been transferred after the year end and, therefore, have been accounted for within the 2011/12 CFR calculation. This resulted in an amendment to the grant claim.

HRA subsidy base data return

- 2.21 As in the previous two years, we were unable to evidence that council dwellings are classified in accordance with the requirements of CI HOU02 because the Council does not hold comprehensive survey records or detailed property holding records.
- 2.22 Issues identified in the previous audits in relation to the recording of internal floor area, a property's age, the total number of storeys within a block of flats and the categorising of properties between traditional and non-traditional had not been addressed and therefore remained a qualification issue this year.
- 2.23 As in the prior year, the average actual weekly rent per dwelling in 2011/12 had been incorrectly calculated. This was corrected in the final claim.
- 2.24 In addition, the value of property which ceased to be accounted for in the HRA had been misstated due to the transfer of the shops with dwellings attached now being included within the 2011/12 CFR calculation. This also impacted on the closing CFR position as at the end of 2011/12. These errors were corrected in the final claim.
- 2.25 As a consequence of the issues identified above, a qualification letter was issued in respect of the HRA subsidy base data return (2012/13).

National Non-Domestic rates

- 2.26 The adjustments made to this claim related to the amount included within Losses on Collection within the original grant claim. The Council had input the incorrect figure by £1,000 within the cell on the grant claim despite having correctly calculated the figure.

3 Fees charged

3.1 The fees charged for each grant claim audited for the year ending 31 March 2011 were as follows:

Claim	Fee for the year ended 31 March 2011	Fee for the year ended 31 March 2010
Pooling of housing capital receipts	2,098	3,570
Housing and council tax benefit subsidy	46,175	49,605
Disabled facilities grant	1,110	1,190
National non domestic rates return	4,768	4,933
HRA subsidy (2010/11)	4,940	2,507
HRA subsidy base data return (2012/13)	3,580	4,166
Overall grants control environment risk assessment	1,005	983
Grants report	765	765
Housing and council tax benefit subsidy 2009/10 Follow Up (requested by the DWP)	3,755	2,275
TOTAL	68,196	69,994

3.2 The fee increase in respect of the HRA subsidy claim was as a result of the additional work required to ensure the Council had appropriately accounted for the transfer of properties between the HRA and the General Fund within the relevant grant claims, as set out in section 2 of this report.

3.3 The Housing and Council Tax Benefit Subsidy follow up work is the fee in respect of follow up queries raised by the DWP and additional audit input requested by them in response to our qualification letter of the prior year.

3.4 This grants report and the overall grants control environment risk assessment were mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared.

4 Conclusions

4.1 There is still scope for the Council to improve its overall control environment arrangements for the preparation of grant claims and supporting working papers for audit.

4.2 A number of the recommendations we made last year cannot be evidenced as fully implemented. Where improvements have not been made this has been highlighted in Appendix A and re-iterated within Appendix B.

4.3 We have included this year's recommendations in a detailed Action Plan at Appendix B, which has been agreed with officers.

Appendix A – Progress against prior year recommendations

Recommendations	Priority	Management response	Responsibility	Timing	Progress
Overall control environment					
<p>1. Assign responsibility to a senior member of staff for completing and recording independent, centralised checks on all claims prepared, which ensure that for each claim the following can be evidenced:</p> <p>a. Completion of a pre-audit analytical review of the draft claim, that compares it to the prior year's claim and the knowledge and expectations of the officer responsible for preparing the claim, aimed at identifying and following up on areas of potential inaccuracy.</p> <p>b. Completion of internal test checks of small samples of claim entries in areas where known errors or qualification issues have been reported in prior years.</p> <p>c. A documented cross check of the claim's terms and condition and guidance for completing the claim form to the claim's supporting working papers, to demonstrate that all conditions have been applied complied with and all guidance has been taken into account during the claim's preparation.</p>	High	<p>The recommendations are agreed. A system will be put in place so that each Principal Accountant will complete the checks for all claims prepared by the other Principal Accountant's team. This should ensure an objective review and challenge by someone independent of the claim's preparation.</p>	Assistant Director of Finance & ICT (Accountancy)	May 2011	<p>a. Carry forward</p> <p>An analytical review was carried out for the Housing and Council tax benefits claim however this was not carried out for all grant claims. This should form part of the Councils preparation process to identify variances which require investigation. This will therefore be re-iterated within Appendix B.</p> <p>b. Implemented</p> <p>The main issues were identified within the Housing and Council tax benefits grant claim; we are aware that checks for certain cells were carried out where issues were raised in previous years. The remaining claims do not give rise to significant issues therefore sample checking is not considered appropriate.</p> <p>c. Carry forward</p> <p>This is carried out but not evidenced. There were a couple of small errors on the Housing Capital Pooled Receipts claim and the National Non-Domestic Rates claim which could have been identified pre audit if checks had taken place therefore this will be carried forward in Appendix B.</p>

Recommendations	Priority	Management response	Responsibility	Timing	Progress
2. Provide challenge and/or request follow up of any areas where the results of checks indicate there is greater risk of error being present in the draft claim.	High	As above	Assistant Director of Finance & ICT (Accountancy)	May 2011	Implemented This was only carried out for the Housing and Council tax benefit claim due to the complexity of the grant claim. The benefits claim was run a number of times before the draft claim was submitted due to the challenges raised. The total numbers of errors identified were less than the prior year as detailed in paragraph 2.1 above.
Housing and council tax benefit subsidy					
3. Review the results of cases identified where excess benefit is classified incorrectly, both from audit reviews and any internal accuracy checks completed, to identify trends both by staff member and common error types.	High	This is currently being carried out and any subsidy misclassification is recorded on the accuracy spread sheet. Trends are identified and appropriate training provided.	Assistant Director of Finance & ICT (Benefits)	January 2011	Carry forward A similar number of misclassification issues were identified again this year indicating that weaknesses remain. This recommendation has been re-iterated and expanded within the current year action plan at Appendix B.
4. Provide targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff. In particular, the classification of eligible excess Council Tax overpayments arising after a claimant's death.	High	All staff have been advised on the correct process for cancelling CTB following death and specific individual training has been provided to address other common errors such as backdating.	Assistant Director of Finance & ICT (Benefits)	January 2011	Carry forward Training was provided in year to specific staff members. Information was also provided in local benefits newsletters however a number of misclassification issues were identified again this year indicating that weaknesses remain. This recommendation has been re-iterated at Appendix B.

Recommendations	Priority	Management response	Responsibility	Timing	Progress
<p>5. Perform targeted test checks on cells with known prior year errors to ensure those errors are not repeated in the current year.</p>	<p>High</p>	<p>This is being carried out throughout the current year with 100% checking on some cells.</p>	<p>Assistant Director of Finance & ICT (Benefits)</p>	<p>May 2011</p>	<p>Implemented The Council completed checks on cells where there had been anomalies in previous years. These checks had been formalised and allowed us to review the checks undertaken as part of our risk assessment process.</p>
<p>6. Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.</p>	<p>High</p>	<p>Comparisons are currently carried out but not formalised. Formal comparisons will be carried out.</p>	<p>Assistant Director of Finance & ICT (Benefits)</p>	<p>May 2011</p>	<p>Implemented A cell by cell comparison was carried out by the Council which allowed them to identify specific cells which required additional checks. The level of explanations provided in relation to the analytical reviews had improved and supporting documentation was provided on request. This should be continued going forward.</p>
<p>7. Implement a formal procedure whereby the Benefits Department sends a formal memo to the Council Tax Department to inform them when it appears from the information provided for the benefit claim that a Single Person Discount should apply on an account. These should be followed up on a weekly basis to ensure that the discount has been applied.</p>	<p>High</p>	<p>Either the recommended formal memo or an email is already sent to Revenues when it is identified that a Single Person Discount should be granted. Meetings have taken place between Benefits and Revenues with a view to improving liaison. Benefit Officers will in future have permissions to grant the SPD in the straightforward cases as part of the assessment process, thereby eliminating the need for a memo and follow up checks.</p>	<p>Assistant Directors of Finance & ICT (Benefits and Revenues)</p>	<p>January 2011</p>	<p>Implemented The process for amending SPD has been updated; the benefits team can update new claimants within the Council tax system where SPD should be applied. Where amendments are required, the benefits team are still required to send memos through to the Council tax team before amending the information on the system. It was evident from our testing that these procedures are effective as no errors identified where Single Persons Discount had incorrectly been applied.</p>

Recommendations	Priority	Management response	Responsibility	Timing	Progress
8. Arrange and conduct weekly meetings between the Assistant Directors of Finance & ICT (Accountancy and Benefits) and the senior audit team members during the course of the audit to facilitate the smooth running of the audit and the prompt resolution of queries. This will also aid with the communication across departments at the Council.	High	Meetings can be arranged but this will be dependant upon the audit team senior advising in advance when they will be on site on a weekly basis. Weekly meetings may not be appropriate if the audit is spread over an extended period with variable staffing.	Assistant Directors of Finance & ICT (Benefits and Revenues) Supervisor, PKF	June 2011	Implemented Meetings were held before the audit began and during the course of the audit. The assistance provided by the benefits team during the audit increased efficiency.
9. Complete the reconciliation of housing and council tax benefits as part of the claim compilation process during May, using the spread sheet methodology provided by Capita for the Academy system.	High	Recommended Academy spread sheet will be completed.	Assistant Directors of Finance & ICT (Benefits and Revenues)	May 2011	Implemented This was attempted in May before the draft claim was submitted but there was also an un-reconciled difference on both HRA Rent Rebate and Council Tax expenditure. The Council obtained explanations for some of the differences but not all of them as some of the issues were systems issues which we raised with Capita.
Pooling of housing capital receipts					
10. Review the administrative costs that are included within the claim and ensure that all of the costs are allowable by the Certification Instruction and that actual costs are used where possible.	Medium	This is regularly reviewed to ensure only the cost associated with this claim is claimed for. Actual costs are used whenever possible.	Assistant Director of Finance & ICT (Accountancy)	April 2011	Implemented We did not identify any issues with administrative costs as a result of our audit work.

