

# Audit and Governance Committee

## Agenda

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**Date:** Thursday, 30th January, 2014  
**Time:** 2.00 pm  
**Venue:** Committee Suite 1,2 & 3, Westfields, Middlewich Road,  
Sandbach CW11 1HZ

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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 total period of 10 minutes is allocated for members of the public to address the Committee on any matter relevant to the work of the Committee.

Individual members of the public may speak for up to 5 minutes but the Chairman 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 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.

It is not required to give notice of the intention to make use of public speaking provision, however, as a matter of courtesy, a period of 24 hours notice is encouraged.

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For requests for further information

**Contact:** Cherry Foreman

**Tel:** 01270 686463

**E-Mail:** [cherry.foreman@cheshireeast.gov.uk](mailto:cherry.foreman@cheshireeast.gov.uk) with any apologies

4. **Minutes of Previous meeting** (Pages 1 - 12)

To approve as a correct record the minutes of the meeting held on 28 November 2013.

5. **External Audit Update Report** (Pages 13 - 24)

To receive and comment on the update report of Grant Thornton, the external auditors.

6. **External Audit Certification Report 2012/13** (Pages 25 - 38)

To receive and comment upon the key findings in the Certification Report prepared by Grant Thornton, the external auditors.

7. **Internal Audit Interim Report 2013/14** (Pages 39 - 54)

To receive a report on progress against the Internal Audit Plan for 2013/14, revisions to it, and a summary of work during the third quarter.

8. **Treasury Management Strategy and Minimum Revenue Provision Policy Statement 2014/15** (Pages 55 - 82)

To consider the 2014/15 Treasury Management Strategy Statement, incorporating the Minimum Revenue Provision Policy Statement, Investment Strategy, and the Prudential and Treasury Indicators 2014/17.

9. **Compliance with the Data Protection Act (1988), Freedom of Information Act (2000), and Environmental Information Regulations 2004** (Pages 83 - 88)

To receive an update on how Cheshire East Council fulfils its obligations under the above legislation, and to consider the volume of requests, trends and current and future issues.

10. **Review of New CIPFA Guidance on Audit Committees** (Pages 89 - 108)

To consider the view of CIPFA on the role and functions of an audit committee.

11. **Risk Management Update Report** (Pages 109 - 132)

To consider a summary of risk management work carried out since the last meeting.

12. **Proposed Governance, Stewardship and Control Arrangements for Alternative Service Delivery Vehicles** (Pages 133 - 142)

To consider the proposed governance, stewardship and control arrangements for the Alternative Service Delivery Vehicles being created by the Council.

13. **Work Plan 2013/14** (Pages 143 - 150)

To consider the Work Plan for the Committee.

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**CHESHIRE EAST COUNCIL**

Minutes of a meeting of the **Audit and Governance Committee**  
held on Thursday, 28th November, 2013 at Committee Suite 1,2 & 3, Westfields,  
Middlewich Road, Sandbach CW11 1HZ

**PRESENT**

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

Councillors S Corcoran, R Fletcher, S Hogben M Simon and B Murphy.

**Councillors in attendance:**

Councillors J Hammond and P Rayne.

**Officers in attendance:-**

S Antrobus – Senior Lawyer  
P Bates – Chief Operating Officer  
C Mann – Finance Manager  
J Robinson – Audit Manager  
N Taylor – Audit Manager  
A Thompson – Finance Lead, Strategy and Funding  
J Wilcox – Corporate Finance Lead

**External Auditor : -**

Stephen Nixon

**28 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors M Hardy, D Marren and L Roberts; also from Councillor B Moran as Portfolio Holder for Performance.

**29 DECLARATIONS OF INTEREST**

There were no declarations of interest.

**30 PUBLIC SPEAKING TIME/OPEN SESSION**

No members of the public were present.

**31 MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 27 September 2013 were considered and it was requested that recommendation (2) of Minute 27 (Work Plan 2013/14) be amended to read January 2014 instead of September 2013.

**RESOLVED**

That the minutes of the meeting held on 27 September 2013 be approved as a correct record subject to recommendation (2) of Minute 27 (Work Plan 2013/14) being amended to read January 2014 instead of September 2013.

**32 ANNUAL REPORT 2012/13**

Consideration was given to the draft Annual Report of the Committee for 2012/13 prior to its submission to full Council on 12 December. There is a requirement in the Council's Constitution for the Audit and Governance Committee to submit an annual report to Council to demonstrate how they have fulfilled their terms of reference and to account for their performance. CIPFA guidance states that certain key aspects be included such as the Committee's membership; a summary of activity including key topics, decisions and recommendations; and a review of the Committee's effectiveness including any external assessment results and development activity undertaken such as training and networking. The CIPFA guidance also stated that annual reports should be publicly available, readable and accessible.

**RESOLVED**

That the Annual Report 2012/13 be approved for submission to Council.

**33 ANNUAL AUDIT LETTER 2012/13**

Consideration was given to the External Auditors' findings from the 2012/13 audit of the Council's financial statements, arrangements to secure value for money and the certification of grant claims and returns; the detailed reports had been presented to the Committee at its last meeting.

The Annual Audit Letter, appended to the report, had been prepared to meet the requirements set out in the Statement of Responsibilities of Auditors.

**RESOLVED**

That the Annual Audit Letter be received and noted.

**34 2012/13 AUDIT FINDINGS AND ACTION PLAN**

Consideration was given to the management response to the 2012/13 Audit Findings Report which had been presented by the Council's External Auditors, Grant Thornton, to the Committee at its meeting on 28 September 2013.

The auditors had given an unqualified opinion on the accounts and concluded that the Council's arrangements for securing value for money were adequate. The specific recommendations of the auditors were set out in Appendix 1 of the report along with the responses of managers which, in being developed, had paid due regard to the need for the actions to be robust, realistically deliverable within agreed timescales, and proportionate taking into account the level of priority.

In considering the recommendations of the auditors and the associated management response particular discussion ensued on the budget process, on which a resume was given of the various sessions and working groups held to date, and on governance and risk management arrangements with regard to the emerging Alternative Service Delivery Vehicles (ASDV's) (Appendix 1, point 12). The Chief Operating Officer reported that he wished to strengthen this management response by adding "That a report outlining the proposed governance and stewardship arrangements and particularly the overall control environment for the operation of the new Alternative Service Delivery Vehicles is brought to the Audit and Governance Committee's next meeting in January 2014". This was agreed although a number of Members considered that there should be an all Members briefing prior to the next meeting of the Committee.

The Committee was advised that this was outside the remit of the Committee but it was moved and seconded that: -

*This Committee recommends an all Member briefing on governance issues relating to Alternative Service Delivery Vehicle's in advance of the next Audit and Governance Committee meeting.*

In addition it was moved and seconded that there be a named vote on this recommendation. The voting was recorded as follows: -

For the motion: - Councillors B Murphy, S Hogben, S Corcoran and R Fletcher.

Against the motion: - Councillors J Wray, L Brown and M Simon. (Councillor L Brown asked for it to be recorded that she had voted against the motion as it was outside the remit of the Committee.)

The motion was, therefore, carried.

The Committee then further requested that there be a report back to a future meeting on the terms of reference of the Committee.

## **RESOLVED**

1. That there be an all Member briefing on governance issues relating to Alternative Service Delivery Vehicle's in advance of the next Audit and Governance Committee meeting.
2. That there be a report back to a future meeting of the Committee on its terms of reference.

## **35 EXTERNAL AUDIT UPDATE**

Consideration was given to an update from the External Auditors on progress in delivering their responsibilities; their report highlighted topical issues and developments and also included a number of challenge questions for the Committee to consider in respect of emerging issues.

The External Auditor reported that, in response to the Council's request for the evidence to be provided earlier in the year, work would begin on the value for money conclusion in January 2014. Alternative Service Delivery Vehicles, and

the budget setting process, would be looked at along with various other areas of work.

**RESOLVED**

That the update report be received and noted.

**36 GOVERNANCE FRAMEWORK, CODE OF CORPORATE GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT - UPDATE**

Consideration was given to the Council's Code of Corporate Governance and ongoing work in that area; and to progress achieved in relation to the Annual Governance Statement 2012/13 Emerging Issues and Action Plan, including agreement of the process for its production.

**RESOLVED**

1. That approval be given to the update to the Council's Code of Corporate Governance, detailed in Appendix A of the report.
2. That ongoing work on the Council's Governance Framework, detailed in Appendix B of the report, be noted.
3. That progress in relation to the Emerging Issues and Action Plan published in the Annual Governance Statement 2012/13, detailed in Appendix C of the report, be noted.
4. That the process for the production of the 2013/14 Annual Governance Statement be endorsed.

**37 INTERNAL AUDIT INTERIM REPORT 2013/14**

Consideration was given to progress against the Internal Audit Plan 2013/14, revisions to it, and to a summary of work carried out during the first six months of the year. In accordance with the Public Sector Internal Audit Standards Local Government Application Note the report addressed emerging issues in respect of those areas to be covered in the annual report so as to ensure there were no surprises and to assist management in drafting the Annual Governance Statement for 2013/14.

The Committee was informed that with reduced audit resource the plan was naturally focussed on 'high risk' areas, leading to assurance levels at the lower end of the scale. Following the half year review and re-prioritisation of the audit plan key audit areas for the remainder of the year were to be Alternative Service Delivery Vehicles and project health checks.

It was reported that this had been discussed at the relevant Member/Officer Group and that there were no outstanding issues.

**RESOLVED**

That the issues identified be noted and the approach to achieving adequate audit coverage in the remainder of 2013/14 be endorsed.

