

Audit and Governance Committee

Agenda

Date: Thursday, 31st January, 2013
Time: 2.00 pm
Venue: Committee Suite 1, 2 & 3, Westfields, Middlewich Road,
Sandbach CW11 1HZ

The agenda is divided into 2 parts. Part 1 is taken in the presence of the public and press. Part 2 items will be considered in the absence of the public and press for the reasons indicated on the agenda and at the foot of each report.

PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT

1. **Apologies for Absence**

2. **Declarations of Interest**

To provide an opportunity for Members and Officers to declare any disclosable pecuniary and non-pecuniary interests in any item on the agenda.

3. **Public Speaking Time/Open Session**

In accordance with Procedure Rules Nos.11 and 35 a period of 10 minutes is allocated for members of the public to address the meeting on any matter relevant to the work of the meeting. Individual members of the public may speak for up to 5 minutes but the Chairman or person presiding will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers. Members of the public are not required to give notice to use this facility. However, as a matter of courtesy, a period of 24 hours' notice is encouraged.

Members of the public wishing to ask a question at the meeting should provide at least three clear working days' notice in writing and should include the question with that notice. This will enable an informed answer to be given.

4. **Minutes of Previous meeting** (Pages 1 - 14)

To approve the minutes of the meeting held on 27th September 2012.

Contact: Paul Mountford, Democratic Services Officer
Tel: 01270 686472
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5. **Action Plan arising from Internal Audit Report into Waste Transfer Station (Lyme Green)** (Pages 15 - 36)

To consider a report on progress in implementing the action plan approved at the last meeting of the Committee.

6. **Annual Governance Report Action Plan - Progress Report and Annual Audit Letter 2011/12** (Pages 37 - 60)

To consider a report on the Annual Governance Report Action Plan and progress to date with its implementation.

7. **Risk Management Update Report** (Pages 61 - 66)

To consider an update report from the Performance and Risk Manager.

8. **External Audit Update & Audit Fee Letter 2012/13** (Pages 67 - 72)

To consider an update report from Grant Thornton on the new audit arrangements and of the annual audit fee for 2012/13.

9. **2012/13 Statement of Accounts - Progress Report** (Pages 73 - 76)

To consider a progress report on the preparation of the Statement of Accounts for 2012/13.

10. **Annual Governance Statement (AGS) - 2012/13 Process and Update on 2011/12 Action Plan** (Pages 77 - 96)

To consider a recommended process for the production of the 2012/13 Annual Governance Statement, and a progress report against the 2011/12 AGS Action Plan.

11. **Treasury Management Strategy and MRP Statement 2013/14** (Pages 97 - 124)

To consider the proposed 2013/14 Treasury Management Strategy Statement, incorporating the Minimum Revenue Provision Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2013/16, required under Part 1 of the Local Government Act 2003.

12. **Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004)** (Pages 125 - 130)

To consider a report which provides an update on how Cheshire East Council fulfils its obligations under Data Protection and Freedom of Information legislation. The report also highlights volumes of requests, trends and current and future issues.

13. **Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review for the year ended 31st March 2012** (Pages 131 - 134)

To consider a report which provides a summary of the complaints received by Cheshire East Council and those dealt with by the Local Government Ombudsman about Cheshire East Council for the period 1st April 2011 to 31st March 2012.

14. **Internal Audit Interim Report 2012/13** (Pages 135 - 144)

To consider a report on progress against the Internal Audit Plan 2012/13, revisions to the plan, and a summary of the work during the second and third quarters of 2012/13.

15. **Work Plan 2012/13** (Pages 145 - 152)

To consider an updated Work Plan.

THERE ARE NO PART 2 ITEMS

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 27th September, 2012 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor J Hammond (Chairman)
Councillor L Brown (Vice-Chairman)

Councillors S Corcoran, R Fletcher, M Hardy, S Hogben, A Kolker, M J Simon,
D Bebbington (for Cllr Marren) and B Murphy (for Cllr Roberts)

In attendance

Councillor B Moran

Officers

Kim Ryley, Interim Chief Executive
Lisa Quinn, Director of Finance and Business Services
Vivienne Quayle, Head of Performance, Customer Services and Capacity
Chris Mann, Finance Manager
Joanne Butler, Performance and Risk Manager
Paul Mountford, Democratic Services Officer
Julie Openshaw, Deputy Monitoring Officer
Jon Robinson, Internal Audit
Neil Taylor, Internal Audit
Joanne Wilcox, Corporate Finance Lead

Audit Commission

Judith Tench
Andrea Castling

Apologies

Councillors D Marren and L Roberts

14 DECLARATIONS OF INTEREST

Councillor S Corcoran declared a non-pecuniary interest in relation to Item
15 on the agenda – Standards Issues and Planning Protocols.

15 PUBLIC SPEAKING TIME/OPEN SESSION

Mr Peter Yates indicated that he wished to speak in relation to Item 8 on
the agenda: Final Statement of Accounts 2011-12.

The Chairman informed Mr Yates that he would be invited to speak
immediately before the item was considered.

16 MINUTES OF PREVIOUS MEETING

RESOLVED

That that the minutes of the meeting of 28th June 2012 be approved as a correct record.

17 ACTION PLAN ARISING FROM INTERNAL AUDIT REPORT INTO WASTE TRANSFER STATION (LYME GREEN)

The Committee considered a report providing an updated action plan and progress report to improve working practices highlighted by the findings of the internal audit review of Lyme Green.

A special meeting of the Audit and Governance Committee had been held on 14th June 2012 to consider the outcome of a review of Lyme Green. The Committee resolved, among other things, that the findings and recommendations of the Internal Audit investigation and the agreed Action Plan be noted and endorsed, and that progress reports against the identified actions in the Action Plan be submitted to the Committee on a quarterly basis. This was the first such quarterly report.

The action plan had since been developed further to ensure that the issues identified were properly addressed and that learning points were fully embedded. The findings had been separated into three central themes covering: the need for more robust option appraisal; the need for a comprehensive framework for programme and project management; and the need for better systems to ensure compliance.

The action plan included a proposed new gateway process for project approval to be managed by an executive management board, a technical enabler group to replace the Capital Appraisal and Monitoring Group, a new project management framework with appropriate training, and the setting up of a task and finish group on planning enforcement to review all aspects of planning enforcement.

By implementing improvements in project initiation, governance, monitoring and staff training, the sanctions which existed for non-compliance with the enhanced arrangements could, and would, be instigated in future where appropriate.

It was noted that Lyme Green was one of the significant governance issues identified in the Council's Annual Governance Statement for 2011/12 to be considered later in the meeting.

The Interim Chief Executive, Mr K Ryley, attended the meeting for this item. He commented that the actions required to address the issues raised by Lyme Green were wide ranging and required a whole Council approach. There would be no excuses not to understand what the corporate requirements were and proper sanctions would be applied

where appropriate. To some extent, organisational change would require a shift in attitudes and culture, which would take a little longer to embed as people became used to the new system and its requirements. A programme of staff training in project management was being carried out across the organisation and financial reporting systems were being improved. Within the next three months it should be possible to 'tick all the right boxes'.

Councillor B Moran, speaking for the Cabinet, assured Members that the Cabinet was committed to ensuring that the action plan was implemented and embedded. He commended the action plan to the Committee.

During consideration of this matter, Councillor S Corcoran moved, and Councillor S Hogben seconded, that the terms of reference of the task and finish group on planning enforcement, as set out in the action plan, be extended to include the following:

"To review the impact of pre-application procedures to ensure that they do not compromise the objectivity and impartiality of planning officers and to ensure that objectors can put their case on a level playing field."

On being put to the vote, the motion was not carried. Councillor Corcoran asked that this be recorded in the minutes.

Councillor Corcoran also asked that the record of the meeting reflect his concern at the bureaucracy and potential cost implications of the proposed arrangements.

RESOLVED

That the action plan attached at Appendix A to the report be approved subject to the amendment of action ref C5 (relating to the monitoring of project costs) to provide that this matter would be considered by the relevant Policy Development Group.

18 COMPLIANCE WITH CONTRACT PROCEDURE RULES

The Committee considered a report providing details of the operation of the recently introduced revised procedure for delegated decisions to waive Contract Procedure Rules and non-compliances with Contract Procedure Rules.

From 29th May 2012, a new procedure had been introduced whereby the signing of delegated decision and non-compliance forms was a standing item on the weekly Corporate Management Team agenda. Decision authors attended, together with those support staff who signed off the report, to explain the necessity for any waiver of the rules. All forms were signed off by Legal, Procurement and Finance Officers, as well as the decision-taking Officer along with the relevant Head of Service and Portfolio Holder.

From 29th May to 4th September there had been 13 Delegated Decision forms considered by Corporate Management Team, of which 12 had been approved and only 1 rejected. Over the same period, there had been 10 Non-Compliance forms considered by Corporate Management Team, of which 9 had been approved and only 1 rejected.

As part of the new process for all Non-Compliances, Corporate Management Team would ensure that appropriate intervention was made and action taken to avoid recurrence. This was aimed at changing the previous organisational culture in which insufficient attention and rigour was given to ensuring proper compliance.

RESOLVED

That

- (1) the revised procedure and update on Delegated Decisions and Non-Compliances be noted;
- (2) it be noted that further reports on the process, and its robustness, will be brought to the Committee as part of the regular monitoring of the Annual Governance Statement Action Plan; and
- (3) the appropriate member/officer working group be invited to consider specific examples of delegated decisions and non-compliance.

19 ANNUAL GOVERNANCE REPORT 2011-12

The Committee considered the Annual Governance Report 2011-12.

The Annual Governance Report, which was circulated at the meeting, summarised the findings from the 2011/12 Audit and identified the key issues that had been considered by the Audit Commission before issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

The District Auditor, Judith Tench, presented the report to the Committee and in doing so indicated that she had received objections to the accounts from two local electors. She had therefore agreed to hold the audit open until 12th October to allow the objectors to provide more information. At this stage, she expected to sign an unqualified opinion on the Council's accounts on 28th September. The auditor's report would not include a certificate of closing. However, if no further information were forthcoming from the objectors, the accounts would be closed on 12th October.

The District Auditor expressed concern about whether the Council had proper arrangements in place to secure value for money in its use of resources. She therefore intended to issue a qualified value for money opinion which would draw attention to identified weaknesses, in particular

relating to arrangements for developing business proposals and managing projects. She also felt that there were far too many small projects and that many of these were not aligned to stated priorities. However, she noted the Council's intention to embed sound project management practices throughout the organisation.

With regard to financial resilience, the District Auditor commented that the Council's General Fund reserves were no longer adequate to support in-year pressures and that the continued use of reserves for this purpose was unsustainable.

The District Auditor indicated that she was satisfied with the measures that the Council had put in place in relation to Lyme Green and that the incoming auditors were aware of the issues.

Finally, the District Auditor drew attention to the four high level recommendations on page 17 of her report, which she suggested required a whole Council response.

RESOLVED

That

- (1) the Annual Governance Report 2011-12 be received and noted, including the adjustments to the financial statements included in the report and the four high level recommendations at page 17 of the report; and
- (2) the draft letter of management representation set out at Appendix 4 to the Annual Governance Report be approved.

20 FINAL STATEMENT OF ACCOUNTS 2011-12

Prior to the Committee's consideration of this matter, Mr P Yates was invited to speak.

Mr Yates referred to the fact that the Statement of Accounts had been published on the Council's website two clear working days before the Committee's meeting, whereas the Council's Constitution provided that agendas and reports will be made available for inspection at least five clear working days before the meeting. He therefore felt that the Council had broken its own rules and that the report should be withdrawn.

The officers responded that Mr Yates had already raised his query with officers and had been provided with a response to the effect that since the Local Government Act 1972 did not require documents to be available to the public before they were available to Members, and since in any case there were separate Regulations providing how the Statement of Accounts was to be published, the legal requirements had been met. However, the officers would consider whether any changes to the wording within the

Constitution would be helpful. The response sent to Mr Yates would be circulated to all members of the Committee for information.

Mr Yates also mentioned the fact that the internal audit report to the Committee in June on Lyme Green had mentioned various breaches of procedure. However, no reference to this had been made in the Statement of Accounts.

The officers responded that this had been referred to in the Annual Governance Statement and that the wording had been discussed and agreed with the Audit Commission.

The Committee then considered the Final Statement of Accounts 2011-12.

The 2011-12 financial year had proved challenging. Overall, Services had overspent against budget by £8.2M. Since mid-year, remedial actions had been taken to address the budget shortfall, including a recruitment freeze, a cessation of non-statutory advertising and a cessation of expenditure on non-essential supplies and services. In addition, savings had been achieved through the restructuring of senior management.

Training sessions had been held with the Committee in early September, which had provided Members with the opportunity to consider more detailed aspects of the Accounts.

RESOLVED

That the final Statement of Accounts for 2011-12 be approved.

21 ANNUAL GOVERNANCE STATEMENT 2011/12

The Committee considered the Annual Governance Statement 2011-12.

The Council was required to prepare and publish an Annual Governance Statement (AGS) to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations. The purpose of the AGS process was to provide a continuous review of the organisation's performance arrangements to give assurance on the effectiveness of the processes and address identified weaknesses.

A Member workshop on the draft AGS and supporting documentation had been held prior to the Committee's meeting.

The AGS had been amended to take account of Members' comments at the previous meeting and to address feedback received in the interim period from Members and Officers. Once finalised, the AGS would be published on the Council's website, along with the Statement of Accounts, for members of the public, Members, Officers and other stakeholders to view.

Regular updates on progress on the AGS Action Plan would be brought to the Committee during 2012/13.

RESOLVED

That the Annual Governance Statement 2011-12 be approved subject to the following amendments agreed by the Committee:

- Page 54 – correct date of Council from 17th July to 19th July.
- Page 60 – define FOI
- Page 61 – define SLE
- Pages 61/65 – insert ‘and Project’ in ‘Financial Management’

22 CODE OF CORPORATE GOVERNANCE AND THE GOVERNANCE FRAMEWORK UPDATE

The Committee considered an update to the Council’s Code of Corporate Governance and a report on the ongoing work by the Corporate Governance Group in respect of the Council’s Governance Framework.

A review of the Code of Corporate Governance had taken place and a few minor changes had been made as outlined in the report.

The Corporate Governance Group had been working on producing a diagrammatic version of the Council’s Governance Framework to include a core policy list. Versions of the framework had been discussed with the Corporate Management Team, within the specialist Member/Officer group and at the recent Member training sessions. The latest version had been submitted to the Committee to note the ongoing work in this area.

RESOLVED

That

- (1) the update to the Code of Corporate Governance as set out at Appendix A to the report be approved subject to the addition of the following wording to Principle 1:

“The charge to taxpayers to be affordable and reasonable.”

- (2) the ongoing work on the Council’s Governance Framework be noted;
and
- (3) the officers ascertain whether any training will be provided by Cheshire East Council for the new town councillors for Crewe when elected next year, and Members be informed accordingly.

23 INTERNAL AUDIT INTERIM REPORT 2012/13

The Committee considered a report on progress against the Internal Audit Plan 2012-13, revisions to the plan and a summary of the work undertaken during the first quarter of 2012-13.

The interim report contained a summary of the audit work in the first quarter, any issues judged particularly relevant to the preparation of the Annual Governance Statement, a comparison of the work undertaken with work planned, a summary of the performance of the internal audit function against its performance measures and targets, comments on compliance with standards and communication of the results of the internal audit quality assurance programme, and other developments.

There had been two major pieces of work during the first quarter:

- Lyme Green Report, as reported previously to the Committee
- the Annual Governance Statement, which was a separate report on the agenda

The Internal Audit establishment had been reduced significantly to reflect the savings required as part of the 2011/12 budget settlement. The current team was particularly lean and the Head of Internal Audit post was currently vacant.

A recent review completed by Audit Managers had concluded that, although there were areas for improvement (as detailed in the Annual Report to Committee in June 2012), the internal audit service was being delivered to the required standard.

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) had recently launched a public consultation on the first unified set of public sector internal audit standards. It was currently proposed that the PSIAS (Public Sector Internal Audit Standards) would come into force from 1st April 2013. The Committee would receive further updates when more information became available.

Cheshire East Council was currently exploring opportunities around regional collaboration and Internal Audit had been involved in discussions in the last few months with its partners within the Cheshire and Warrington Sub-Region on how best to share information and pool limited resources.

RESOLVED

That

- (1) the issues identified in Appendix A to the report be noted; and
- (2) the approach identified to achieving adequate audit coverage in the remainder of 2012-13 be endorsed.

24 ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

The Committee considered a review of the Council's anti-fraud and corruption arrangements.

The Fighting Fraud Locally Local Government Fraud Strategy set out a three part strategic approach to tackling fraud:

- Acknowledge – acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
- Prevent – preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- Pursue – punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

Each of the three elements was detailed in the report and a number of specific areas had been provided for consideration. The current arrangements had been reviewed against these areas to identify any gaps and the outcomes were detailed in the report.

RESOLVED

That the report be noted.

25 TREASURY MANAGEMENT UPDATE

The Committee considered a report on the Council's treasury management operation, with details of the activities undertaken in 2011-12 and the first quarter of 2012-13.

The report covered the Council's treasury year end position, forecast prospects for interest rates, interest rate outturn, compliance with treasury limits, the Council's borrowing and investment strategies, economic events in 2011-12 and prudential indicators.

The Treasury Management Annual Report had been reported to Cabinet on 23rd July 2012. In accordance with best practice, the Audit and Governance Committee would also receive regular reports on treasury management activity and would consider the 2013/14 Treasury Management Strategy report at its meeting in January 2013 prior to approval of the Strategy at Council.

A training session had been held for Members on 21st May 2012, led by the Council's treasury management advisers, Arlingclose.

RESOLVED

That

- (1) the treasury management activity for the year 2011-12 as detailed in Appendix A to the report be noted; and
- (2) the treasury management activity for the first quarter of 2012-13 as detailed in Appendix B to the report be noted.

26 UPDATE REPORT ON RISK MANAGEMENT

The Committee considered a report of the Corporate Risk Management Group summarising the key corporate risks and risk management work undertaken since the previous report.

The updated Risk Management Policy had been approved by Cabinet at its meeting on 20th August 2012.

It had been agreed that a risk and opportunity workshop be undertaken with Cabinet and the Corporate Management Team in November to review the key corporate risks to achieving the Council's objectives and to update the key corporate risk register. Further work would then be undertaken to determine the Council's risk 'appetite' so that a qualitative high level statement of risk preferences could then be defined for business areas.

The Committee had requested that it receive a short briefing at each meeting from the risk owners/managers of the highest key corporate risks. At the previous meeting, the key corporate risk around financial control had been discussed. The definition of this risk had since been updated and a copy of the updated risk stewardship template for this risk was attached at Appendix A to the report. Key corporate risk 15 – Reputation would be considered at the next meeting.

Guidance on risk management for policy writers had been drafted and was available on the Centranet. A copy of the guidance was attached at Appendix B to the report.

The report also dealt with operational risks. These were captured at directorate and service level, and in some areas risks were identified and monitored through risk registers at team level. The most up-to-date overview of risk register development across service areas was circulated at the meeting. Operational risks identified for mitigation so far appeared to be around staff capacity and competency; skills and knowledge gaps; the reduction in funding and budget pressures impacting upon ability to deliver objectives/plans/projects; interdependencies on other services to meet challenging timescales; changes in political priorities /strategic decisions

contra to aim of objectives; and supply chain instability.

Members asked about progress with proposals to apply a score to risks identified in reports to decision-making bodies. The officers responded that before this could be pursued further, risk management needed to be embedded firmly across the organisation.

The Director of Finance and Business Services advised Members that the impact of the Audit Commission's value for money opinion on the key corporate risk for Financial Control would be considered with a view to submitting an updated report on this risk to the Committee's meeting in January.

RESOLVED

That

- (1) the report be noted;
- (2) it be noted that the review of the key corporate risk 15 – Reputation will be considered at the next meeting; and
- (3) it be noted that an updated report on the Financial Control risk will be made to the Committee in January which takes into account the response to the Audit Commission's value for money opinion.

27 STANDARDS ISSUES AND PLANNING PROTOCOL

The Committee considered a report addressing a number of issues arising from the new standards regime and Member Code of Conduct.

1. Options for a proposed appeals process in relation to complaints under the Member Code of Conduct.

The Committee considered whether such appeals should take the form of a formal hearing or by could be dealt with by way of written representations.

There were three options for the appeals body:

- three councillors from the pool of 15 and an independent person none of whom have previously been involved in a particular case;
- a body comprising the remaining three independent persons; or
- arrangements for the Fire Authority to hear any appeals.

The officers reported that the Fire Authority was agreeable in principle to act as an appeals body for Cheshire East although detailed

arrangements had not been determined and Members were conscious that some form of reciprocal arrangement may be required.

It was noted that a second independent person could become involved in a case if the person under investigation sought their advice as was permitted. This would leave only two independent persons, making the second option untenable.

Members therefore favoured the first option.

2. Proposed dispensations for all Members of the Council and co-opted members to speak and vote on a number of matters for a period of four years.

The dispensations proposed were as follows:

- any allowance, payment or indemnity given to Members;
 - any Ceremonial Honours given to Members;
 - statutory sick pay under Part X1 of the Social Security Contributions and Benefits Act 1992 where they were in receipt of or entitled to receive such pay;
 - setting the Council Tax or a precept under the Local Government and Finance Act 1992 (or any subsequent legislation);
 - setting a Local Council Tax Reduction Scheme or Local scheme for the payment of business rates (Including eligibility for rebates and reductions) for the purposes of the Local Government Finance Act 2012 (or any subsequent legislation); and
 - school meals or school transport or travelling expenses where the Member is a parent or guardian of a child in full time education or a parent governor (unless the matter relates specifically to the school the child attends).
3. Proposed changes to the Planning Protocols of Conduct and Public Speaking to bring them into line with the new Code of Conduct.

Revised versions of the Planning Protocols, with the proposed amendments highlighted, were appended to the report, together with additional amendments which had been proposed by the Strategic Planning Board on 12th September. The Constitution Committee on 20th September had noted the proposed amendments without further comment and had recommended them to Council subject to the views of the Audit and Governance Committee.

RESOLVED

That

- (1) the appeals procedure in relation to complaints under the Member Code of Conduct take the form of an oral hearing, the appeals body to comprise three councillors from the pool of 15 and an independent person, none of whom have previously been involved in a particular case, and the arrangements to be reviewed after 12 months;
- (2) the general dispensations for all Members of Cheshire East Council and co-opted members as set out above be approved; and
- (3) the Committee, having noted the recommendations of the Strategic Planning Board and the Constitution Committee, recommends that Council approve the proposed amendments to the Planning Protocols as set out in the Appendix to the report and the minutes of the Strategic Planning Board subject to:
 - (a) the speaking time for ward members remaining at 5 minutes; and
 - (b) the addition of the following sentence at the end of paragraph 2.2 of the Protocol of Conduct: "However, paragraph 2.10 should be taken into account".

28 AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2011/12

The Committee considered a draft of its 2011/12 Annual Report for 2011/12.

Many Audit Committees prepared an annual report to demonstrate how they had fulfilled their terms of reference and to account for their performance. CIPFA guidance stated that key aspects to consider including in such a report were:

- Committee membership.
- Summary of activity, including key topics, decisions and recommendations.
- Review of the committee's effectiveness, including any external assessment results.
- Development activity undertaken, such as training, networking with other audit committees and peer reviews.

The CIPFA guidance also stated that annual reports should be publicly available and should be readable and accessible.

The requirement to submit an annual report was now included within Cheshire East Council's Constitution and the 2011/12 report was the first annual report of the Committee.

Members agreed a couple of minor amendments with regard to the dates referred to in the report.

RESOLVED

That subject to the minor amendments agreed, the Annual Report 2011/12 be approved for submission to Council.