Recommendations	Priority	Management response	Responsibility	Timing	Progress
<p>11. Review the costs of expenditure on improvements and ensure that they are incurred less than three years prior to the dwelling disposal and that supporting documentation is available to verify the costs.</p>	<p>Medium</p>	<p>Agreed, only costs incurred within the last three years will be included. Inability to provide supporting documentation was an isolated case and generally the evidence supporting these costs is available.</p>	<p>Assistant Director of Finance & ICT (Accountancy)</p>	<p>April 2011</p>	<p>Implemented We did not identify any issues with expenditure on improvement as a result of our audit work.</p>
<p>Housing subsidy base data return (HOU02)</p>					
<p>12. Reconcile the non-traditional properties included in the claim to the records of non-traditional properties held by the Housing Assets Manager to ensure that the split is correct.</p>	<p>Medium</p>	<p>Agreed, this work is being undertaken by the Housing Directorate.</p>	<p>Assistant Director of Housing (Property)</p>	<p>April 2012</p>	<p>Carry forward This is work in progress and the timing is not until April 2012 however, this will be reiterated within the action plan at Appendix B.</p>

Appendix B – Action plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Overall control environment					
<p>Our risk assessment concluded that, overall, there is a medium risk of grant claims and returns submitted for audit not being in compliance with the CI prescribed by the Audit Commission and the grant paying body.</p> <p>A number of small amendments were required to grant claims in the year. The accuracy of these claims could be improved through better centralised checks made by a senior officer.</p>	<ol style="list-style-type: none"> 1. Completion of a pre-audit analytical review of the draft claim, that compares it to the prior year's claim and the knowledge and expectations of the officer responsible for preparing the claim, aimed at identifying and following up on areas of potential inaccuracy. 2. Perform a documented cross check of the claim's terms and condition and guidance for completing the claim form to the claim's supporting working papers, to demonstrate that all conditions have been applied complied with and all guidance has been taken into account during the claim's preparation. 	High	1. & 2. Agreed	Assistant Director of Finance & ICT (Accountancy)	May 2012
Housing and council tax benefit subsidy					
<p>Eligible overpayments continue to be misclassified between types, resulting in misstatement of subsidy claimed.</p>	<ol style="list-style-type: none"> 3. Provide targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff. In particular, the classification of eligible excess Council Tax overpayments. 	High	Agreed - Training is an ongoing process for assessment staff.	Assistant Director of Finance & ICT (Benefits)	Ongoing

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
A few errors were identified as a result of the accuracy of input data (e.g. rent liabilities, disregards). This resulted in underpayments and single amendments required to the claim.	4. Perform 5% (minimum) checks on new and amended to claims to ensure that claims are being processed accurately.	High	Agreed – senior officers have been reminded of the importance of carrying out these checks.	Assistant Director of Finance & ICT (Benefits)	Ongoing
Housing subsidy base data return (HOU02)					
Misclassifications were identified between traditional and non-traditional properties.	5. Reconcile the non-traditional properties included in the claim to the records of non-traditional properties held by the Housing Assets Manager to ensure that the split is correct.	Medium	Agreed, this work is being undertaken by the Housing Directorate.	Assistant Director of Housing (Property)	April 2012

**Report to: Audit & Governance
Committee**



Report reference: AGC-025-2011/12
Date of meeting: 5 April 2012

**Epping Forest
District Council**

Portfolio: Finance & Economic Development
Subject: Amended Treasury Management Strategy Statement
Responsible Officer: Brian Moldon (01992 564455).
Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To consider how the risks associated with Treasury Management have been dealt with in the amended Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15; and**
- (2) To make any comments or suggestions that Members feel necessary to Cabinet.**

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators before the start of each financial year. This was achieved for 2012/13 when Council approved the documents in February 2012. However, given the ongoing work on the housing finance reform, it is necessary to update the strategy. This is to bring it into line with the Council's desire to overfund on the Housing Revenue Account Capital Financing Requirement to provide flexibility to expand the Council House Building Programme and to enable the Council to continue to internally borrow up to the General Fund Capital Financing Requirement. This will assist in limiting any detrimental impact on the General Fund following the introduction of housing finance reform.

The risks associated with the changes to the strategies are highlighted within the report along with how these risks are being managed.

Reasons for Proposed Decision:

To provide scrutiny of the changes to the Treasury Management Strategy Statement.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a

professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming year.

2. Council approved the Treasury Management Strategy and Investment Strategy for 2012/13 and the prudential Indicators for 2012/13 to 2014/15 in February 2012 as part of the budget process.

3. The report attached at appendix 1 shows the amended Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 to 2014/15 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Reason for the Change

4. The layout of the strategy approved in February 2012 and the proposed strategy at Appendix 1 have not changed. The only changes relate to explanatory text supporting the over funding of the HRA CFR.

5. Members will be aware of the Council's almost unique situation in having an overall negative CFR, but a positive General fund (GF) CFR. For many years this has allowed the HRA to internally lend to the GF, in return the GF has paid the HRA interest at the average interest rate earned on investments.

6. The introduction of Self-financing and the payment to CLG of £185.456m by the HRA will result in the HRA over borrowing against its CFR. In order to satisfy the external auditors that our Treasury Management Strategy and Prudential Indicators give the Council the powers to do this, the strategy at Appendix 1 has been amended, with the changes highlighted using the track change facility.

The Changes

7. The first change under Sources of Borrowing and Portfolio implications (paragraph 6.3) explains and evidences how the Council determine a fair rate. The risk to the Council is the possibility of the fair rate being challenged, either by the external auditors or another interested party. The consequence of a challenge could be:

(a) The Council is forced to charge the General Fund (GF) for the internal borrowing at the average borrowing rate, rather than the average interest earned on investment rate, (i.e. charging the GF interest at around 3.5% rather than the estimated 1%) resulting in an increase in the GF revenue expenditure, at a time, when the Council is looking to find further savings within the GF.

8. The second change within Appendix B (Prudential Indicators) on Capital Financing Requirement (paragraph 5.2) explains and evidences why the Council is over borrowing against the HRA CFR. Again the risk to the Council is from the external auditors or another interested party challenging the Council. The consequence of a challenge could be:

(a) The Council is forced to reduce its borrowing on the HRA back to the HRA CFR position (i.e. reducing the debt from £185.456m to £153.575m resulting in the GF having to either take on external debt to support its current capital programme or to reduce its capital programme).

9. Although the Council cannot be certain that a challenge will not be made, the Council has taken every step possible to mitigate against this. The Council has been talking with Department for Communities and Local Government, CIPFA and our external auditors and all

three parties are happy with the reasons explained within the paragraphs.

Resource Implications:

This will result in no detrimental impact on the General Fund finances as the internal borrowing has already been budgeted for and the forecasted interest charges for the borrowing of the loan is fully funded within the HRA financial plan.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

The Council has also received guidance from CIPFA, CLG and our external auditors.

Background Papers:

None.

Impact Assessments:

Risk Management

The proposed amendment to the Treasury Management Strategy Statement are intended to reduce the risk of challenge by the external auditor or any other interested party to the Council's approach to self-financing for the Housing Revenue Account. The risk of challenge

has been reduced through discussions with CIPFA, CLG and the external auditor and the advice and comments received have fed into the amended strategy. Given the unique nature and size of the transaction, and the fact that it has necessitated new regulations and guidance, the possibility of challenge cannot be completely eliminated.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

Treasury Management Strategy Statement and Investment Strategy

2012/13 to 2014/15

1. Background

- 1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Department for Communities & Local Government (CLG) Investment Guidance.
- 1.2. The purpose of this TMSS is, therefore, to approve:
 - Treasury Management Strategy for 2012/13
 - Annual Investment Strategy for 2012/13
 - Prudential Indicators for 2012/13, 2013/14 and 2014/15
 - MRP Statement.
- 1.3. Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4. As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code on 22 April 2002.
- 1.5. All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Capital Financing Requirement

- 2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.
- 2.2. The Authority's current level of debt and investments is set out at **Appendix A**.
- 2.3. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.
- 2.4. The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2011/12 Estimate £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
General Fund CFR	37.519	31.097	31.097	31.097	31.097
HRA CFR**	141.697	153.575	153.575	153.575	153.575
Total CFR	179.216	184.672	184.672	184.672	184.672
Less: Existing Profile of Borrowing and Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Cumulative Maximum External Borrowing Requirement	179.216	184.672	184.672	184.672	184.672
Usable Reserves	47.000	47.000	47.000	47.000	47.000
Cumulative Net Borrowing Requirement/(Investments)	132.216	137.672	137.672	137.672	137.672

** this figure reflects the potential increase/decrease on account of Housing Reform.

2.5 Table 1 shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

3. Self-Financing of Housing

3.1 The reforms involve a removal of the housing subsidy system by offering a one-off reallocation of debt. The settlement of the reallocation is expected to take place on 28th March 2012 and will result in the Authority having:

An increase in debt to fund the settlement of £185.5m. The specific borrowing amount and terms will be determined by the Authority in conjunction with the advice of its treasury advisers. This will be based on the draft 30 year financial plan for the HRA approved by Cabinet on 5 December 2011.

In *Appendix B* revisions are made to the Prudential Indicators for 2011/12 to reflect the increase in borrowing in relation to the self-financing settlement.

4. Interest Rate Forecast

4.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at *Appendix C*. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

5. Borrowing Strategy

- 5.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in **Appendix C** indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority’s wider financial position.
- 5.2 As indicated in Table 1, the Authority is currently debt free, although the changes to the HRA set out in section 3 will cause the Authority to take on debt before the end of 2011/12. Capital expenditure plans do not currently imply any additional external borrowing requirement in 2012/13.

6. Sources of Borrowing and Portfolio implications

- 6.1 In conjunction with advice from its treasury advisor, Arlingclose, the Authority will keep under review the following borrowing sources:
- PWLB
 - Local authorities
 - Commercial banks
 - European Investment Bank
 - Money markets
 - Capital markets (stock issues, commercial paper and bills)
 - Structured finance
 - Leasing
 - Use of Internal Resources
- 6.2 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority’s exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

6.3 If the Council decides to use internal resources (borrowing between the General Fund and Housing Revenue Account) then the Treasury Management code gives Council's the opportunity to do this, the benefit being avoiding the credit risk of actual external investments. However, the code requires authorities to choose and evidence a fair rate of interest to charge. As this is an alternative to investing the money with an external counterparty, the average rate of interest earned on the Council's investments, is a fair rate for the HRA to be paid. This is also deemed to be a fair rate for the General Fund as it complies with the principle in the CIPFA guidance that there should not be a detrimental impact on the General Fund as a result of self financing.

Deleted: will be used as the charge for interest

7. Debt Rescheduling

7.1 The Authority's debt portfolio could be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

7.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

7.3 Borrowing and rescheduling activity will be reported in the Annual Treasury Management Report to the Finance & Performance Management Cabinet Committee.