### **38 INTERNAL AUDIT CHARTER**

The Committee was requested to consider the adoption of an Internal Audit Charter in accordance with Public Sector Internal Audit Standards and the relevant Local Government Application Note. A draft Charter had been considered by the Committee at its last meeting and, in the light of comments received, it had been amended and was now presented for approval.

The Charter formally defines the purpose, authority and responsibility of the internal audit activity within the Council. It was noted that this had been discussed in the relevant Member/Officer Group and that there were no outstanding issues.

#### **RESOLVED**

That approval be given to the Internal Audit Charter.

### **39 ANTI-FRAUD AND CORRUPTION ARRANGEMENTS - UPDATE**

Consideration was given to progress in implementing key actions to ensure arrangements were in place to protect the Council against the threat of fraud. At its meeting in September 2012 the Committee had considered the findings of a review of the Council's arrangements against 'Fighting Fraud Locally'. An action plan had now been produced and this report provided Members with an update on progress in implementing key actions in order to provide assurance that appropriate arrangements were in place to protect the Council against the threat of fraud.

Members welcomed the action plan and requested that an annual fraud report be submitted to the Committee on an annual basis.

#### **RESOLVED**

That the report be noted and that an annual fraud report be submitted to the Committee on an annual basis.

### **40 ANNUAL REPORT OF CORPORATE COMPLAINTS AND THE LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW 2012/13**

Consideration was given to a summary of the feedback received via the Complaints, Compliments and Suggestions process between April and September this year, and of cases concerning the Council that had been dealt with by the Local Government Ombudsman in that same period. A comparison was made with the same period in the previous year in order to identify any emerging trends.

The most frequent complaints to the Council were noted. Members requested clarification of the way in which complaints were dealt with for an Alternative Service Delivery Vehicle (ASDV). They were advised that complaints are made to the Council, passed on to the company to investigate, with a report then being made back to the Council; it was likely that this approach would continue to be the model followed for new ASDV's.

The Committee asked for their thanks to be passed on to all staff for efforts taking to reduce complaints.

**RESOLVED**

That, having regard to the parameters of the Committee's terms of reference the report be noted and that staff be thanked for their effort in reducing the number of complaints received.

**41 WORK PLAN 2013/14**

Consideration was given to the Committee's work plan for 2013/14. Requests were made for the following additions to be made: -

- Terms of Reference of the Committee – January 2014
- Governance of Alternative Service Delivery Vehicles – January 2014

With reference to minute 27 of the last meeting it was agreed that arrangements be made for the newly formed Standards Working Group, comprising Councillors Wray, L Brown, Hardy and Hogben, to meet as soon as possible.

**RESOLVED**

That the work plan be approved subject to the above mentioned additions.

The meeting commenced at 10.00 am and concluded at 1.00 pm

Councillor J Wray (Chairman)

**AUDIT AND GOVERNANCE COMMITTEE**  
**PROGRESS WITH ACTIONS AGREED OR REPORTED**  
**AT PREVIOUS MEETINGS**

**REPORTED FOR INFORMATION ONLY**

MINUTE NUMBER AND ACTION	PROGRESS	COMPLETED
<p><b>49 EXTERNAL AUDIT PLAN 2012/13 (28/03/13)</b>            It was agreed that that the emerging issues from the Audit Plan would be considered at the relevant Member/Officer groups.</p>	<p>Emerging issues were discussed at the November and January Member Officer Group meetings. Further discussion is planned for the next meeting of the Fraud Member Officer Group.</p>	<p>In progress</p>
<p><b>50 INTERNAL AUDIT PLAN 2013/14 (28/03/13)</b>            It was agreed that</p> <ul style="list-style-type: none"> <li>• When a more detailed audit plan is available it will be shared with the specialist Member groups appointed by the Committee.</li>   <li>• Once guidance has been published all aspects of service delivery will be reassessed to ensure that there is proper migration to the new requirements and audit documents will then be updated to reflect the revised obligations.</li> </ul>	<p>The Audit Plan is shared with Members as part of the annual and interim internal audit update reports to the Committee.</p> <p>Report on new standards considered at meeting on 27/06/13. An annual assessment of the arrangements against the Standards forms is part of the Annual Governance Statement process.</p>	<p>Yes</p> <p>Yes</p>
<p><b>51 AUDIT AND GOVERNANCE SELF ASSESSMENT (28/03/13)</b>            Agreed that the detailed outcome of the review of the system of Internal Audit will be considered by the Committee as part of the Annual Governance Statement approval process.</p>	<p>Draft AGS discussed at Committee on 27/6/13 with final AGS due to be agreed on 27/9/13. Review included as part of evidence pack distributed to Members.</p>	<p>Yes</p>

ACTION	PROGRESS	COMPLETED
<p><b>52 WHISTLEBLOWING (28/03/13)</b>            Agreed that a further review of the Policy be carried out in 2013/14 and that it would include a survey of staff awareness and views on the arrangements.</p>	<p>Update report is included on the Work Plan for March 2014. Staff survey to be completed following the introduction of an e-learning package.</p>	<p>In progress.</p>
<p><b>53 RISK MANAGEMENT UPDATE (28/03/13)</b>            Agreed that</p> <ul style="list-style-type: none"> <li>• The Committee identify an area of risk on which to receive a briefing at the next meeting; Commissioning and Services Delivery Chains was duly identified.</li> <li>• The Risk Register from the Welfare Reform Working Group be brought to the next meeting.</li> </ul>	<p>The Executive Director of Strategic Commissioning attended the meeting on 27/06/13 to brief members on this.</p> <p>Risk Register from the Welfare Reform Working Group made available to the Committee.</p>	<p>Yes 27/06/13</p> <p>Yes 27/06/13</p>
<p><b>55 COMPLIANCE WITH REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) (28/03/13)</b>            That a report be submitted to the Committee on the Inspectors findings and recommendations following his visit on 2 May 2013.</p>	<p>Considered at the meeting on 27/06/13</p>	<p>Yes 27/06/13</p>
<p><b>56 WORK PLAN 2012/13 (28/03/13)</b>            Agreed that</p> <ul style="list-style-type: none"> <li>• A report be brought to the Committee on the provision of training for Standards Hearings and on whether the agreed processes for dealing with complaints under the Members Code of Conduct should be reviewed.</li> <li>• That there be a report to the Committee on insurance arrangements for elected members.</li> </ul>	<p>Deferred, to come forward in March 2014.</p> <p>To be referred to the Corporate Risk Management Group for incorporation in their report, and to the Insurance Team, and to come forward in due course.</p>	

ACTION	PROGRESS	COMPLETED
<p><b>5 INTERNAL AUDIT ANNUAL REPORT 2012/13 (27/06/13)</b>            Agreed that the Chief Operating Officer discuss concerns regarding compromise agreements with the appropriate HR Officer or Member Group.</p>	<p>(Rachel Musson) Discussed this with the Chief Executive and with the CLB and was advised that any agreements are managed on a case by case basis.</p>	<p>Yes 27/09/13</p>
<p><b>6 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13 and 13 WORKPLAN 2013/14 (27/06/13)</b>            That the Chief Operating Officer report back on the most appropriate forum to measure and monitor improvement of organisation of culture.</p>	<p>Rachel Musson - Discussed with the Chief Executive and the Leader who advised that this will be dealt with by Cabinet and the CLB.</p>	<p>Yes 27/09/13</p>
<p><b>7 DRAFT STATEMENT OF ACCOUNTS 2012/13 (27/06/13)</b>            That information on earmarked reserves and the schools balances be forwarded to Members.</p>	<p>This information was circulated on 01/07/2013.</p>	<p>Yes 1/07/13</p>
<p><b>8 ANNUAL REPORT ON RISK MANAGEMENT (27/06/13)</b>            That the Corporate Risk Management Group, the Chairman, the Executive Director of Strategic Commissioning and Cllr Marren consider further the most appropriate way of including the allocation of a measurement/score of risk on all on all written reports.</p>	<p>In progress, discussed at the Corporate Risk Management Group and to be discussed with the Corporate Leadership Team.</p>	<p>In progress</p>
<p><b>9 AUDIT COMMITTEE UPDATE (27/06/13)</b>            That detailed financial information around emerging issues and developments be circulated to Members direct.</p>	<p>Circulated to Committee Members on 1/07/2013</p>	<p>Yes 1/07/2013</p>
<p><b>10 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER UPDATE (27/06/13)</b>            That further updates be brought to the Committee as and when necessary.</p>	<p>-</p>	<p>Yes 27/09/13</p>

ACTION	PROGRESS	COMPLETED
<p><b>13 WORK PLAN 2013/14 (27/06/13)</b> That the Monitoring Officer, the Member/Officer Group and Cllr Marren discuss further the appropriateness of the requested Cardiff Review of 6 procurement invoices and report back to the Committee in due course.</p>	<p>The issue was discussed at the relevant Member Officer Group and it was decided not to proceed with this at this particular time.</p>	<p>Yes 15/11/14</p>
<p><b>23 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER UPDATE (27/06/13)</b> That the finalised documents be considered by the Committee at its meeting on 28/11/13</p>	<p>The Committee approved the Internal Audit Charter on 28 November and further updates will be brought to the Committee as and when necessary.</p>	<p>Yes 28/11/13</p>
<p><b>25 RISK MANAGEMENT UPDATE (27/09/13)</b> CR9 – Workforce identified as the risk for consideration at the next meeting of the Committee.</p>	<p>As the meeting on 28/11/13 had been convened to deal with specific items of business this is on the agenda for the meeting in January 2014.</p>	<p>In progress</p>
<p><b>26 COMPLIANCE WITH CONTRACT PROCEDURE RULES (27/09/13)</b> That further reports on the process, and its robustness be brought to the Committee as part of the regular monitoring of the Annual Governance Statement Action Plan.</p>	<p>A further report will be submitted on 27 March 2014.</p>	
<p><b>34 2012/13 AUDIT FINDINGS ACTION PLAN (28/11/13)</b> 1. That there be an all Member briefing on governance issues relating to Alternative Service Delivery Vehicle's in advance of the next Audit and Governance Committee. 2. That there be a report back to a future meeting of the Committee on its terms of reference.</p>	<p>Actioned.  To be included on January 2014 Agenda.</p>	<p>17/12/13  In progress</p>