29 WORK PLAN 2012/13

The Committee considered an updated work plan.

A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities had been attached at Appendix A to the report.

At its June meeting, the Committee had asked that training be provided on the Member Code of Conduct for those Members who would sit on the new ad hoc bodies.

There had been no changes to the memberships of the specialist Member/Officer groups since the previous meeting.

RESOLVED

That

- (1) the Work Plan, and the changes made to it since the last meeting, be noted;
- (2) it be noted that the Work Plan will be submitted to the Committee periodically for further development and approval; and
- (3) consideration be given to the length of future agendas and whether any additional meetings of the Committee should be included in the Calendar of Meetings.

The meeting commenced at 2.00 pm and concluded at 5.48 pm

Councillor J Hammond (Chairman)

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2013
Report of:	Head of Performance, Customer Services and Capacity
Subject/Title:	Action Plan arising from Internal Audit Report into Waste Transfer Station (Lyme Green)
Portfolio Holder:	Councillors Barry Moran/Paul Findlow/Peter Raynes

1.0 Report Summary

- 1.1 The purpose of the report is to provide an update on progress in implementing the action plan approved at the last meeting of the Committee. This was put in place following the findings of the internal audit review of the project relating to a potential waste transfer station at Lyme Green. The original audit report was submitted to this Committee in June 2012 and the first progress report was discussed in September 2012.
- 1.2 The Council is committed to an open and transparent way of working and is putting significant emphasis on improving its procedures and systems as a result of this review. The action plan is comprehensive and focuses on all the issues identified, so as to properly address the findings of the internal review and ensure that learning points are fully embedded across the Council as a whole.
- 1.3 The findings have been separated into three central themes covering; the need for more robust option appraisal; the need for a comprehensive framework for programme and project management; and the need for better systems to ensure compliance. By implementing the improvements in project initiation, governance, monitoring and staff training, the sanctions which exist for any future non compliance with these enhanced arrangements can, and will, be instigated readily for any relevant instances in future.
- 1.4 A separate report is being compiled by the Interim Chief Executive summarising with the findings arising from the confidential report of the Dedicated Independent Person (DiP) on this matter which was received by the Council in December 2012. This completes the final element of the necessary corrective actions. This makes sweeping changes to management roles and responsibilities, in response to the cultural and behavioural aspects. .
- 1.5 The Summary action plan attached at Appendix A highlights that the majority of the agreed actions are fully implemented and those with timescales for delivery over the next few months are on target to be achieved. To some

extent, the types of actions identified will always be being developed further given that they are about the whole management approach to our change programmes and projects. The continuous improvement of these processes and the quality assurance mechanisms are kept under review as we react to the pace of change required, with reduced management capacity as part of our wider cost cutting measures.

2.0 Recommendation

- 2.1 That the Committee note the good progress being made on implementing the agreed action plan at Appendix A.

3.0 Reasons for Recommendations

- 3.1 To ensure that the learning points arising from the internal audit review of the failures arising from this project are being effectively implemented and monitored, so that the Council's future working practices are consistently improved and the risk of repetition of such difficulties is reduced.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications (Provided by the Director of Finance and Business Services)

- 7.1 Resources have been realigned, within the overall budget, to provide the appropriate focus on improvements required to implement the new governance arrangements and processes that have been established in response to the lessons learned.
- 7.2 The central themes of the Action Plan clearly state the areas relating to finance, that is, robust financial appraisal, monitoring and control:
- A. The need for more robust option appraisal, **financial analysis** and authorisation for project commencement.
 - B. The need for a comprehensive, corporate programme/project management framework and effective project management. (This includes **financial** and planning **implications**)

- C. The need for better systems to ensure adherence to compliance with EU rules and internal **financial and contract procedure rules**.

The associated improvements in processes are already implemented and are becoming embedded across the Council.

8.0 Legal Implications

- 8.1 Apart from the issues raised in the investigation itself which have been separately addressed, there are no further legal implications arising from this report.

9.0 Risk Assessment

- 9.1 There are a number of risks arising from the implementation of actions within the Appendix. However, the key risk is around failure of implementation which would not mitigate risks around non achievement of outcomes, financial control, reputation and public confidence.
- 9.2 There is a risk that the balance between robust and comprehensive processes on the one hand and the need for decisive action on the other could create an approach that is overly bureaucratic or leads to an overly risk averse way of working. Significant effort has been put into the design of the new processes to ensure that this balance is achieved. The gateway process, for example, is proportionate to the level of spend and impact, and the Executive Monitoring Board, will review projects on an exception basis where variances are outside of the tolerances as acceptable.

10.0 Background and Options

- 10.1 The Audit and Governance Committee on 31st January 2012 resolved that “a thorough and robust investigation of all issues surrounding the expenditure incurred on the proposed waste transfer station at Lyme Green be added to the work plan; in particular to identify any governance issues and whether all financial and contractual regulations have been complied with.”
- 10.2 At its meeting on 27th March 2012, the Committee further resolved that a special meeting be held to consider the outcome of the investigation. This special meeting was held on 14th June 2012, where it was resolved that progress reports against the identified actions in the Action Plan be submitted to the Committee on a quarterly basis. This is the second and last of these progress reports as the new arrangements will, in future, be covered by our normal performance monitoring framework.
- 10.3 A Member/Officer task and finish group was set up following the special meeting of the 14th June 2012 with membership comprising three Portfolio Holders, the Head of Performance, Customer Services and Capacity and Internal Audit representation. The interim Chief Executive has since joined the group. That group will now stand down.

- 10.4 “Issues and Actions arising from Lyme Green” is one of the significant governance issues identified in the Council’s Annual Governance Statement (AGS) for 2011/12. Progress against the actions in the AGS Action Plan are monitored throughout the year by the Corporate Governance Group and reported to this Committee.
- 10.5 At the Audit and Governance Committee meeting in September 2012, an updated action plan and progress report to improve working practices highlighted by the findings of the internal audit review was approved. This agenda item provides an update on the approved action plan.
- 10.6 A further report relating to staffing issues arising from the investigation is being prepared by the interim Chief Executive. This will provide a summary of the issues raised by the report of the DIP and sets out separate plans to respond to these issues, linked to a comprehensive review of management roles and responsibilities, reporting lines and functions. This is part of a wider review of the authority, to ensure it is fit for purpose within the context of significant fiscal pressures and a need to redefine the way local government works and engages with the public and its key partners.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

- 1.1 The report submitted to the Audit and Governance Committee on 14/6/12 fully details the Findings, Implications, Recommendations, Management Actions and Section 151 Officer/Corporate Services responses and the Action Plan (*at Appendix 2, pages 67-106 of Audit and Governance Committee Agenda Reports Pack, 14/6/12*) contained within that report is available on the Council's website here: www.cheshireeast.gov.uk.
- 1.2 For clarity and focus, the required actions have been separated into three central themes highlighted by the investigation:
 - A. **The need for more robust option appraisal, financial analysis and authorisation for project commencement.** The actions noted below will improve the initial appraisal of significant projects, give appropriate approval for project initiation and provide an escalation and governance arrangement to highlight key variances and ensure effective project monitoring.
 - B. **The need for a comprehensive, corporate programme/project management framework and effective project management. (This includes financial and planning implications)**
The actions below will ensure that there is a robust project management methodology that captures financial implications and specific planning requirements as well as all other essential aspects of good project methodology
 - C. **The need for better systems to ensure adherence to compliance with EU rules and internal Finance and Contract Procedure Rules.** The actions are designed to ensure that the series of non-compliance issues highlighted by the investigation are prevented in the future. The audit report listed non-compliance in relation to waiving EU rules to extend a contract, appointing a contractor and committing expenditure significantly over budget, the delegated decisions process, awarding works without appropriate competition, failure to use an appropriate contract, non-adherence to schemes of delegation, and appointment of consultants outside of the Finance procedure rules.
- 1.3 In combination, the group of actions within each of the three issues above provide a comprehensive framework to address the full range of requirements. This includes a governance, quality assurance and monitoring process, guidance and awareness raising and training for staff, as well as clarity of expectations and the use of sanctions for non compliance.
- 1.4 The actions, original progress at September 2012 and current progress on their implementation are shown below:


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
A	Options Appraisal/Planning Gateway (Actions 1 and 2 from Audit Report Action Plan) <i>Address 'The Business Case/Capital Planning Process' Actions – Action 1 (page 67 – 71, Audit and Governance Committee Agenda Reports Pack, 14/6/12) and Action 2 (page 72-73).</i>		
A1	<p>A new Gateway Process for project approval will be developed and implemented, and incorporated as part of the business planning process. This process will oversee the effectiveness of options appraisal, pre-project planning and will have improved project proposal forms. A new Executive Monitoring Board (EMB) chaired by the Performance portfolio holder will be formed. Membership will include the Portfolio holders for Performance and Finance; the Strategic Director (Places and Organisation Capacity); Strategic Director (Children, Families and Adults), Director of Finance and Business Services, and others as relevant. The Gateway Process will apply to capital and revenue projects which:</p> <ul style="list-style-type: none"> i. have a total value of £250k or more; and/or ii. where there is significant risk 	<p>Lead Member: Barry Moran Support Member: Peter Raynes Lead Officer(s): Director of Finance & Business Services for process oversight All Corporate Management Team (CMT) for implementation and adherence to the process across their span of responsibility Timescale (s): Start date of new gateway process: 1/9/12</p>	<p></p> <p>The process was launched at the first Executive Monitoring Board meeting on 29/8/12. New starts for capital spend are currently on hold until EMB endorsement is given. There has been clear communication to all staff and all managers.</p> <p>The process will be built upon to ensure that there is quality assurance mechanism in place and that a robust governance arrangement is in place for every project, including clear accountabilities.</p> <p>The staffing resources to co-ordinate the full extent of this action are significant and may result in a realignment of resources across the Council. This is in progress and will be in place by end November 2012.</p> <p><i>Update</i> <i>EMB now established.</i></p>

Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<i>Realignment of resources has taken place Additional external temporary Programme Management Office (PMO) Support resource now in place.</i>
A2	The Capital Asset Group will be subsumed by the Executive Monitoring Board with membership as above and will manage the Gateway Process.	Lead Member: Barry Moran Support Member: Peter Raynes Lead Officer: Director of Finance & Business Services Timescale (s): As A1 above	 As A1 above.
A3	A new group, the Technical Enabler Group (TEG) will be established and take on the responsibilities of the Capital Appraisal and Monitoring Group, which will cease to exist. This group will have a substantive role and report to the Executive Monitoring Board and be responsible for the monitoring of projects which have been approved through the Gateway, as well as monitoring the remainder of the capital programme and key revenue projects selected by the EMB.	Lead Member: Barry Moran Support Member: Peter Raynes Lead Officer: Director of Finance & Business Services Timescale (s): October 2012	 Terms of Reference for this group have been developed and will support the EMB. Date for the first meeting of the Technical Enabler Group is 4 th October 2012. This is a key part of the monitoring aspect of the process and, with the EMB, provides a framework for governance, quality assurance and monitoring. <i>Update Completed. TEG now up and running.</i>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
B	Corporate Programme/Project Management, including financial and planning implications (Actions 3,4,5,6 and 16 from Audit Report Action Plan) <i>Address 'Project Management' Actions – Action 3 (page 74-75) and Action 4 (page 76-78), 'Planning' Actions – Action 5 (page 79-80) and Action 6 (Page 81-82) and one of the 'Compliance with Finance and Contract Procedure Rules' Actions – Action 16 (page 104-106).</i>		
B1	<p>A new project management framework will be developed and implemented and appropriate training undertaken. The Gateway process referred to in actions A 1 – 3 above is the first aspect of the framework to be developed. Best use of already skilled staff will be made to ensure consistency of approach and learning across the organisation.</p> <p>Current service methodologies are to be continued until the new framework is in place. Where no current service framework exists, there is a default corporate framework available to all staff.</p>	<p>Lead Member: Barry Moran Support Member: Peter Raynes Lead Officer: Head of Performance, Customer Services & Capacity - Draft of new framework CMT for effective implementation of framework Timescale (s): New framework to be agreed by end October and with training beginning in November 2012.</p>	 <p>Development, implementation approach and timescale are in progress. A cross authority project managers' group has been set up to establish the detail within the programme and ensure all services use the corporate framework. A suggested framework exists which is being used by those services that don't have their own framework already.</p> <p>A training strategy and plan is being developed to implement the new framework. This will be in place by end of October 2012. Training has already taken place on general project management in high priority areas e.g. across the Development service within the Places Directorate. The framework is on track to be in place by the end of October target date.</p> <p>Additional resource requirements to develop and implement the new project</p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<p>management methodology and framework are being established during September 2012.</p> <p>Update <i>With the support of a cross-directorate working group, a standard, corporate approach and framework to project management has been developed; this includes a new Council project management Handbook, together with standard templates. The Handbook has been endorsed by CMT and is being launched as part of the project management training strategy and plan that has been presented to CMT.</i></p> <p><i>The PMO is finalising the corporate approach to Programme Management which is to be completed by end of January.</i></p> <p><i>Full project management training is currently being procured with an external provider [accredited through the Association of Project Management]. Delivery is expected to start in February with Senior Responsible Owners, Project Managers and other project officers targeted for formal training. The training modules are to be designed around the new project management handbook and the 'Gateway process'.</i></p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<p><i>In the meantime, briefings are also in progress, through the PMO, to all DMTs, SMTs, Project Managers and other officers to explain the new project management arrangements.</i></p> <p><i>Project management briefing sessions for all Cabinet and CMT Members are to be completed by the end of February. During February, briefing sessions for other appropriate Members [e.g. Scrutiny and Policy Development Group Chairs and Vice-Chairs] will also be scheduled.</i></p>
B2	<p>All relevant aspects of good programme and project management will be incorporated in to the new framework including escalating of key risks, financial variances and reputational issues. An awareness raising exercise led by CMT to highlight the new process will be instigated. CMT to personally commit to implementation and assisting staff to implement the new requirements. All budget holders to have a scheme to capture committed spend and escalate any potential overspends as part of the process.</p>	<p>Lead Member: Barry Moran Support Member: Peter Raynes Lead Officer: CMT – for effective implementation of framework and recognising training needs Timescale (s): As B1 above</p>	<p></p> <p>The new framework is being developed as above. The interim Chief Executive is personally overseeing CMT's input to the staff communication and behavioural changes necessary to ensure implementation of the new arrangements. A staff communication plan for the EMB is in place.</p> <p>Update All aspects of good programme and project management have been incorporated into the new framework. (E.g. Corporate Risk log) CMT has endorsed the new Handbook and</p>



Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<p>supporting standard templates. Briefings are taking place to raise awareness (as per B1).</p> <p><i>Financial reporting on the Capital Programme has been improved. For example, a new process within the Places Directorate with detailed monthly monitoring arrangements in place. A standard, corporate project reporting and monitoring system [progress against plan, budget, quality and risk etc] for Cabinet, CMT and EMB, together with inclusion in the Council's monthly and quarterly performance reporting, is currently being developed by the PMO, with the support of a cross-authority group; it is intended to launch the new system in February 2013. A corporate register has also been developed by the PMO to ensure increased visibility of all projects and programmes in the form of a single repository; this is available on the Council's Sharepoint site.</i></p>
B3	Aspects of programme and project management relating to the need for planning permission will be integral to the programme and project management framework and checklists. Pre-application advice will become part of the criteria for projects to progress through the Project Gateway, as managed through the new Executive	<p>Lead Member: Barry Moran</p> <p>Support Members: Rachel Bailey, Peter Raynes</p> <p>Lead Officer(s): Head of Performance, Customer Services & Capacity, Director</p>	 <p>The detailed methodologies are being developed and the first aspect is the launch of the project Gateway process which began in August 2012.</p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
	Monitoring Board.	of Finance & Business Services. Timescale (s): Framework to be determined by end October, detailed aspects to be incorporated by end December 2012	<p>The key aspects around planning will be integral to the detail behind the framework. A staff communication plan around EMB and TEG is in place. Achievement against the October and December 2012 target dates is on track.</p> <p>Pre- application advice is part of the criteria for projects to progress through the Project Gateway and is specifically included in the remit of the TEG.</p> <p>Update <i>Completed. A new, high level Business Case form has been developed and is now in use for all the major change projects. The form incorporates a checklist of all the key project enablers and processes including Planning/Procurement/Legal etc. A new detailed business case form has also been developed.</i></p>
B4	Each Director to review skills and capacity to deliver capital projects across the Directorate, and to provide training and support where necessary.	<p>Lead Member: Barry Moran</p> <p>Support Members: Peter Raynes</p> <p>Lead Officer: Interim Strategic Director, Places & Organisational Capacity/Strategic Director of</p>	<p></p> <p>This is on track for the review to be completed by the end of October target date.</p> <p>Update</p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
		Children, Families & Adults/Director of Finance & Business Services Timescale (s): End of October 2012 for skills analysis End of March 2013 for all relevant staff to be trained	Completed in Places & Organisational Directorate and in progress in other Directorates. The need to focus on key inspections, determine major change projects and budget savings has required these aspects to take precedent in some areas. It would have been redundant work to have completed a skills and capacity review whilst planning for major change. This is now in progress.
B5	Project management training to take place for all project and programme managers across the authority in all relevant services to ensure understanding of roles and responsibilities.	Lead Member: Barry Moran Support Members: Peter Raynes, Paul Findlow Lead Officer: CMT Timescale (s) Training to begin in November 2012 with full schedule of requirements in place by December 2012 and completed by end March 2013.	 This is being reviewed by CMT and priority areas have already been identified. The full training schedule will be put in place once resource requirements are agreed and implemented and the framework is in place. This will be completed by the target date of end October 2012. Update <i>Briefings are in progress. Training on track to be delivered to all Project Managers.</i>
B6	Internal Audit to review new capital project and programme management arrangements in Places and Organisational Capacity during 2012/13 and across the	Lead Member: Peter Raynes Support Members: Barry Moran, Paul Findlow	


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
	Authority.	Lead Officer: Director of Finance & Business Services Timescale: Audit scheduled in audit plan by September 2012. Audit to take place in 4th quarter 2012/13	<p>The audit forms part of the revised audit plan for 2012/13. An audit also commenced, at the request of the Head of Development, in August 2012 of the project management arrangements within Assets, with the findings to be reported back to management in September/October 2012.</p> <p><i>Update</i></p> <p>Internal Audit completed a desk top review within Assets in December 2012. The scoping of the more detailed review is in progress with the completion of the review scheduled by the end of March 2013. This will complete Internal Audit's assigned work.</p>
B7	<p>A task and finish group on Planning Enforcement will be set up:</p> <ul style="list-style-type: none"> i. To review the current scope of services delivered through the Planning Enforcement function ii. To review performance against current service standards iii. To review resources aligned to Planning Enforcement and recommend changes in service standards/scope of services of working practices to improve overall performance. 	Lead Member: Rachel Bailey Support Members: Barry Moran, Peter Raynes Lead Officer: Interim Strategic Director, Places & Organisational Capacity Timescale: End of October 2012	 <p>Environment and Prosperity Scrutiny Committee has agreed Terms of Reference for the task and finish group and the group has started to meet with a report to be provided by end of October 2012.</p> <p>The Council's approach to enforcement is a high priority in the overall Council Plan which will be included in a report to Cabinet on 15th October 2012.</p>



Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
	iv. To review the relationships between Planning Enforcement and other Planning Functions to ensure structures do not compromise conflicting demands.		<p>Update</p> <p><i>The review continues to make progress, with a number of options being highlighted and considered. These include the development of a new service strategy, including a robust performance framework which should highlight the complexity of cases received, ways to improve working practices across teams and improvements to ICT systems. Considerations are also being made to the relationship arrangements and communications between services to improve the decision making process.</i></p>
C	<p>Compliance with European Directives and Finance and Contract Procedure Rules (Actions 7,8,9,10,11,12,13,14 and 15 from Audit Report Action Plan)</p> <p><i>Address 'Compliance with European Directives' Action – Action 7 (page 83-87) and 'Compliance with Finance and Contract Procedure Rules' Actions – Action 8 (page 88-90), Action 9 (page 91-93), Action 10 (page 94-95), Action 11 (page 96), Action 12 (page 97-98), Action 13 (page 99), Action 14 (page 100-101) and Action 15 (page 102-103).</i></p>		
C1	A comprehensive training and awareness raising programme covering financial, contract and procedural rules is required. This will assist all staff in complying and properly explain the reasons for rules in these areas so that non-compliance is restricted to human error with a clear consequence for non-compliance.	<p>Lead Member: Paul Findlow</p> <p>Support Members: Barry Moran, Peter Raynes</p> <p>Lead Officer: Interim Borough Solicitor/Director of Finance & Business Services</p> <p>Timescale(s): Training plan in place by end October 2012 and rolled out to all relevant</p>	<p></p> <p>Training has taken place across the organisation since the Lyme Green investigation through individual line managers and in key services. Staff have had clear messages from the interim Chief Executive about the need for compliance and the importance of accountability for all decisions. This</p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
		staff by March 2013	<p>is a key component of the action plan. Following the implementation of the governance and monitoring framework and the guidance/training for staff - clear sanctions will be instigated for non compliance. These form part of the existing staff performance system and HR procedures and will be exercised where there is non-compliance.</p> <p>Update <i>The procurement team has provided targeted advice across the organisation through regular monthly Procurement Bulletins to Managers. A comprehensive training tool will be developed by end of February 2013 to tie in with the recently approved constitutional changes.</i></p>
C2	A task and finish group to be established by the Constitution Committee which will undertake a fundamental review of the application of Delegated Decisions. These relate to contract procedure rules as they lay down the levels of authority for members and individual officers.	<p>Lead Member: Paul Findlow Support Members: Barry Moran, Peter Raynes Lead Officer: Interim Borough Solicitor/Director of Finance & Business Services Timescale: Group to be set up by end August and report by end December 2012</p>	<p></p> <p>The task and finish group has been set up and will present a final report and recommendations to the Constitution Committee. The group met in August to discuss Contract Procedure Rules and the Delegated Decisions process was included in this discussion. This is on track to report by end of December 2012.</p> <p>Update</p>



Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<i>Changes to the Contract Procedure Rules have been made and are now approved by Council.</i>
C3	CMT will establish interim arrangements to consider all delegated decisions at CMT meetings with relevant legal, finance and procurement advisors present. This will be an interim process subject to the outcome of the task and finish group described in C2.	Lead Member: Les Gilbert Support Members: Barry Moran, Peter Raynes Lead Officer: CMT/ Director of Finance & Business Services Timescale: New process to be established by 1/7/12	 <p>New process for CMT to consider all Delegated Decisions has been in place since July 2012 and is fully operational.</p> <p>Update <i>Progress under the new arrangements was reported to the Audit and Governance Committee in September 2012 and is part of the process for regular review. All delegated decisions continue to be monitored by CMT.</i></p>
C4	Internal Audit will work with the Procurement team to identify specific areas where non-compliance occurs in order that appropriate training can be carried out.	Lead Member: Peter Raynes Support Members: Paul Findlow, Barry Moran Lead Officer: Director of Finance & Business Services Timescale: Specific areas of non-compliance to be reviewed by end September 2012	 <p>Review is in progress and will be linked to wider training programme.</p> <p>The Procurement team has established a variety of training programmes for officers, commencing in October 2012 and covering “How to procure” and bespoke training.</p> <p>Update</p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<i>Procurement training courses on 'How to Procure up to £75,000' and 'Using the CHEST' are both now operational and included within the Corporate Training Programme. Attendance on the courses for relevant officers has been mandated by CMT. In addition, online procurement induction training has also been introduced.</i>
C5	<p>The monitoring processes of the Technical Enabler Group referred to in Section A will include checks on project cost estimates, including safeguards against project proceeding where costs may escalate beyond approved budgets.</p> <p>Clear communication of the need to spend within budget and the escalation process where there are financial pressures will be put in place.</p>	<p>Lead Member: Peter Raynes Support Members: Paul Findlow, Barry Moran Lead Officer: All CMT Timescale: Communication by end Aug 2012. Detailed process as part of overall framework by end December 2012</p>	<p></p> <p>Communication to all staff from Leader and interim Chief Executive during August 2012.</p> <p>Further detailed guidance on monitoring project costs, for use by Technical Enabler Group, to be in place within the project methodology by end December 2012 with detailed work in progress on this action.</p> <p>Update <i>The TEG and EMB are in place, the Gateway process includes a review of the key aspects of projects including cost estimates and cost escalation. This will help to ensure budget approval for necessary changes. As the new three</i></p>


Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<i>year Council plan for 2013/14 is developed, all major projects have been captured and the TEG/EMB process is aligned to budget setting.</i>
C6	The monitoring processes of the Technical Enabler Group, reporting to the Executive Monitoring Board, referred to in Section A will provide a robust process which will identify variations in project costs and delivery, and ensure Finance and Contract Procedure Rules are complied with.	Lead Member: Peter Raynes Support Members: Paul Findlow, Barry Moran Lead Officer: Director of Finance & Business Services Timescale: As C5 above	 <p>Staff have been made aware of the immediate issue of budget overspend expectations and the consequences of non-compliance. The detailed processes to achieve effective project management across the whole organisation are covered in actions B 1 - 7.</p> <p>Update <i>The TEG and EMB are operational. The gateway process includes monitoring and reviews of the key aspects and variances; as the Gateway process is in its early stages, the process continues to be embedded, with a clear requirement that variances are reported and explained.</i></p>
C7	The Corporate Governance Group will complete a review of internal procedures and compliance policy, its communication across the Council and the associated compliance framework. This group reports to the Audit & Governance Committee, and will make recommendations to this Committee at the end of the review.	Lead Member: Peter Raynes Support Members: Paul Findlow, Barry Moran Lead Officer: Director of Finance & Business Services Timescale: Review	 <p>The Corporate Governance Group meets regularly. The review is underway and an update on the Governance framework is being presented</p>

Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
		completed by end Dec 2012	<p>to the Audit and Governance Committee in September. The review is on track to be completed by end December 2012.</p> <p>Update <i>An update was presented to the Audit & Governance Committee in September 2012. Since then further work has been carried out by the Corporate Governance Group. A systematic review will now be carried out to check all policy/procedure identified is clear, accessible and monitored effectively.</i></p>
C8	Corporate Management Team will ensure all Schemes of Delegation are reviewed, updated and published on the Council's intranet.	<p>Lead Member: Peter Raynes Support Members: Paul Findlow, Barry Moran Lead Officer: All CMT Timescale: End July 2012</p>	<p></p> <p>All updated Schemes of Delegation were in place and published by 31st July 2012.</p> <p>Corporate Governance Group report to CMT in September will follow up and remind managers of their responsibility to comply.</p> <p>Update <i>Schemes continue to be described on the Centranet and are updated, as necessary</i></p>

Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
C9	Changes will be made to the Oracle system to ensure that it reflects Schemes of Delegation, thereby reducing the opportunity for non-compliance.	Lead Member: Peter Raynes Support Members: Paul Findlow, Barry Moran Lead Officer: Director of Finance & Business Services Timescale: End September 2012	 <p>Significant progress has been made on updating service Schemes of Financial Delegation. This includes a review of approval limits (General Ledger and Procurement) held within the Oracle system to ensure consistency and appropriateness. There are a small number of remaining anomalies which require updating. These will be completed by end of October 2012.</p> <p>Update <i>Schemes of Financial Delegation have been reviewed in all service areas, and a review of approval limits held in Oracle has also been undertaken as part of this exercise. A further review of the schemes is now underway to ensure that they accurately reflect the Council's current organisational structure, in some areas this includes reformatting to be based on Service level rather than Directorate level. This will allow them to be reviewed more effectively at regular intervals to ensure that they accurately reflect any changes in structure and/or staffing. This review ties in with the work on the Constitution and</i></p>

Action Plan Arising from the Internal Audit Report into Waste Transfer Station (Lyme Green) Update (January 2013)

Ref	Action	Responsibility	Implementation Progress at 18/1/13
			<p><i>Schemes of Delegation.</i></p> <p><i>A process will be introduced by end of March 2013, through the Annual Governance Statement work, to prompt Managers to regularly review and update their Schemes of Delegation.</i></p>
C10	The final account for the Lyme Green project will be agreed to ensure that it is accurately reflected in the authority's financial accounting system and the published accounts.	<p>Lead Member: Peter Raynes</p> <p>Support Members: Paul Findlow, Barry Moran</p> <p>Lead Officer: Director of Finance & Business Services</p> <p>Timescale: End September 2012</p>	<p></p> <p>Appropriate entries/disclosures have been made in the Statement of Accounts for the expenditure incurred at Lyme Green in 2011/12 by June 2012. For more detail, see the notes to the accounts.</p> <p>Update</p> <p><i>This action was completed as part of the final accounts for 2011/12 and is, therefore, closed.</i></p>

Key



Implemented or on target for implementation by original deadline.



In progress and on target for implementation by revised deadline.

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2013
Report of:	Chief Executive/Director of Finance & Business Services
Subject/Title:	Annual Governance Report Action Plan - Progress Report and Annual Audit Letter 2011/12
Portfolio Holders:	Councillor Peter Raynes (Finance) and Councillor Barry Moran (Performance)

1.0 Report Summary

- 1.1 The Annual Governance Report was presented by the Audit Commission to the Audit & Governance Committee on 27th September 2012. The Council was issued with a partially qualified opinion on its provision of value for money. The Auditors concluded that "the Council has adequate arrangements for securing economy efficiency and effectiveness except for: weaknesses in its arrangements to develop business proposals and manage significant projects." The Annual Governance Report (AGR) included four recommendations intended to improve the Council's arrangements to secure value for money.
- 1.2 In response to the recommendations a detailed action plan was approved by Cabinet on 10th December 2012.
- 1.3 The AGR Action plan (Appendix 1) together with the Audit Commission Annual Audit Letter (AAL) was reported to Council on 13th December 2012. The AAL provided recognition of the progress already made by the Council in securing value for money this financial year and the strategic and ambitious direction of travel for the future, through a new vision for Cheshire East.
- 1.4 An update on progress against the AGR Action Plan is included at Appendix 3.

2.0 Recommendations

- 2.1 That the Committee note the AGR Action Plan and the positive endorsement on its progress acknowledged in the Annual Audit Letter (Appendix 2).
- 2.2 That the Committee note and comment on the further improvements put in place to date against the AGR Action Plan. (Appendix 3).

3.0 Reasons for Recommendations

- 3.1 Cabinet recommended that this Committee should receive a progress report on the Action Plan at its meeting on 31st January 2012 and recognised its role in gaining assurance from the improvements to governance arrangements, processes and internal controls.

4

wards Affected

W

- 4.1 All

5.0 Local Ward Members

- 5.1 All

6.0 Policy Implications

- 6.1 There are no direct policy implications associated with this decision.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The Audit Commission is required under Section 5 of the Audit Commission Act 1998 to satisfy itself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires it to report to the Council its conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

9.0 Risk Management

- 9.1 By identifying an Action Plan in response to the Audit Commission recommendations for improvement, and demonstrating the achievement against the Action Plan, the Council is mitigating the risk of an adverse Value for Money conclusion for 2012/13.
- 9.2 By making the approval of the Council's response a Cabinet decision, the Leader recognised the importance of the response and its relevance to the Council's plans for improvement.

10.0 Background and Options

- 10.1 The Annual Governance Report was presented by the Audit Commission to the Audit & Governance Committee on 27th September 2012. The Annual

Governance Report (AGR) includes four recommendations intended to improve the Council's arrangements to secure value for money.

- 10.2 The District Auditor drew attention to the four high level recommendations, which she suggested required a whole Council response.
- 10.3 Following the meeting the decision making route was agreed by the Leader and the Chief Executive, for the Council's response to the AGR recommendations to be reported to Cabinet in December for approval and for the approved response and the Audit Commission's AAL to be received by Council in December.
- 10.4 The Director of Finance and Business Services met with the Chairman and Vice-Chairman of the Audit & Governance Committee in order for them to put suggestions forward for changes to the draft Annual Governance Report response. The changes agreed by the Leader of the Council were then made to the Cabinet report
- 10.5 It was agreed that this Committee would receive a report on progress against the AGR Action Plan together with the AAL for noting at the January meeting.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

Name: Chris Mann
Designation: Finance Manager
Tel No: 01270 686229
Email: christine.mann@cheshireeast.gov.uk

Appendices

Appendix 1 – AGR Action Plan
Appendix 2 – Annual Audit Letter 2011/12
Appendix 3 – Progress against Action Plan

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Audit Commission Recommendations

Audit Commission - Recommendation 1

Members need to provide clearer strategic direction and political leadership when agreeing priorities, taking difficult decisions and supporting officers to deliver agreed plans.

Cheshire East Responsibility: Leader of the Council (the Leader)

Cheshire East Comments:

The need to provide clearer strategic direction and political leadership was recognised by the new Leader in early summer as he took on his new role. The Leader also recognised that the previous three years were about forming Cheshire East and that these were difficult and challenging times, in the midst of economic uncertainty and significant reductions in funding. It is felt that not enough recognition was given in the Audit Commission's report to the specific historic and continuing underfunding issues faced by Cheshire East. This underfunding relates to a lack of recognition of the aging population in the area, above national trend, the pockets of deprivation in the main towns and also the rural nature of the Borough. The uncertain times are here to stay in the medium to long term but the new Cabinet have been building a strong platform during the summer and into the autumn upon which the vision for Cheshire East can be set for the next three years and beyond. This vision in the form a 3 Year Plan was reported to Cabinet on 15th October and is a new dawn of openness, transparency and inclusiveness. The Leader has also taken strong action with regard to the Council's Project Management arrangements, as detailed in the responses to Recommendations 2 and 4 below. The message is 'we are on with it', utilising the ideas, skills and expertise of Cheshire East Members and officers.

The key initiatives that have been undertaken in the first half of the financial year are:

- The development of a vision for Cheshire East that will define the core purpose of the Council, the outcomes that we are striving to achieve for local people and our priorities for action over the next three years.
- The development of a governance framework to support the implementation of Policy Development Groups and a redefinition of the Scrutiny arrangements.
- The implementation of a more significant role for Portfolio Holders in decision making.
- The Capital Visioning exercise, including a fundamental review of the existing Capital Programme and a focus on the priorities for future investment over the next five years.
- The development and implementation of the new Project Gateway model, including the new Executive Monitoring Board and the Technical Enabler Group.

Further Action:

- The development of policies, based on the vision for Cheshire East, which will drive the achievement of the Council's 3 Year Plan for 2013/16.
- In developing the Council's policies, recognising the need to make tough decisions on the future delivery of Services and being prepared to see them through.
- The setting of a robust 3 Year Budget for 2013/16 that is affordable, deliverable and sustainable.
- The development of a strategic 3 Year Capital Programme for 2013/16 with an emphasis on investment in external and internal infrastructure, development of new Service delivery models and invest-to-save opportunities.
- The development of a major 3 year programme of transformational change in service delivery by March 2013, out of which we can identify a major savings plan.
- The aim is that for 12/13 and beyond this will lead to strong delivery and therefore a clear demonstration that Cheshire East provides value for money in the delivery of needed and targeted

services.

Audit Commission - Recommendation 2

The Council needs to implement planned improvements in business planning and programme/project management processes providing a clear link to agreed priorities – including robust option appraisal and financial analysis before projects begin. This should also include relevant aspects of recognised effective programme/project management arrangements for all projects.

Cheshire East Responsibility: Cabinet and CMT

Cheshire East Comments:

Cabinet and Corporate Management Team have provided a clear steer on how the Council's 3 Year Plan is to be developed and where the Budget setting process needs to improve to ensure that there is a clear link to the agreed priorities. Again, this was set out in the report to Cabinet on the 3 Year Council Plan on 15th October. There is a strong commitment to work much more closely with all Members through the emerging Policy Development Groups. An all Member briefing took place on 3rd October 2012.

The new Project Gateway model has been developed over the summer and autumn periods and is now being implemented and embedded. The new model is bringing about a more robust discipline to the management of major Projects and Programmes across the Council but will also ensure that the process is simple and agile. A key aspect of effectively operating the Project Gateway is the formation of a high level, Member-led Governance Group called the Executive Monitoring Board (EMB). The EMB has taken on the challenge role as part of the development of the Council's Budget setting proposals and the monitoring of their delivery. One of the key aims of the EMB will be to provide consistent and robust direction for all major Projects and Programmes in Cheshire East through the Project Gateway model. The EMB met on a monthly basis since its first meeting on 29th August 2012. It is supported by a Technical Enabler Group (TEG) comprising of key corporate enablers supporting major Projects and Programmes and a Programme Office (PMO). The TEG supports the EMB by assessing the technical feasibility and options of proposals from the perspective of all relevant professional disciplines.

The EMB is comprised of the following members:

Portfolio Holder for Performance (Chair)
Portfolio Holder for Finance (Vice-Chair)
Strategic Director for Places and Organisational Capacity
Strategic Director for Children, Families and Adults
Director of Finance and Business Services

In attendance to support the Board:

Organisational Change Manager (PMO Lead)
Corporate Finance Officer
Heads of Service as appropriate

The EMB will essentially perform two streams of work:

Stream 1 – Review and Challenge of proposals as part of the Council's 3 Year Planning process
Stream 2 – Quality assurance and monitoring of progress

Underpinning the above governance has been the development of the Council's Project Management

Framework through the Council wide Project Management Group. Good progress has been made with regard to the implementation of the framework and the delivery of the associated guidance and training. There has also been significant action taken to date in each Directorate to introduce a more disciplined approach to Project and Programme management. This is now linking in well with the introduction of the Project Gateway model and the improvements in financial forecasting.

Further Action:

- The further development of the Technical Enabler Group (TEG) to support the EMB, the first meeting of TEG took place on 4th October 2012.
- The full implementation of the corporate Project Management Framework by March 2013, including effective communication of the new model, for all projects not just major projects, and a strong training programme underpinned by user friendly guidance.
- The completion of detailed business cases for proposals coming from the 3 Year planning process for 2013/16, based on strong options appraisal, robust financial analysis and capacity to deliver, through TEG and EMB.
- The identification of existing major Projects and Programmes for review and monitoring by EMB.
- Introduction of robust 3 year business plans for individual services across the Council, building on previous approaches to service planning. These will clearly identify, amongst other things, key projects and programmes and will ensure that Services have the capacity and capability to deliver these projects and programmes.

Audit Commission - Recommendation 3

The Council needs to develop longer term financial plans clearly aligned to business priorities and supported by deliverable savings plans. These plans should also ensure that reserves are used appropriately and are maintained in line with the Council's own assessment of the financial risks it needs to manage. The quality of financial forecasting in some areas also needs to improve.

Cheshire East Responsibility: Portfolio Holder for Finance and CMT

Cheshire East Comments:

The Portfolio Holder for Finance, as part of the vision for Cheshire East, has already determined that a longer term approach to financial planning is required to ensure that the Council continues to demonstrate and achieve financial resilience. The 2013/16 Budget will be policy led, based on the priorities set out in the 3 Year Council Plan and will incorporate a change delivery plan based on robust business cases made through the Executive Monitoring Board. The Budget will be balanced over the three-year period, backed up by a strong assessment of risk and opportunity and a clear demonstration that the organisation has the capacity to deliver its plans.

The current Reserves Strategy is risk assessed and recognises the uncertainty in the economic environment, the volatility of central government funding and the national and local pressures faced by the Council. It has been necessarily cautious with regard to the planned application of reserves, with some strategic use to enable savings and key projects, but mainly planned growth to safeguard the future difficulty in balancing within the current Comprehensive Spending Review cycle and beyond. The Reserves Strategy for 2013/16 will still be based on uncertainty but with a stronger and more deliverable transformational change programme and savings plan there will be a greater opportunity to use reserves strategically to address both short term and long term challenges.

The current year budget pressures were identified very early in the financial year, therefore affording as much time as possible to tackle the underlying pressures and strengthen savings delivery plans. Monthly Performance reports were in place from April, produced through the Council's corporate performance system CorVu. The monthly reports include key local performance indicators, a forecast of the year-end

financial position and a risk assessment of the delivery of savings plans for each Directorate. The 1st Quarter Performance report to Cabinet clearly set out the financial challenge for the Council for 2012/13.

There is also a significant amount of work being undertaken by each Directorate to understand the base budget and Service activity. The main focus has been to identify the key cost drivers in each Service area in order to identify where cost can be removed and where Services can be developed and improved. This work is also addressing the need to provide more accurate and meaningful financial forecasts based on strong Service based commitment information. In addition a number of corporate and Service specific initiatives have been undertaken to examine new services delivery models.

The partnership between the Finance Team and Directorate Management Teams has been strengthened throughout the current financial year through the implementation of the Finance Reporting Centre (FRC). In excess of 40 pilot Budget managers have been working with the Finance Team to test the first wave of dedicated reports based on the key reports used by managers. The FRC is now being rolled out across the organisation and is also being further developed to incorporate additional reporting requirements such as payroll forecasting and capital analysis.

Further Action:

- The agreement of a 3 Year Council Plan for 2013/16 to enable a longer term financial plan, including a strategic approach to investment.
- The setting of a balanced 3 Year Budget for 2013/16 and a resilient and risk assessed Reserves Strategy.
- The review of the approach to monthly and quarterly integrated performance reporting by March 2013 to ensure that key local indicators are determined by the priorities set out in the 3 Year Council Plan and that financial forecasts are based on consistent and robust financial forecasting.
- The Directorate reviews of key Services and delivery models as part of the development of the 2013/16 transformational change programme.
- The rollout of the Finance Reporting Centre during 2012/13 along with the further improvement and development of the reporting package.

Audit Commission - Recommendation 4

The Council needs to improve performance monitoring and reporting. This should include agreeing a set of relevant local performance indicators that reflect its priorities. Those indicators should then be reported alongside the national indicators and integrated with robust financial information to support member and officer decision making.

Cheshire East Responsibility: Portfolio Holder for Performance and CMT

Cheshire East Comments:

The Portfolio Holder for Performance, as part of the vision for Cheshire East, has already determined that the Council's Performance Management Framework requires strengthening and re-focusing based on the Council's priorities and identified outcomes for the public, communities and businesses in Cheshire East to be set out in the 3 Year Council Plan. The Council's Performance Management framework will address the need to demonstrate to the public and key stakeholders that the Council is achieving what it set out to do and is delivering value for money in the Services that it provides. The framework will also address the need to demonstrate that the organisation is performing from a business perspective and that Services should be continually striving for improvement and greater efficiencies. Local indicators will be developed, which will be set of outcome measures. This will be driven by the 3 Year Council Plan and based on the six identified key outcomes.

Early on in the year, a review of the Performance Management Framework commenced and is progressing

under the management of a cross service steering group. The review is addressing:

- The existing Performance Management Framework.
- The suite of indicators in use, both those required nationally and those developed locally.
- The systems for performance measurement and monitoring.

The actions and work undertaken as described under Recommendations 2 and 3 above are also relevant to this recommendation and are therefore repeated below.

The new Project Gateway model has been developed over summer and autumn periods and is now being implemented and embedded. The new model will bring about a more robust discipline to the management of major Projects and Programmes across the Council. A key aspect of effectively operating the Project Gateway is the formation of a high level, Member-led Governance Group called the Executive Monitoring Board (EMB). The EMB has taken on the challenge role as part of the development of the Council's Budget setting proposals and the monitoring of their delivery. One of the key aims of the EMB will be to provide consistent and robust direction for all major Projects and Programmes in Cheshire East through the Project Gateway model. The EMB has been meeting on a monthly basis since its first meeting on 29th August 2012. It is supported by a Technical Enabler Group (TEG) comprising of key corporate enablers supporting major Projects and Programmes and a Programme Office (PMO).

The current year budget pressures were identified very early in the financial year, therefore affording as much time as possible to tackle the underlying pressures and strengthen savings delivery plans. Monthly Performance reports were in place from April, produced through the Council's corporate performance system CorVu. The monthly reports include key local performance indicators, a forecast of the year-end financial position and a risk assessment of the delivery of savings plans for each Directorate. The Mid-Year Performance report to Cabinet clearly set out the financial challenge for the Council for 2012/13.

There is also a significant amount of work being undertaken by each Directorate to understand the base budget and Service activity. The main focus has been to identify the key cost drivers in each Service area in order to identify where cost can be removed and where Services can be developed and improved. This work is also addressing the need to provide more accurate and meaningful financial forecasts based on strong Service based commitment information. In addition a number of corporate and Service specific initiatives have been undertaken to examine new services delivery models.

The partnership between the Finance Team and Directorate Management Teams has been strengthened throughout the current financial year through the implementation of the Finance Reporting Centre (FRC). In excess of 40 pilot Budget managers have been working with the Finance Team to test the first wave of dedicated reports based on the key reports used by managers. The FRC is now being rolled out across the organisation and is also being further developed to incorporate additional reporting requirements such as payroll forecasting and capital analysis.

Further Action:

- The completion of the review of Performance Management and the implementation of its recommendations by the end of March 2013.
 - The completion of the development of a new set of outward facing and outcome based local indicators to be reported on a quarterly basis from 2013/14.
 - The completion of the development of a new set of internal business performance indicators to be reported on a monthly basis from 2013/14.
 - Introduction of robust three-year business plans for individual services for 2013/16 across the Council, building on previous approaches to service planning.
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- The further development of the Technical Enabler Group (TEG) to support the EMB, the first meeting of TEG took place on 4th October 2012.
 - The identification of existing major Projects and Programmes for review and monitoring by EMB.
 - The review of the approach to monthly and quarterly integrated performance reporting by March 2013 to ensure that key local indicators are determined by the priorities set out in the 3 Year Council Plan and that financial forecasts are based on consistent and robust financial forecasting.
 - The Directorate reviews of key Services and delivery models as part of the development of the 2013/16 transformational change programme.
 - The rollout of the Finance Reporting Centre during 2012/13 along with the further improvement and development of the reporting package.
-

30 October 2012

The Members
Cheshire East Borough Council
Westfields
Middlewich Road
Sandbach
Cheshire

Dear Member

Cheshire East Borough Council - Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Cheshire East Borough Council.

Financial statements

On 27 September I presented my Annual Governance Report (my report) to the Audit & Governance Committee outlining the findings of my audit of the Council's 2011/12 financial statements.

The Council significantly improved its closure of accounts process this year. The accounts presented for audit contained no material errors and far fewer other errors than in previous years. Supporting audit trails and working papers were also much better. The finance team have now implemented the recommendations from the last two audits including important improvements to their quality assurance arrangements. This has all helped to reduce the number of errors identified during the audit and improve the overall quality of the accounts.

Following the Audit Committee on 28 September I issued an unqualified opinion on the Council's 2011/12 financial statements included in the Council's Statement of Accounts.

Value for money

I am also required to assess your arrangements for securing value for money, (vfm), in your use of resources. As highlighted in my report, I have some concerns about the Council's arrangements to secure vfm in its use of resources.

I concluded that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. But its processes to develop business proposals and manage significant projects needed to be improved. I issued a qualified vfm conclusion on 28 September.

During the audit of your accounts, I received questions from a number of local electors. I agreed to hold the audit open until 12 October 2012 to allow two of them time to exercise their statutory rights. I have not received any objection notices to the accounts. The 2011/12 audit is now complete and I have issued my certificate closing the audit.

Key Messages

While I will not replicate the findings set out in my Annual Governance Report in any detail I set out the key messages from my value for money work below.