8. Annual Investment Strategy

8.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments are important but are secondary considerations.

8.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

- 8.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else, including term deposits that are beyond one year.

- 8.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

- 8.5 A number of changes have been implemented to investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

- 8.6 The Authority and its advisors, Arlingclose, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) - this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay - or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in **Appendix D**.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

- 8.7 **Authority's Banker** - The Authority banks with National Westminster Bank. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria National Westminster Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

9. Investment Strategy

- 9.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.
- 9.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.
- 9.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to

diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

9.4 Collective Investment Schemes (Pooled Funds)

The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

9.5 Investments in pooled funds will be undertaken with advice from Arlingclose. The Authority currently has no investments in Pooled Funds.

10. **The Use of Financial Instruments for the Management of Risks**

10.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

10.1 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

11. **Balanced Budget Requirement**

11.1 The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

12. **2012/13 MRP Statement**

12.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

12.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

- 12.3 MRP in 2012/13: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.
- 12.4 The MRP Statement will be submitted to Authority before the start of the 2012/13 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

The Authority's CFR at 31st March 2012 is estimated to become positive as a result of the Housing Subsidy reform settlement. This would normally require the local authority to charge MRP to the General Fund in respect of Non-HRA capital expenditure funded from borrowing. CLG has produced draft regulations intended to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP in 2012/13.

13. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

- 13.1 The Director of Finance & ICT will report to the Finance & Performance Cabinet Committee on treasury management activity / performance and Performance Indicators as follows:
- Mid-year against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
 - Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

14. Other Items

14.1 Training

CIPFA's Code of Practice requires the Director of Finance & ICT to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Training in 2011/12 concentrated on the options for financing the HRA related borrowing. Going forward the emphasis is likely to be on debt management and any opportunities for restructuring.

14.2 Investment Consultants/Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The authority has appointed Arlingclose as external contractor to provide information and advice on investments and treasury issues. The quality of the service is controlled through regular meetings with Arlingclose.

Appendix A - Existing Investment & Debt Portfolio Position (Section 2.2)

	31/12/2011 Actual Portfolio £m
External Borrowing:	
Fixed Rate - PWLB	
Fixed Rate - Market	
Variable Rate - PWLB	
Variable Rate - Market	
Total External Borrowing	0.0
Other Long Term Liabilities:	
- PFI	
- Finance Leases	
Total Gross External Debt	0.0
Investments:	
<i>Managed in-house</i>	
- Short-term monies (Deposits/ monies on call /MMFs)	48.3
- Long-term investments	0.0
<i>Managed externally</i>	
- By Fund Managers	
- Pooled Funds (<i>please list</i>)	0.0
Total Investments	48.3

Appendix B
Prudential Indicators 2012/13 - 2014/15

1 Background:

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

2. Net Borrowing and the Capital Financing Requirement:

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

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

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Non-HRA	6.431	5.303	5.601	1.199	1.182
HRA	6.973	192.482	12.863	15.067	14.859
Total	13.404	197.785	18.464	16.266	16.041

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Capital receipts	5.801	4.237	4.910	0.890	0.873
Government Grants	0.658	1.071	0.728	0.449	0.359
Major Repairs Allowance	5.160	4.906	7.613	9.027	8.209
Revenue contributions	1.785	2.115	5.213	5.900	6.600
Total Financing	13.404	12.329	18.464	16.266	16.041
Supported borrowing	0	185.456	0	0	0
Unsupported borrowing	0	0	0	0	0
Total Funding	0	185.456	0	0	0
Total Financing and Funding	13.404	197.785	18.464	16.266	16.041

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	%	%	%	%	%
Non-HRA	0.54	-0.53	-0.03	-3.28	-5.07
HRA	-4.59	1.99	19.11	19.46	18.48

5. Capital Financing Requirement:

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

Capital Financing Requirement	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Non-HRA	37.519	31.097	31.097	31.097	31.097
HRA	141.697	153.575	153.575	153.575	153.575
Total CFR	179.216	184.672	184.672	184.672	184.672

5.2 The Council is to embark on a house building programme. The preliminary work is expected to start during 2012/13 with the works themselves starting in 2013/14. Whilst the business plan includes a very modest allocation for this, it is expected that the programme will be expanded in years beyond 2014/15 once the first schemes have been completed successfully and following the Government announcement with regards to ‘Reinvigorating Right to Buy and One for One Replacement’ where the Government desire is at a national level every additional home sold under Right to Buy will be replaced by a new home for affordable rent. Given the need to borrow for any additional house building it is proposed that the Council take advantage of the competitive borrowing rates whilst it can, rather than borrowing in a few years time when those rates will be unavailable. In the meantime this will allow the General Fund to continue (as it has done for a number of years) to internally borrow from the Housing Revenue Account at an appropriate rate, resulting in no detrimental impact on the General Fund from self-financing and would be fair to the HRA as it will still broadly receive the same level of income that it would have had if it had invested the money, rather than loaned them internally to the GF.

6. Actual External Debt:

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

Actual External Debt as at 31/03/2011	£m
Borrowing	0.0

Other Long-term Liabilities	0.0
Total	0.0

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2011/12 Approved	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£	£	£	£
Increase in Band D Council Tax	0.71	0.32	0.72	1.12
Increase in Average Weekly Housing Rents	1.81	9.33	11.90	15.08

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	200.0	200.0	200.0	200.0	200.0

8.5 The Operational Boundary links directly to the Council’s estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Director of Finance & ICT has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council.

Operational Boundary for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	181.0	186.0	186.0	186.0	186.0

9. Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 22 April 2002.

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

10. Gross and Net Debt:

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Gross and Net Debt	2011/12 Estimated £m	2012/13 Authorised £m	2013/14 Authorised £m	2014/15 Authorised £m
Outstanding Borrowing (at nominal value)	185.456	185.456	185.456	185.456
Other Long-term Liabilities (at nominal value)	0.000	0.000	0.000	0.000
Gross Debt	185.456	185.456	185.456	185.456
Less: Investments	47.000	47.000	47.000	47.000
Net Debt	138.456	138.456	138.456	138.456

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on (*select as appropriate*) net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments))

11.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue

budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

Interest Rate Exposures	Maximum during 2010/11 %	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	0	0	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(84.26)	(100)	(100)	(100)	(100)	(100)
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	0	0	25	25	25	25
Upper Limit for Variable Interest Rate Exposure on Investments	(37.29)	(50)	(75)	(75)	(75)	(75)

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

12. Maturity Structure of Fixed Rate borrowing:

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

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

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/11 %	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and within 20 years	0	0	100
20 years and within 30 years	0	0	100
30 years and above	0	0	100

13. Credit Risk:

13.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

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

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

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

14. Upper Limit for total principal sums invested over 364 days:

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

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	30.0	30.0	30.0	30.0	30.0

Appendix C - Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.

- The MPC's decision to embark on a further £75 billion of QE - which the Minutes showed was unanimously supported - demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

Appendix D - Recommended Sovereign and Counterparty List (Section 8)

- **Group Limits** - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Group Limit (if applicable) %/£m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	10.0	
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	10.0	
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	10.0	
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	10.0	
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	10.0	
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	10.0	
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0	
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	10.0	
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	10.0	
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	10.0	
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0	
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	10.0	
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	10.0	
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	10.0	

Term Deposits / CDs / Call Accounts	France	BNP Paribas	10.0	
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	10.0	
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	10.0	
Term Deposits / CDs / Call Accounts	France	Société Générale	10.0	
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	10.0	
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	10.0	
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	10.0	
Term Deposits / CDs / Call Accounts	US	JP Morgan	10.0	

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.*

The current advice supplied by Arlingclose is as follows:

UK Banks and building societies:

1. A maximum maturity limit of 3 months applies to HSBC and Standard Chartered
2. A maximum maturity limit of 1 month to Barclays Bank, Lloyds TSB, Bank of Scotland, Royal Bank of Scotland, National Westminster, and Nationwide Building Society.
3. A maximum maturity limit of overnight applies to Santander UK plc.

European Banks:

All temporarily suspended for new investments.

Non European Banks:

A maximum maturity limit of 3 months applies to Australian, Canadian and US banks that are on our list.

Money Market Funds:

A maximum exposure limit of 10% of your total investment per MMF

Appendix E– HRA Self-financing Principles – Two Pools

Principles

The key principles upon which the allocation of loans should be based are as follows:

- The underlying principle for the splitting of loans, at transition, must be that of no detriment to the General Fund.
- Local authorities are required to deliver a solution that is broadly equitable between the HRA and the General Fund.
- Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control.
- Uninvested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and HRA.

The Council has decided to adopt a two-pool approach in relation to the allocation of debt between the General Fund and HRA.

Transitional Issues

Settlement will take place on 28th March 2012; however, CFR and debt figures will not be finalised until the accounts are closed. As a result of this difference in timing:

- Budgets and treasury management strategies will be compiled based on estimates.
- New Borrowing from 1st April 2012 will be allocated to the relevant GF and HRA debt pools.
- Pre-settlement loans will be frozen at 31st March 2012 will be allocated as soon as final figures are known.

Loan Pools

This authority has decided to adopt a two pool approach.

A *two pool* approach involves splitting loans between the HRA & GF and then allocating new loans to each pool as required. The borrowing undertaken for Housing Self financing will be wholly allocated to the HRA pool. This has been adopted for clarity and transparency. Treasury management decisions on the structure and timing of borrowing will be made independently for the GF and HRA. Interest on loans will be calculated in accordance with proper accounting practices. This will require interest expenditure on external borrowing attributed to HRA loans being allocated to the HRA. Interest expenditure on external borrowing attributed to the General Fund will be allocated to the General Fund.

Transfer of Loans between Debt Pools

The authority's policy on transferring loans between the HRA and GF debt pools is as follows:

- In the case of the HRA/GF being in a position to reduce the CFR to a level lower than the principal outstanding on HRA/GF external borrowing, loans will be transferred between the pools without the need to recognise an internal premium or discount as the interest expenditure charged to the HRA/GF will reduce as a result of the transfer. This will be dependent upon the pool having loans transferred to it having a requirement to fund its CFR.

- If the HRA and GF wish to swap loans as a result of strategic decisions and suitability of their relevant debt structures, this could be undertaken at no internal premium or discount.

NB:

- CIPFA's Guidance Notes to the 2011 Treasury Management Code has referred to instances where the HRA and GF wish to swap loans as a result of strategic decisions and suitability of their relevant debt structures and recognising an internal premium or discount as part of this process. These would be notional amounts and would not relate to physical debt repayments where transactions must be accounted for as Extinguishments or Modifications under proper accounting practices.
- The draft Item 8 Determination applicable from 1st April 2012 currently only permits premiums and discounts to be debited or credited to the HRA in accordance with proper accounting practices.