ACTION	PROGRESS	COMPLETED
<p><b>39 ANTI-FRAUD AND CORRUPTION ARRANGEMENTS – UPDATE (28/11/13)</b> That an annual fraud report be submitted to the Committee on an annual basis.</p>	<p>To be completed during the 2014/15 financial year.</p>	
<p><b>40 ANNUAL REPORT OF CORPORATE COMPLAINTS AND THE LOCAL GOVERNMENT OMBUDSMAN’S ANNUAL REVIEW 2012/13 (28/11/13)</b> That staff be thanked for their effort in reducing the number of complaints received.</p>	<p>The thanks of the Committee have been passed on to the Compliance and Customer Relations Team as they are responsible for the management of the Corporate Complaints process.</p>	<p>Yes December 2014</p>
<p><b>41 WORK PLAN 2012/13 (28/11/13)</b> With ref to minute 27 of the last meeting arrangements be made for the newly formed Standards Working Group, comprising Cllrs Wray, L Brown, Hardy and Hogben, to meet as soon as possible.</p>	<p>This is to meet asap after the arrival of Anita Bradley (Head of Legal Services and Monitoring Officer) on 3 February 2014.</p>	

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## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	30 <sup>th</sup> January 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	External Audit Update
<b>Portfolio Holder:</b>	Councillor Peter Raynes (Finance)

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#### **1.0 Report Summary**

- 1.1 The report provides the Audit and Governance Committee with an update from the external auditors, Grant Thornton on progress in delivering their responsibilities.

#### **2.0 Recommendation**

- 2.1 That members receive and comment on the update report.

#### **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**

- 7.1 As covered in the report.

#### **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 There are no specific legal issues associated with this report.

## **9.0 Risk Management**

- 9.1 There is a risk that the Council will be unaware of progress against the audit plan and emerging issues and developments which may be of relevance if this report is not considered.

## **10.0 Background and Options**

- 10.1 The report provides an update from Grant Thornton on the new audit team and progress to date on delivering their responsibilities.
- 10.2 The report also highlights emerging issues and developments which may be of relevance to Cheshire East.
- 10.3 The Audit Manager from Grant Thornton will be attending the meeting to answer any questions raised by members on this report.

## **11.0 Access to Information**

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

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Appendix 1: Audit & Governance Committee Update for Cheshire East Council

# Audit and Governance Committee Update for Cheshire East Council

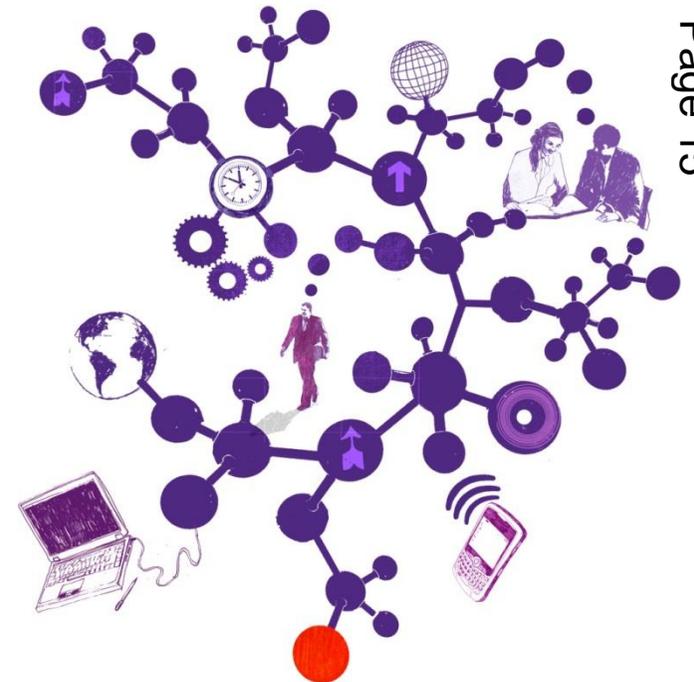
**Year ended 31 March 2014**

20 January 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a unitary authority
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager using the contact details below.

## Your new audit team

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**Regional Lead Partner/ Engagement Lead**

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# Independence

In January 2014 Judith Tench joined Cheshire East Council as Head of Corporate Resources and Stewardship (Deputy s151 Office). Judith was formerly employed by Grant Thornton UK LLP and was the engagement lead for the external audit of the Council. This appointment poses a threat (actual or perceived) to the independence of the auditor.

In these circumstances we have taken actions to safeguard the independence of the firm and of the auditor, in accordance with the Ethical Standards and the Audit Commission's Standing Guidance. A summary of these safeguards are set out below. We will also disclose this threat and these safeguards in our audit plan and in our audit findings report.

We have discussed these safeguards with the Council's Leader, Chief Executive and Chief Operating Officer. We have also discussed these safeguards with the Audit Commission.

## **Safeguards to mitigate the threat to the independence of the auditor**

- Judith withdrew from the audit team as soon as she advised her interest in applying for the role at the Council and alternative arrangements were put in place to discuss and finalise the Annual Audit Letter and to certify two grant claims. This concluded the 2012-13 audit.
- For the 2013-14 audit all senior members of the team are now replaced by individuals who have not previously worked with Judith. Your new audit team are set out on page 4.
- As an additional safeguard the team are from another Grant Thornton region (Midlands) and are headed up by the Regional Lead Partner for the Midlands - Jon Roberts. Your new audit team also includes Allison Rhodes and Naomi Povey.
- The audit engagement team will not conduct any meetings with Judith without another Council officer being present. This additional safeguard will continue for the next two years.
- In addition we confirm that Judith has no residual financial relationships with the firm.
- These arrangements have been agreed with the Audit Commission.

# Progress at 20 January 2014

Work	Planned date	Complete?	Comments
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• undertaking initial work on Value for Money.</li> </ul>	February – March 2014	N	We will discuss and agree a timetable for these key elements of the audit with the Council's management.
<p><b>2013-14 accounts audit plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements. This takes into account the audit findings from our interim accounts audit.</p>	March – April 2014	N	We will prepare an audit plan to report to the March meeting of the Audit and Governance committee.

# Progress at 20 January 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council's accounts</li> </ul>	<p>July – September 2014</p>	<p>N</p>	<p>We will discuss and agree a timetable and requirement for the final accounts audit with your finance staff.</p> <p>We will discuss any complex or contentious accounting issues with your finance staff at an early stage.</p>
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2013/14 VfM conclusion considers whether the Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience</li> <li>• challenging how it secures economy, efficiency and effectiveness.</li> </ul>	<p>February – June 2014</p>	<p>N</p>	<p>Detailed work will be completed at an early stage of the audit, but then updated to reflect subsequent information on financial or performance matters.</p> <p>The final Value for Money conclusion is issued at the conclusion of the final accounts audit in September.</p> <p>Our work will require a review of the Council's progress in responding to its recent OFSTED report, as well as its progress in planning for its role under the Better Care Fund (previously Integration Transformation Fund).</p>

# Emerging issues and developments

## Local government guidance

### Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Challenge questions:

- Has your authority reviewed its costs and performance against similar organisations?
- What steps could your authority take to increase the amount it collects from business rates?
- Is an action plan in place?
- Are you satisfied that your authority has made a robust estimate for its provision for business rate appeals?



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## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of Meeting:** 30<sup>th</sup> January 2014  
**Report of:** Chief Operating Officer  
**Subject/Title:** Certification Report 2012/13  
**Portfolio Holder:** Councillor Peter Raynes (Finance)

---

#### **1.0 Report Summary**

- 1.1 The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2012/13 claims and returns.

#### **2.0 Recommendation**

- 2.1 That members receive and comment on the Grants Certification Report which is attached as Appendix 1.

#### **3.0 Reasons for Recommendations**

- 3.1 To ensure that members consider the issues and recommendations raised within the report.

#### **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**

- 7.1 As covered in the report.

#### **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 There are no specific legal issues associated with this report.

## **9.0 Risk Management**

- 9.1 The risks associated with the findings of this report relate to a position where the Council may not meet the conditions required for grant funding and a financial liability is incurred.

## **10.0 Background and Options**

- 10.1 The report summarises the findings from the certification of 2012/13 claims and includes an assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.
- 10.2 The fees associated with the grant certification work in 2012/13 were £41,600.