The Council continues to face financial pressures and has accepted, more recently, the need to review and improve its own arrangements for securing financial resilience. Since its inception in April 2009 the Council has had to manage unplanned budget pressures each year. This has involved restructuring departments and a repeated focus on reducing costs. In 2010/11 the Council also had to react to the emergency budget set by the new Government. This pattern is continuing in 2012/13 – in its first quarter report the Council identified pressures of £22m.

Despite this very challenging context, over the last three years, the Council can also point to a number of successes. For example, it has:

- Approved a new Customer Services strategy putting customers at the heart of everything it does. It achieved the highest 4 star rating in a national annual survey for customer experience on its website - one of only 23 councils to do so.
- Harmonised terms and conditions for all staff into one single set for Cheshire East - without threats of industrial action. In May 2011 the Council attained liP recognition and later that year, a North West Skills Award – in recognition of its whole organisation approach to workforce development.
- Continued to improve safe guarding services for children following its positive OFSTED inspection in 2011. In addition, educational results at all levels are being maintained above the national average.
- Run a successful fostering campaign which received national recognition, to reduce the number of young people going into care, and has achieved better outcomes for those children in care.
- Procured new arrangements to provide better value-for-money in several important service areas, including highways maintenance, HR, Finance and ICT.

Since 2010 the Council has also sought to improve its business planning and budget setting process. But in 2011/12 there were weaknesses in the Council's processes for translating budget proposals into deliverable plans. Since April 2012, the Council has put in place new arrangements designed to help ensure that planned savings are delivered.

So far, the Council has used its reserves to help manage its overall financial position. It has recognised that its General fund reserves are no longer adequate to support in year pressures and are now below the Council's own assessment of the financial risks it faces. The Council is developing a new Medium Term Financial Strategy which will include proposals to increase reserves to an acceptable level. The Council intends that strategy to also:

- make it clear that realistic savings targets need to be set for each of the next three years; and
- recognise that, while the use of reserves to date has been planned, their continued use to support budget pressures is not sustainable.

I have reviewed the actions taken by the Council relating to its decision to build a waste transfer station at Lyme Green, Macclesfield. The transfer station was part of the Council's plans for an improved waste and recycling collection service. In January 2012 the Audit & Governance Committee commissioned internal audit to review what happened at Lyme Green. That review identified a number of important governance and internal control issues. The Council accepted all of the recommendations for improvement set out in the internal audit report. It is clear that the Council has already begun a series of key actions and changes to address the issues highlighted by Internal Audit. These actions should also help the Council satisfy itself that the issues raised by Lyme Green are not repeated.

The Audit & Governance Committee will continue to monitor the delivery of the agreed action plan. In June 2012 the Council's staffing committee also approved the appointment of an independent investigator to consider the actions of the officers involved. That investigation is underway and should be concluded later this year.

During my audit I received letters, emails and telephone calls from members of the public concerned about what happened at Lyme Green. While I was not involved in the detail of the internal audit investigation the Council kept me fully informed of emerging issues together with its response to those issues. The Council acted quickly to strengthen its governance and internal control processes and is continuing to implement internal audit's recommendations. I have considered carefully whether I should take any further audit action in response to the issues raised by Lyme Green. I have concluded that I do not.

The full text of my annual governance report is available on the Council's website via the link below – at agenda item 7:

<http://moderngov.cheshireeast.gov.uk/ecminutes/ieListDocuments.aspx?CId=486&MId=4295&Ver=4>

Looking forward

My report included a small number of high level recommendations to improve the Council's arrangements to secure value for money. The most significant was the need for clearer strategic direction and political leadership when agreeing priorities, taking difficult decisions and supporting officers to deliver agreed plans.

The Council appointed a new Leader in May 2012 and an interim Chief Executive joined in August 2012. The new Leader quickly recognised the need to provide clearer strategic direction and leadership and to build on the positive aspects of the legacy of the Council's first three years. Working with the Chief Executive, and his Cabinet, the Leader has developed a new vision for Cheshire East. This defines the Council's core purpose, the desired outcomes for local people and its priorities for investment and development over the next three years. The vision was agreed by Cabinet on 15 October 2012 and is expected to drive the Council's revised financial strategy. The Council is also planning extensive consultation on its new vision.

Some of the recommendations in my report link closely to those made by internal audit in relation to project management and aspects of the Council's budget setting process. The Council has accepted all of my recommendations and agreed a detailed action plan which is now being put in place. A copy of that action plan is attached to this letter.

In that action plan the Council emphasises the historic and continuing underfunding issues it faces. These include the aging population, pockets of deprivation and the rural nature of the Borough. Together with continuing funding pressures and competing demands for services it is important that the Council has robust plans in place to manage the major changes needed over the next three years and beyond.

The Council's response to my recommendations highlights a number of actions which should help satisfy itself that the areas for improvement highlighted in my report and also by Lyme Green are addressed. For example:

- In May 2012 the Council clarified when delegated decision making is appropriate and implemented procedures to deal with any non compliance. It is also improving the way its deals with in-house planning advice to satisfy itself that the process is robust and separate from the its statutory planning responsibilities.
- More recently the Council has revisited its corporate and medium term financial plans. A paper to the October Cabinet set out the Council's purpose and values underpinning its strategic objectives. This work was also used to affirm its underlying budget principles such as a three year planning horizon; policy led decision making; and recognition that the use of limited resources needs to be focussed on essential services and targeted outcomes.
- The Council is also developing its governance framework to enhance Cabinet members' roles in decision making and support new scrutiny arrangements and policy development groups.
- Work on the revised project management arrangements includes the establishment of a member led Executive Monitoring Board to allow greater strategic and financial oversight of project development and delivery.

These changes, allied to the actions being taken to reinforce business planning, budgeting and performance management arrangements should, if successfully implemented, place the Council in a stronger position to achieve its vision.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Director of Finance & Business Services. I wish to thank finance staff for the positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit & Governance Committee for their support and co-operation during the audit.

Finally, you will be aware that in response to the Government decision to put in place a new framework for local public audit, the Audit Commission has carried out a procurement exercise to externalise the work of its in house practice. The contract for North West audits, including Cheshire East Borough Council, has been awarded to Grant Thornton (UK) LLP. Existing employees from the Audit Commission's in house practice will transfer to Grant Thornton on 1 November 2012. I hope to remain your Engagement Lead and look forward to continuing to work with you.

Yours sincerely

Judith Tench
District Auditor

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Audit Commission Recommendation 1:

Members need to provide clearer strategic direction and political leadership when agreeing priorities, taking difficult decisions and supporting officers to deliver agreed plans.

Cheshire East Responsibility: Leader of the Council (the Leader)

Action	Implementation Progress at 21/1/13
<ul style="list-style-type: none"> • The development of policies, based on the vision for Cheshire East, which will drive the achievement of the Council's 3 Year Plan for 2013/16. • In developing the Council's policies, recognising the need to make tough decisions on the future delivery of Services and being prepared to see them through. • The setting of a robust 3 Year Budget for 2013/16 that is affordable, deliverable and sustainable. • The development of a strategic 3 Year Capital Programme for 2013/16 with an emphasis on investment in external and internal infrastructure, development of new Service delivery models and invest-to-save opportunities. • The development of a major 3 year programme of transformational change in service delivery by March 2013, out of which we can identify a major savings plan. • The aim is that for 12/13 and beyond this will lead to strong delivery and therefore a clear demonstration that Cheshire East provides value for money in the delivery of needed and targeted services. 	<p>The Council's 3 Year Plan was agreed by Cabinet in October 2012. It has continued to drive business planning and budget setting in the Council against a set of clear priorities. This has resulted in a refinement of the major change projects and programmes identified as part of the 3 Year Plan. The Council's financial strategy and budget is being considered at Cabinet on 4th February, and Council on 21st February 2013.</p> <p>An update on the Budget setting process for the Council for 2013/2014 was reported to Cabinet in December 2012. A number of strategic financial decisions including a freeze on Council Tax, use of capital reserves to reduce existing borrowing costs and a commitment to the investment of reserves were approved by Cabinet to support the overall balancing of the Council's Budget for 2013/2014 and in the medium term.</p> <p>During the period September to December 2012 the Council undertook a series of actions to realign medium term financial plans with its 3 Year Plan and to ensure their affordability and deliverability including:-</p> <ul style="list-style-type: none"> • <u>Capital Visioning</u> – a thorough review has been undertaken for the capital programme to ensure it is aligned to the outcomes and priorities for the Council. This includes removing schemes

	<p>no longer required to deliver the ambitions in the 3 Year Plan, and including new schemes particularly targeted at our economic development priorities.</p> <ul style="list-style-type: none"> • <u>Revenue Visioning</u> - A series of meetings took place with Portfolio Holders, Directors and Heads of Service to systematically review each area of the budget, the scope for savings or investment. • <u>Star Chambers</u> - A series of officer meetings to challenge the medium terms plans for each service area and their deliverability in the context of known out-turn pressures. • <u>Central Finance Group</u> – Has met on a regular basis since September to review the financial planning assumptions and the processes to test and move these forward. • <u>Development of Change Programmes</u> - The Council has identified Portfolio Holders and lead officers for each of the projects / programmes and high level business cases have been prepared which have informed the Council’s budget proposals. • <u>Mid-year review</u> – a collation and report on the Council’s mid-year position was agreed at Cabinet, together with the identified base budget pressures with a permanent impact.
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Audit Commission Recommendation 2:

The Council needs to implement planned improvements in business planning and programme/project management processes providing a clear link to agreed priorities – including robust option appraisal and financial analysis before projects begin. This should also include relevant aspects of recognised effective programme/project management arrangements for all projects.

Cheshire East Responsibility: Cabinet and CMT

Action	Implementation Progress at 21/1/13
<ul style="list-style-type: none"> • The further development of the Technical Enabler Group (TEG) to support the EMB, the first meeting of TEG took place on 4th October 2012. • The full implementation of the corporate Project Management Framework by March 2013, including effective communication of the new model, for all projects not just major projects, and a strong training programme underpinned by user friendly guidance. • The completion of detailed business cases for proposals coming from the 3 Year planning process for 2013/16, based on strong options appraisal, robust financial analysis and capacity to deliver, through TEG and EMB. • The identification of existing major Projects and Programmes for review and monitoring by EMB. • Introduction of robust 3 year business plans for individual services across the Council, building on previous approaches to service planning. These will clearly identify, amongst other things, key projects and programmes and will ensure that Services have the capacity and capability to deliver these projects and programmes. 	<p>As reported in the Lyme Green Action Plan arising from the Internal Audit Report into Waste Transfer Station, the Technical Enabler Group has met on a monthly basis since October 2012.</p> <p>Also as reported in the Lyme Green Action Plan the corporate approach to project management has been developed. A new Council project management handbook, together with standard templates is being launched as part of the project management training strategy. Delivery of the project management training is expected to start in February. Briefing sessions for all Cabinet and CMT members are to be completed by the end of February.</p> <p>A new, high level business case form has been developed and is now in use for all the major change projects. The form incorporates a checklist of all the key project enablers and processes.</p> <p>As a key part of the new 'Gateway' model and process, high level business case forms, relating to the major change projects, have been completed and technically evaluated by the TEG, with appropriate feedback provided to each project team and also the EMB. [This is known as Gate 1 in the process].</p>

	<p>Further work is now in progress to address the highlighted issues, in readiness for the completion of the usual Project Initiation Documentation [PID], including detailed business cases. The PID is completed by the project team, evaluated by the TEG and then appraised by EMB, for endorsement, by way of review and challenge, prior to the start of the project. [This is known as Gate 2 in the process]</p> <p>A corporate register has been developed to record all projects and programmes and is available on a central sharepoint site. Which reflects the status of the of the major change projects. An analysis of the High-Level Business cases is in progress to assess the phasing across the corporate programme in terms of interdependencies, draw on physical resources (capacity) and benefits realisation.</p>
<p><u>Audit Commission Recommendation 3:</u> The Council needs to develop longer term financial plans clearly aligned to business priorities and supported by deliverable savings plans. These plans should also ensure that reserves are used appropriately and are maintained in line with the Council's own assessment of the financial risks it needs to manage. The quality of financial forecasting in some areas also needs to improve. Cheshire East Responsibility: Portfolio Holder for Finance and CMT</p>	
<p>Action</p>	<p>Implementation Progress at 21/1/13</p>
<ul style="list-style-type: none"> • The agreement of a 3 Year Council Plan for 2013/16 to enable a longer term financial plan, including a strategic approach to investment. • The setting of a balanced 3 Year Budget for 2013/16 and a resilient and risk assessed Reserves Strategy. • The review of the approach to monthly and quarterly integrated 	<p>The Budget Report for 2013/2016 has been prepared and will be reported to Cabinet on 4th February 2013 for recommendation to Council for final approval on 21st February 2012. The Budget Report is complimented by a Leader's Report, setting out further details of the Council's priorities and service delivery.</p> <p>The Capital Programme for 2013/2016 and the updated Reserves</p>

<p>performance reporting by March 2013 to ensure that key local indicators are determined by the priorities set out in the 3 Year Council Plan and that financial forecasts are based on consistent and robust financial forecasting.</p> <ul style="list-style-type: none"> • The Directorate reviews of key Services and delivery models as part of the development of the 2013/16 transformational change programme. • The rollout of the Finance Reporting Centre during 2012/13 along with the further improvement and development of the reporting package. 	<p>Strategy will be included in the Budget Report for approval.</p> <p>The Business Planning Process 2013/2016 has enabled the 2013/14 Budget to be balanced following a series of managed stages and draws on the experience of previous budget setting processes.</p> <p>Quarterly reporting has improved throughout 2012 and the Third Quarter Review of Performance to Cabinet on 4th February demonstrates the strength of the performance information provided in the earlier reviews of Performance to Cabinet on 20th August 2012, and 12th November 2012. The Council has an ambitious savings target of £21.7m for 2012/2013, with an extremely challenging delivery plan. The risk of non-delivery of this ambitious plan, alongside emerging in-year pressures, is being managed well and strong mitigation plans have been identified and are being delivered.</p> <p>The strength of Member and management action in the third quarter of the financial year has led to an improvement of £0.7m in the projected overall position since the Mid Year Review. This would result in an increase in the Council's general reserves level from £12.5m to £13.2m. However, work continues to further mitigate the projected Service pressures and the aim is to better the overall performance against the Budget by the end of the financial year.</p>
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Action	Implementation Progress at 21/1/13
<p><u>Audit Commission Recommendation 4:</u></p> <p>The Council needs to improve performance monitoring and reporting. This should include agreeing a set of relevant local performance indicators that reflect its priorities. Those indicators should then be reported alongside the national indicators and integrated with robust financial information to support member and officer decision making.</p> <p>Cheshire East Responsibility: Portfolio Holder for Performance and CMT</p>	
<ul style="list-style-type: none"> • The completion of the review of Performance Management and the implementation of its recommendations by the end of March 2013. • The completion of the development of a new set of outward facing and outcome based local indicators to be reported on a quarterly basis from 2013/14. • The completion of the development of a new set of internal business performance indicators to be reported on a monthly basis from 2013/14. • Introduction of robust three-year business plans for individual services for 2013/16 across the Council, building on previous approaches to service planning. • The further development of the Technical Enabler Group (TEG) to support the EMB, the first meeting of TEG took place on 4th October 2012. • The identification of existing major Projects and Programmes for review and monitoring by EMB. • The review of the approach to monthly and quarterly integrated 	<p>The performance management review is continuing and is currently focusing on the development of performance measures for the outcomes identified in the Council's 3 Year Plan, as well as the internal business performance measures.</p> <p>The performance review is incorporating how performance monitoring will take place for the major change programmes identified in the Council's 3 Year Plan, to ensure the Council is adopting a comprehensive approach to performance management.</p> <p>Services have identified priorities for action and change as part of the budget setting and business planning process for 2013-16. This will now be articulated in 3 year service-level business plans across the Council.</p> <p>As reported in the Lyme Green Action Plan, a standard, corporate project reporting and monitoring system is currently being developed. The monitoring and reporting framework for all major programmes and projects is intended to be launched in February 2013.</p>

<p>performance reporting by March 2013 to ensure that key local indicators are determined by the priorities set out in the 3 Year Council Plan and that financial forecasts are based on consistent and robust financial forecasting.</p> <ul style="list-style-type: none"> • The Directorate reviews of key Services and delivery models as part of the development of the 2013/16 transformational change programme. • The rollout of the Finance Reporting Centre during 2012/13 along with the further improvement and development of the reporting package. 	<p>The Financial Reporting Centre (FRC) went live in September 2012 with five reports and a graph available to all budget managers to access directly on line. The five reports provide the basic financial information needed by all managers to effectively manage their budgets: the Revenue Budget Monitoring Report (with a number of different views); General Transaction Listing; Oracle based Commitments; Basic Payroll and Bad Debt Summary Report. To date, 268 out of a total of approx. 290 budget managers have been trained on the use of these reports and the FRC system generally. Usage of reports is monitored every month and has generally run at 80% plus since go live. Further enhancements to include a Payroll forecasting report will be available in early 2013. Further developments of FRC, including Capital Reporting, Summarised Debt and full forecasting will be reviewed in April 2013.</p>
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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 31st January 2013
Report of: Performance and Risk Manager
Subject/Title: Risk Management Update Report
Portfolio Holder: Councillor David Brown

1.0 Report Summary

- 1.1 This is an update report from the Performance and Risk Manager to the Audit and Governance Committee. The Audit and Governance Committee has a key role in providing an oversight of the effectiveness and 'embedding' of risk management processes, and in testing and seeking assurance about the effectiveness of control and governance arrangements. In order to form an opinion on these arrangements, it needs to establish how key risks are identified, evaluated and managed, and the rigour and comprehensiveness of the review process. The purpose of this report is to provide the Audit and Governance Committee with a summary of risk management work so that it may undertake this oversight.

2.0 Recommendation

- 2.1 The Audit and Governance Committee is requested to consider and comment on the update report on risk management which is for information.

3.0 Reasons for Recommendation

- 3.1 With calls for greater transparency, demand for better quality services during a time of financial adversity, economic uncertainty and social change, there is a need for sound early warning mechanisms. Factor in partnership working across organisational boundaries, changing leadership and management structures, innovative commissioning and service delivery, de-commissioning and leaner business models and it becomes obvious that Cheshire East requires a strong risk management framework to recognise and address diverse threats and opportunities.
- 3.2 Cheshire East Council is publicly accountable and must be able to demonstrate effective management of the kinds of risks which threaten the achievement of its strategic objectives, the effectiveness of its operations, the reliability of its financial reporting and the security and value of its assets.
- 3.3 Being able to demonstrate effective systems for managing risks is a critical step in producing supportable statements of internal control for annual reporting purposes. The benefit of a strong risk management framework from a governance viewpoint is that it gives a greater level of confidence that management have properly and adequately fulfilled their responsibility in operating an effective system of internal

control. This in turn gives confidence also to have a higher appetite for risk, at a time when major change is necessary and desirable.

4.0 3 Year Council Plan - Challenges, Opportunities and Risk Appetite

- 4.1 In shaping the 3 Year Council Plan, Cabinet is taking strategic decisions about where to allocate (and invest) limited public funds and resources to get the greatest value for local people. Setting out the Council's vision and medium term priorities means that the 3 Year Council Plan brings new risk challenges, we will need to consider these, seize new opportunities, create energy and invoke the necessary changes required to serve the people of Cheshire East and achieve the future and outcomes that we want.
- 4.2 It is timely to re-evaluate the key corporate risks and for Cabinet and management to consider how it can ensure that risks and opportunities are properly addressed. Risk management provides a healthy self-criticism encouraging reflection and innovation leading to different approaches and direction in order to achieve objectives.
- 4.3 Risk management is not about eliminating or avoiding risk but it is necessary to understand the overall level of risk exposure to determine what level of risk appetite the Council is prepared to take in attaining its aims and objectives.

5.0 Risk Appetite

- 5.1 Most decisions are made based on which risks we are prepared to take on, which risks we need to reduce, and which risks we are prepared to accept. Risk appetite describes where the Council places itself along the risk spectrum, ranging from risk taking to risk averse as illustrated in **Table 1** below. It is the amount, and type of risk, that Cheshire East Council deems acceptable in attaining the aims and objectives of its 3 Year Council Plan.
- 5.2 Establishing and articulating risk appetite helps to ensure that consideration in the way management, Cabinet and Council respond to risk is consistent and that there is a shared vision for managing risk.

Table 1

Assessment	Description
High Risk Appetite 5	The Council accepts opportunities that have an inherent high risk that may result in reputation damage, financial loss or exposure, if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Moderate Risk Appetite 4	The Council is willing to accept risks that may result in reputation damage, financial loss or exposure, if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Modest Risk Appetite 3	The Council is willing to accept some risks in certain circumstances that may result in reputation damage, financial loss or exposure, if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Low Risk Appetite 2	The Council is not willing to accept risks in most circumstances that may result in reputation damage, financial loss or exposure; even if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Zero Risk Appetite 1	The Council is not willing to accept risks under any circumstances that may result in reputation damage, financial loss or exposure; even if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.

- 5.3 There are risks for which the Council is custodian on behalf of the public and the environment, where risk appetite may be very low, and there may be risks with choices about investment in projects, research and delivery roles, where risk taking may be encouraged. The response to risk should be firmly based on the Council's strategy and risk appetite and not on individual views and preferences to risk taking. It is important to articulate and communicate risk appetite levels, as this will set a clear mandate for the amount and type of risk to accept and manage and those to avoid.

6.0 Wards Affected

- 6.1 All

7.0 Local Ward Members

- 7.1 All

8.0 Policy Implications

- 8.1 Risk management is integral to the overall management of the authority and, therefore, considerations regarding key policy implications and their effective implementation are considered within departmental risk registers and as part of the risk management framework.

9.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 9.1 None in relation to this report, a risk around financial control is included as a key corporate risk on the corporate risk register.

10.0 Legal Implications (Authorised by the Borough Solicitor)

- 10.1 As well as the need to protect the Council's ability to achieve its strategic aims and to operate its business, general principles of good governance require that it should also identify risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework, and this report is aimed at addressing that requirement.

11.0 Risk Management

- 11.1 This report relates to overall risk management; the Audit and Governance Committee should know about the most significant risks facing the Council and be assured that the risk management framework is operating effectively. The content of this report aims to mitigate the following risks:-

Key Risks
That Cheshire East Council fails to properly develop, implement and demonstrate an effective risk management framework
That Cheshire East Council fails to apply its risk management policy consistently across the

Council
That Cheshire East Council fails to recognise risk or make correct decisions to tolerate, treat, transfer or terminate risk due to poor risk management

12.0 Background and Options

12.1 Key Corporate Risks

It has been agreed that a risk and opportunity workshop be undertaken with Cabinet and the Corporate Management Team in February/March to review the key corporate risks to achieving the Council's objectives and to update the key corporate risk register. This workshop was previously arranged for December but was postponed to ensure that the timing of the risk and opportunity workshop is undertaken at the right time alongside the development of the 3 Year Council Plan and objectives. Further work will then be undertaken to determine the Council's risk appetite so that qualitative high level statement of risk preferences can then be defined for business areas.