Internal Borrowing

Where the HRA or GF has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the rate charged on this internal borrowing will be based on the average rate of interest earned on cash balances for the financial year.

Borrowing in Advance

The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

HRA Limit on Indebtedness

Please note that housing authorities should also include the following Prudential Indicator, as required by the revised Prudential Code, issued in November 2011:

HRA Limit on Indebtedness	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
HRA CFR	141.697	153.575	153.575	153.575	153.575
HRA Debt Cap (as prescribed by CLG)	203.774	185.456	185.456	185.456	185.456
Difference	62.077	31.881	31.881	31.881	31.881

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Report to the Audit and Governance Committee



Report reference: AGC-026-2011/12
Date of meeting: 5 April 2012

**Epping Forest
District Council**

Portfolio: Finance and Economic Development

Subject: Audit and Governance Committee Annual Report for 2011/12.

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the attached draft Annual Report for the Audit and Governance Committee for 2011/12 be considered; and**
- (2) That the Chairman and Vice-Chairman be authorised to agree the final draft in the event of any changes proposed at the meeting.**

Executive Summary:

This report is produced in accordance with the Terms of Reference for the Committee, which require an annual report to be submitted to Council each year. This is the fifth annual report to Council. The Committee is invited to comment on the draft. Officers will then make the necessary amendments to the report. It is suggested that any substantive changes are agreed with the Chairman and Vice Chairman prior to the submission of the report to Council in May.

Reasons for Proposed Decision:

There are no further meetings of this Committee before its Annual Report is submitted to Council in May.

Other Options for Action:

The Committee could hold another meeting to consider the final text of the Annual Report, but this is considered unnecessary.

Report:

1. This report is produced in accordance with the Terms of Reference for the Committee, which require an annual report to be submitted to Council each year.
2. This is the fifth annual report to Council. The Committee is invited to comment on the draft. Officers will then make the necessary amendments to the report. It is suggested that any substantive changes are agreed with the Chairman and Vice Chairman prior to the submission of the report to Council in May.

Resource Implications:

These have been included in the individual reports to the Committee throughout the year.

Legal and Governance Implications:

These have been included in the individual reports to the Committee throughout the year.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Minutes of Audit and Governance Committee.

Impact Assessments:

Risk Management

If the adequacy of the arrangements for Risk Management were not considered and reported regularly a significant weakness in the overall governance arrangements could occur and remain undetected.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2011/12

1. INTRODUCTION

- 1.1 This is the fifth Annual Report of Epping Forest District Council's Audit and Governance Committee, covering the municipal year 2011/12.
- 1.2 Membership of the Committee comprises three District Councillors and two independent members. During 2011/12 the Councillors were Antony Watts (Chairman), Sylvia Watson and Colin Finn; Melanie Peddle (Vice Chairman) and Robert Thompson were the independent members.
- 1.3 During the year, after consultation between the Committee and the Constitution and Members Services Scrutiny Standing Panel, it was agreed that there should be no conflict of interest in appointing Portfolio Holder Assistants to the Committee, with the exception of those involved in the Finance Portfolio. Councillor Sylvia Watson is Portfolio Holder Assistant for Housing.

2. TERMS OF REFERENCE

- 2.1 In summary, the purpose of the Committee is to provide:
 - 2.1.1 independent assurance on the adequacy of the Council's risk management framework and the associated control environment;
 - 2.1.2 independent scrutiny of the Council's financial and non-financial performance, to the extent that it affects the Council's exposure to risk and weakens the control environment;
 - 2.1.3 independent scrutiny of treasury management strategy and outcomes;
 - 2.1.4 oversight of the financial reporting process.
- 2.2 The full terms of reference are set out in Appendix 1.

3. MEETINGS

- 3.1 The Committee met five times during the municipal year.
- 3.2 The Committee is supported by the Director of Finance and ICT and the Chief Internal Auditor, who attend the Committee meetings.
- 3.3 The Council's external auditors are invited to attend meetings of the Committee and may, when they consider it appropriate, request a private meeting with the Committee, with other parties excluded.
- 3.4 A Corporate Governance Group, consisting of senior Council officers, chaired by the Acting Chief Executive, meets regularly to consider governance issues across all of the Council's operations. This includes monitoring progress in implementation of high priority audit recommendations. The Committee receive its minutes for information and review.

- 3.5 When it considers it necessary, the Committee requests senior officers to attend its meetings, to aid the Committee's understanding of relevant issues and explain delays in implementing audit recommendations, especially high priority ones.

4. THE YEAR IN REVIEW

Control Environment and Risk Management Arrangements

- 4.1 Through the year, the Committee kept under review the effectiveness of the Council's arrangements for risk management, which are also monitored by the Corporate Governance Group. These comprise the Risk Management Strategy, Risk Management Policy Statement, Corporate Risk Register and terms of reference for the Officer Risk Management Group. The Committee believed that these provided appropriate and cohesive arrangements for risk management.
- 4.2 In the past, to seek assurance that the Council followed appropriate Audit Commission recommended best practices, the Committee reviewed executive summaries and recommendations from relevant Audit Commission National Local Government Studies. This year, as its activities were being wound down, the Audit Commission produced few reports. One which the Committee considered was "Protecting the Public Purse", dealing with four key areas where local authorities are at risk of fraud: housing tenancy; Council Tax; procurement; and Housing & Council Tax Benefit. The report included a checklist for those responsible for governance. The Committee was satisfied that the Council substantially met most of the requirements, but identified certain areas where further work should be carried out. These areas will be reviewed as part of the 2012/13 Internal Audit Plan.
- 4.3 The Committee monitored and reviewed the Council's timely implementation of measures to control risks associated with the Bribery Act 2010, which came into force on 1 July 2011. The Committee was satisfied that adequate and appropriate due diligence procedures were introduced, taking a proportionate and risk-based approach, to mitigate the risk of bribery.
- 4.4 For the 2010/11 year, the Council's was required to introduce International Financial Reporting Standards (IFRS) as the basis for preparing the annual financial statements. The Committee was kept advised of progress in the transition to IFRS and monitored the risks involved. IFRS was implemented successfully and on time.
- 4.5 The Committee reviewed quarterly reports on treasury management investment strategy and prudential indicators, to confirm that adequate governance arrangements and control procedures were in place and to monitor potential financial risks to the Council. Particular attention was paid to the impact of the Council's estimated borrowing requirement pursuant to the Government's announcement it would reform financing of local authority housing through the Localism Bill. The Committee felt that the proposed borrowing level represented a considerable risk which should be recognised in the Corporate Risk Register.

- 4.6 The Committee considered the Government's consultation paper "The Future of Local Public Audit", which contained proposals on the future structure and terms of reference of Audit Committees. The Committee broadly supported the consensus view of the Finance & Performance Management Cabinet Committee and its Scrutiny Panel, which formed the basis of the Council's consultation response.
- 4.7 The Committee considered a report on the legacy benefits of the 2012 Olympic and Paralympic Games, to assess the risk that the District might not gain legacy benefits. The report detailed a range of initiatives that the Council, along with its partners, were engaged in to ensure that the legacy benefits of the Games for the District were optimised. These included construction and procurement opportunities, employment and training, economic development and regeneration and opportunities to benefit the local economy through future events at the White Water Centre.
- 4.8 Recently, the Committee considered whether any changes were needed to its constitution and structure to ensure its continued effectiveness and independence. Their review encompassed:
- (a) the number of members;
 - (b) how the Councillor members are appointed
 - (c) the arrangements for appointment of the Chairman and Vice Chairman;
 - (d) the terms of office for independent members;
 - (e) introduction of attendance and performance standards; and
 - (f) whether there is a case for having separate Audit and Governance Committees.

The Committee has passed its views on these matters to the Constitution & Member Services Standing Scrutiny Panel which will take the review forward in the next municipal year. The Committee will continue to be consulted on any proposals to change its constitution.

- 4.9 Each year, the Council is required to publish an Annual Governance Statement. The Committee reviewed and approved the Council's statement for 2010/11 for inclusion in the Council's Statutory Statement of Accounts.

Effectiveness of the System of Internal Audit

- 4.10 The Committee received quarterly reports on the performance of the Council's Internal Audit Unit and its findings and recommendations. The Committee considered the reports in the context of the adequacy of the Council's governance arrangements and internal control framework, and monitored progress in implementation of internal audit recommendations.
- 4.11 The Committee reviewed and approved the Internal Audit Annual Report for 2010/11, together with a review of the effectiveness of the system of Internal Audit. The work undertaken by Internal Audit during the year supported the opinion that the Council's internal control environment was adequate.

Statutory Statement of Accounts

- 4.12 As required by its terms of reference, the Committee considered the draft Annual Statutory Statement of Accounts for 2010/11. In recommending that the Statutory Statement of Accounts for 2010/11 be submitted to the Council for adoption, the Committee noted key elements of the accounts relating to the requirements of International Financial Reporting Standards (IFRS); the reduction in the value of the Council's dwellings and garages due to a change in the basis of calculation; and the Council's liability to the Local Government Pension scheme. Two unusual transactions related to a Value Added Tax refund, and the transfer of assets not related to the Council's landlord function from the Housing Revenue Account to the General Fund.

External Audit Reports

- 4.13 The Council's external auditors (PKF (UK) LLP) presented their annual plan and proposed fees for 2011/12 to the Committee for approval.
- 4.14 As well as the statutory audit of the financial statements, the external auditors are required to assess the Council's performance in use of resources and achieving value for money, according to Audit Commission criteria. The auditors presented their assessment, which concluded that adequate arrangements were in place to secure value for money for the year ended 31 March 2011.
- 4.15 At the Committee's February 2012 meeting, the external auditors introduced their audit plan and proposed fees for 2011/12. Their plan identified the significant systems requiring audit review and these have been included in the Council's Internal Audit Plan.

5. CONCLUSION

- 5.1 During the year, the Committee continued to consider a wide range of governance issues and offer guidance on improvements in internal control. It is pleasing to note that the number of internal audits given limited assurance has reduced considerably, as has the number of high priority recommendations arising from the audits. The Committee believes this is evidence of a continuing improvement in the Council's internal control environment.
- 5.2 The financial climate and challenges to local government finance have not abated. The Committee must be vigilant to ensure that emerging risks are promptly identified and mitigated, whilst ensuring that governance and risk management arrangements remain robust.