## **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 Manager  
Tel No: (01270) 685869  
Email: [Joanne.wilcox@cheshireeast.gov.uk](mailto:Joanne.wilcox@cheshireeast.gov.uk)

Appendix 1: Grant Thornton Certification Report 2012/13 for Cheshire East Council

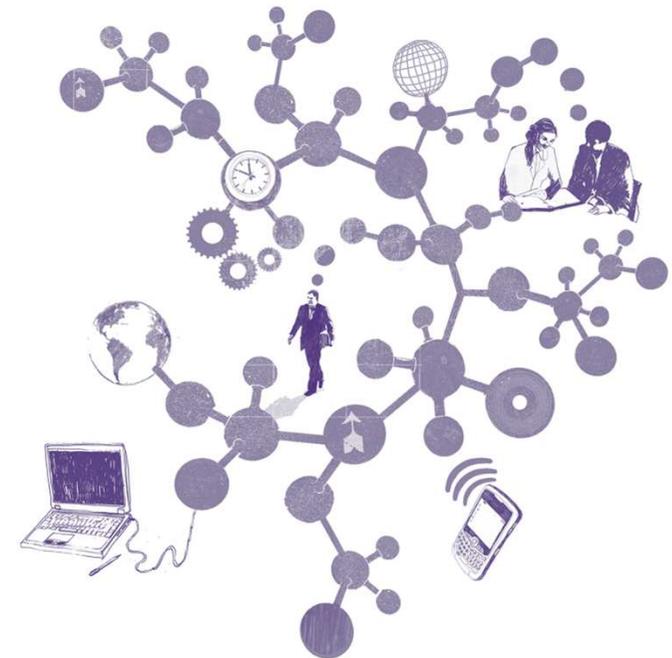
# Certification report 2012/13 for Cheshire East Council

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**Year ended 31 March 2013**

27 November 2013

**Stephen Nixon**  
Manager  
T 0161 234 6362  
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## Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Cheshire East Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £253.6 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted on time for audit and all were certified by the certification deadlines	●
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	There were no significant errors or amendments in any of the four claims submitted for audit, and no qualification letters issued	●
Supporting working papers	Supporting working papers provided for the claims were good, which enabled certification within the deadlines	●

## The way forward

We set out recommendations to assist the Council in compiling accurate and timely claims for certification.

## Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
November 2014

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## Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work

# Results of our certification work

## Key messages

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £253.6 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	4	100	4	100	↔
Claims certified on time	100%	4	100	4	100	↔
Claims certified without amendment	100%	3	75	2	50	↑
Claims certified without qualification	100%	4	100	3	75	↑

This analysis of performance shows that:

- all claims were submitted by the required dates, and all were certified by the audit deadlines
- there were fewer claims requiring amendments and qualification in 2012/13

Details of the certification of all claims and returns are included at Appendix A.

## Significant findings

Our work has not identified any significant findings in relation to the management arrangements and certification of individual grant claims and returns.

Recommendations for improvement are included in the action plan at Appendix B, however the areas address are not significant enough for qualification of the claims, and should lead to additional income generation going forward.

## Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £41,600 and the fee has not exceeded this level. Appendix C provides fees for each certification audit.

# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
National Non Domestic Rates (NNDR) return	£126.9m	No	-	No	The 2012/13 return included an amendment of £4.38m relating to an under claim from 2010/11, a process which was agreed with the DCLG
Teachers' Pension Return	£17.3m	No	-	No	
A34 bypass transport grant	£1.8m	No	-	No	2013/14 will be the final claim for the A34 bypass grant
Housing Benefits claim	£107.7m	Yes	110	No	This is the first year since the creation of the Unitary Council that the Housing Benefit claim was unqualified

## Appendix B: Action plan

### Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

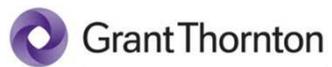
**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>NNDR:</p> <p>The Council should review the NNDR bad debt provision in 2013/14. For 2012/13 this was assessed at 4% aged debt (being a provision of £226k) however individual debts should be reviewed which could increase the provision and the amount of reclaim from DCLG by c£1m</p>	Medium	Agreed – we will review the NNDR bad debt provision during 2013/14	<p>31 March 2014</p> <p>Corporate Finance Manager</p>
2	<p>Housing Benefits:</p> <p>For non-HRA rent rebates, the Council should review the calculation of the split between amounts up to and above the Local Authority cap on temporary accommodation costs, since the Council is potentially under claiming subsidy in this area</p>	Medium	Agreed – we will aim to resolve this issue with Northgate prior to the 2013/14 subsidy claim being submitted (by 30 <sup>th</sup> April 2014).	<p>30 April 2014</p> <p>Assistant Benefits Manager</p>

## Appendix C: Fees

Claim or return	2011/12 fee (£)	2012/13 indicative fee (£) *	2012/13 actual fee (£)	Variance between 2012/13 actual and indicative fee (£)	Explanation for significant variances from indicative fee
Housing benefits subsidy claim	51,257	36,930	36,930	0	
Teachers' Pension return	2,297	1,230	1,230	0	
A34 bypass transport grant	595	1,390	1,390	0	
National non-domestic rates return	3,228	2,050	2,050	0	
<b>Total</b>	<b>57,377</b>	<b>41,600</b>	<b>41,600</b>	<b>0</b>	

\* 2012/13 indicative fee is 2010/11 fee less 40% reduction



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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 30 January 2014  
**Report of:** Audit Managers  
**Title:** Internal Audit Interim Report 2013/14  
**Portfolio Holder:** Councillor Peter Raynes

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#### **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 2013/14, revisions to the plan and to summarise work during the third quarter of 2013/14 (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 2013/14 and discuss future audit issues and ways of working as appropriate.

#### **3.0 Reasons for Recommendation**

3.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), this second interim report of 2013/14 addresses emerging issues during the year to date, which will be covered in the annual report, due in June 2014.

#### **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 resourced to comply with statutory and best practice requirements. Internal Audit was removed at a late stage from the recent Management Review in the light of the Council's transition to a strategic commissioning authority and the introduction of new delivery models. The arrangements will be reviewed during 2014/15.

## **8.0 Legal Implications**

- 8.1 S151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and the Accounts and Audit Regulations 2011 require a local authority to maintain an adequate and effective internal audit.
- 8.2 The Council's Constitution gives responsibility for overseeing the Council's role and responsibilities in respect of Corporate Governance and Audit to the Audit and Governance Committee.

## **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 Public Sector Internal Audit Standards (PSIAS) Local Government Application Note states that, "in addition to the annual report, the Chief Audit Executive 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 and hence support a 'no surprises' approach, as well as assist management in drafting the annual governance statement". A separate report on the review of the new CIPFA guidance on Audit Committees is on this Committee agenda.
- 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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Designation: Audit Manager

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# Internal Audit

## Interim Report 2013/14

### April - December 2013

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[www.cheshireeast.gov.uk](http://www.cheshireeast.gov.uk)

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Internal Audit  
First Floor, Westfields  
Cheshire East Council  
Sandbach CW11 1HZ

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## Internal Audit Interim Report 2013/14 April – December 2013

### 1. Introduction

1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the second Internal Audit Interim Report 2013/14 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”. This interim report covers April – December 2013, with specific focus on the period October – December 2013.

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 The interim report contains the following:

- a summary of the audit work carried out in 2013/14 to date (Section 2)
- any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (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 2013/14

2.1. This is the second 2013/14 interim report on progress against the Internal Audit Plan. Following the half year review, areas to be audited in the remainder of the year were re-assessed and re-prioritised. A summary comparison of the 2013/14 Audit Plan (and mid-year revision) with actuals for the nine months to 31 December 2013 is shown on page 2 (with comments on variances).

2.2. During the first nine months of the year, 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.

## Internal Audit Interim Report 2013/14 April – December 2013

### Summary Comparison of Audit Plan 2013/14 and Actuals

Area of Plan	Original Plan		Revised Plan		Actuals (to 31/12/13)		Comments on planned/actual coverage
	Days	%	Days	%	Days	%	
<b>Chargeable Days</b>	<b>1565</b>		<b>1510</b>		<b>1218</b>		Planned chargeable days reduced due to maternity leave.
Less: Corporate Work	(110)		(180)		(132)		Increased days for A&G Committee/Management Review etc.
<b>Available Audit Days:</b>	<b>1455</b>	<b>100%</b>	<b>1330</b>	<b>100%</b>	<b>1086</b>	<b>100%</b>	
Corporate Governance	60	4%	95	7%	74	7%	Increased due to Internal Audit leading on number of areas within the work programme.
Key Financial Systems	120	8%	90	7%	83	8%	All projects completed or carried forward to 2014/15.
Shared Services Key Financial Systems	115	8%	110	8%	108	10%	Projects completed. Some time transferred for Alternative Service Delivery Vehicles (ASDVs).
Corporate Cross-Service	180	12%	294	22%	163	15%	Planned time significantly increased at mid-year for ASDVs and Project Health Checks.
Children, Families & Adults	240	17%	230	17%	190	17%	Overall planned coverage on track.
Public Health	40	3%	40	3%	18	2%	Work planned in 4 <sup>th</sup> quarter.
Places & Organisational Capacity	120	8%	117	9%	112	10%	Some unplanned areas: Planning work, Additional Grants etc.
Working with External Organisations	50	3%	25	2%	3	0%	Some time transferred for ASDVs.
Anti Fraud and Corruption	180	12%	178	13%	177	16%	Reactive investigation work is being managed and limited wherever possible.
Consultancy & Advice	100	7%	77	6%	74	7%	Broadly in line with allocation.
Contingency	190	13%	-	0%	0	0%	All 13/14 contingency allocation now used.
Follow Up	40	3%	54	4%	81	8%	Additional time spent on Consolidated Action Plan – introduction, set up, maintenance etc.
External Work - PATROL	20	2%	20	2%	3	0%	Work planned in 4 <sup>th</sup> quarter.
<b>Total Audit Days</b>	<b>1455</b>	<b>100%</b>	<b>1330</b>	<b>100%</b>	<b>1086</b>	<b>100%</b>	

## Internal Audit Interim Report 2013/14 April – December 2013

### Assurance Work

#### Summary

2.3. As stated in the first 2013/14 Internal Audit interim report, audits within this year's plan have been focussed on high risk areas and, as expected and previously reported, the assurance levels for reports in year to date reflect this approach.