12.2 Risk Themes

It is likely that some key risk themes will come out of the risk and opportunity workshop some of which are highlighted for thought below. These are not necessarily Cheshire East risks and do not include full causes and consequences of risks but these are likely to be areas discussed during the workshop:-

External Risk Areas
Political Environment: That development and changes as a result of government policy and reviews compromise the Council's ability to deliver. (E.g. the welfare reform may create financial hardship for some residents resulting in negative community impacts and unexpected increase in demand for Council services)
Managing Expectations: Risk that there is that there is no mutual understanding and recognition of responsibilities between the people of Cheshire East and the Council of the expected objectives and outcomes of the Council reform.
Legal: The rate of change and different delivery models may mean doing things quickly without recognising and/or acting accordingly to prevent a significant challenge to a decision, or a compensation trend emerges.
Strategic Risk Areas
Strategic Leadership and Management: That the changing landscape of public services, new thinking, organisational shape and a multitude of contributing and cross impacting factors result in ineffective strategic leadership and management arrangements.
Financial Control: Inaccurate financial planning in the short term and longer term and/or ineffective financial control threatens financial stability and service continuity.
Evidenced Decision Making: Due to ineffective use of information and business intelligence, we do not properly and adequately take account of public need and fail to apply evidence based decision making.
Reputation: That consideration is not given to making decisions that take account of reputational impact and that action is not taken to effectively manage the reputation of the Council.
Public Sector Effort: Risk that a lack of consensus and joint strategic planning results in duplication of effort and use of resources by several partners in varying geographic areas, or those efforts are contradictory/leave gaps and do not maximise public resources.

Local Development Plan - Housing: Risk that the local development plan is inadequate to meet housing demand such that we are unable to provide the right type of housing and development sites in the right places.
Public Health and Wellbeing: Poor understanding of public health work across the organisation, in conjunction with insufficient detail of contracts and projects, and unclear responsibilities for activity and programmes during the transitional stage of public health into the local authority results in the breakdown of the provision of health services.
Workforce: Pace of change results in overstretched staff capacity resulting in poor motivation, increase in staff stress and sickness levels, loss of productivity and loss of key staff.
Operational Risk Areas
Contract, Project and Programme Management Skills: Insufficient skilled and knowledgeable staff managing contracts, projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales.
Fraud: Inadequate management arrangements, policies and procedures in place to mitigate the risk of fraud such that public money is misappropriated.
Commissioning and Service Delivery Chains: Increasingly complex provider and delivery chains for both back office and front line services (i.e. outsourcing, contracted suppliers and providers, shared service delivery, joint ventures, private finance initiatives and partnership working) leads to increased risks (e.g. failure to meet service expectations, supplier/partner financial failure, increase in supplier incidents, tension between profit motives and public sector ethos, business ethics, health & safety practices, financial security, budget overruns and systematic risks in shared services and business critical areas).
Prevention and Early Intervention: Uncoordinated and/or deficient intervention between internal and external partners results in young people and families being escalated up the levels of need, more children and young people ending up in the criminal justice system and care, resulting in exponential increase in need and expenditure.
Vulnerable Care: Inability to develop the market to provide sufficient, quality placements/care packages to meet demand, leaving vulnerable children and adults without safe and stable accommodation.

12.3 Financial Control Risk

The Audit & Governance Committee requested that it receive a short briefing at each meeting from the Risk Owners / Managers of the highest key corporate risks. At the previous meeting of the Audit & Governance Committee the key corporate risk around financial control was discussed. This risk has since been updated and a summary of the changes is provided below:-

<u>KCR2 Financial Control</u>	
“Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East’s Priorities.”	<p>The net risk rating is 12 High Risk. Whilst the likelihood of this risk fluctuated between 3 and 4 over the last few months there is no change to the overall risk rating since the last report to the Committee. The likelihood of this risk materialising remains high due to general economic uncertainties and risks associated with proposed changes in national funding arrangements and new legislation.</p> <p>The existing and future controls have been updated to take account of a number of recent developments including :-</p> <ul style="list-style-type: none"> • an improved 2012/13 out-turn forecast at Third

	<p>Quarter Review, evidencing the positive impact of cost control measures during the year.</p> <ul style="list-style-type: none"> • improvements in the business planning process and actions to address the weaknesses identified in relation to developing business proposals and managing significant projects as set out in the Annual Governance Report Action Plan. • specific action, as part of the business planning process, to de-risk future out-turn delivery by addressing base budget pressures and undeliverable savings targets. • provision within the 2013/15 draft budget for significant investment in service transformation and management change to secure longer term financial sustainability. <p>The likelihood of this risk is currently assessed at 3 (likely). However, this level should fall when the Council puts in place shortly a robust 3 year financial strategy but factors outside our control remain significant.</p> <p>The impact on the corporate objectives if this risk materialised will always be a 4 critical.</p>
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12.4 Reputation Risk

For this meeting the Committee requested a briefing on key corporate risk 15 – Reputation, the most up to date version of the risk stewardship template for this risk will be available for discussion with the Risk Owner during the meeting.

13.0 **Access to Information**

13.1 Risk Management Policy

The updated Risk Management Policy was approved by Cabinet at its meeting on 20 August 2012.

13.2 The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Butler
 Designation: Performance and Risk Manager
 Tel No: 01270 685999
 Email: joanne.butler@cheshireeast.gov.uk

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2013
Report of:	Chief Executive/Director of Finance and Business Services
Subject/Title:	External Audit Update & Audit Fee Letter 2012/13
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

- 1.1 The report provides the Audit Committee with an update from Grant Thornton on the new audit arrangements and details of the annual audit fee for 2012/13.

2.0 Recommendation

- 2.1 To receive and comment on the Annual Audit Fee Letter which is attached as Appendix A.
- 2.2 To receive a presentation from Grant Thornton on the new audit arrangements.

3.0 Reasons for Recommendations

- 3.1 The appointed auditors are required to report to those charged with governance.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including – Carbon Reduction, Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 There are no specific legal implications.

9.0 Risk Management

- 9.1 The audit process is part of the Council's risk control mechanism and the independent scrutiny it provides on the Council's activities and financial standing help the organisation to manage its risks.

10.0 Background and Options

- 10.1 Grant Thornton were appointed in 2012 following a nationally co-ordinated competitive tendering process.
- 10.2 The tender process led to a reduction in the scale audit fees payable by the Council. The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction.
- 10.3 Confirmation of this new fee level (£205,050) along with the fees for grant certification work are contained within the Audit Fee Letter at Appendix 1. The audit fee letter also sets out the outline audit timetable for 2013.
- 10.4 Grant Thornton will be attending the meeting to present an update on the new public sector audit landscape and their role in delivering their responsibilities as our external auditors.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Wilcox
Designation: Corporate Finance Lead
Tel No: (01270) 685869
Email: Joanne.wilcox@cheshireeast.gov.uk

Appendix A

2012/13 Audit Fee Letter



Mr K. Ryley
Chief Executive
Cheshire East Council
Westfields,
Middlewich Road
Sandbach,
Cheshire
CW11 1HZ

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS
T: +44 (0)151 2247200

www.grant-thornton.co.uk

14 November 2012

Dear Mr Ryley

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £205,050 which compares to the audit scale fee of £341,750 for 2011/12, a reduction of 40%. The final fee for the 2011/12 audit was £361,750.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning to date has identified that the previous auditor issued a qualified VFM conclusion in 2011/12 and made a number of recommendations in her Annual Governance Report. As part of our value for money work we will review the Council's response to those recommendations. We will also continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £41,600.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee	£
December 2012	102,525
March 2013	51,263
June 2013	51,262
Grant Certification	
June 2013	41,600
Total	246,650

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2012. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in September 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	Nov to March 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to Sept 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	Jan to Sept 2013	Report to those charged with governance	As above
Financial resilience	Jan to Sept 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2012/13 remain unchanged:

	Name	Phone Number	E-mail
Engagement Lead	Judith Tench	0161 214 6369	Judith.M.Tench@gt.uk.com
Engagement Manager	Andrea Castling	0161 214 6396 m: 07880 456161	Andrea.N.Castling@uk.gt.com
Audit Executive	Ivan Parkhill	0161 214 6377	Ivan.Parkhill@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Head of Public Sector Assurance at Sarah.Howard@uk.gt.com.

Yours sincerely

Judith Tench
For Grant Thornton UK LLP

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2013
Report of:	Chief Executive/Director of Finance and Business Services
Subject/Title:	2012/13 Statement of Accounts – Progress Report
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

- 1.1 This report provides Members with an update on progress on the preparation of the Statement of Accounts for 2012/13.

2.0 Recommendation

- 2.1 Members are asked to note progress on preparations for producing year end accounts.

3.0 Reasons for Recommendations

- 3.1 Members of the Audit and Governance Committee are required to receive regular updates on progress in accordance with the work programme.

4.0 Wards Affected

- 4.1 Not applicable

5.0 Local Ward Members

- 5.1 Not applicable

6.0 Policy Implications including – Carbon Reduction, Health

- 6.1 None

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None

9.0 Risk Management

- 9.1 Regular liaison meetings are held with the External Audit to review progress and keep any identified risks under review.

10.0 Background and Options

- 10.1 The Annual Audit Letter (AAL) for 2011/12 reported that the Council has significantly improved its closure of accounts process. The accounts presented for audit contained no material errors and far fewer other errors than in previous years. Supporting audit trails and working papers were also much better. The AAL also reported that the finance team had implemented the recommendations from the last two audits including important improvements to their quality assurance arrangements. This had all helped to reduce the number of errors identified during the audit and improve the overall quality of the accounts.
- 10.2 The Finance team met with the auditors in October 2012 to discuss specific aspects of the closure of accounts process and also highlight new areas to consider for 2012/13. The clear message from the auditors was that the Finance team now need to ensure that the improvements become embedded in its way of working.
- 10.3 The next stage is to consider how the audit support process can be organised to shorten the time taken to undertake the audit. The 2012/13 audit will be undertaken by our new auditor – Grant Thornton. The key challenge for the Finance team will be to build on last year's progress particularly around maintaining and improving the quality of the draft accounts. We are having regular discussions with the auditors around how best to support the audit process.
- 10.4 The planning process for the 2012/13 Closure of Accounts is underway, the plans and timetables have been updated and are in the process of being communicated with all those concerned. Regular liaison meetings are held with members of the finance team responsible for closure and service accountants. A Final Accounts Workshop is to be provided by CIPFA Finance Advisory Network and Grant Thornton in February and two members of staff are due to attend.
- 10.5 At the Closure Review meeting a number of issues were highlighted to be addressed during 2012/13 as follows:
- **Whole of Government Accounts**
 - Working papers and audit trails to be improved.
 - a) In 2012/13 there will be a linked consolidated spreadsheet to individual WGA service spreadsheets as a minimum. In addition

service finance will be requested to show links from service finance spreadsheets to service to service finance WGA sheets although the size of payroll reports to allow the allocation of salary costs between Salary Costs, NHI and Pension is problematic. Alternative ways of collating this information at trial balance level are currently being explored but may not be available and working accurately by the year-end.

- b) Improvements to the audit trail for counterparties to allow tracking back to supporting notes and schedules requires modifications to the template to be issued to service finance for the WGA ensuring it dovetails into the reports sent out and used by corporate finance to prepare the statement of accounts. During the year-end preparation in 2011/12 certain parts of service finance completed their WGA templates well after the completion of the statement of accounts which caused discrepancies between the two sets of figures. During 2012/13 we plan to ensure all WGA templates are fully completed by the same date and agree back to the year-end statement of accounts.

- **Debtors**

- Provide detailed reports to support the calculation of the bad debt provision;
 - Review long outstanding debts and consider writing these debts off as uncollectable;
 - Ensure that year end debtors' reports are consistent.
- a) Good progress has been made by the Recovery Team in terms of working with Services to review aged debt and take steps to actively pursue or write off as appropriate. A corporate Debt Recovery Policy is currently being finalised and will incorporate a streamlined and more efficient write-off process. Other corporate work is ongoing to raise Services' awareness of their responsibility for pursuing debt.
- b) Lack of consistency between debt reports remains an issue. A revised version of one of the key reports has been requested but competition for developer resources may delay delivery of the report until the 2013/14 financial year. In this event, bad debt provisions at year end will again be based on the best information available and steps will be taken to ensure that transparent, consistent working papers are provided.

- **Northgate Revenue & Benefits System**

- Review number of write off codes and ensure these are used accurately to describe the reasons for write off.
 - Review the current working papers to ensure they provide a full explanation of the accounting entries.
 - Ensure year end debtor reports are consistent.

- a) The write off codes have been reviewed and are only used for genuine write offs rather than “debit adjustments”, these will be processed to help keep the different transaction types separate on the Northgate balance sheet (RRV403) which is the main year end reporting tool.
 - b) Additional working papers will be provided to provide a full explanation of the accounting entries.
 - c) Discussions have taken place with Northgate to identify the correct arrears reports to ensure year end debtor reports are consistent.
- **Oracle cash postings**
 - Ensure that delays in posting bank transactions within Oracle are minimised at year end so that transactions are fully reflected and accurately classified within the financial statements.
 - a) Significant work has been ongoing throughout the year to analyse the posting issues and apply corrective fixes and patches to the Oracle AP module. Progress has been slow, but issues are being resolved incrementally and work is continuing. Full and final resolution of the timing issues with bank postings will depend on Oracle development work around multi-period accounting and this is scheduled for 2013/14. Therefore, manual adjustments to adjust the 31 March cash and creditor classifications are likely be required again at year end.
- **Asset Valuations**
 - Ensure management checks are undertaken and evidenced on significant changes and fluctuations in valuations.
 - a) A review of the information provided by the external valuers will be undertaken by asset management and finance staff, the timetable will allow sufficient time for queries to be resolved.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 31st January 2013
Report of: Corporate Governance Group
Title: Annual Governance Statement (AGS) – 2012/13 Process and Update on 2011/12 Action Plan
Portfolio Holder: Councillor Peter Raynes (Finance)

1.0 Report Summary

- 1.1 The purpose of this report is to:
- recommend a process for the production of the 2012/13 AGS.
 - provide an update on progress against the 2011/12 AGS Action Plan.

2.0 Recommendation

- 2.1 That the Committee

(1) consider and endorse the process for the production of the 2012/13 AGS;
and

(2) note the progress against the 2011/12 AGS Action Plan.

3.0 Reasons for Recommendation

- 3.1 **2012/13 Process (Appendix A)** - the Accounts and Audit Regulations 2011 require the Council to produce an AGS and it is good practice to agree the process with Members in advance.
- 3.2 **2011/12 Action Plan (Appendix B)** – the AGS process provides a continuous review of the Authority's governance arrangements to give assurance on effectiveness of processes and/or to address identified weaknesses.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications

- 7.1 No specific financial implications. The production of the AGS is designed to align with the production of the Council's Financial Statements (draft by end June) and will be published alongside the audited accounts (approved by end September).

8.0 Legal Implications

- 8.1 The production of the AGS is required by the Accounts and Audit Regulations (2011) and the process outlined is designed to meet this obligation.

9.0 Risk Assessment

- 9.1 The process and success of Corporate Governance arrangements is part of the Authority's overall approach to managing risk.

10.0 Background and Options

- 10.1 As previously reported to the Committee, the Council is required to prepare and publish an Annual Governance Statement (AGS). This requirement was introduced by the revised CIPFA/SOLACE Good Governance Framework and is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations (2011).
- 10.2 CIPFA/SOLACE have recently published a revised guidance note, "Delivering Good Governance in Local Government: Guidance Note for English Authorities (2012 Edition)", intended to be used as best practice for authorities in reviewing the effectiveness of their governance arrangements. This will be reviewed and used by the Corporate Governance Group in planning and producing the Annual Governance Statement.

11.0 Access to information

The background papers relating to this report can be inspected by contacting the report writer:

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2012/13 Annual Governance Statement - Summary of Recommended Process

Overview:

This will be Cheshire East Council's fourth Annual Governance Statement and the recommended process, which follows best practice, remains broadly unchanged. Internal Audit lead on the production of the Statement, and are committed to reviewing and updating as necessary, the process and Statement to ensure continuing compliance with best practice, and embedding strong governance across the organisation throughout the year. This has, and will continue to use proportional resource.

	Activity	Output	Responsibility	Planned Timescale
1	Assessment of governance arrangements for significant partnerships.	Internal Audit Report	Head of Internal Audit	Ongoing – March 2013
2	Assessment of the effectiveness of mitigating actions for approved strategic risks.	Internal Audit Report	Head of Internal Audit	Ongoing – March 2013
3	Self Assessment against the Code of Corporate Governance.	Self Assessment	Corporate Governance Group	March 2013
4	Self Assessment of Internal Audit against the CIPFA Code of Practice.	Self Assessment	Head of Internal Audit	March 2013
5	Assessment of the effectiveness of the Audit and Governance Committee.	Committee Report	Chair and Vice Chair of A&G Committee /Head of Internal Audit	A&G Committee 28 th March 2013
6	Disclosure Statements by Heads of Service.	Disclosure Statements	Heads of Service	April/May 2013
7	Consider other sources of assurance i.e. External Audit reports, other inspection reports, Corporate Risk Management Group etc.	Various reports	Corporate Governance Group	April/May 2013
8	Head of Internal Audit opinion report.	Committee Report	Head of Internal Audit	A&G Committee 27 th June 2013
9	Produce draft AGS.	Draft AGS/ Committee Report	Corporate Governance Group	A&G Committee 27 th June 2013
10	Provide detailed supporting evidence to Members and consider any new findings/feedback on draft AGS.	Evidence Packs	Corporate Governance Group	July -Sept 2013
11	Produce final AGS for approval by Members.	AGS/Committee Report	Corporate Governance Group	A&G Committee 26 th Sept 2013

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2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
1	Issue: Awareness and compliance with Council processes/procedures <i>Area: A number of Council policies have and are being updated. Sufficient awareness of Council policy and key documents (e.g. Finance & Contract Procedure Rules) in some areas of the Authority has proven to be lacking. The processes and procedures supporting key Council policies needs to be communicated/reiterated to managers/staff and compliance monitored thereon.</i>			
	<p>The Constitution Committee has continued to review the Council's Constitution on an on going basis. The Committee considered a number of reports in 11/12 and made recommendations to full Council, leading to an update of the Constitution, including Finance and Contract Procedure Rules and Officer Schemes of Delegation.</p> <p>Corporate Management Team (CMT) to ensure service managers familiarise themselves with the Finance and Contact Procedure Rules, contained within the recently updated Constitution.</p> <p>As required by the Constitution, Managers are to ensure that they are familiar with the requirements of relevant delegated functions (Officer Schemes of Delegation), and that any further sub delegations are set out in a Local Scheme of Delegation.</p> <p>In addition, approval limits for financial transactions should be documented within a Financial Scheme of Delegation. Delegated approval limits must be consistent with the Oracle workflow limits, and these limits should be complied with, even when</p>	Service Managers/CMT	<p>July 2012</p> <p>To be reviewed by Corporate Governance Group (CGG) September 2012</p>	<p>Constitution Committee reviewed the Constitution, including the Finance and Contract Procedure rules at meetings throughout 2012. Constitution Committee recommended revisions to the Finance and Contract Procedure Rules to Council in December 2012.</p> <p>An additional report to the same Council recommended changes to the Council's scrutiny structure and the establishment of new Policy Development groups.</p> <p>Service Schemes of Delegation (Officer and Financial) were updated by 31st July 2012 as per CMT's request following a report from CGG to CMT. A process will be introduced, through the Annual Governance Statement work, to prompt Managers to regularly review and update their Schemes of Delegation.</p> <p>A review of the content of and compliance with Schemes of Delegation is being carried out by Internal Audit.</p> <p>Training and awareness-raising on financial, contract and procedure rules has taken place across the organisation through line managers and key services. Targeted advice has been delivered through the Procurement bulletins and an online training tool will be developed. The interim Chief Executive has delivered clear messages about the need for compliance and the</p>

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<p>purchases are initiated outside of the Oracle system.</p> <p>Service managers are asked to ensure such Schemes are in place, are kept up to date, and that compliance with approval limits and delegated functions is monitored.</p>			<p>importance of accountability for decisions.</p> <p>Following the implementation of the governance and monitoring framework and the guidance/training for staff, clear sanctions will be instigated for non compliance. These form part of the existing staff performance system and HR procedures and will be exercised where there is non-compliance.</p> <p>Delegated decision process has been in process since May 2012 and continues to operate.</p>
2	Issue: Issues and actions arising from Lyme Green <p><i>Area: In February 2012 a review of the Council's proposal to build a waste transfer station at Lyme Green Depot, Macclesfield commenced. This followed cessation on 30th November 2011 of all works in relation to the construction of the facility.</i></p> <p><i>The review, commissioned by the Chief Executive and Leader followed the resolution of the Audit and Governance Committee on 31 January 2012 which stated:</i></p> <p><i>“a thorough and robust investigation of all issues surrounding the expenditure incurred on the proposed waste transfer station at Lyme Green be added to the work plan; in particular to identify any governance issues and whether all financial and contractual regulations have been complied with.”</i></p> <p><i>The results of the review which were reported to the Audit and Governance Committee on 14 June 2012 indicated that whilst, in the main, appropriate Council procedures are in place to prevent financial and legal irregularities and ensure compliance with Officer Delegations, Standing Orders, EU procurement rules and ensure effective reporting to Members, in this instance there was evidence that officers failed to comply with many of these arrangements. An Action Plan, detailing proposed actions to prevent reoccurrence has been agreed and quarterly progress reports will be submitted to the Audit and Governance Committee</i></p>			
	As per the Action Plan agreed by the Audit and Governance Committee at its special meeting of 14 th June 2012.	Audit & Governance Committee	As per. Committee timetable.	<p>A progress report on the agreed Action Plan was presented to the Audit and Governance Committee on 27th September 2012.</p> <p>A further progress report will be presented to this meeting of the Audit and Governance Committee (31/01/13).</p>

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
3	<p>Issue: Empower Card Review</p> <p><i>Area: In November 2011 a review of the Empower Card implementation process was undertaken following concerns raised by users and providers. The early findings established that there were difficulties with Client Contributions, payment arrangements with providers and the relationship and processes with the supporting bank. The review, which included feedback from staff, customers and providers, has identified changes required to the supporting processes and the product in the form of an action plan. Further background is available in the March 2012 report to Adult Social Care Scrutiny Committee</i></p> <p>The review has been conducted by a task force led by the Strategic Director for Children's Families and Adults and included input from Audit, Finance and Legal.</p> <p>A steering group is in place to oversee the implementation of the action plan.</p> <p>An update report, which will seek approval for the future vision and options, will be brought to Members during the autumn.</p> <p>Specific actions include:</p> <ul style="list-style-type: none"> • Undertaking an audit of payments and client contributions, by a specially created Empower Audit Task Team, aiming to establish the robustness of the payment arrangements with providers • Establishing and recovering directly from clients any contributions not paid in accordance with the Care Support Plan and Financial Assessment. • Once the above actions have delivered sufficient stability, determine a new 	Strategic Director of Children, Families and Adults.	March 2013	<p>The steering group has been in regular contact to ensure implementation of the action plan. Reports have been taken to the Adult Social Care Scrutiny Committee in Sept 2012.</p> <p>Detailed audits of all agency-held Empower cards have been carried out. This has resulted in identifying customers who have not been making the required client contribution and in identifying situations where the client was accumulating a significant balance on their card.</p> <p>The review is due to finish in March 2013. In addition a review of all Provider cash flow issues associated with the Empower product will complete this financial year leading to a deeper and broader review of all Empower and Direct Payment accounts to achieve care cost savings of £1m during 2013/14.</p> <p>Parallel to the Empower review, work has been on going on several other areas to improve Client Finance in general. This has included a review of Direct Payments, which has also identified over-allocated balances, and introduced improved processes to promptly identify and close down accounts cumulating balances.</p>