Background Information

Further information on the Audit and Governance Committee can be obtained from the Local Democracy / Committees / Audit and Governance Committee area of the Council's web site.

Terms of Reference

The Terms of Reference of the Audit and Governance Committee incorporate the following roles and functions for the Committee:

- (a) To consider the effectiveness of the Council's risk management arrangements, control environment and associated anti-fraud and anticorruption measures.
- (b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.
- (c) To be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- (d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.
- (e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To receive an Annual Report from the Chief Internal Auditor.
- (g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.
- (i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:
 - (i) critical accounting policies and practices, and any changes to them;
 - (ii) decisions requiring a major element of judgement;
 - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - (iv) significant adjustments resulting from the audit; and
 - (v) any material weakness in internal control reported by the Internal or External Auditor.
- (j) Consider other reports of External Audit and inspection agencies which are relevant to the functions of the Committee.

(k) For the Committee to meet privately and separately at least once a year with the External Auditor and Chief Internal Auditor.

(l) To have the right to call any Members or officers of the Council as required.

(m) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

(n) To be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-027-2011/12
Date of meeting: 5 April 2012

Portfolio: Finance and Economic Development

Subject: Draft Internal Audit Plan 2012/13

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Decisions Required:

- (1) That the Internal Audit Plan for 2012/13 be approved.**

Executive Summary:

The Audit and Governance Committee is responsible for the approval of the annual Internal Audit plan, following consultation with the Finance and Performance Management Cabinet Committee.

Following consultation with Service Directors, the Corporate Governance Group and the External Auditors (PKF) the 2012/13 audit plan was presented to the Finance and Performance Management Cabinet Committee on 19th March. That Committee considered the plan but no specific issues were raised.

Reasons for Proposed Decision:

To approve the Council's Annual Internal Audit Plan as required in the Audit and Governance Committee Terms of Reference.

Other Options for Action:

None.

Report:

- The Annual Audit Plan 2012/13 (appendix 1) is submitted to the Audit and Governance Committee for approval. Once approved, the Annual Audit Plan will be appended to the Office of the Chief Executive Business Plan.
- In compiling the plan, all fundamental financial systems are included, to provide Management and Member assurance in the controls in place for good financial management. The annual audit of these systems is also a requirement of the Council's External Auditors (PKF) and the draft plan is submitted to them for comment.
- The Corporate Risk Register was reviewed and time allocated for review of any high risk financial areas. The Annual Audit Plan contains the risk identifier to ensure that risks highlighted by the Audit Commission, the External Auditors and the Corporate Risk Register

are allocated audit time.

4. The plan contains a contingency provision for investigations and other unplanned work during the year. There is also flexibility in the Plan so that audits can be substituted during the year in order to accommodate reviews of areas that are assessed as being of higher risk to the achievement of the Council's objectives.

5. Staffing of the plan is based on an establishment of 4.3 (FTE's). Throughout the last year members have been kept informed of the long term sickness of the part time member of staff which has resulted in the position becoming vacant during March due to resignation. The Audit Commission publication Protecting the Public Purse 2011 identified areas of local government responsibility that are subject to fraudulent activity and new areas that are becoming targets for fraud. To address this concern the area of responsibility of the part time post will be directed towards fraud prevention and detection and audit time has been allocated in the annual plan for this purpose.

6. In the last year audit staff have attended training courses in current audit methodologies and ICT audit techniques including specialist audit software for which the Council has a licence, which it is planned will enable a greater level of testing of data and will also include fraud prevention and detection. Areas of ICT audit, such as access controls and data quality are now included within each systems audit rather than being carried out as individual audits.

7. Regular meetings are being held with the Chief Auditors of Uttlesford, Harlow and Broxbourne Councils to identify and share best practice and expertise. Time is allocated in the plan for a joint review of procurement which will identify the best way forward for future joint projects and to identify and share best practice, findings and recommendations.

8. Progress against the approved Plan is kept under review during the year and any proposed amendments, once the Plan has been approved, would be subject to the approval of the Audit and Governance Committee, who will continue to monitor progress against the plan on a quarterly basis.

Resource Implications:

No specific implications.

Legal and Governance Implications:

No specific implications.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Finance and Performance Management Cabinet Committee, Corporate Governance Group, PKF and Service Directors.

Background Papers:

CIPFA Internal Audit Code of Practice, Audit reports, files and Corporate Risk Register.

Impact Assessments:

Risk Management

The preparation of a risk based audit plan, as part of the audit strategy, is a key part of the Council's governance arrangements. In approving the annual programme of audits, the Audit and Governance Committee, in conjunction with the Finance and Performance Management Cabinet Committee, should be assured that there is sufficient and appropriate coverage to address any risks to the achievement of the Council's objectives.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
There are no equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

Appendix 1

AUDIT PLAN 2012/13

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15		PKF
Sundry Debtors	system/follow up	20		PKF
Creditors	system/follow up	20		PKF
Treasury Management	system/follow up	15		PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10		PKF
Risk Management and Insurance	system/follow up	15		PKF
Main Accounting and Financial Ledger	system/follow up	15		PKF
Housing Benefits	system/follow up	25		PKF
Council Tax	system/follow up	25		PKF/R27/AC
National Non Domestic Rates	system/follow up	15		PKF/R27
Cash receipting and Income control	system/follow up	15		PKF
Provision for 'top up' testing	systems	25		PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10		PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		240		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5		R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20		R20
Car Parking	system	20		R27
North Weald airfield	establishment	15		R27
Leisure contract	contract	15		R20
TOTAL		70		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10		R
TOTAL		10		

HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5		AC
Housing Repairs Service	system/follow up	15		
Housing Contracts	system	15		
Stores - Depot stock take	stocktake	5		R23
TOTAL		65		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25		PKF
Recruitment and Selection	Follow up	5		AC
Management of Sickness absence	Follow up	5		R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10		R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20		R9
Licensing	system	15		R27
Fleet Operations income	system	5		R27
Legal				
Debt recovery	system	15		R27
TOTAL		110		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15		R
Business Plans	verification	10		R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15		AC/R20
Procurement	fraud	15		AC/R2
Council Tax Discounts	fraud	15		AC/R23
National Fraud Initiative (NFI)	fraud	15		R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15		AC/R2
Property Management System - Asset Register	system	5		PKF
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10		R23
Governance Statement	management review	5		AC/PKF
TOTAL		160		

TOTAL DAYS ALLOCATED		680		
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		55		
TOTAL		775		

Risk Identifier

Key

AC

PKF

R no.

R

Audit Commission

External Audit

Risk No. in Corporate Register

Reputation of Council

Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report Reference: AGC/028/2011-12

Date of meeting: 5 April 2012

Portfolio: Finance and Economic Development

Subject: Effectiveness of the Arrangements for Risk Management

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

- (1) That Members consider the effectiveness of the arrangements for Risk Management.**

Executive Summary:

The terms of reference for this committee include "To consider the effectiveness of the Council's Risk Management arrangements". This contrasts with the role of the Finance and Performance Management Cabinet Committee, which is required "To advise and make recommendations to the Cabinet on Risk Management and Insurance issues".

Internal Audit have completed, but not yet reported to this Committee, an audit covering Risk Management and Insurance where their conclusion was a score of "Substantial Assurance". However, Members should consider the evidence provided in this report and form their own view.

Reason for Proposed Decision:

Members are requested to consider the effectiveness of the Council's arrangements for Risk Management, to comply with the terms of reference for this Committee.

Other Options for Action:

Members could ask for additional information or make recommendations to improve processes where they feel existing arrangements are inadequate.

Report:

Previous Reviews

1. This is the fifth annual review of the effectiveness of the Council's arrangements for Risk Management. Last year the Committee resolved:

- (i) That the Council's arrangements for Risk management be considered effective.*
- (ii) That a detailed summary of the full audit report upon Risk Management and Insurance be included as part of the quarterly Internal Audit Monitoring report at the next scheduled meeting of the Committee.*

The full report was provided to the June 2011 meeting of the Committee and this year's report is covered elsewhere on the agenda.

- (iii) *That the possibility of conducting a staff survey to ascertain the importance of Risk management amongst operational staff be investigated; and*

A survey was conducted as part of this year's audit.

- (iv) *That further information be provided in future reports concerning the procedure employed to consider Risk Management issues by the Risk Management Group and Corporate Governance Group.*

The following report has been expanded to provide additional information.

Risk Management in Directorates

2. The internal arrangements for Risk Management have not changed during the year. It is common practice within directorates for risk assessments to be conducted on new or changed activities and capital projects. Each directorate has a nominated champion for risk management, usually at Assistant Director level. This individual acts as the lead on Risk Management for the directorate and represents their directorate at the Risk Management Group (RMG).

3. All directorates are required to have a section on Risk Management in their business plans. This section will contain details on the directorate's key risks, a risk matrix and action plans for dealing with the risks that are above the risk tolerance line.

4. All directorates are required to have Risk Management as a standing item on management team meeting agendas. This is to ensure that directorate risk registers are kept up to date with any new items and that existing action plans, both for directorate and corporate risks, are monitored. The regular discussion of risks allows directorate champions to report back on discussions at the RMG and also to bring forward items from their directorates that they feel should now be included, or if already included updated, on the Corporate Risk Register.

Corporate Risk Management

5. The RMG normally meets quarterly to discuss Risk Management issues and recommend alterations to the Corporate Risk Register to the Corporate Governance Group. During 2011/12 it was necessary to cancel the meeting scheduled for September due to several members of the group not being available. It is intended to return to quarterly meetings in 2012/13. The Director of Finance and ICT, or in his absence the Senior Finance Officer (Risk and Insurance) chairs the RMG. All of the group have received training in Risk Management.

6. The agenda for the RMG has a number of standard items including, updates on service risk registers, updates on corporate risks and any changes in insurance information. This allows each member of the group to obtain feedback on any new or changing issues within their own area and benefit from the wider perspective of the group as a whole. In this way any changes to service items can be evaluated and assessed to see if they justify inclusion in the corporate register. The discussion then moves on to consider any changes in the descriptions, triggers and vulnerabilities of existing corporate risks and the updating of the action plans for risks that are scored above the tolerance line.

7. The annual updating and approval of the terms of reference for the RMG was considered by the Finance and Performance Management Cabinet Committee on 19 March 2012 and a report recommending their adoption will go to Cabinet on 23 April 2012. The meeting on 19 March also approved the Risk Management Strategy and the Risk Management Policy Statement.