2.4. A summary of the reports produced in the first nine months of 2013/14 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 2013/14	Audit Reports Oct – Dec 2013
Good	0	0
Satisfactory	6	2
Limited	12	4
No	0	0

**Note:** The above table includes Assurance levels on Project Health Checks. Implementation of these recommendations is monitored by Executive Monitoring Board (EMB). (See 2.17 – 2.24)

2.5. Management has responsibility for ensuring that the agreed actions for improvement are implemented. Formal management responses to the above reports have been received, or in a small number of cases, are due in the coming weeks. Where responses have been received, actions have been agreed by management.

2.6. Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority and it is pleasing to note the overall positive progress on implementation of recommendations (see Follow up Audit Work, 2.38 – 2.42).

2.7. As reported in the first Internal Audit Interim Report 2013/14, and as agreed with the Chief Operating Officer, a review of the formal assurance levels for Internal Audit Reports is now underway, based on a number of factors including:

- Emerging risk appetite of new strategic commissioning Council.
- Reduced audit resource means that reviews carried out are normally on 'high risk' areas, naturally leading to assurance levels at the lower end of the scale.
- Ability to compare with other Internal Audit services through regional collaboration work.

## Internal Audit Interim Report 2013/14 April – December 2013

### Limited Assurance Reports

- 2.8. As previously agreed with the Committee, further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review (October to December 2013). All actions from these audits have been agreed with management and progress on implementation will be monitored through the normal processes.
- 2.9. The 'limited assurance' reports within the first nine months of 2013/14 can be grouped under common themes, such as:
- New risk areas i.e. Highways Maintenance Arrangements (2.10 – 2.12), Project Health Check – pilot only (2.17 – 2.24)
  - Risk areas highlighted by management/previous audits i.e. Debt Management (2.13 – 2.14), Planning System Data (2.15 – 2.16).
  - Key Financial Systems – identified risk areas\*
  - National Fraud Initiative (NFI) exercise – identified risk areas\*

\* Areas audited in the period April to September 2013 and covered in the first Interim Internal Audit Report 2013/14, which was presented to the Committee in November 2013.

### Highways Maintenance Arrangements

- 2.10. An audit of Highways Maintenance arrangements has been carried out. The review concluded that the new arrangements were introduced at short notice prior to the adoption of the new contract in late 2011 and it has taken considerable effort to set these up, including the transfer of staff. As a result, the monitoring arrangements have not operated in practice as was originally envisaged.
- 2.11. It is now an appropriate time for progress to be reviewed and to develop and implement a strategy for monitoring and validating results. This should include more rigorous scrutiny of the quality standards of work completed, access to source documentation and validation of performance indicator results. The Highways Client Team is based on a 'thin client' approach and the strategy will need to take into account the risks involved and the level of resources required to give an appropriate level of assurance to management in the delivery of the service.
- 2.12. The action plan is currently being finalised and agreed with management.

## Internal Audit Interim Report 2013/14 April – December 2013

### Debt Management

- 2.13. An audit of Debt Management was carried out following previous year's reviews. Improvements have been made by the involvement of the Revenues Recovery Team and a Sundry Debt Collection Policy has recently been developed and approved. However, the process is not operating as effectively as it could be, with a lack of corporate ownership of the process, insufficiently detailed and sometimes contradictory guidance, lack of clear communication and a continuation of legacy practices all contributing to this.
- 2.14. An action plan has been agreed with management to implement all recommendations.

### Planning System Data

- 2.15. The Director of Economic Growth and Prosperity requested Internal Audit to review whether dates displayed on the planning website are inaccurate and/or misleading following concerns raised in a Local Government Ombudsman report and the Audit and Governance Committee. The review concluded that the arrangements in place to determine the level of information that will be made available to the public, along with the controls to ensure compliance with this, were not operating effectively.

- 2.16. A comprehensive action plan to address these weaknesses was agreed with management and this will be progressed as part of a wider review of planning arrangements in Cheshire East Council.

### Project Health Checks

- 2.17. As reported to this Committee in September 2013, the Council's external Auditors noted that "significant progress was made during 2012-13 to enable transparent decision making which are subject to appropriate scrutiny and risk management using the Gateway model. The model was introduced in August 2012 to provide overall assurance and controlled start up of major projects. This was in part a response to address criticisms around business planning and governance arrangements reported in 2012."
- 2.18. A key aspect of effectively operating the Gateway Process, which has raised the standard of project management within the Council, is the Member-led governance group called the Executive Monitoring Board (EMB). The EMB takes on a strategic role as part of the development of the Council's Three Year Plan and Medium Term Financial Strategy and the monitoring of delivery against the plan, quality and budget. One of the key aims of the EMB is to provide consistent and robust direction for all major

## Internal Audit Interim Report 2013/14 April – December 2013

Projects and Programmes in Cheshire East through the Project Gateway model.

- 2.19. It is supported by the Technical Enabler Group (TEG) that comprises senior officer representatives drawn from key corporate enablers (E.g. ICT, HR, Assets). (See 2.35).
- 2.20. Further progress has been made during 2013/14 to ensure that the Gateway process is embedded and used consistently to support the implementation of the Council's objectives. This includes Internal Audit working with the Member led Executive Monitoring Board (EMB) to develop the Health Check process that provides an independent (Internal Audit) assessment of whether the required elements to deliver projects successfully, such as good project management practices and appropriate resources, are in place and operating effectively.
- 2.21. The above assessment is reported to EMB following agreement of recommendations with the Senior Responsible Officer (SRO) and Project Manager (PM) which, when implemented, promote successful conditions and increase the chance of delivering the required outcome. Project assurance is also provided by the SRO for that project, with regard to the success of the project and whether benefits are likely to be realised. Monitoring the

implementation of the recommended actions is carried out by EMB.

- 2.22. A pilot review, looking at the new Leisure Delivery Model project, has been successfully completed and well received by the Project Team. The results of the review (limited assurance) have been reported to EMB together with an update on progress in implementing recommendations, which confirmed that the majority of actions were complete with implementation imminent for the remainder. As part of the process, the SRO provided satisfactory assurance with regard to the success of the project and whether the benefits are likely to be realised.
- 2.23. Following the pilot, Internal Audit has provided all SROs with a checklist on the controls and evidence that would be expected as part of a Project Health Check. This can be used by SROs to self assess their own project management arrangements and a briefing session on this will be held in February 2014.
- 2.24. Since the first pilot review, a second Project Health Check, on the implementation of the new Adults Financials system, has also been carried out. This was again well received by the Project Team and resulted in satisfactory assurance from both Internal Audit and the SRO.

## Internal Audit Interim Report 2013/14 April – December 2013

### Summary of Assurance Reports 2013/14 (October – December 2013)

Audit	Risk Driver	Assurance Level	Key Findings/Actions	Management Response
External Inspections of Children's Services	External Inspection Rating	Satisfactory	Governance framework exists with clear evidence of scrutiny and challenge by the Improvement Board to ensure Ofsted recommendations are implemented. Some further areas of improvement required.	Draft report issued.
Project Health Check – Adult Financials	New - Management (EMB) request	Satisfactory	Key findings and actions reported to, and monitored by, EMB.	
Debt Management	Previous Audit Findings	Limited	Improvements made since previous audits e.g. involvement of the Revenues Recovery Team/introduction of Sundry Debt Collection Policy However, process not operating as effectively as it could be e.g. lack of corporate ownership, insufficiently detailed/ sometimes contradictory guidance, continuation of legacy practices etc.	All actions agreed.
Highways Maintenance Arrangements	New Service Delivery Arrangements	Limited	Monitoring arrangements have not operated in practice as originally envisaged. The strategy going forward will need to take into account risks involved and level of resources required to give an appropriate level of assurance.	Currently being finalised and agreed.
Planning System Data	Management request following Ombudsman report	Limited	Arrangements in place to determine the level of information that will be made available to the public, along with the controls to ensure compliance with this, were not operating effectively.	All actions agreed.
Project Health Check – Leisure Delivery Model (Pilot Review)	New - Management (EMB) request	Limited	Key findings and actions reported to, and monitored by, EMB.	

## Internal Audit Interim Report 2013/14 April – December 2013

### Other Work

### Schools

2.25. Work is well underway for the 2013/14 Schools Audit Programme. A number of themed audits on income and purchasing have been carried out on primary schools and full audits of secondary schools are also in progress and will be completed in the final quarter.

2.26. As reported in November 2013, a review of the Schools Finance Team has also been undertaken, with satisfactory assurance.

### Supporting Corporate Governance

2.27. Internal Audit has assisted Management during 2013/14 so far by:

- Collection of evidence for and production of the 2012/13 Annual Governance Statement (AGS).
- Contribution to and production of Audit & Governance Committee reports on Corporate Governance.
- Audit Manager representation on and contribution to the Corporate Governance Group (CGG) in order to

advise on risk management, control, and governance issues that have been identified through audit work and ensure that the findings have been considered when determining the 2012/13 AGS action plan.

- Audit work in contribution to and production of CGG reports to Corporate Leadership Board.
- Planning and commencing work for the production of the 2013/14 AGS.

### Risk Management

2.28. Internal Audit assists in the management of risk through:

- Delivery of a risk based audit plan.
- Audit Manager representation on and contribution to the Corporate Risk Management Group (CRMG) in order to advise on risk management, control, and governance issues that have been identified through audit work.

2.29. Formal reports with regard to the risk management process are made throughout the year to Corporate Leadership Board, Cabinet and the Audit and Governance Committee. A planned internal audit of the Council's risk management arrangements is currently underway and will be completed in the final quarter of 2013/14.