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<p>vision for the financial arrangements for Adults, explore future systems, banking products and processes to simplify and standardise</p>			<p>Work has also progressed on identifying new products to support the replacement of Social Care systems, including a new Customer Records System, a Financial/Contract Management system and a Banking Product). It is anticipated that by using a Procurement Framework, replacement products will be implemented during 2013/14 on a phased basis.</p> <p>The financial and contract management system replacement is the first part of this process with tenders currently being evaluated and implementation taking place during 2013/14.</p>
4	<p>Issue: Care Provider Failure</p> <p>Area: <i>There is increased potential for legal challenge around fees paid, and of provider sustainability and or failure in the current economic climate, as demonstrated by the collapse of Southern Cross, the UK's largest care home provider in July 2011.</i></p> <p>The Council has commissioned a consultant to assist in developing a Fees Framework for Residential, Nursing, Domiciliary Care, Support Living and Direct Payments. This work will also achieve the development of Quality Frameworks – to assist the Council in raising standards of care, and to assure quality provision within the fees framework and affordability.</p> <p>By working with providers the aim will be to establish a fee structure that is sustainable for both the Council and providers over the medium term.</p>			
		<p>Head of Integrated Strategic Commissioning and Safeguarding</p>	<p>December 2012</p>	<p>The consultant support to develop a new Fees Framework for Residential, Nursing, Domiciliary Care, Support Living, including Quality Frameworks has been completed, and has been shared and consulted with providers.</p> <p>The new structures will be implemented as contracts are renewed during 2013/14. Due to the volume of the contracts the aim is to renew them on a phased basis, beginning with the residential and nursing contracts in the early part of 2013/14.</p>

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
5	Issue: Judicial Review			
	<i>Area: Challenges to the Authority in the form of judicial reviews are increasing. The basis of the challenges involves the allocation of funding and resources, and deprivation of liberty. The financial impact in 2011/12 is £500,000. The risk of provider failure in the care market has become a real concern during 2011/12, highlighted by the events at Southern Cross, the UK's largest care home provider until its demise in July 2011.</i>			
	The service has improved the application of policy, staff training and tightened procedures with the assistance of Legal. However, the risk of Judicial Reviews remains significant because of the continuing growth and availability of litigation, and the changing personalisation agenda. Continued close liaison with Legal, jointly assessing and monitoring potential cases will continue for the foreseeable future, allowing early warning and action to be taken across the Council.	Head of Local Delivery and Independent Living Service	March 2013 – to be monitored by Corporate Governance Group.	A comprehensive review of the policies and supporting processes has been undertaken, along with training and support for the social work teams was completed during the Autumn of 2012, which has improved social work practice/documentation and reduced the risk of subsequent challenge and judicial review. There have been no further challenges during 2011/12, although the risk across Children's Families and Adults remains.
6	Issue: Financial and Project Management			
	<i>Area: Delivery of the 2011/12 budget has proved challenging with a number of services facing out-turn pressures due to a range of factors, including inflation, ambitious delivery and savings targets and higher than anticipated levels of service demand. General economic pressures and the demands arising from the delivery of an ambitious capital programme and complex pay harmonisation package have added to the challenges.</i>			
	Actions already implemented/in progress <i>General</i> <ul style="list-style-type: none"> Monthly performance monitoring embedded Corporate Training Programme extended to include Budget Management module 	Director of Finance and Business Services/Finance Manager		<ul style="list-style-type: none"> Monthly performance reports received by CMT on a regular basis Budgeting & Budgetary Control courses available in November 2012 and December 2013

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<ul style="list-style-type: none"> Development of improved suite of financial management reports and self-serve portal (Financial Reporting Centre) 2012/13 budget adjusted to address permanent growth pressures (including Teachers Pensions, Placement costs for 16+ young people, Adults Care costs and undeliverable cross-cutting savings) Monthly capital monitoring review meetings with main service directorates 			<ul style="list-style-type: none"> Financial Reporting Centre went live in September 2012 launching a suite of five standard on-line reports for all budget managers. 268 out of target group of 290 budget managers have been trained and are being supported to use these reports. Further enhancements to the reporting suite are planned in 2013/14, this will extend the basic offering, which comprises a budget monitoring report and supporting payroll, general transactions, commitment and bad debt reports; to include forecasting reports, capital and summary debt reports. Budget delivery pressures have continued in 2012/13. Impacts have been identified through the monthly and quarterly performance reporting cycle. Some pressures are on-going from previous years e.g. Adult Social Care, others are new, emerging issues. Programmes of remedial action have been put in place to partly mitigate these pressures, but additionally; base budget adjustments in order of £8m have been made as part of the 2013/14 business planning round to address savings targets which are now considered undeliverable, and other unbudgeted cost pressures; with a view to further de-risking delivery of a balanced outturn in 2013/14 and beyond. Regular meetings with all service directorates to review delivery of the capital programme and emerging issues are now taking place and are fully embedded.

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<p><i>Specific</i></p> <p><u>Children and Families</u></p> <ul style="list-style-type: none"> Development of in-house residential provision to reduce out of borough placement costs <p><u>Adults</u></p> <ul style="list-style-type: none"> Refinement of cost driver analysis <ul style="list-style-type: none"> Targeted debt recovery action <ul style="list-style-type: none"> Empower audit and review 	<p>Deputy Director of Children and Families</p> <p>Strategic Director of Children, Families and Adults</p> <p>Head of Business Management and Challenge</p> <p>Strategic Director of Children, Families and Adults and Director of Finance and Business Services</p>	<p>March 2013</p> <p>December 2012</p> <p>March 2013</p> <p>See Item 3 above.</p>	<ul style="list-style-type: none"> Further provision is being established in the Macclesfield area, with a review of the provision required across the middle of the Borough. <ul style="list-style-type: none"> Across Children, Families and Adults the cost drivers were discussed as part of developing the directorate plan and have been monitored through the review and monitoring of the plan and performance. Further work as part of developing the budget for 2013/14 and later years has focussed on the care cost element and associated cost drivers. A programme of targeted debt recovery action has achieved £1m by December 2012. The Council's Deferred Debt policy is also being reviewed to tighten the controls in place where the Council offers a deferred agreement. See response to Action 3

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<ul style="list-style-type: none"> Consultant engaged to support care cost challenge and undertake 'stress testing' of future savings delivery. <p><u>ICT</u></p> <ul style="list-style-type: none"> Rationalisation of Shared Service staffing levels and targeted VR programme. <ul style="list-style-type: none"> Review of third party spend, cancellation and consolidation of contracts) 	<p>Head of Integrated Strategic Commissioning and Safeguarding</p> <p>Director of Finance and Business Services/ICT Strategy Manager</p> <p>Director of Finance and Business Services/ ICT Strategy Manager</p>	<p>September 2012</p>	<ul style="list-style-type: none"> This work was completed during the summer of 2012 and reported back to the officers of the Council. <ul style="list-style-type: none"> A new Target Operating Model (TOM) has been implemented in April 2012. The new role based structure has a total of 158 FTE. This is a reduction of approximately 72 roles since April 2011. It should also be noted that the new structure includes a number of new skills and roles that were not previously performed in the old operating model. <ul style="list-style-type: none"> A project team comprising representatives from ICT Shared Services, ICT West and ICT East, Stakeholders; and Procurement, Finance and Legal has been setup. Five sourcing groups were set up to reflect the whole of the ICTSS spend, headed by a Core Group Lead. The Core Group Leads have been tasked to identify and report: <ul style="list-style-type: none"> a) The contracts that can be terminated and suppliers to be contacted in accordance with the statutory notice; b) The contracts that can extended or allowed to roll-on; c) The contracts that can be consolidated or aggregated;

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<ul style="list-style-type: none"> Maximisation of partnership and third party income 	Director of Finance and Business Services/ ICT Strategy Manager		<p>d) The contracts that will need to be procured:</p> <ul style="list-style-type: none"> i) new developments ii) renewal of current arrangements <p>e) Identification of potential savings.</p> <p>Reports will be presented to Joint Officer Board and Joint Committee in January/February 2013.</p> <ul style="list-style-type: none"> Work has progressed on the Public Service Network procurement with a view to greatly reducing our operating spend on network provision. Tenders closed on the 02/01/2013 and are currently being evaluated. <p>New contract to run from 01/04/2013.</p> <p>Partners named on the Cheshire and Merseyside PSN are:</p> <ul style="list-style-type: none"> ○ Cheshire West and Chester Borough Council ○ Cheshire East Borough Council ○ Warrington Borough Council ○ St. Helens Metropolitan Borough Council ○ Knowsley Metropolitan Borough Council ○ Wirral Metropolitan Borough Council ○ Cheshire Police Authority ○ Merseyside Police Authority ○ Cheshire Fire and Rescue Service ○ Merseyside Fire and Rescue Service ○ Cheshire and Wirral NHS Partnership Trust ○ Central and Eastern Cheshire PCT ○ Merseytravel

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<p><u>Waste Management</u></p> <p>Service outturn relating to Waste included the one off implementation costs of the new harmonised collection rounds and also redundancy costs. Certain cost pressures remain, attributable to pay harmonisation, fuel inflation and services contracts. Actions in progress include:</p> <ul style="list-style-type: none"> Review of waste fleet provision, including provision and maintenance 	Head of Waste and Recycling/Strategic Fleet Manager	Sept 2012	<ul style="list-style-type: none"> There have been frequent Finance meetings with both Waste and Fleet to develop a detailed Waste & Recycling Fleet forecast, this is updated by Fleet on a monthly basis and feeds into the monthly financial monitoring information reported to Waste & Recycling Service. In addition, Fleet Management is represented at monthly Waste Team meetings to share information on assets and budget implications. Cost pressures have been reported in year through CORVU and quarterly financial monitoring reports to Cabinet and ongoing pressures have been built into 2013-14 business planning.
	<ul style="list-style-type: none"> Review of waste structure, particularly use of agency support 	Head of Waste and Recycling	Sept 2012	<ul style="list-style-type: none"> An exercise to review the current front-line structure costs including cover for sickness and holidays was undertaken in August 2012 and this identified that cover costs could be reduced if a core pool of drivers/loaders were employed on a permanent basis with a lower reliance on external Agency support.

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<ul style="list-style-type: none"> Review of third party spend, contract provisions and revised tonnage forecasts 	Head of Waste and Recycling	Sept 2012	<ul style="list-style-type: none"> With alternative options for service delivery being considered by the Council, including the possible need for TUPE transfer of staff, any change in staffing provision was put on hold until a clearer picture emerged. This exercise identified a current budget shortfall in the 2012-13 which has been reported as part of in year financial reporting and reflected in the 2013-14 business planning. Waste disposal contracts (Landfill and HWRC) are reviewed on a monthly basis in liaison with the Joint Waste Team/Waste/Finance, including both tonnage and financial forecasts – this has been completed since 2009-10. The Waste Strategy team provide a monthly update on both Recyclable material contract tonnage and income and Green Waste tonnage/costs to enable forecasting.
	<p><u>Community Services</u></p> <ul style="list-style-type: none"> Increased car park tariffs and alternative payment options 	Head of Community Services	March 2013	<ul style="list-style-type: none"> Parking Fees have not been increased following a Scrutiny review and in agreement with the Environment Portfolio Holder. Introduction of RingGO (Payment by mobile phone) into 20 car parks across the Borough during 2012 and piloting Card Acceptance Pay and Display machines in Wilmslow and Macclesfield railway station car parks. A further 6 Credit / Debit card machines have been procured for installation during January 2013 helping to reduce cash collection costs.

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	Further action proposed			
	<ul style="list-style-type: none"> Roll out of Financial Reporting Centre to 250 budget managers, and development of capital and payroll forecasting reports. 	Director of Finance and Business Services	Dec 2012	<ul style="list-style-type: none"> The majority of managers have been trained. (See response to Development of Financial Reporting Centre under Action 6, General)
	<ul style="list-style-type: none"> Implementation of revised operating model for client finance 	Strategic Director Children, Families and Adults and Director of Finance and Business Services	April 2013	<ul style="list-style-type: none"> See response to Action 3.
	<ul style="list-style-type: none"> Development of fully costed product/service catalogue for HR and Finance and ICT Shared Service 	Director of Finance and Business Services	December 2012	<ul style="list-style-type: none"> A joint exercise has been undertaken with Cheshire West and Chester Council, and external support, to draw up a detailed client specification and statement of business requirements to formalise the commissioning of services from the HR and Finance and ICT Shared Service. This has included a review of respective roles, responsibilities and service boundaries. This has been shared with Shared Service Managers to help inform development of their product/service catalogues. This work has taken longer than originally anticipated, but should be substantially complete by March 2013.
	<ul style="list-style-type: none"> Capital training module to be added to Corporate Training programme. 	Finance Manager	December 2012	<ul style="list-style-type: none"> Completed (Training events held in November 2012, and scheduled for March 2013)
	<ul style="list-style-type: none"> Strengthening of capital programme governance and monitoring arrangements in accordance with 	Director of Finance and Business Services	September 2012	<ul style="list-style-type: none"> Introduction of Executive Monitoring Board and Technical Enabler Group (Project Gateway).

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<p>Lyme Green Waste Transfer Station project.</p> <ul style="list-style-type: none"> 5 year capital programme planning being developed to ensure affordability and deliverability of medium term investment programme. 	Director of Finance and Business Services	September 2012	<ul style="list-style-type: none"> Further details are available in the Lyme Green update reports to Audit and Governance Committee 27th September 2012 and this meeting of the Audit and Governance Committee (31st January 2013) Incorporated into revised Business Planning process and Project Gateway process.
7	<p>Issue: Shared Services Separate Legal Entity (SLE)</p> <p>Area: <i>The Council has a range of shared services. Of these, it is proposed that the ICT and HR and Finance shared service be set up as a separate legal entity (SLE) to enable greater collaboration and potential increased trading. This arrangement would also allow for employees in those services to be employed on a single set of terms and conditions.</i></p> <p><i>In preparation for the SLE an extensive improvement programme has been undertaken to address performance issues and to stabilise infrastructure and systems. Another outcome was the development of a fit for purpose Target Operating Model to move the services into a company situation. Recruitment to the TOM is currently underway to enable a transition to shadow mode in anticipation of the move to an SLE as it is believed that this will help to minimise risk of failure.</i></p> <p><i>It is anticipated that the SLE Business Case will be approved by Shared Services Joint Committee in the autumn to enable new arrangements to be put in place from 1 April 2013. Existing governance will be reviewed to ensure that this continues to be appropriate to this new way of working.</i></p>			
	<p>The latest Business Case will be subject to informal discussion by the Joint Committee in June 2012. Should Members informally endorse the Business Case, it will then be subject to the formal decision making processes of both Cheshire East and Cheshire West and Chester Councils. This will include formal consideration by the appropriate scrutiny committees of each authority.</p>	Director of Finance and Business Services	On going – to be monitored by Corporate Governance Group during 2012/13	<ul style="list-style-type: none"> A joint workshop was held in October 2012 to review the existing Business Case proposal for a Shared Services SLE. A Strategic Options Appraisal and revised High Level Business Case were presented to the workshop, along with a detailed Market Analysis. Members from both Authorities reaffirmed their commitment to the preferred option of a Shared Service SLE. A report to the Shared Services Joint Committee on 30th November outlined the timelines for the

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
				<p>decision making process.</p> <ul style="list-style-type: none"> Cheshire East Cabinet (7th January 2013) deferred the report on the Shared Services SLE to February 2013 Cabinet pending the receipt of further information and the arrangement of an All Member Briefing. Cheshire West and Chester Executive (9th January 2013) agreed to the Shared Service Joint Committee's recommendations subject to the agreement of Cheshire East Council.
8	Issue: Data Protection breach			
	<p>Area: The Council was issued with a monetary penalty notice by the Information Commissioner's Office (ICO) for a breach of the Data Protection Act. The Council reported the breach to the ICO following an incident reported in May 2011, where an email containing sensitive personal information was sent to a wider audience than intended. A number of improvements to processes have subsequently been made.</p>			
	<p>Following the monetary penalty notice received in January 2012, the Chief Executive signed an undertaking with the Information Commissioner. The requirements of the undertaking included updating policy, introducing various organisational and technical measures and giving training to members and officers.</p> <p>Actions already implemented</p> <ul style="list-style-type: none"> Data Protection Policy amended and updated. Data Sharing Protocol and guidance leaflet published. ICT Security policies updated. Increased use of secure e-mail facilities. 	CMT/Data Protection Officer	On going – to be monitored by Corporate Governance Group during 2012/13.	<ul style="list-style-type: none"> A Paper Records Policy has been developed and published, and the Data Sharing Policy and Personal Data definition leaflet are in development. The use of DP liaison officers is being reconsidered as the existing network of DP contacts across the organisation is working well. Member training has been offered on a voluntary basis, and consideration to mandatory training will be given. Awareness raising continues with articles in Team Talk, responses to questions on the Team Talk Back message board and induction training sessions held. A further report on Data Protection will be taken to this meeting of the Audit and Governance Committee (31st January 2013).

2011/12 AGS Action Plan – Progress at January 2013

No.	Actions	Responsibility	Target Date	Position at January 2013
	<ul style="list-style-type: none"> • Training delivered to managers and members • E-learning modules introduced. • Mandatory training for all members of staff as part of Personal Development Plan. • Establishment of Data Protection Liaison Officer within services. • Concerted communications campaign including Team Talk articles, refresh of intranet pages, separate DP e-mail address etc. <p>Actions in progress</p> <ul style="list-style-type: none"> • Development of Data Sharing Policy, Paper Record Policy, Personal Data Definition leaflet, standard paragraphs to be used by services restricting further distribution of information etc. • Further training for members planned. • Other targeted training, awareness sessions planned. • Continued establishment of DP Liaison Officers. 			

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2013
Report of:	Chief Executive/Director of Finance and Business Services
Subject/Title:	Treasury Management Strategy and MRP Statement 2013/14
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

- 1.1 To present the proposed 2013/14 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2013/16, required under Part 1 of the Local Government Act 2003.

- 1.2 Treasury Management is defined as:

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

2.0 Recommendation

To note the Treasury Management Strategy and the MRP Statement for 2013/14 set out in Appendix A.

3.0 Reasons for Recommendation

- 3.1 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2013/14. The Strategy for 2013/14 reflects the views on interest rates of leading market forecasts provided by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.
- 3.2 The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

4.0 Wards Affected

- 4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications including – Carbon Reduction, Health

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 Effective Treasury Management provides support towards the achievement of service priorities, it allows the Council to invest in capital projects without any limit as long as it can demonstrate that its capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury decisions are taken in accordance with good practice.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 It is a requirement of the CIPFA's Treasury Management in the Public Services: Code of Practice, that Council receives an Annual Report on its Treasury Strategy, that Council sets Prudential Indicators for the next three years and approves an Annual Investment Strategy and an Annual MRP Policy Statement. There are stringent legislative requirements in place which dictate the way that a local authority deals with financial administration.

9.0 Risk Management

9.1 The steps outlined in this report will significantly mitigate the main legal and financial risk to the council's financial management:

- a. That council borrowing will comply with the Treasury Management Strategy

10.0 Background and Options

10.1 The Treasury Management Strategy set out in Appendix A is also reported to the Cabinet before being presented to Full Council for approval on 21st February 2013.

10.2 The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year capital spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard for longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise.

10.3 A comprehensive review of the capital programme has been undertaken during 2012/13 with the intention of making substantial savings and focussing on initiatives with the highest priority. The key aim of the challenge to the existing programme has been to:

- Realign capital expenditure with corporate priorities;

- Cap the cost of financing the capital programme by reducing the need for future borrowing;
 - Create financial & non-financial capacity to enable new schemes to come forward;
 - Reassess business cases, particularly for investment projects.
- 10.4 In addition to the review of the capital programme, a balance sheet efficiency review has also been undertaken with the Council's treasury advisors, Arlingclose. This review aims to establish the most cost effective method of financing the capital programme and make adequate provision for the repayment of debt in future years. The review has considered the previous three financial years to form a view on the adequacy of the Council's reserves and working capital positions, as well as a projection of the expected position at the end of the following four financial years.
- 10.5 The methodology for applying capital receipts to finance capital expenditure has been considered as part of the review. An option available to the Council is to use capital receipts it currently holds in reserve and apply them to finance capital expenditure which has taken place in previous years and has been met from borrowing. This method is available to Council's wishing to use capital receipts to reduce debt repayment charges to revenue.
- 10.6 The application of the capital reserve will be undertaken in 2012-13 and will be used to repay £15m of borrowing for assets purchased after 2008 that are being written down over the various asset lives. The impact will be to reduce the level of revenue provision required for the repayment of debt in 2013-14 and future years by an estimated £2.4m.
- 10.7 In 2013/14 and future years, capital receipts in line with the Corporate Capital Receipts Policy will not be linked in any form to individual assets. Receipts will be fully applied to fund the capital programme in the year they are generated and the Council will not hold capital receipts in reserve on the balance sheet.
- 10.8 The savings in the short term on debt repayment charges will be off-set by increased debt repayment costs in future years as available capital receipts have been exhausted and future financing plans are realigned. New investment in the capital programme will need to be funded from borrowing to a greater extent in the future and therefore debt repayments may increase in the longer term.
- 10.9 The forecast for future capital receipts has remained at a prudent level for 2013/14 and therefore receipts of £10m will be made available to fund schemes within the 2013/14 programme.
- 10.10 The Council currently has external borrowing of £134m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 3.96%). This provides a degree of certainty to the capital financing budget. Currently long term interest rates are around 4.1%.
- 10.11 Within the Treasury Management Strategy, the Council will continue to minimise borrowing by making use of internal balances. This not only

minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low. Given the current low interest rate environment is expected to continue throughout 2013/14 and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.

- 10.12 The budgeted provision for the repayment of debt in the year 2013/14 has been broadly calculated as 4% of the estimated outstanding debt at the end of the year 2012/13. This is based on the assumption that debt will generally be repaid over 25 years. Where assets are to be funded from prudential borrowing, debt repayments are profiled over the estimated life of the specific asset in question.
- 10.13 The Council has undertaken prudential borrowing to fund £14m of new starts in 2013/14. The Council is conscious of the impact of repayment costs on the revenue budget and has only considered schemes where capital investment is required to secure long term revenue savings and repayment costs are affordable.
- 10.14 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used (estimated at £66 million) is budgeted to be 0.5%.

Capital Financing Budget 2013/14

Capital Financing Budget	2012/13 Original £m	2012/13 Revised £m	2013/14 £m
Repayment of Outstanding Debt	9.5	9.2	6.9
Contribution re: Schools TLC Schemes	-0.8	-0.8	-0.9
Direct Revenue Funding	0.0	0.5	0.4
Interest on Long Term Loans	6.4	5.3	5.7
Total Debt Repayment	15.1	14.2	12.1
Less: Interest Receivable on Cash Balances	-0.3	-0.3	-0.2
Net Capital Financing Budget	14.8	13.9	11.9

- 10.15 Cheshire East inherited investments made by the former Cheshire County Council with Heritable Bank, which went into administration in October 2008. Any expected losses associated with this were accounted for by Cheshire County Council in their accounts in 2008/2009. As at 31st March 2012 the balance sheet included investments with Heritable Bank of £0.8m of which £0.3m has since been repaid to Cheshire East BC. The remainder is expected to be received in instalments ending in April 2013 although this may be delayed due to ongoing litigation. The accounts currently provide for recovery of 88% of the original investments.
- 10.16 The principal changes to the 2013/14 Treasury Strategy have been:
- The addition to the lending list of further Non-UK banks although these are kept under continual review and can be deleted or added to as credit

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

The revision to the credit criteria, once approved by Council for use in 2013/14, will also apply to the residual period of 2012/13.