Corporate Risk Register

8. As mentioned above, the RMG will consider updates to the Corporate Risk Register and make recommendations to the Corporate Governance Group (which consist of the Acting Chief Executive, the Monitoring Officer, the Deputy Monitoring Officer, the Director of Finance and ICT and the Chief Internal Auditor).

9. The Corporate Governance Group receive the minutes of the RMG and discuss in detail any proposed changes. A separate review of the Corporate Risk Register is then undertaken to ensure that all necessary changes have been captured by the RMG and that the Corporate Governance Group is not aware of any other new risks for inclusion.

10. Recommendations on updating the Corporate Risk Register are considered by the Finance and Performance Management Cabinet Committee; the most recent updates are shown in the table below. For information only, the Corporate Risk Register is attached as Appendix 1.

<u>Date of Meeting</u>	<u>Updates Considered</u>
20 June 2011	Updated for Council Key Objectives 2011/12 and Medium Term Aims 2011 – 2015. An additional risk included on possible failure of the bund at North Weald Airfield and one risk's likelihood reduced.
21 November 2011	One risk deleted, one re-written and two risk scores changed, one for likelihood and one for impact. The wording for several risks was also updated to reflect changes in consequences and action plans.
19 March 2012	The risk on depot accommodation was split into two separate risks as the likelihood of the two vulnerabilities was felt to have diverged. The only other change was to the score for capital receipts being used up on non-revenue generating projects, which is less likely with the introduction of self-financing for the Housing Revenue Account.

Internal Audit Assessments

11. As stated above, Internal Audit have recently completed an audit of Risk Management and Insurance and concluded with a score of "substantial assurance".

Resource Implications:

No additional resource requirements.

Legal and Governance Implications:

No legal implications. Risk Management is an important part of the Council's overall governance arrangements and that is why this Committee considers the adequacy of the overall arrangements on an annual basis.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the district.

Consultation Undertaken:

No formal consultation has been undertaken but the views of Internal Audit are included in the report.

Background Papers:

None.

Impact Assessments:

Risk Management

If the adequacy of the arrangements for Risk Management were not considered a significant weakness in the overall governance arrangements could arise.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

Epping Forest District Council Corporate Risk Register

Date: 19 March 2012

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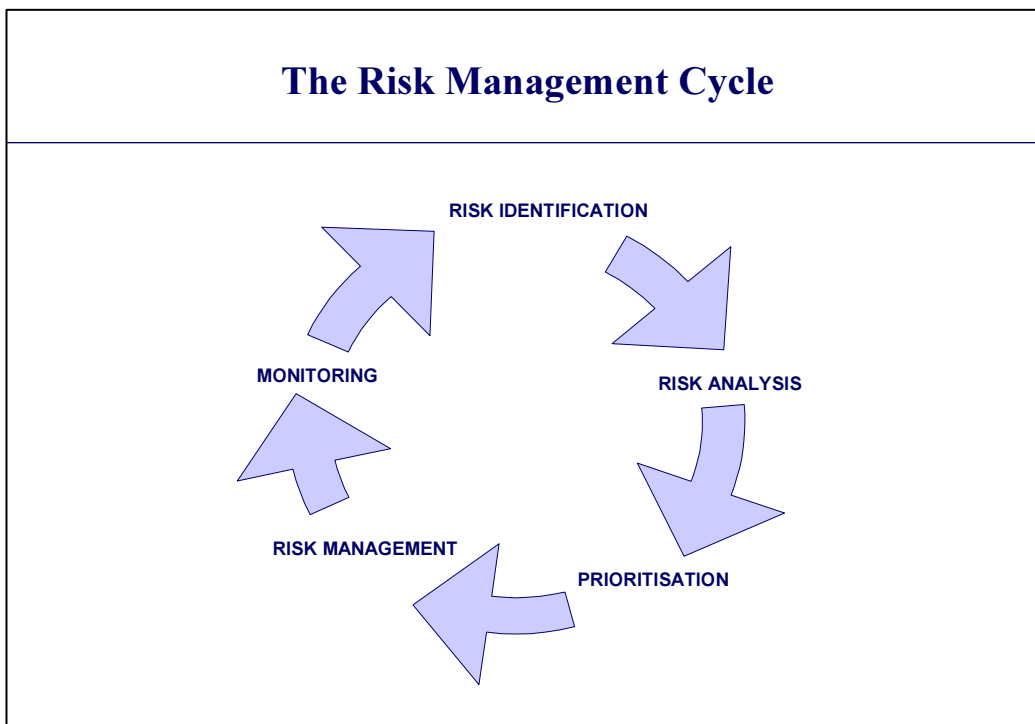
1. Introduction

Risk Management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling them and/or responding to them. It is not an end in itself. Rather, risk management is a means of minimising the costs and disruption to the organisation caused by undesired events.

The aim is to reduce the frequency of risk events occurring (where possible) and minimise the severity of their consequences if they do occur.

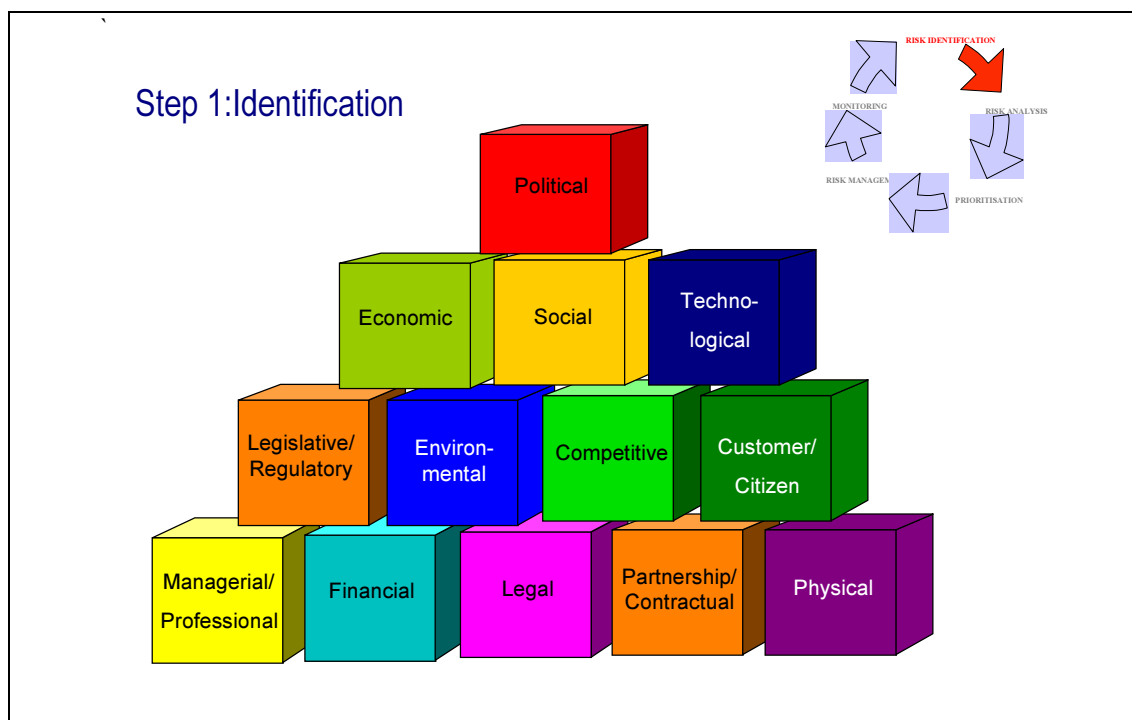
2. The Process

To manage risk effectively, the risk associated with each policy option or service delivery method needs to be systematically identified, analysed, prioritised, controlled and monitored. This process is referred to as the risk management cycle, which can be seen below.



2.1 Risk identification

The first of five stages of the risk management cycle requires risk identification. This is achieved through standing items on Corporate Governance Group and Management Board and from discussions at the Risk Management Group, which is held quarterly. Risk is covered under 13 categories of risk as shown below.



2.2 Risk analysis and prioritisation

Once the risks are identified, these are then assessed for impact and likelihood and plotted onto a matrix. The impact, compared against the objectives of the Authority, (Council Policy Themes and Aims), was measured as being negligible, marginal, critical or catastrophic. The likelihood, of the risks occurring over the next three years, was measured as being almost impossible, very low, low, significant, high or very high.

A group of Members and Senior Officers originally set the risk tolerance line, which involved considering each of the squares on the matrix and deciding if they were prepared to tolerate a risk in that box or if they wanted to actively manage it. This theoretical tolerance line effectively splits the risks on the matrix, with those risks above the line requiring further scrutiny and those below the line not requiring high-level intervention at this time. The Finance and Performance Management Cabinet Committee now review this quarterly.

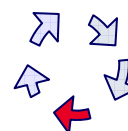
2.3 Risk management and monitoring

The next stage is to complete management action plans. These plans frame the risk management actions that are required. They map out the target for each risk i.e. to reduce the likelihood, impact or both. They also include targets and critical success factors to allow the risk management action to be monitored.

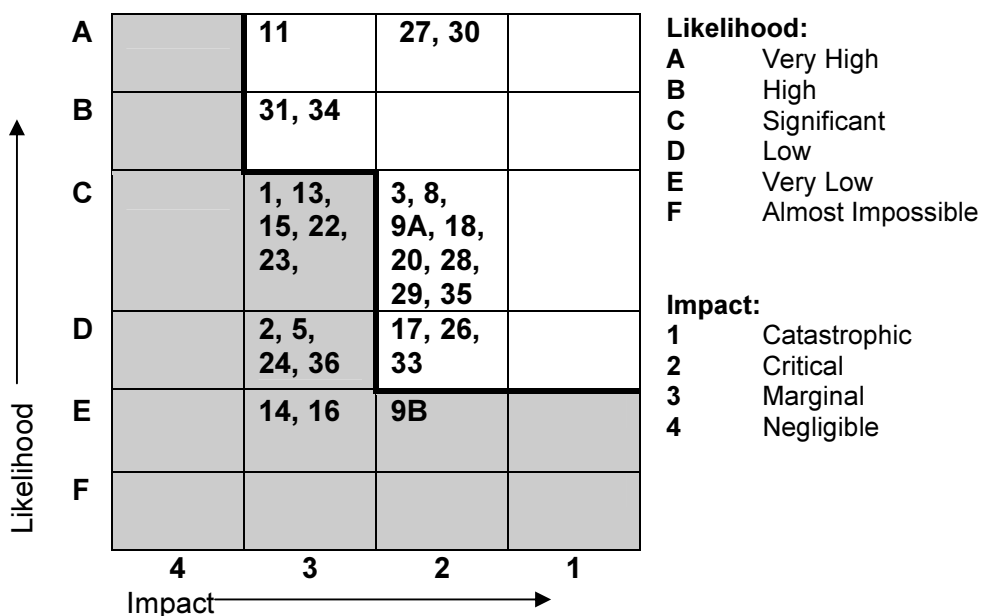
The monitoring of these action plans takes place at Corporate Governance Group, Management Board and the Risk Management Group. The action plans are also reported to Members quarterly.