## Internal Audit Interim Report 2013/14 April – December 2013

Internal Audit has supported Management in introducing a specific fraud risk in the Council's Strategic Risk Register and the development of a detailed fraud risk assessment. This helps to ensure that a structured, consistent and continuous process is applied to identifying, assessing and managing the risk of fraud including the reporting of significant fraud risk-related information up and down the organisation.

### Counter Fraud

- 2.30. Agreement has been reached with the Chief Operating Officer (COO) that responsibility for the Council's response to fraud will sit with the newly appointed Head of Corporate Resources and Stewardship with whom Internal Audit will agree an updated Anti Fraud and Corruption Policy and Fraud Response Plan.
- 2.31. The Member/Officer Fraud Sub Group continues to meet, to provide further detail to Members on emerging fraud risks and anti fraud work carried out by Internal Audit.
- 2.32. Internal Audit has carried out a small number of investigations across the Council with appropriate action taken where necessary and also continued to provide advice and support to investigations where management had appointed an Investigating Officer.

- 2.33. Work continues on the National Fraud Initiative with particular consideration being given as to how ASDVs will be covered by future exercises to ensure that there are no issues or unexpected cost implications for the new delivery vehicles. Work has also continued in preparation for the upcoming match of Council Tax and Electoral Register data which will take place in February 2014 and aims to improve the identification of Single Person Discount fraud.

### Technical Enabler Group (TEG)

- 2.34. In addition to the Project Health Check work outlined in 2.17 to 2.24, Internal Audit also sits on the Technical Enabler Group (TEG) which supports EMB and comprises senior officers representing key corporate enablers.

### Consultancy and Advice

- 2.35. During the year to date, Internal Audit has provided advice to Management; such work was performed at the specific request of the organisation. The nature and scope of the engagements are generally aimed to improve governance, risk management and control and contribute to the overall opinion. E.g. Advice on new systems, application of Finance & Contract Procedure Rules etc.

## Internal Audit Interim Report 2013/14 April – December 2013

### Statutory Returns/Grant Claims

2.36. Internal Audit are sometimes required as stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects, thereof, and report back to the statutory/funding body e.g. Growing Places Fund, Bus Services Operators Grant etc.

### Follow Up Audit Work

2.37. During 2013/14, Internal Audit has performed various follow up exercises to ensure recommendations are being implemented. This is carried out in a number of different ways:

- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.
- 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 below).

2.38. In May 2013, a new process to monitor outstanding actions for the Council, including recommendations from both Internal and External Audit was introduced. The

Consolidated Action Plan (CAP) is monitored on a monthly basis by the Chief Operating Officer and Corporate Leadership Board, with managers providing progress reports on the implementation of actions assigned to them.

2.39. The following table shows the status of 'open' Internal Audit actions as at 31 December 2013. This shows a small increase from the figure as at 30 September 2013, reported in the first interim report. However, within that period, approximately sixty new actions have been raised, so overall progress is positive in terms of recommendations being implemented.

#### Status of Internal Audit Agreed Actions (as at 31/12/13)

Agreed Actions	Total	High	Medium
Implementation date not yet due	27	9	18
Implementation date passed – action part implemented or not yet implemented in full	56	18	38
<b>Total Agreed Actions</b>	<b>83</b>	<b>27</b>	<b>56</b>

2.40. In addition, for those recommendations where the original implementation date has passed, feedback and evidence from managers is that generally progress has been made on

## Internal Audit Interim Report 2013/14 April – December 2013

implementing the recommendations but due to a variety of factors, they have not yet been fully implemented. Such factors include:

- Resource issues – lack of staff/‘day job’ has taken priority etc.
- Change in Manager/Service restructure since original audit
- Implementation of recommendations dependent on other factors outside Manager’s direct control e.g. Transition to strategic commissioning authority/introduction of new system etc.

2.41. High priority actions and progress on implementation are discussed with the Chief Operating Officer at regular meetings with Internal Audit.

### Additional Audit Work

2.42. Internal Audit assisted management in discharging their duties through the provision of support, advice and guidance in a number of areas through 2013/14. Such work does not always result in a formal audit report, although it does contribute to the overall audit opinion at the end of the year. Examples of this include:

- National Fraud Initiative (NFI) work
- New cash receipting system
- Grant sign off work
- Lyme Green Freedom of Information (Fol) responses
- ‘Think Twice’ Monitoring

### Key Areas and Emerging Work

2.43. Following the end of the first half of the year, the audit plan was reviewed and areas to be audited in the second half of the year were re-assessed and prioritised. Key audit areas agreed for the remainder of the year were :

- Alternative Service Delivery Vehicles (ASDVs)
- Programme and Project Management – Project Health Checks

2.44. The following audits have commenced with work ongoing in the final quarter of 2013/14, and reports will be issued in due course:

- Risk Management
- Project Health Checks - Various
- Officer and Members Disclosures Review

## Internal Audit Interim Report 2013/14 April – December 2013

### Assurance Framework

2.45. Work has continued on developing an Assurance Framework for the Council using a recognised 'Three Lines of Defence' model. This approach assesses the various sources of assurance, both internal and external, allowing any duplication or gaps to be identified, and in the latter case, plugged. Internal Audit is committed to exploring collaborative opportunities within the Council and also outside, with External Audit and regional partners, to ensure the Assurance Framework is sufficiently robust and adds value.

### 3. Annual Governance Statement (AGS) 2012/13 & 2013/14

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 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 13/14 Audit Plan to review the other areas. Progress against the 12/13 AGS Action Plan is monitored by Internal Audit and an update on this was reported to the Committee at its November 2013 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. A summary comparison of the 13/14 Audit Plan with Actuals is shown on page 2.

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

Performance Indicator	2013/14 Actual	2013/14 Target	2012/13 Actual	Comments
Percentage of Audits completed to user's satisfaction	91%	90%	94%	Above target.
Percentage of significant recommendations agreed	92%	85%	93%	Above target.
Productive Time (of Chargeable Days)	82%	80%	84%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	91%	90%	90%	Above target.

## Internal Audit Interim Report 2013/14 April – December 2013

### 5. **Compliance with the Public Sector Internal Audit Standards (PSIAS)**

of new delivery models. The arrangements will be reviewed during 2014/15.

- 5.1. Regulation 6 of the Accounts and Audit Regulations 2011 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings.
- 5.2. The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and an Audit Charter was approved in November 2013 by this Committee.
- 5.3. An initial self assessment against the PSIAS has been carried out. This is currently being updated and the results will form part of the 2013/14 AGS process.

### 6. **Other Developments**

- 6.1. From January 2014, Internal Audit now reports directly to the new Head of Resources and Stewardship with a continuing indirect reporting line to the Chief Operating Officer (COO), as Section 151 Officer.
- 6.2. Internal Audit was removed at a late stage from the recent Management Review in the light of the Council's transition to a strategic commissioning authority and the introduction

# CHESHIRE EAST COUNCIL

## REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	30 <sup>th</sup> January 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	Treasury Management Strategy and MRP Statement 2014/15
<b>Portfolio Holder:</b>	Councillor Peter Raynes (Finance)

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### 1.0 Report Summary

1.1 To present the 2014/15 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2014/17, 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.

1.3 Treasury Management is a key element in the overall financial health and resilience of Cheshire East Council. Strong financial management has strengthened the balance sheet enabling the Council to continue its policy of utilising investment balances instead of taking out new external borrowing in order to finance capital expenditure. This has meant that the loans portfolio has not increased from the inherited position of the former County Council.

1.4 This along with a number of key decisions taken since 2009, including debt restructuring; repayment of prior year's debt using available reserves; rigorous daily investment decisions and the monitoring of available cash flows has enabled the Council's cash resources to be used to optimum benefit. The treasury management team work closely with the Council's advisors Arlingclose to gain the maximum benefit from their expertise and guidance, including benchmarking performance against other local authorities on a quarterly basis.

1.5 The Council remains committed to delivering appropriate levels of capital investment to support service improvement and local economic growth. The current strategy is to ensure that this is sustainable by controlling the consequential impact on the revenue account and council tax levels, ensuring good value for money to local businesses and residents.

1.6 The Council will therefore continue to minimise the net cost of borrowing by ensuring that the capital programme can be funded without the need for additional external borrowing. This requires maximisation of alternative funding sources (i.e., grants, developer contributions and capital receipts) and careful management of capital cash flows to ensure that any short term borrowing requirements can be met from internal resources.

**2.0 Decision Requested**

2.1 To note the Treasury Management Strategy and the MRP Statement for 2014/15 set out in Appendix A.

**3.0 Reasons for Recommendations**

3.1 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2014/15. The Strategy for 2014/15 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 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**

7.1 Effective Treasury Management provides support towards the achievement of service priorities, it ensures that the Council's capital investment programme delivers value for money by demonstrating that 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.