- The addition to the lending list of Registered Providers. Typically these are Registered Social Landlords managing large quantities of housing stock.
- Following changes to CIPFA's guidance, the prudential indicator for net debt and capital financing requirement has been replaced with gross debt and the capital financing requirement. This has also resulted in the removal of the indicator 'Gross and Net Debt'.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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Designation:	Corporate Finance Lead
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Appendices:

Appendix A – Treasury Management Strategy Statement & Investment Strategy 2013/14 – 2015/16

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Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16

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- 1. Background**
- 2. Capital Financing Requirement**
- 3. Interest Rate Forecast**
- 4. Borrowing Strategy**
- 5. Sources of Borrowing and Portfolio Implications**
- 6. Debt Rescheduling**
- 7. Annual Investment Strategy**
- 8. Investment Strategy**
- 9. Policy on Use of Financial Derivatives**
- 10. 2013/14 MRP Statement**
- 11. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**
- 12. Other Items**

Annexes

- A. Existing Investment & Debt Portfolio Position (Section 2.2)**
- B. Prudential Indicators**
- C. Economic & Interest Rate Forecast (Sections 4.1 & 5.1)**
- D. Current Recommended Sovereign and Counterparty List**
- E. Non- Specified Investments for use by the Council**
- F. MRP Statement 2013/14**

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 CLG's Investment Guidance.
- 1.2. As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of its Council on 23rd February 2012.
- 1.3. The purpose of this TMSS is, therefore, to approve:
 - revisions to Treasury Management Strategy and Prudential Indicators for 2012/13
 - Treasury Management Strategy for 2013/14
 - Annual Investment Strategy for 2013/14
 - Prudential Indicators for 2013/14, 2014/15 and 2015/16 (Annex B)
 - MRP Statement (Annex F)
- 1.4. The Authority has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

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 currently has £159m of debt and £99m of investments. This is set out in further detail at **Annex A**.
- 2.3 **Money Borrowed in Advance of Spending Need:** The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. 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 forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs), which can be found in Annex B. 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

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
General Fund CFR	196	227	253	260
Less: Existing Profile of Borrowing	-124	-118	-107	-98
Less: Other Long Term Liabilities	-23	-22	-21	-20
Cumulative Maximum External Borrowing Requirement	49	87	125	142
Usable Reserves	-37	-38	-38	-43
Cumulative Net Borrowing Requirement/(Investments)	12	49	87	99

3. Interest Rate Forecast

- 3.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the moribund outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the problems that stalk the Eurozone - and that resolution requires full-scale fiscal union which faces many significant political hurdles - then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.
- 3.2 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at **Annex C**. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

- 4.1 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. 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. The cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

- 4.2 As indicated in Table 1, the Authority has a gross and net borrowing requirement and will be required to borrow up to £64m in 2013/14. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

5. Sources of Borrowing and Portfolio Implications

- 5.1 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Authority will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- European Investment Bank (*NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria*)
- Leasing
- Structured finance
- Capital markets (stock issues, commercial paper and bills)
- Commercial banks

- 5.2 The cost of carry has resulted in an increased reliance upon shorter dated borrowing and consideration of variable rates for new 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 significant narrowing in the spread (e.g. by 0.50%) 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.

- 5.3 The Authority has £17m exposure to LOBO loans (Lender's Option Borrower's Option) of which the whole £17m can be "called" within 2013/14. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

- 5.4 Other sources of borrowing will also be considered where it is advantageous to do so (e.g reduced rate or interest free loans in connection with project funding such as Energy Efficiency Loans Scheme for Highways LED lights).

6. Debt Rescheduling

- 6.1 The Authority's debt portfolio can 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.
- 6.2 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 or repayment would be one or more of the following:
- Reduce investment balances and credit exposure via debt repayment
 - Align long-term cash flow projections and debt levels
 - Savings in risk adjusted interest costs
 - Rebalancing the interest rate structure of the debt portfolio
 - Changing the maturity profile of the debt portfolio
- 6.3 Borrowing and rescheduling activity will be reported to the Cabinet in the Annual Treasury Management Report and the regular treasury management reports presented to the Audit and Governance Committee.

7. Annual Investment Strategy

- 7.1 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 is secondary, followed by the yield earned on investments which is a tertiary consideration.
- 7.2 The Authority and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.
- 7.3 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.

- 7.4 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	✓	✓
Investments with Registered Providers	✓	✓
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	✓	×

Further details can be found in **Annex D & E**.

- 7.5 Registered Providers (RPs) have been included within specified and non-specified investments for 2013/14. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing.
- 7.6 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Annex E, the Director of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The other credit characteristics, in addition to credit ratings, that the Authority monitors are listed in the Prudential Indicator on Credit Risk (PI 12, page 21).

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Specifically credit ratings are monitored by the Authority on a *daily/weekly/monthly* basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

The countries and institutions that currently meet the criteria for investments are included in **Annex D**.

- 7.7 **Authority's Banker** - The Authority banks with Co-operative Bank. At the current time, it does not meet the Authority's minimum credit criteria. Despite the credit rating being below the Authority's minimum criteria, Co-operative Bank will

continue to be used for short term liquidity requirements (overnight and instant access investments) and business continuity arrangements.

- 7.8 The Authority may also grant loans at market rates to businesses where it is considered necessary to achieve the policy objectives of the Authority or where it is a condition for receipt of funds. A current example is the Growing Places Scheme where £13m is currently held by the Authority. Approval for any such schemes and the criteria for agreeing these loans will be obtained from the appropriate committee and will not, therefore, fall within the scope of the Treasury Management Strategy.

8. Investment Strategy

- 8.1 With short term interest rates low for some time, 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.

- 8.2 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

- 8.3 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 mitigate operational risk by utilising at least two MMFs. 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. In the case of the CCLA Public Sector Deposit Fund the maximum amount invested will be the higher of £1m or 0.5% of the net asset value of the fund. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

8.4 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.

- 8.5 Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. Since May 2011, the Authority currently has investments of £20m in Pooled Funds with Investec; their performance and continued suitability in meeting the Authority's investment objectives are regularly monitored. Performance in the first 12 months was not as good as expected being adversely affected by the European debt crisis. However, since then performance has improved and the fund has started producing higher returns than in house investments.

9. Policy on Use of Financial Derivatives

- 9.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are

not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

- 9.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 9.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 9.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

10. 2013/14 MRP Statement

- 10.1 The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP). This year's policy can be found in Annex F of this report.

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

- 11.1 The Director of Finance and Business Services will report to the Audit and Governance Committee on treasury management activity/performance and Performance Indicators as follows:
- Quarterly 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.
 - The Audit and Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

12. Other Items

12.1 Training

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

Treasury management staff will have regular access to training opportunities to ensure they are fully up to date with developments. This will be delivered by a combination of workshops provided by Arlingclose and CIPFA technical updates.

Treasury management training for those members charged with governance was provided in 2012/13 and updates will also be arranged during the 2013/14 financial year.

12.2 Treasury Management Advisors

The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- Etc.

The Authority maintains the quality of the service with its advisors by holding *quarterly* meetings and tendering periodically.

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

	02/01/13 Actual Portfolio £m	02/01/13 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	117	3.89%
PWLB - Variable Rate	0	-
LOBO Loans	17	4.49%
Total External Borrowing	134	3.96%
Other Long Term Liabilities:		
PFI	22	-
Finance Leases	3	-
Total Gross External Debt	159	-
Investments:		
<i>Managed in-house</i>		
Short-term investments	79	0.67%
Long-term investments	0	-
<i>Managed externally</i>		
Fund Managers	0	-
Pooled Funds (<i>please list</i>)	20	1.03%
Total Investments	99	0.74%
Net Debt	60	-

Annex B

Prudential Indicators revisions to 2012/13 and 2013/14 - 2015/16

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. Gross Debt and the Capital Financing Requirement:

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

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Director of Finance reports that the Authority had no difficulty meeting this requirement in 2012/13, 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.

Capital Expenditure	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total	83.9	57.0	113.0	83.1	28.9

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital receipts	14.3	10.0	10.0	5.0	0.0
Government Grants	36.1	31.2	42.1	21.3	2.6
Other Grants/ Contributions	0.2	2.0	22.7	20.7	8.4
Revenue contributions	0.6	0.5	0.1	0.0	0.0
Total Financing	51.2	43.7	74.9	47.0	11.0
Supported borrowing	1.8	1.6	0.0	0.0	0.0
Unsupported borrowing	30.9	11.7	38.1	36.1	17.9
Total Funding	32.7	13.3	38.1	36.1	17.9
Total Financing and Funding	83.9	57.0	113.0	83.1	28.9

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

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	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Total	6.01	5.64	4.58	5.35	6.23

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority'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 financing.

Capital Financing Requirement	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total CFR	233	196	227	253	260

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 31/03/2012	£m
Borrowing	134
Other Long-term Liabilities	25
Total	159

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 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	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	6.02	0.00	11.92	10.77

8. Authorised Limit and Operational Boundary for External Debt:

- 8.1 The Authority 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 Authority and not just those arising from capital spending reflected in the CFR.
- 8.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt 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 Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.
- 8.3 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).
- 8.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.5 The Operational Boundary links directly to the Authority'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.

	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Authorised Limit for Borrowing	245	208	240	267	275
Authorised Limit for Other Long-term Liabilities	23	23	22	21	20
Authorised Limit for External Debt	268	231	262	288	295
Operational Boundary for Borrowing	235	198	230	257	265
Operational Boundary for Other Long-term Liabilities	23	23	22	21	20
Operational Boundary for External Debt	258	221	252	278	285

9. Adoption of the CIPFA Treasury Management Code:

- 9.1 This indicator demonstrates that the Authority 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 Council meeting on 23 rd February 2012.

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

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

10.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).

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

	Existing level (or Benchmark level) at 02/01/13 %	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	0%	100%	100%	100%	100%	100%

10.3 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 Authority's treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing:

11.1 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.

11.2 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.

11.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment. As all LOBOs are can be called within 12 months the upper limit for borrowing maturing within 12 months has been increased from 25% to 35% to allow for the value of LOBOs and any potential short term borrowing that could be undertaken in 2013/14.

Maturity structure of fixed rate borrowing	Existing level as at 02/01/13 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
under 12 months	17%	0%	35%
12 months and within 24 months	8%	0%	25%
24 months and within 5 years	15%	0%	35%
5 years and within 10 years	15%	0%	50%
10 years and within 20 years	16%	0%	100%
20 years and within 30 years	9%	0%	100%
30 years and within 40 years	9%	0%	100%
40 years and within 50 years	11%	0%	100%
50 years and above	0%	0%	100%

12. Credit Risk:

12.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

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

12.3 The Authority 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.

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

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

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

Upper Limit for total principal sums invested over 364 days	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
	40%	40%	40%	40%	40%

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

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	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		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
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
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
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	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
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	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	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
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
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

Underlying Assumptions:

- Consumer Price Inflation has fallen to 2.7% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 - 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The US 'fiscal cliff' was avoided with a last-minute compromise between Congress and the White House averting automatic tax rises and spending cuts. However, the problem remains and has merely been delayed rather than resolved.
- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT programme, slow progress towards banking union) which has placated markets and curtailed some of the immediate risks although peripheral countries continue to struggle. Full-fledged banking and fiscal union is still some years away.

**Annex D - Current Recommended Sovereign and Counterparty List as at 17/12/2012
(Section 8)**

Please complete with your own authority's limits for investments and duration:

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)¹	Maximum Maturity Limit (negotiable instrument)²
UK	Co-operative Bank (for banking & liquidity purposes only)	15% up to £15m	Overnight	N/A
UK	Santander UK Plc (Banco Santander Group)	15% up to £15m	2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	15% up to £15m	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	15% up to £15m	2 years	5 years
UK	Barclays Bank Plc	15% up to £15m	2 years	5 years
UK	HSBC Bank Plc	15% up to £15m	2 years	5 years
UK	Nationwide Building Society	15% up to £15m	2 years	5 years
UK	NatWest (RBS Group)	15% up to £15m	2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	15% up to £15m	2 years	5 years
UK	Standard Chartered Bank	15% up to £15m	2 years	5 years
Australia	Australia and NZ Banking Group	15% up to £15m	2 years	5 years
Australia	Commonwealth Bank of Australia	15% up to £15m	2 years	5 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	15% up to £15m	2 years	5 years
Australia	Westpac Banking Corp	15% up to £15m	2 years	5 years
Canada	Bank of Montreal	15% up to £15m	2 years	5 years
Canada	Bank of Nova Scotia	15% up to £15m	2 years	5 years
Canada	Canadian Imperial Bank of Commerce	15% up to £15m	2 years	5 years

¹ 2 years is the maximum approved duration for term deposits and illiquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the authority's treasury management adviser.

² 5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Authority may be investing for shorter periods depending on operational advice of the authority's treasury management adviser.

Canada	Royal Bank of Canada	15% up to £15m	2 years	5 years
Canada	Toronto-Dominion Bank	15% up to £15m	2 years	5 years
Finland	Nordea Bank Finland	15% up to £15m	2 years	5 years
Finland	Pohjola	15% up to £15m	2 years	5 years
France	BNP Paribas	15% up to £15m	2 years	5 years
France	Credit Agricole CIB (Credit Agricole Group)	15% up to £15m	2 years	5 years
France	Credit Agricole SA (Credit Agricole Group)	15% up to £15m	2 years	5 years
France	Société Générale	15% up to £15m	2 years	5 years
Germany	Deutsche Bank AG	15% up to £15m	2 years	5 years
Netherlands	ING Bank NV	15% up to £15m	2 years	5 years
Netherlands	Rabobank	15% up to £15m	2 years	5 years
Netherlands	Bank Nederlandse Gemeenten	15% up to £15m	2 years	5 years
Singapore	DBS Bank Ltd	15% up to £15m	2 years	5 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	15% up to £15m	2 years	5 years
Singapore	United Overseas Bank (UOB)	15% up to £15m	2 years	5 years
Sweden	Svenska Handelsbanken	15% up to £15m	2 years	5 years
Switzerland	Credit Suisse	15% up to £15m	2 years	5 years
US	JP Morgan	15% up to £15m	2 years	5 years
UK/Ireland/ Luxembourg	AAA rated Money Market Funds (CNAV and VNAV)	25% subject to fund size (see paragraph 8.3) Limit of 50% in all funds	Instant Access	N/A

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.

Group Limits - For institutions within a banking group, the authority applies the limit applicable to the individual limit of a single bank within that group.

Annex E - Non-Specified Investments

Instrument	Maximum maturity	Max % of portfolio	Capital expenditure?	Example
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	25%	No	
Term deposits with local authorities	5 years	No limit	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	5 years	25%	No	
Investments with banks and building societies which do not meet the specified investment criteria (on advice from TM Adviser and authority from S151 Officer)	3 months	25%	No	
Deposits with registered providers	5 years	25%	No	
Gilts	10 years	100%	No	
Bonds issued by multilateral development banks	10 years	50%	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	10 years	50%	No	
Money Market Funds and Collective Investment Schemes	These funds do not have a defined maturity date	50%	No	Investec Target Return Fund;
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	10 years	25%	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent	These funds do not have a defined maturity date	50%	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund

amendments				
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Annex F - MRP Statement 2013/14

CLG's Guidance on Minimum Revenue Provision (issued in 2010) places 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.

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.

MRP in 2013/14: 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.

The MRP Statement will be submitted to Council before the start of the 2013/14 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 will apply **Option 2** in respect of supported Non-HRA capital expenditure funded from borrowing and **Option 3** in respect of unsupported Non-HRA capital expenditure funded from borrowing.

And

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January, 2013
Report of:	Head of Performance, Customer Services and Capacity
Subject/Title:	Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004)
Portfolio Holder:	Councillor David Brown

1.0 Report Summary

- 1.1 This report provides an update on how Cheshire East Council fulfils its obligations under Data Protection (DP) and Freedom of Information (FOI) legislation (including the Environmental Information Regulations (EIR)). It also highlights volumes of requests, trends and current and future issues.

2.0 Decision Requested

- 2.1 That the Committee notes the arrangements in place to ensure compliance with the legislation.

3.0 Reasons for Recommendations

- 3.1 In order to form an opinion on the Council's compliance with this legislation, the Audit and Governance Committee needs to gain assurance that there are effective arrangements in place to fulfil FOI, EIR and DP requests and that future issues are being anticipated and effectively managed.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including carbon reduction and health

- 6.1 Compliance with FOI and DP legislation is integral to effective management of information within the Authority. FOI legislation and Environmental Information Regulations make public bodies open and transparent, whilst DP legislation protects personal data from improper use. It is essential, therefore, that all relative policies and procedures take account of these regulations.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 7.1 Failure to comply with the legislation can lead to large fines being imposed on the Council. The current maximum penalty for breach of Data Protection or non-compliance is £500,000. Non-compliance with Freedom of Information can lead to enforcement action by the Information Commissioner or possibly costly court proceedings and reputational damage.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The legislation covered by this report forms the core of information law within England and contains detailed provisions with which public bodies, including the Council, must comply. The Information Commissioner is the regulator for these matters and there are regulatory powers, including criminal sanctions, which can be used in cases of non-compliance. Some details of the implications of the legislation are contained in this report.

9.0 Risk Management

- 9.1 The impact on the Council of not complying with the legislation would be significant, as identified above in 7.1.

10.0 Background and Options

- 10.1 The tables below show the number and sources of requests received in 2012 (Jan-Dec), and the Services/Directorates to which they related. Figures are provided for 2011 for comparison.

Table 1

TYPE OF REQUEST	2012	2011	%age increase
FOI/EIR requests	1487 ¹	1343	10.7%
DP requests	467 ²	421	10.9%
TOTAL	1954	1764	10.8%

¹ In addition to these requests, the Council received 863 property search requests, which are treated as requests under EIR.

² 269 of the requests were requests to Council Tax from various public authorities requesting confirmation of address details.

Table 2

SOURCE	2012	2011
Individuals	37%	36%
Public Sector	20%	26%
Commercial	18%	17%
Press/Media	13%	15%
Pressure Groups	5%	4%
'What do they know' ³	5%	-
MP's/Councillors	2%	2%

Table 3

SERVICE/DEPARTMENT	2012	2011
Places	35%	27%
Finance	29%	34%
People	26%	23%
HR	4%	8%
Legal and Democratic Services	3%	5%
Performance, Capacity and Customer Services	2%	3%
Shared Services	1%	-

10.2 Freedom of Information Requests

FOI requests need to be responded to within the statutory timescale of 20 working days, and any recorded information held by the Council can be requested. Information may include electronic and paper records, handwritten notes, videos, photographs, e-mails and even diaries. This is very popular legislation, and, if we fail to comply, there would be significant reputational damage. One of the reasons for the implementation of the legislation was to provide information to stimulate the economy, and, also, with the transparency agenda, the public have high expectations of the 'right to know'.

We cannot charge a fee for FOI requests, but can charge for the cost of photocopying and postage. We cannot charge for electronic information. However, if the request is a large and/or complex one and would result in 18 hours of officer time being spent to locate, collate and extract the information, then we can charge £450.00 + £25 per additional hour, or refuse the request. However, if a request is refused, we are obliged to offer 'advice and assistance' to the requestor on how they might reformulate the request.

The release of commercially sensitive information is an area which causes services some concern. The guidance from the Information Commissioner is that information about contracts (including price) should be released, as there is a strong public interest in how public money is spent. However, if to release information would cause commercial damage, and companies are able to present sound arguments outlining

³ Website dedicated to Freedom of Information requests

the damage which would be likely to ensue, we would consider withholding information.

Where information is not to be released, a refusal notice is issued by the Compliance Team, citing the appropriate exemption under the Act, which permits the information to be withheld. In most cases, it must be further considered whether refusal best serves the public interest. Requestors have a right of internal appeal against the decision, followed by external appeal to the Information Commissioner if they remain unhappy with the outcome.

The Information Commissioner is responsible for upholding the right of access to official information held by public bodies, and there are various sanctions he can impose for failure to comply, with ultimately an enforcement notice submitted to the Supreme Court. Failure to comply is classed as contempt.

10.3 Environmental Information Regulations

The Environmental Information Regulations are a separate set of regulations, made under the European Communities Act 1972, but being similar in effect to the Freedom of Information Act, in terms of imposing a fundamental obligation to disclose information which does not fall into any exemption category; they apply to all information related to the environment, e.g. Planning, Land Charges, Highways. There is a presumption in favour of release of such information, and decisions not to release are difficult to uphold.

10.4 Referrals to Information Commissioner during 2012

Four cases were referred to the Information Commissioner during 2012. Two of these progressed to full investigations. In one case, our decision to withhold information was upheld, but the second case was decided in favour of the requestor.

10.5 Protection of Freedoms Act 2012

The Protection of Freedoms Act 2012 has extended rights under the Freedom of Information Act by requiring that datasets are made available in a reusable format. This is in accordance with Government initiatives to increase transparency within the public sector, to ensure that all data published by public bodies is in an open and standardised format, so that it can be re-used easily, and with minimal cost, by third parties.

10.6 Review of Freedom of Information Act

In 2012 the Parliamentary Justice Select Committee conducted the first post legislative scrutiny review of the Freedom of Information Act. The outcome of the review was summarised by the Committee Chair:

“Freedom of Information has enhanced the UK’s democratic system and made our public bodies more open, accountable and transparent. It has been a success and we do not wish to diminish its intended scope or effectiveness.”

Consequently, there will be only minor changes in the legislation (it is anticipated that legislation will be brought forward in 2013 to make it marginally easier to refuse repeated time-consuming requests).

10.7 Data Protection Subject Access Requests

Any request for personal information is classed as a Subject Access Request and we are able to charge the requestor £10. We have 40 calendar days in which to respond. These requests are frequently complex and time intensive. Many of these requests are for access to Social Care records.

10.8 Data Protection Breach

In January 2012 the Council was issued with a monetary penalty notice by the Information Commissioner's Office for a breach of the Data Protection Act. The Council reported the breach following an incident reported in May 2011, where an e-mail containing sensitive personal information was sent to a wider audience than intended. Following the penalty notice, the Chief Executive signed an undertaking with the Information Commissioner, the requirements of which included updating policies, introducing various organisational and technical measures and giving training to members and officers.

During 2012, a significant amount of training was delivered and a large number of improvements were made to policies and processes, to minimise the likelihood of such breaches in the future. Details of the actions already taken, together with ongoing and future actions, are included in the updated Annual Governance Statement 2011/12 Action Plan Progress Report

10.9 Information Assurance

An Information Assurance Framework has been produced and published on the intranet. This includes policies, processes, governance arrangements, guidance materials and training, with a view to:

- ensuring that information is dealt with legally, securely and efficiently
- assuring the quality, confidentiality, integrity and availability of all information

The policy sets out Cheshire East Council's commitment to ensuring transparency, whilst minimising the risk of information being compromised, and providing people with confidence that their personal information is being properly handled.

11.0 Access to Information

- 11.1 The background papers relating to this report can be inspected by contacting the report writer:

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January, 2013
Report of:	Head of Performance, Customer Services and Capacity
Subject/Title:	Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review for the year ended 31 st March 2012
Portfolio Holder:	Councillor David Brown

1.0 Report Summary

- 1.1 This report provides a summary of the complaints received by Cheshire East Council and also those dealt with by the Local Government Ombudsman (LGO) about Cheshire East Council for the period 1st April 2011 to 31st March 2012.

2.0 Recommendation

- 2.1 That having regard to the parameters of the Committee's terms of reference as outlined in this report, the Committee notes this report and makes any further response it considers appropriate.

3.0 Reasons for Recommendation

- 3.1 The LGO received 116 enquires and complaints relating to the Council during the year, 63 of which were forwarded onto the Investigative Team for formal investigation.
- 3.2 The Customer Relations Team received 1,421 corporate complaints during the same time period. In addition, Adult Services received 146 and Children's Services received 90. The Council also received 645 compliments (861 in 2010/11) and 95 suggestions (247 in 2010/11).

4.0 Wards Affected

- 4.1 All

5.0 Local Ward Members

- 5.1 All

6.0 Policy Implications including Carbon and Health

- 6.1 Adherence to the Corporate Compliments, Suggestions and Complaints Policy is key to ensuring that service users have an effective means of feeding back about our services, so that we understand what we are doing well and where we may need to improve the standard of services we deliver.