3. Results

3.1 Risk profile



The risk profile and priority are given below.



Appendix 1 shows all the risks that were rated on the profile.

3.2 Above the line Risk clusters

The 16 above the line risks have been grouped into 7 clusters that will help to streamline the action planning process. These are shown below:

Cluster name	Risk Scenarios	Medium Term Aims/Council Key Objectives
Local Plan	3, 29	c, e 6, 8
Key Contracts	20	a, b, d 4
Business Continuity Planning	8, 9A, 28, 31	a, d 1, 4, 7
Financial pressures	26, 27, 30, 35	a, b, c, d, e 1, 2, 4, 5, 7
Local housing needs	11, 33, 34	a, c, d, e 4, 6, 8
Capital receipts spent on non revenue generating assets	17	a, b, d 1, 4, 5
Loss or theft of data	18	

The action plans can be seen at Appendix 2

Medium Term Aims 2011 - 2015

- (a) Endeavour to safeguard frontline services that our local residents tell us are important against a background of diminishing resources.
- (b) Have the lowest District Council Tax in Essex and maintain that position.
- (c) Be recognised as an innovative and transparent council involving residents in our decisions.
- (d) Continuously improve efficiency by adopting new ways of working with our partners and maximising revenue from our assets.
- (e) Provide clear community leadership and be a strong advocate, championing the interests of the people of Epping Forest and protecting the special character of the District.

Council Key Objectives 2011 - 12

The Council Key Objectives referred to above are contained on pages 27 - 41 of the Corporate Plan.

Appendix 1 – Risk Register

Risks marked “ * ” are above tolerance and require managing

No	Rating		Short name	Vulnerability	Trigger	Consequence
27	A2	*	Shortfall in key income streams	Recession and credit crunch causing long term lower interest rates.	Reduced economic confidence.	<ul style="list-style-type: none"> • Council unable to meet budget requirements • Use of reserves • Staffing and service level reductions
				Depressed economy continues with lower demand for Building Control, MOT and Land Charges services.	Prolonged recession/loss of business	
				Reliance on major income generating contracts and ability to increase charges.	Collapse of a contract	
10	A2	*	Reduction in Government Grant	Figures for the second half of CSR not yet known, but likely to involve further reduction.	Second half of CSR reduces funding.	<ul style="list-style-type: none"> • Loss of revenue • Increase Council Tax • Reduction in number and level of services • Increase in charges
				With change to the funding based on local retention of NDR the Council will be more vulnerable to downturns in the local economy.	Large business or businesses cease trading	
11	A3	*	Unable to provide sufficient housing for local people	The Council has targets in terms of key housing needs and affordable housing, however, there is a shortage of available land in the district for housing and economic development, with high house prices.	Unable to provide sufficient housing for local people	<ul style="list-style-type: none"> • Unable to achieve targets for affordable housing • Council seen as failing • District becomes more suburban • Young people leave area/Increased elderly population • Character of district changes

No	Rating		Short name	Vulnerability	Trigger	Consequence
31	B3	*	London 2012, Olympic disruption	The transport infrastructure in the district will be under severe pressure during the Olympics.	Congestion or incident obstructs road or tube travel.	<ul style="list-style-type: none"> Staff unable to get to work or around district Disruption to contractors – eg waste service Reputation damaged
34	B3	*	Changes to Benefit system	<p>The government is undertaking a major reform of the welfare system this is likely to have serious impacts on the Council, benefit claimants and staff.</p> <p>The DWP are considering changes to fraud investigation which could see Council Fraud staff transferring to them.</p>	Welfare reform requiring substantial change to the calculation and administration of benefits	<ul style="list-style-type: none"> Residents no longer able to afford current tenancies. Possible transfer of staff to DWP. Possible redundancies of staff. Problems in recruiting lead to reduction in performance Possible reduction in the authority's capacity for dealing with fraud.
Page 110	C2	*	Potential difficulty producing Local Plan to timetable	<p>Ongoing changes to Planning system.</p> <p>Reduced staffing and increasing workloads partly due to legislative changes with associated consultation.</p>	<p>Missed deadlines</p> <p>Council unable to agree a coordinated plan with all other involved parties.</p>	<ul style="list-style-type: none"> Ongoing strain on resources Increased staff stress levels/stress related leave. Not achieving objective of delivering a sound Local Plan. Not providing strategic direction for housing and growth in the District.
8	C2	*	Business Continuity Management	The Council is required to develop and implement robust Business Continuity Plans in line with the requirements of the Civil Contingencies Act	Unable to respond effectively to a business continuity incident (e.g. IT virus / flu pandemic)	<ul style="list-style-type: none"> Services disrupted / Loss of service Possible loss of income Staff absence Hardship for some of the community Council criticised for not responding effectively IT may be unavailable for several weeks
9A	C2	*	Depot Manager	That, due to the lack of an overall Depot Manager, an issue falls between the various service managers and is not adequately addressed.	Accident or conflict between users.	<ul style="list-style-type: none"> Adverse impact on service delivery Increased costs and legal implications Council criticised HSE investigation/prosecution

No	Rating		Short name	Vulnerability	Trigger	Consequence
18	C2	*	Loss or theft of data	The Authority handles a large amount of data. Either through hacking or carelessness security of the data could be compromised.	Data held by the Council ends up in inappropriate hands.	<ul style="list-style-type: none"> • Breach of corporate governance • Increased costs and legal implications • Reputation damaged
20	C2	*	Key contract collapses or service levels deteriorate	Contractors are providing some key council services. There have been changes in terms of service delivery and there are concerns around the ability of contractors to meet service changes and deliver the required level of performance.	Contractor collapses / is unable to provide service or Service level deteriorates	<ul style="list-style-type: none"> • Service fails / adversely affected • Alternative arrangements need to be made • Increased costs and legal implications • Health risks • Dissatisfied customers • Censure by audit/inspection
28	C2	*	Workforce Development Planning	The age profile of the Council's workforce is increasing and a number of senior staff are likely to retire at a similar time. Any concentrated loss of experience could cause disruption to service management.	Loss of a number of senior staff with no immediate replacement.	<ul style="list-style-type: none"> • Services disrupted / Loss of service • Key performance indicators effected • Censure by audit/inspection
25	C2	*	Budget reductions	The medium term financial strategy requires CSB reductions of £0.9m. Reductions of £450k are required in both 2013/14 and 2014/15.	Required net savings not achieved.	<ul style="list-style-type: none"> • Greater use of reserves. • Higher level of saving in subsequent years.

No	Rating		Short name	Vulnerability	Trigger	Consequence
29	C2	*	Gypsy Roma Traveller Provision	<p>a) The area attracts gypsies and travellers but does not have an unlimited supply of pitches.</p> <p>b) This is a very sensitive issue and one that involves a number of stakeholders. The Essex Gypsy and Traveller Accommodation Assessment (GTAA), which was published in November 2009, came under robust challenge at the resumed Meadows Public Inquiry in June 2011. While the appeal was comprehensively dismissed, officers are still to decide whether an updated GTAA is needed, particularly as the agent who made the challenge is dealing with other cases in the District. Officers have also learned that the consultants (Fordhams) who prepared the GTAA have closed down.</p> <p>c) Evictions from the Cray's Hill site (Dale Farm) at Basildon could lead to encampments appearing in the district.</p>	<p>More gypsies and travellers than can be accommodated on official sites attempt to stay in the district.</p> <p>Secretary of State decision (and inspectors report) on The Meadows, Bumbles Green.</p> <p>Arrival of "non-local" gypsies seeking sites and accommodation following eviction from elsewhere.</p>	<ul style="list-style-type: none"> • Unofficial sites are established • Complaints from public/landowners • Possible enforcement action • Enforcement action made more difficult • Review of GTAA at least at district, if not county level. This should include discussions with as many members of the local travelling community as possible to estimate future provision needs arising from population growth and other sources (eg living in bricks and mortar rather than caravans) • Resource intensive legal process • Key performance indicators affected • Resource intensive legal process involving ESS, Housing and possibly enforcement.

No	Rating		Short name	Vulnerability	Trigger	Consequence
17	D2	*	Significant amount of capital receipts spent on non revenue generating assets	The authority is currently debt free, with the budget benefitting from capital receipts gained from sale of assets and interest income from investment.	Authority spends a significant amount of capital receipts on non revenue generating assets.	<ul style="list-style-type: none"> • Loss of interest • Loss of cover for contingencies • Financial strategy becomes untenable in the long term • Service reductions required • Large Council Tax increases required
26	D2	*	Investments	The Council lends money to a large number of financial institutions. In the current economic climate it appears that the long-term future of very few institutions can be guaranteed.	Financial institution fails whilst holding Council funds.	<ul style="list-style-type: none"> • Loss of investment • Loss of revenue • Reduction in services • Increase in charges • Reputation damaged
33	D2	*	Reform of Housing Revenue Account	The Council is likely to have to take on approximately £190m of debt when the current system ends. Financial modelling shows this level of debt can be managed. However variables in the model may change and the government may increase the level of debt. Accounting arrangements may impact on General Fund.	<p>More Council houses sold than anticipated so revenue reduced.</p> <p>Government increases debt settlement.</p> <p>CLG ignores representations</p>	<ul style="list-style-type: none"> • HRA becomes unsustainable. • Repairs and maintenance spending reduced. • Large rent increases • Additional charges to general fund.
1	C3		Recruitment restrictions	The authority currently has restrictions on external recruitment with limited exceptions.	Key posts remain unfilled/take length of time to fill	<ul style="list-style-type: none"> • Pressures on existing staff • Difficulties in succession planning • Adverse impact on service delivery