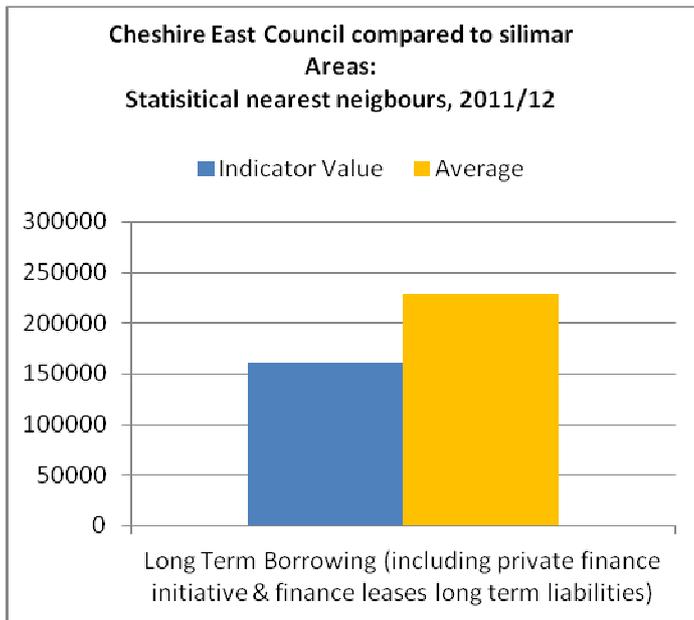
**9.0 Risk Management**

9.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

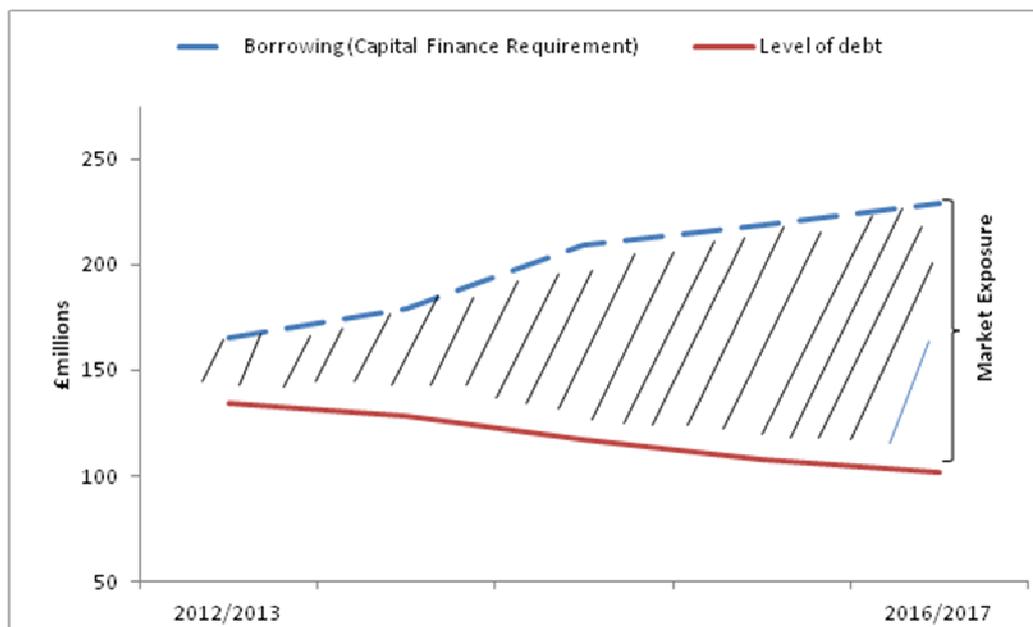
- 9.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.
- 9.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.
- 9.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the 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 27<sup>th</sup> February 2014.
- 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 The capital programme for 2014/17 is intentionally aspirational, reflecting the Council's ambition to pursue additional external funding, private sector investment and capital receipts. Future capital receipts arising from the rationalisation of the asset base and the Engine of the North development programme will be utilised to fund new proposals, including infrastructure to generate local economic growth; investment in new service delivery models and improvements in the Council's asset base.
- 10.4 The priority is to ensure that expenditure plans are affordable over the medium term. The programme is designed to allow flexibility so that cash flows i.e., the timing of capital receipts and payments, can be monitored and managed to minimise the risks to the Council of forward funding capital expenditure in advance of realising grant income, developer contributions and proceeds of planned asset sales and disposals. Where temporary borrowing is required this will be funded from internal resources and repaid as soon as receipts allow.
- 10.5 The Council currently has external borrowing of £128m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 4.04%). Currently long term interest rates are around 4.3%.
- 10.6 Compared to our nearest neighbours, as demonstrated in the following graph the Council's levels of external borrowing is significantly below average.



10.7 Over the financial period covered by this strategy, a further £26m of PWLB loans are due to be repaid (see table 1 – Balance Sheet Summary and Forecast). This means the gap between the Capital Financing Requirement and actual borrowing is increasing, as demonstrated in the following graph.



10.8 This exposes the Council to interest rate risk in the future if cash balances were to fall and borrowing had to be taken at prevailing rates at the time. Therefore, to reduce exposure to interest rate risk and prevent excessive use of internal resources existing loans will be replaced as they mature, subject to market conditions.

10.9 Within the Treasury Management Strategy, the Council will continue to minimise additional 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 reduced. Given the current low interest rate environment is

expected to continue throughout 2014/15 and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.

- 10.10 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used (estimated at £36 million) is budgeted to be 0.5%.
- 10.11 The capital financing budget remains at the very prudent level of £12.5m, 4.9% of the 2014/15 net revenue budget.

### Capital Financing Budget 2014-15

Capital Financing Budget	2013/14 Original £m	2013/14 Revised £m	2014/15 £m
Repayment of Outstanding Debt	6.9	6.8	8.0
Contribution re: Schools TLC Schemes	-0.9	-0.9	-0.9
Direct Revenue Funding	0.4	0.4	0.4
Interest on Long Term Loans	5.7	5.3	5.2
Total Debt Repayment	12.1	11.6	12.7
Less: Interest Receivable on Cash Balances	-0.2	-0.3	-0.2
Net Capital Financing Budget	11.9	11.3	12.5

- 10.12 Cheshire East inherited investments of £4.6m made by the former Cheshire County Council with Heritable Bank, which went into administration in October 2008. The expectation was for around 88% of this to be recovered. In 2013/14 further amounts were repaid bringing the total amount recovered to 94%. There is expected to be one final receipt, the amount of which is dependent on current litigation. The additional receipt over and above the original estimated recovery rate of 88% will benefit the Councils revenue account in 2013/14 by £300,000.
- 10.13 The principal changes to the 2014/15 Treasury Strategy have been:

- In readiness for regulatory reform of banks and building societies leading to reduced Governmental support, the general maximum amounts to be invested with any one counterparty have been reduced from £15m to £10m. A consequence of this is that more counterparties are now actively being considered including foreign banks, unrated building societies and other sources of investment
- Removal of requirement for Money market funds to be AAA rated. This is due to changes in regulation of Money Market Funds which will lead to removal of, or changes to, ratings. The Council will however monitor the underlying ratings of the assets of each fund to determine suitability for investment purposes

The revision to the credit criteria, once approved by Council for use in 2014/15, will also apply to the residual period of 2013/14.

### Contract for banking services

- 10.14 Following a retendering exercise for the contract for banking and merchant card services, banking services will now be provided by Barclays Bank for a five year

period commencing in 2014/15. The contract for merchant card services has been extended with Global Payments Ltd for 12 months after an unsuccessful tender outcome. A procurement exercise for merchant cards will now be undertaken in 2014/15 under a framework agreement.

### **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 Manager  
Tel No: 01270 685869  
Email: [joannewilcox@cheshireeast.gov.uk](mailto:joannewilcox@cheshireeast.gov.uk)

### **Appendices:**

*Appendix A – Treasury Management Strategy Statement & Investment Strategy 2014/15 – 2016/17*

## Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17



**Contents**

- 1. Background**
- 2. External Context**
- 3. Local Context**
- 4. Borrowing Strategy**
- 5. Investment Strategy**
- 6. Treasury Management Indicators**
- 7. Other Items**
- 8. Financial Implications**

**Annexes**

- A. Economic & Interest Rate Forecast (Section 2.6)
- B. Existing Investment & Debt Portfolio Position (Section 3.1)
- C. Prudential indicators
- D. MRP Statement 2014/15

## 1. Background

- 1.1. On 23<sup>rd</sup> February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 1.2. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- 1.3. The report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

## 2. External Context

- 2.1 **Economic Background:** The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.
- 2.2 The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.
- 2.3 Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.
- 2.4 In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.
- 2.5 **Credit outlook:** The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a haircut on its conversion bail-in to alternative securities and/or equity There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of

investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

- 2.6 **Interest rate forecast:** Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.
- 2.7 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at *Annex A*.
- 2.8 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.50%, and that new long-term loans will be borrowed at an average rate of 4.30%.
3. **Local Context**
- 3.1 The Authority currently has borrowings of £128m and investments of £82m. This is set out in further detail at *Annex B*. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below

**Table 1: Balance Sheet Summary and Forecast**

	31.3.13 Actual £m	31.3.14 Estimate £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m
General Fund CFR	192	203	234	242	252
Less: Other long-term liabilities *	-27	-26	-24	-23	-22
<b>Borrowing CFR</b>	<b>165</b>	<b>177</b>	<b>210</b>	<b>219</b>	<b>230</b>
Less: External borrowing **	-134	-128	-117	-108	-102
<b>Internal (over) borrowing</b>	<b>31</b>	<b>49</b>	<b>93</b>	<b>111</b>	<b>128</b>
Less: Usable reserves	-53	-48	-46	-44	-42
Less: Working capital	-42	-40	-35	-30	-30
<b>Investments (or New borrowing)</b>	<b>64</b>	<b>39</b>	<b>(12)</b>	<b>(37)</b>	<b>(56)</b>

\* finance leases and PFI liabilities that form part of the Authority's debt

\*\* shows only loans to which the Authority is committed and excludes optional refinancing

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of around £20m for liquidity purposes.
- 3.3 The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £50m over the forecast period.
- 3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2014/15.