7.0 Financial Implications

- 7.1 If maladministration causing injustice is found, Cheshire East Council can be asked to pay compensation to a complainant. A compensation payment is also possible where a matter is settled prior to a formal finding by the Ombudsman.

8.0 Legal Implications (authorised by the Borough Solicitor)

- 8.1 The Committee's terms of reference, as set out in the Constitution, include the following:
- ensuring the Council has in place appropriate policies and mechanisms to safeguard the Council's resources, and
 - seeking assurance that customer complaint arrangements are robust.
- 8.2 The Committee's role in considering this report is to determine what, if any, action it should take to further the above aims.

9.0 Risk Management

- 9.1 In addition to other measures within the Council's management structure, the remit of this Committee contributes towards the management of risk in handling complaints, and the promotion of good practice.

10.0 Background and Options

- 10.1 The table below details enquiries submitted to the Local Government Ombudsman's Office over the past two years.

Service	Informally Investigated 2011/12	Formally Investigated 2011/12	Informally Investigated 2010/11	Formally Investigated 2010/11
Adult Services	19	14	16	11
Housing Benefits & Council Tax	12	6	11	1
Corporate & Other Services	4	3	8	2
Education & Children's Services	21	13	16	11
Environmental Services & Public Protection & Regulation	9	4	9	3

Highways & Transport	7	3	11	3
Housing	3	2	5	3
Planning & Development	41	18	31	15
Other	-	-	4	1
Total	116	63	111	50

10.2 Of the 63 enquiries which were formally investigated and concluded in 2011 – 2012; 10 related to the previous year. The Local Government Ombudsman is still investigating 8 enquiries made in the 2011 – 2012 period.

10.3 In 10 of the cases, Local Settlements were reached. None of these has been highlighted as a cause for concern.

A Local Settlement is when an authority takes or agrees to take action that the Local Government Ombudsman considers to be a satisfactory response. This can be either one or all of the following: a change in procedures, an apology, a compensation payment.

10.4 The outcome of the remaining formal investigations was as follows:

Not investigated	25
Discontinued - not enough evidence of fault	16
Discontinued- no or minor injustice and other	12

10.5 The following table details the total complaints received by the Council during 2011/12, with the figures for 2010/11 included for comparison:

Service Area	Number of Complaints Received 11/12	Number of Complaints Received 10/11
Waste & Recycling North	316	308
Waste & Recycling South	308	179
Streetscape & Bereavement	18	83
Environmental Protection	10	17
Parking Enforcement	30	32
Spatial Planning, Building Control & Land Charges	17	15
Development Management North	37	83
Development Management South	82	75
Housing Strategy	7	20
Highways & Transportation	70	23
Regeneration	28	19
Library Services	13	44
Cultural Facilities & Events, Arts Heritage	7	14
Leisure Facilities (inc Development)	67	82
Green Spaces	8	40
Customer Services (inc Web Site)	104	83
Housing Benefit Service	51	109
Council Tax & Business Rates Service	185	165

Legal & Democratic Services	8	30
Assets	5	
Other	28	39
Adults (non-statutory complaints)	5	9
Children's (non-statutory complaints)	17	15
Total Corporate Complaints 2010/11	1421	1484
Complaints to Adults Services 2010/11	146	148
Complaints to Children's Services 10/11	90	50

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 31st January 2013
Report of: Head of Internal Audit
Title: Internal Audit Interim Report 2012/13
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2012/13, revisions to the plan and to summarise work during the second and third quarters of 2012/13 (see Appendix A).

2.0 Recommendation

- 2.1 That the Committee note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2012/13 and discuss future audit issues and ways of working as appropriate.

3.0 Reasons for Recommendation

- 3.1 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report, due in June 2013.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications

- 7.1 The internal audit team must be appropriately staffed and resourced to comply with statutory and best practice requirements. The current team is particularly lean, with no current Head of Internal Audit, and a Senior Auditor has recently left the Authority with no replacement currently planned.

8.0 Legal Implications

- 8.1 The requirement for an internal audit function is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2011 requiring a relevant body to “undertake an adequate and effective internal audit ...”

9.0 Risk Assessment

- 9.1 The Authority is required to maintain an adequate and effective system of internal audit in accordance with Regulation 6 of the Accounts and Audit Regulations 2011. Failure to consider the effectiveness of its system of internal audit, and the opinion on Council’s control environment, could result in non- compliance with the requirements of the Regulations.

10.0 Background and Options

- 10.1 The Code of Practice for Internal Audit in Local Government in the United Kingdom states that, “in addition to the annual report”, the Head of Internal Audit “should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 10.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.

11.0 Access to information

The background papers relating to this report can be inspected by contacting the report writer:

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Internal Audit Interim Report 2012/13**1 Introduction**

- 1.1 In accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom, the second Internal Audit Interim Report 2012/13 for Cheshire East contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 1.3 This interim report contains the following:
- a summary of the audit work in 2012/13, and specifically that carried out in the second and third quarters (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (Section 3)
 - comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)
 - other developments (Section 6).

2 Summary of Audit Work 2012/13

- 2.1 This is the second 2012/13 interim report on progress against the Internal Audit Plan, following the previous report in September 2012. A summary comparison of the 12/13 Audit Plan with Actuals for Quarters 1-3 is shown below (with comments on variances).

Summary Comparison of Audit Plan 2012/13 and Quarter 1-3 Actuals

Area of Plan	Plan	Actual	Comments on coverage
Corporate Governance/AGS.	4%	6%	Higher than planned due to Internal Audit leading on a number of areas within Corporate Governance work programme.
Key Financial Systems	6%	12%	Higher number of days than planned. Includes some testing of systems so that External Audit may place reliance on work for 11/12 audit.
Shared Services	12%	3%	Key systems work undertaken. Planned work on Separate Legal Entity (SLE) lower than planned as decision delayed.
Corporate Cross-Service	12%	19%	Higher than planned including additional coverage on areas highlighted through

Internal Audit Interim Report 2012/13

Area of Plan	Plan	Actual	Comments on coverage
			AGS and Lyme Green work e.g. Procurement/Schemes of Delegation.
Children, Families & Adults	18%	17%	Broadly as planned. Focus of work in Quarters 2 and 3.
Places & Organisational Capacity	9%	8%	Broadly as planned. Focus of work in Quarters 2 and 3.
Partnerships	3%	1%	Further work planned in Quarter 4.
Anti Fraud and Corruption	12%	18%	10% is proactive and 8% is reactive work.
Special Project	0%	7%	Lyme Green work.
Consultancy & Advice/Improvement & Compliance	9%	9%	Management requests broadly as planned.
Contingency	12%	0%	At end of third quarter, 93% of 12/13 contingency of 200 days used.
Follow Up	3%	0%	Follow up work is charged against the project in question. Coverage is on schedule.
Total	100%	100%	

- 2.2 During the second and third quarters, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers.

2012/13 Audits with formal assurance level

- 2.3 During 2012/13, Internal Audit introduced a new report format, including for the first time, a formal audit assurance level. A summary of the reports produced in the first three quarters of 2012/13 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments):

Assurance Level	Audit Reports Issued 2012/13 Quarter 1-3
Good	0
Satisfactory	13
Limited	9
No	1

- 2.4 Internal Audit are required to provide opinions as part of each individual report as well as on the overall adequacy of governance, risk management and control within the organisation (timed to support the Annual Governance Statement).
- 2.5 The assurance levels reported in the table above include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) e.g. Housing Benefits, Procurement and opinions on individual business processes

Internal Audit Interim Report 2012/13

or activities within a single organisation, department or location (micro-level opinion) e.g. Social Care establishment, Library.

- 2.6 At the macro level, satisfactory assurance, with regard to the risks identified within the terms of reference, has been given in all cases, except the following which have been given limited assurance, and covered in the following paragraphs:
- Procurement (2.7)
 - Duplicate Payments (2.8)
 - Purchase Cards (2.9)
- 2.7 The Procurement audit focussed on a number of procurement exercises undertaken across the whole Authority and by its nature examined historical processes, some of which have since changed. The majority of findings and recommendations in the report are already known to management and many of the actions have already been put in place or are planned i.e. through the Lyme Green Action Plan work.
- 2.8 The Duplicate Payments audit report summarises findings and actions from a recent review by Internal Audit. As it is a review based on exceptions i.e. duplicate payments, the 'limited' assurance is unsurprising. This was a 'pre-review' before an external company carried out its own review, for which it receives a commission for any duplicate payments identified and recovered. The combined reviews have identified in excess of £400,000 in potential duplicate payments of which over £250,000 has so far been recovered, with recovery work ongoing. There are a number of control weaknesses identified in the internal audit report and East management has responded to all actions, although in some cases these are dependent on Shared Services implementing the recommendation.
- 2.9 A review of the Purchase Card systems and procedures was carried out recently as a proactive anti-fraud audit. The audit concluded that there was 'limited assurance' and a number of recommendations have been made aimed at improving the control environment. These were reported to Corporate Management Team in September 2012, with Heads of Service responsible for implementing a number of actions.
- 2.10 At the micro level, assurance in the majority of cases is limited because improvements are required in some or all of the following areas: cashing up procedures, authorisation of expenses, contract monitoring and payments and the review of purchase card transactions. In many cases, this is expected as, in the majority of instances, management were aware of control issues prior to the audit commencing.
- 2.11 The Third Sector Payments audit led to 'no assurance' being given. There were significant weaknesses found in contract management and compliance with Finance and Contract Procedure Rules and EU regulations. This has been through the Non Compliance procedure (as described in a report to Committee in September 2012) with approval at CMT and Portfolio Holder

Internal Audit Interim Report 2012/13

level. Progress on the action plan is being monitored through the Directorate's Senior Management Team and Internal Audit will review as part of planned follow up work.

- 2.12 Management has responsibility for ensuring that the agreed actions for improvement are implemented. Internal Audit will obtain assurance that actions have been implemented, particularly with regard to those that are deemed high priority. Therefore, the matters discussed in this part of the report are not being escalated to Members for further action. Members' interest should be restricted to gaining an assurance that the organisation's system of internal control is adequate and that, where audit does not consider this to be the case, action is taken to ensure that any shortcomings are rectified promptly.

Follow Up audit work

- 2.13 All internal audit work is subject to follow up and this is carried out in a number of different ways:

- Major pieces of audit work, such as the Lyme Green Report and the Annual Governance Statement have detailed action plans which are monitored and reported separately to the Committee.
- Key systems audits, such as Payroll, Accounts Payable, Council Tax etc. are carried out on an annual basis and recommendations are followed up as part of the next year's audit.
- Investigations – the form of follow up is dependent on the nature of the investigation and the resultant recommendations e.g. follow up audit carried out on request of management.
- Formal assurance audits (see 2.14 and 2.15)

- 2.14 In the previous interim report to Committee in September 2012, Internal Audit reported back that although agreement of recommendations continued to be near 100%, implementation within agreed timescales was far lower with approximately two thirds of recommendations 'slipping' beyond the original agreed timescale. Feedback from Managers for reasons on these slippages fall under a number of different headings, including:

- Resource issues – lack of staff/'day job' has taken priority etc.
- Change in Manager/Service restructure since original audit
- Implementation of recommendations is dependent on other factors, outside Manager's direct control e.g. Shared Services/new system etc.

- 2.15 Internal Audit have now further developed the follow up procedure, reported in the last interim report, whereby managers self assess recommendations implemented. A number of follow ups have been carried out in this way and the results have been positive although again there has been some slippage in implementation, due to reasons mentioned above. In some cases, audit recommendations are also being superseded by those same events e.g. local restructure. This is unsurprising and given the level of change the Council is facing in the coming months, this is likely to increase.

Internal Audit Interim Report 2012/13Additional audit work

2.16 Internal Audit assisted management in discharging their duties through the provision of support, advice and guidance in a number of areas throughout the quarter. Such work does not always result in a formal audit report although it does contribute to the overall audit opinion. Examples of this include:

- Technical Enabler Group work
- National Fraud Initiative work
- Grant sign off work
- Accountable body work e.g. Growing Places Fund
- Shared Services SLE work
- Oracle Access Rights Review
- Client Finance Review
- Empower Audit Task Team work
- School Financial Value Standard work
- 'Think Twice' monitoring
- Consultancy and Advice on Policy, Procedures & Compliance

Counter Fraud

2.17 Work has continued in preparation for the receipt of National Fraud Initiative data matches which are due to be released on 29 January 2013. Following receipt of the matches Internal Audit will coordinate and monitor the investigation of matches by services in addition to carrying out the investigations into a number of the Payroll and Creditors matches.

2.18 Internal Audit has produced a draft Fraud Risk Assessment that is currently being shared with managers in order to identify any additional risks and also to document the controls that are in place to mitigate the risks of fraud. Upon completion of this exercise the assessment will be considered by Corporate Risk Management Group and circulated to members of the Member/Officer Sub Group. The completed Risk Assessment will inform the proactive anti fraud work in the 2013/14 Audit Plan.

2.19 Internal Audit has also assisted management in carrying out a small number of investigations into potential financial irregularities, further details of which will be discussed at the next Member/Officer Fraud Sub Group.

Reliance placed on work by other assurance bodies

2.20 Assurance is placed on the work of the Audit Commission, OFSTED, and other external bodies where appropriate. Work was included in the 2012/13 plan to further map the assurance framework of the Council as a whole, and in certain specific areas such as Education/Schools.

3 Annual Governance Statement 2011/12 & 2012/13

3.1 In compiling the AGS, significant issues that are considered to fall short of the expected standards are commented on in the Statement. The AGS has an

Internal Audit Interim Report 2012/13

action plan to address these issues which includes actions already in place along with other planned actions. In a number of these areas, Internal Audit is already involved in ensuring that improvements are being implemented and time has been allocated in the 12/13 Audit Plan to review the other areas. Progress against the 11/12 AGS Action Plan is being monitored by Internal Audit and is reported back to the Committee at this meeting.

- 3.2 As with previous years, those audits given 'limited assurance' and 'no assurance' are considered as part of the AGS process.

4 Internal Audit Performance

- 4.1 The Internal Audit establishment was significantly reduced to reflect the savings required as part of the 2011/12 budget settlement. The current team is particularly lean, with no current Head of Internal Audit, and a Senior Auditor has recently left the Authority with no replacement currently planned.

Performance Indicators

- 4.2 Internal Audit has a number of Performance Indicators that are measured and reported on:

Performance Indicator	2012/13 Target	2012/13 Qtr 1-3 Actual	2011/12 Actual	Comments
Percentage of Audits completed to user's satisfaction	90%	95%	90%	Above target. Any below average scores or feedback is looked at by the Audit Managers.
Percentage of significant recommendations agreed	85%	96%	98%	Above target.
Productive Time (of Chargeable Days)	80%	84%	86%	Above target.
Draft report produced promptly (per Client Satisfaction)	90%	87%	85%	Still slightly below target but positive movement.

- 4.3 In addition, feedback on the new audit report format was also sought via an additional client questionnaire and results showed that the new format with audit opinion had been positively received.

5 Compliance with Code of Practice for Internal Audit

- 5.1 In accordance with the Regulations the performance of Internal Audit has been measured using the checklist appended to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The review, completed by Audit Managers concluded that, although there are areas for

Internal Audit Interim Report 2012/13

improvement (as detailed in the Annual Report to Committee in June 2012), the internal audit service is being delivered to the required standard.

- 5.2 This review contributed to the assurances received for the AGS 2011/12 and was shared with Committee Members as part of the training workshop in September 2012. An updated version of this review has also been given to External Audit to form part of their 2012/13 work.

6 Other Developments

- 6.1 The Public Sector Internal Audit Standards (PSIAS) come into effect on 1 April 2013. The new standards reaffirm the importance of robust, independent and objective internal audit arrangements in providing senior management with the assurance that they require to support the management of the organisation and the production of the Annual Governance Statement.
- 6.2 These are the first unified set of public sector internal audit standards and CIPFA are due to provide additional guidance on the implementation of the new standards in March 2013. The current Internal Audit Terms of Reference and Internal Audit Strategy will be reviewed against the PSIAS in line with the CIPFA guidance, with a view to bringing a report to this Committee in June 2013.
- 6.3 Cheshire East has been exploring opportunities around regional collaboration and Internal Audit has been involved in discussions in 2012 with its partners within the Cheshire and Warrington Sub Region around working together and how best to share information and pool limited resources, where possible. Further work will be carried out with partners as part of the 13/14 internal audit planning process.

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 31st January 2013
Report of: Chief Executive / Director of Finance & Business Services
Title: Work Plan 2012/13
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

1.0 To present an updated Work Plan to the Committee for consideration.

2.0 Recommendation

2.1 That the Committee

(1) consider the Work Plan and determine any required amendments;

(2) note the changes to the plan since it was last discussed in September 2012; and

(3) note that the plan will be periodically brought back to the Committee for development and approval.

3.0 Reasons for Recommendations

3.1 The Audit and Governance Committee has a key role in overseeing and assessing the risk management, control and corporate governance arrangements and advising the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to ensure that the Committee fulfils its responsibilities.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

- 7.1 When reviewing the Work Plan, Members will need to consider the resource implications of any reviews they wish to carry out both in terms of direct costs and in terms of the required officer support.

8.0 Legal Implications

- 8.1 The Work Plan must take account of the requirements of the Accounts and Audit Regulations 2011.

9.0 Risk Assessment

- 9.1 Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an effective audit committee can:

- raise awareness of the need for robust risk management, control and corporate governance arrangements and the implementation of audit recommendations
- increase public confidence in the objectivity and fairness of financial and other reporting
- reinforce the importance and independence of internal and external audit and any other similar review process
- provide additional assurance through a process of independent and objective review

- 9.2 A comprehensive Work Plan is necessary to ensure that the Committee fulfils its responsibilities.

10.0 Background and Options

- 10.1 A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities has been attached at Appendix A of this report. The Committee is asked to consider the contents of the Work Plan and establish any additional agenda items/training/briefing sessions that will enable it to meet its responsibilities. In doing so it should be noted that the following changes have been made to the programme that was discussed in September 2012:

- On 27th September the Audit and Governance Committee considered the Audit Commission's Annual Governance Report (AGR), including recommendations for improvement. The Council's response (Action Plan) to the recommendations was referred to in

the meeting, with the expectation that the Committee would consider the response at this meeting. However, it should be noted that Cabinet approved the Council's response to the AGR recommendations in December 2012.

- The approved response was published as an appendix to the Audit Commission's Annual Audit Letter that was noted by Council in December 2012.
- Consequently, progress against the Action Plan is included on this agenda together with the Annual Audit Letter.

10.2 Furthermore, the Committee is asked to note that:

- the Public Sector Internal Audit Standards (PSIAS) come into effect on 1 April 2013
- CIPFA will provide guidance on the application of the new standards in the form of the Local Government Application Note (due in March 2013)
- It is therefore our intention to carry out a review of the current Internal Audit Terms of Reference and Internal Audit Strategy against the standards and guidance with a view to bringing a report to Committee in June 2013.

10.3 Following the resolution of this Committee in September 2012 the Work Programme has been discussed in the specialist Member/Officer groups. However, further discussion is necessary in order to draft a Work Programme for 2013/14 that can be presented to Committee in March.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
27 September 2012	
External Audit – Annual Governance Report 2011/12	The Committee considered the report presented by External Audit and resolved that the report be noted including the adjustments to the financial statements and four high level recommendations identified within the report. The draft letter of management representation set out in Appendix 4 to the Annual Governance Report was also approved.
Annual Report 2011/12	The Committee considered a draft of its first Annual Report to Council and resolved that, subject to a number of minor amendments to dates in the report, it be approved for submission to Council.
Financial Statements 2011/12	The Financial Statements for 2011/12 were approved.
Final AGS 2011/12	The Annual Governance Statement for 2011/12 was approved subject to four minor amendments.
Governance Framework and Code of Corporate Governance Update	The update to the Code of Corporate Governance was approved subject to a minor addition to Principle 1 and the ongoing work on the Council's Governance Framework was noted. It was also agreed that members would be informed as to whether training would be provided to new Crewe Town Councillors.
Internal Audit Interim Report	The Committee considered the report and resolved that the issues identified in Appendix A to the report be noted, and endorsed the approach identified to achieving adequate audit coverage in the remainder of 2012/13.
Anti Fraud and Corruption Update	The report was noted.
Treasury Management Update Report	The Committee considered a report on the Council's treasury management operation, with details of the activities undertaken in 2011/12 and the first quarter of 2012/13
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	The report was noted and it was resolved that Key Corporate Risk 15 – Reputation would be considered at the January 2013 meeting along with an update report on the Financial Control Risk.
Standards Issues and Planning Protocol	The report was noted and the appeals procedure in relation to complaints under

Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
	the Member Code of Conduct was agreed along with the general dispensations for all Members of Cheshire East Council and co-opted members. The Committee also recommended that Council approve the proposed amendments to the Planning Protocols subject to two amendments.
Contract Regulations	The Committee considered the report and noted the revised procedure and update on Delegated Decisions and Non-Compliances. It was also noted that further reports will be brought to the Committee as part of the regular monitoring of the Annual Governance Statement Action Plan and the appropriate member/officer working group will be invited to consider specific examples of delegated decisions and non-compliance.
Lyme Green Action Plan	The Quarterly progress report on Lyme Green Action Plan was considered and Committee resolved that it be approved subject to an amendment of action ref C5 to provide that this matter would be considered by the relevant Policy Development Group.
Work Plan	The Committee considered the updated Work Plan and resolved that the changes made to it since the last meeting, be noted and that consideration be given to the length of future agendas and whether any additional meetings of the Committee should be included in the Calendar of Meetings.
31 January 2013	
Progress Report/Annual Audit Letter	Progress against the action plan that has been developed in response to the Audit Commission's Annual Governance Report. Together with the Audit Commission's Annual Audit Letter.
External Audit Fees and presentation	Specifies the level of audit fees. An update on the new external audit arrangements will be presented for information.
Financial Statements -12/13 Progress Report	Progress on preparation of the 12/13 Financial Statements.
Internal Audit Interim Report	Progress against the Internal Audit Plan 12/13.
Draft Treasury Management Strategy Report	Consider draft Treasury Management Strategy, before approval by Council in

Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
	February 2013. A short presentation will cover the main points at summary level.
Data Protection and Freedom of Information Update	Update on Data Protection and Freedom of Information issues including volumes of requests and trends.
AGS – Update on 11/12 Action Plan & 12/13 Process	Progress to date on the 11/12 AGS Action Plan and suggested approach for the 12/13 AGS for approval.
Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 11/12	Summary of the complaints received by the Council and also those dealt with by the Local Government Ombudsman about the Council for 11/12.
Risk Management Update Report	Update report on Risk Management arrangements.
Lyme Green Action Plan	Quarterly progress report on Lyme Green Action Plan.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
28 March 2013	
External Audit – Certification of Claims & Returns	Annual report on the issues, amendments and qualifications arising from certification work of grant claims and returns.
Internal Audit Plan 13/14	Approval of risk based Internal Audit Plan for following year.
Audit Committee Self Assessment	Self assessment of the effectiveness of the Committee, which feeds into the AGS process.
Whistleblowing Policy Update	Periodic assurance on effective operation of Whistleblowing Policy.
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management, including Business Continuity and attendance by a Corporate Risk Owner to explain their mitigation plan.
Lyme Green Action Plan	Quarterly progress report on Lyme Green Action Plan.
Regulation of Investigative Powers Act (RIPA)	Any potential updates of the requirements of the RIPA legislation and actions to ensure the Council complies.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.

**Audit & Governance Committee
Work Plan**

Committee Date/Agenda Item	Description
	<i>The following items may, subject to requirement, be presented to the Committee.</i>
Insurance	Where necessary, overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies.
Anti Money Laundering	Consideration of any updates to the Anti Money Laundering Policy and assurance from management that measures are operating effectively.