No	Rating	Short name	Vulnerability	Trigger	Consequence
13	C3	Key objectives not delivered due to capacity issues	<p>The Council is facing a challenging agenda with a number of initiatives and projects.</p> <p>There is a concern the corporate core, in particular, is light in terms of staffing, resource and capacity. And while the Council has the financial resources to deliver on key priorities, it may not have sufficient HR capacity</p> <p>There are concerns around overload and a recognised need to set achievable agendas.</p>	Council fails to deliver key objectives on time	<ul style="list-style-type: none"> • Slippage on key projects / initiatives • Deadlines and targets not met • Lack of focus • Workloads increase • Staff demotivated
5	C3	Sickness absence	Levels of sickness absence increase or are not consistently reported.	Sickness absence not effectively managed	<ul style="list-style-type: none"> • Staff absence impacts on ability to deliver • Increased costs of using agency staff • Efficiency savings affected • Impact on staff morale • Possible litigation / claims
22	C3	Key partnership fails	<p>The Council is involved in a plethora of multi agency partnerships e.g. LSP, but these don't always have clear governance arrangements with related documentation thin on the ground.</p> <p>Localism bill may cause transfer of Council services to providers with governance issues as above.</p>	Key partnership fails or services provided via arrangements lacking adequate governance.	<ul style="list-style-type: none"> • Relationships with other bodies deteriorate • Clawback of grants • Unforeseen accountabilities and liabilities for the Council • Censure by audit/inspection • Adverse impact on performance

No	Rating	Short name	Vulnerability	Trigger	Consequence
23	C3	Fraud including bribery	A weakness in internal controls or the application of internal controls or criminal collusion such that fraud or bribery is either not prevented or not detected.	Significant fraud or bribery occurs	<ul style="list-style-type: none"> Loss of resources Damage to Council's reputation Effect on staff morale
2	D3	Inconsistent approach to procurement	<p>a) full conformity with best practice and Contract Standing Orders is still to be achieved.</p> <p>b) failure to comply with EU procurement regulations</p>	<p>a) Procurement exercise breaches contract standing orders</p> <p>b) Challenge by unsuccessful bidders</p>	<ul style="list-style-type: none"> Efficiency savings not made or contracts fail Procured service poor/not value for money Any EU failures will involve legal costs, fines and compensation Negative impact on service delivery where procurement exercise has to be re-done.
5 Page 115	D3	Local Government Reorganisation which is detrimental to the Council and Community	<p>Even though there are no current proposals to change boundaries in Essex, there remains a concern that this might change.</p> <p>EFDC is currently debt-free and any re-organisation may involve neighbouring authorities that are not as financially secure.</p>	Reorganisation which is detrimental to the Council and Community	<ul style="list-style-type: none"> Outflow of resources from district Change of focus to wider focus Existing priorities stopped Projects stopped / delayed Change in direction
24	D3	Cash balances	Retention of large reserves and balances fails to provide best value and restricts the development of key services.	Key service deteriorates due to lack of resources.	<ul style="list-style-type: none"> Service delivery adversely affected Criticism from inspection / audit Slippage on key projects Dissatisfied customers
36	D3	North Weald Airfield Bund	The bund has low to moderate likelihood of failure which may result in slump extending to the kerb of the M11 motorway.	Failure of the bund.	<ul style="list-style-type: none"> Failure of the bund leads to disruption on the M11 motorway. Failure of the bund may lead to injury or damage to property. Insurance claim against the Council. Reputational damage.

No	Rating	Short name	Vulnerability	Trigger	Consequence
9B	E2	Depot Accommodation	That the Council is unable to provide appropriate and safe accommodation for all contracted depot users.	Depot sites disposed of prior to replacement facilities being available.	<ul style="list-style-type: none"> • Adverse impact on service delivery • Increased costs and legal implications • Council criticised
14	E3	Key initiatives resisted / delayed by culture of authority	<p>There is a view that the authority needs to significantly change means of service delivery to meet the ever-changing demands of the wider community, and the requirements of the government agenda.</p> <p>Implementing this will require a significant culture change across the authority, and strong consistent leadership from senior levels of the Authority.</p>	Key initiatives e.g. shared services resisted / delayed by current culture within the authority	<ul style="list-style-type: none"> • Initiatives / plans not achieved • Failure to make savings, reduce duplications and make continuous improvements • Adverse effect on performance • Censure by audit/inspection • Image of council damaged
16	E3	Performance management	<p>A performance management framework and systems are in place but are not yet fully embedded within the authority, with no real culture of performance.</p> <p>Performance information is seen as a means rather than an end.</p>	Performance management not applied consistently across the Council	<ul style="list-style-type: none"> • Performance management treated as a compliance exercise • Improvement does not occur • Service delivery adversely affected • Criticism from inspection / audit • Image of Council damaged

Appendix 2 – Action Plans

Risk No.	Existing controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
27	Monitoring of both investment returns and income	Effective to date, as revised estimates have allowed for necessary changes	Continue to monitor and seek to diversify income streams.	Cabinet All Directors	Avoid need to make severe budget cuts	Quarterly	None
30	The Medium Term Financial Strategy is updated each year to identify any need for savings.	To date savings targets have been achieved.	As part of the 2013/14 budget process identify areas for review to achieve savings.	Leader of Council Acting Chief Executive	Savings targets achieved with expenditure reductions over the medium term as part of a structured plan.	Quarterly	31/12/12
11	Requirement for 40% affordable housing on all large sites. Developments on green belt can result in more affordable housing. Council considers annual provision of grant to housing associations.	Meeting all housing need will not be addressed by existing control, but will help. Grant from the Council also assists.	Early identification of new sites as part of emerging Local Plan process.	Housing Portfolio Holder Director of Housing	Whether housing need is significantly reduced.	Quarterly	None
31	Liaison with Police, ECC, ODA through emergency planning team.	Not possible to assess yet.	Further liaison to raise awareness and ensure co-ordinated planning.	Corporate Support Services Portfolio Holder Acting Chief Executive	No significant disruption to Council services during the Olympics.	Quarterly	30/06/12

Risk No.	Existing controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
34	Management will continue to run the service as efficiently as possible.	Effective to date as service still functioning and expanded to Limes Farm office.	Respond to any consultations and seek to mitigate effects on residents and staff wherever possible.	Finance and Economic Development Portfolio Holder. Director of Finance and ICT	A smooth transition to universal credit. Minimise number and cost of redundancies.	Quarterly	31/09/12
3	Early engagement with key stakeholders, Managing workload and external staff recruitment, On-going joint working with Harlow Council	Timetable for delivery, which has key milestones in place.	Member approved framework required to progress inter-authority working.	Leader of Council Planning and Technology Portfolio Holder Director of Planning and Economic Development	Council retains control of the delivery arrangements at a local level.	Quarterly	30/09/13
8	Most services already have business continuity plans in place and a separate flu pandemic plan has been developed.	The effectiveness of controls is assessed periodically through test and exercises.	Both corporate and service business continuity plans are being updated. Cabinet has approved measures to enhance the resilience of ICT.	Support Services Portfolio Holder Acting Chief Executive	Having plans in place which are proved fit for purpose either by events or external scrutiny.	Quarterly	None

Risk No.	Existing controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
17	Five year capital programme prepared which includes resources.	Effective to date as even with £79M capital programme over 5 years over £8M of usable receipts anticipated at end of period.	Continue to highlight consequences of all new capital schemes.	Finance & Economic Development Portfolio Holder Acting Chief Executive	Maintenance of adequate capital and revenue balances.	Quarterly	31/12/12
18	Security Officer is continually monitoring EFDC situation and potential risks. Most systems have in built controls to prevent unauthorised access.	Generally effective to date.	Controls in the agenda publication system have been strengthened and staff have been reminded of the additional care needed when dealing with confidential documents.	Planning and Technology Portfolio Holder Director of Finance & ICT	No data loss or system downtime due to unauthorised access of EFDC systems or data.	Quarterly	None
20	Systems for contract monitoring in place. Contingency plans exist to deal with contract failure.	Contract monitoring established. Business continuity planning has proved effective in waste management.	Continue existing contract monitoring procedures for extended contracts.	Leisure & Wellbeing People Portfolio Holder Environment Portfolio Holder Director of Environment and Street Scene	No significant impacts on service delivery from any contract failures.	Quarterly	None
28	A Council wide initiative on Workforce Development Planning is now being pursued.	Staff capable of promotion on a temporary or permanent basis can generally be identified.	All Directorates need to analyse future skills gaps and plan to develop staff accordingly.	Cabinet All Directors	No disruption to service provision caused by retirements.	Quarterly	None

Risk No.	Existing controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
29	<ul style="list-style-type: none"> - Timely adoption of a revised GTAA, - Additional 1 year post agreed to support Forward Planning Section, - Early engagement with key stakeholders - Joint working (external and internal) and enforcing on such incidents 	<p>Implementation of the GTAA, but effectiveness depends on planning appeal success rate, which is decided by The Planning Inspectorate.</p> <p>Changes required in Government policy to effectively controlled incidents</p>	<p>Part of the Local Plan timetable for engagement and decision making.</p> <p>Evidence base for GTAA needs to be agreed.</p>	<p>Leader of Council</p> <p>Planning and Technology Portfolio Holder</p> <p>Director of Planning and Economic Development</p>	<p>Timely delivery of the Local Plan and appeal success rate.</p> <p>Successful management of incidents.</p>	Quarterly	September 2013
35	Some service reviews already underway.	Service reviews have successfully identified savings required for 12/13.	Identify saving required for 2013/14.	<p>Leader of Council</p> <p>Acting Chief Executive.</p>	Required net savings achieved.	Quarterly	31/12/12
9 A	An officer group meets to co-ordinate management issues at Langston Road.	No serious incident to date.	Evaluate need to unify management of site under one individual.	<p>Finance and Economic Development Portfolio Holder</p> <p>Acting Chief Executive</p>	Avoidance of accidents/conflicts.	Quarterly	None
26	Lending is controlled in accordance with the Treasury Management Strategy, which is structured on levels of credit ratings.	To date there has been one failure where the Council is at risk of some loss.	Ensure all credit rating updates are promptly reflected in the counter party list and in considering alternative investments give highest weighting to security.	<p>Finance & Economic Development Portfolio Holder</p> <p>Director of Finance & ICT</p>	No further counter party failures that put Council funds at risk.	Quarterly	None

Risk No.	Existing controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
33	Detailed financial modelling undertaken. Representations made to CIPFA and CLG.	Will not be known until debt settlement and accounting arrangements confirmed.	Continue to make representations and respond to consultations.	Housing Portfolio Holder. Finance and Economic Development Portfolio Holder. Director of Finance and ICT Director of Housing	Sustainable level of debt agreed. No serious impact on general fund.	Quarterly	31/03/12