#### 4. Borrowing Strategy

- 4.1 The Authority currently holds loans of £128m, a decrease of £6m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2014/15. The Authority may however borrow to refinance maturing debt.
- 4.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 4.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 4.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 4.5 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.
- 4.6 The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board
  - UK local authorities
  - any institution approved for investments (see below)
  - any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
  - UK public and private sector pension funds (except Cheshire Pension Fund)
  - capital market bond investors
  - special purpose companies created to enable joint local authority bond issues.
- 4.7 The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.
- 4.8 The Authority holds £17m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2014/15, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

- 4.9 Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.
- 4.10 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

### 5. Investment Strategy

- 5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £62m and £118m. Slightly reduced levels are expected to be maintained in the forthcoming year.
- 5.2 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.
- 5.3 The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Table 2: Approved Investment Counterparties

Counterparty	Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	10 years*
	AA+	5 years*
	AA	4 years*
	AA-	3 years*
	A+	2 years
	A	1 year
	A-	
The Authority's current account bank (Barclays Bank) if it fails to meet the above criteria	£5m	next day
UK Central Government (irrespective of credit rating)	unlimited	50 years**
UK Local Authorities (irrespective of credit rating)	£10m each	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher	£10m each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings	£10m each	5 years
UK Building Societies without credit ratings	£1m each	1 year
Money market funds	£10m each	n/a
Other pooled funds	£25m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser	£5m each	3 months
	£1m each	1 year
	£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's assets

\* but no longer than 2 years in fixed-term deposits and other illiquid instruments

\*\* but no longer than 5 years in fixed-term deposits and other illiquid instruments

- 5.4 There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the *EU Bank Recovery and Resolution Directive* are implemented.
- 5.5 In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.
- 5.6 **Current Account Bank:** Following a competitive tender exercise held in 2013 and following the announcement by the Co-operative Bank that they will no longer be providing banking services to Local Authorities, the Authority's current accounts are being moved to Barclays Bank which is currently rated above the minimum A- rating in table 2. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with Barclays Bank providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).
- 5.7 **Registered Providers:** Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider

investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

- 5.8 **Building Societies:** The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.
- 5.9 **Money Market Funds:** These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 5.10 **Other Pooled Funds:** Table 1 above indicates that the Authority will have substantial cash balances available for investment over the medium term. It will therefore continue to use pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly. The Council currently has investments valued at £20.4m in pooled funds managed by Investec.
- 5.11 **Other Organisations:** The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.
- 5.12 **Externally Managed Funds:** Although not currently used, this type of fund, which is managed on a discretionary basis by an appointed fund manager, is an option for future investments. The manager has scope to add value through the use of the investments listed in table 2 and must operate within the same limits. Performance is monitored and measured against the benchmark set for the fund, prevailing economic conditions and investment opportunities.
- 5.13 **Risk Assessment and Credit Ratings:** The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
  - any existing investments that can be recalled or sold at no cost will be, and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

- 5.14 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 5.15 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 5.16 **Specified Investments:** The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
  - due to be repaid within 12 months of arrangement,
  - not defined as capital expenditure by legislation, and
  - invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of “high credit quality”.
- 5.17 The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.
- 5.18 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

**Table 3: Non-Specified Investment Limits**

	Maximum % of Total Investments	Cash limit
Total long-term investments	50%	£25m
Total investments without credit ratings or rated below A-	50%	£25m
Total investments in foreign countries rated below AA+	15%	£15m
Total non-specified investments	50%	£65m

- 5.19 **Investment Limits:** In order to minimise the Authority’s exposure to counterparty risk, the maximum that will be lent to any one organisation (other than the UK Government)

will be £15m. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (*e.g. King & Shaxson*), foreign countries and industry sectors as below:

**Table 4: Investment Limits**

Type of Counterparty	Maximum % of Total Investments	Cash limit
Any single organisation, except the UK Central Government	10%	£10m each
UK Central Government	100%	unlimited
Any group of organisations under the same ownership	10%	£10m per group
Any group of pooled funds under the same management	50%	£25m per manager
Negotiable instruments held in a broker's nominee account	50%	£25m per broker
Foreign countries	20%	£10m per country
Registered Providers	20%	£15m in total
Building Societies	20%	£10m in each
Loans to small businesses	10%	£10m in total
Money Market Funds	50%	£10m in each

5.20 **Approved Instruments:** The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £15m in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

5.21 **Liquidity management:** The Authority maintains a cash flow forecasting model to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

## 6. Treasury Management Indicators

6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

- 6.3 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	35%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	35%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

- 6.4 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£25m	£15m	£10m

## 7. Other Items

- 7.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.
- 7.2 **Policy on Use of Financial Derivatives:** 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).
- 7.3 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.

- 7.4 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.
- 7.5 **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by through regular meetings and periodic tendering for services.
- 7.6 **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed every as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by our treasury management advisers, Arlingclose Limited and other relevant providers.
- 7.7 **Investment of Money Borrowed in Advance of Need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.
- 7.8 The total amount borrowed will not exceed the authorised borrowing limit of £[X] million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

## 8. Financial Implications

- 8.1 The budget for investment income in 2014/15 is £0.2 million, based on an average investment portfolio of £36 million at an interest rate of 0.50%. The budget for debt interest paid in 2014/15 is £5.7 million, based on an average debt portfolio of £128 million at an average interest rate of 4%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## Annex A - Arlingclose Economic & Interest Rate Forecast (December 2013)

### Underlying assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

### Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.
- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose 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													
<b>3-month LIBID rate</b>													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.75	0.75	0.75	0.75	0.75	0.80	0.80	0.80
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
<b>1-yr LIBID rate</b>													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5-yr gilt yield</b>													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
<b>10-yr gilt yield</b>													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
<b>20-yr gilt yield</b>													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
<b>50-yr gilt yield</b>													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

## Annex B

## Existing Investment &amp; Debt Portfolio Position

	08/01/14 Actual Portfolio £m	08/01/14 Average Rate %
<b>External Borrowing:</b>		
PWLB - Fixed Rate	111	3.97%
PWLB - Variable Rate	0	-
Local Authorities	0	-
LOBO Loans	17	4.54%
<b>Total External Borrowing</b>	<b>128</b>	<b>4.04%</b>
<b>Other Long Term Liabilities:</b>		
PFI	21	-
Finance Leases	6	-
<b>Total Gross External Debt</b>	<b>155</b>	<b>-</b>
<b>Investments:</b>		
<i>Managed in-house</i>		
Short-term investments	62	0.61%
Long-term investments	0	-
<i>Managed externally</i>		
Pooled Funds	20	0.05%
<b>Total Investments</b>	<b>82</b>	<b>0.49%</b>
<b>Net Debt</b>	<b>73</b>	<b>-</b>

## Annex C

## Prudential Indicators revisions to 2013/14 and 2014/15 - 2016/17

## 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 Chief Operating Officer reports that the Authority had no difficulty meeting this requirement in 2013/14, 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.

<b>Capital Expenditure</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/18 &amp; Future years</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Total</b>	<b>78.3</b>	<b>158.9</b>	<b>72.8</b>	<b>44.9</b>	<b>147.7</b>

3.2 Capital expenditure will be financed or funded as follows:

<b>Capital Financing</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/18 &amp; Future years</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital receipts	11.3	36.4	22.3	27.9	50.5
Government Grants	42.9	65.8	17.8	12.7	85.3
Other Grants/Contributions	3.1	16.7	11.5	2.8	11.9
Revenue Contributions	1.0	0.8	1.3	0.2	0
<b>Total Financing</b>	<b>58.3</b>	<b>119.7</b>	<b>52.9</b>	<b>43.6</b>	<b>147.7</b>
Prudential Borrowing	20.0	39.2	19.9	1.3	0
<b>Total Funding</b>	<b>20.0</b>	<b>39.2</b>	<b>19.9</b>	<b>1.3</b>	<b>0.0</b>
<b>Total Financing and Funding</b>	<b>78.3</b>	<b>158.9</b>	<b>72.8</b>	<b>44.9</b>	<b>147.7</b>

#### 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	2013/2014 Estimate	2014/2015 Estimate	2015/2016 Estimate	2016/2017 Estimate
	%	%	%	%
<b>Total</b>	<b>4.58</b>	<b>4.93</b>	<b>5.76</b>	<b>5.98</b>

#### 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	2013/2014 Estimate	2014/2015 Estimate	2015/2016 Estimate	2016/2017 Estimate
	£m	£m	£m	£m
<b>Total</b>	<b>203</b>	<b>234</b>	<b>243</b>	<b>251</b>

#### 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 31/03/2013	£m
Borrowing	134
Other Long-term Liabilities	27
<b>Total</b>	<b>161</b>

#### 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	2014/2015 Estimate	2015/2016 Estimate	2016/2017 Estimate
	£	£	£
<b>Increase in Band D Council Tax</b>	<b>4.38</b>	<b>10.94</b>	<b>0</b>

## 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.

	2013/2014	2014/2015	2015/2016	2016/2017
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Authorised Limit for Borrowing	212	245	255	264
Authorised Limit for Other Long-Term Liabilities	26	24	23	22
<b>Authorised Limit for External Debt</b>	<b>238</b>	<b>269</b>	<b>278</b>	<b>286</b>
Operational Boundary for Borrowing	202	235	245	254
Operational Boundary for Other Long-Term Liabilities	26	24	23	22
<b>Operational Boundary for External Debt</b>	<b>228</b>	<b>259</b>	<b>268</b>	<b>276</b>

## 9. Adoption of the CIPFA Treasury Management Code:

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

<p><b>Adoption of the CIPFA Code of Practice in Treasury Management</b></p> <p>The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 23rd February 2012</p>
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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 07/01/2014	2013/2014 Approved	2014/2015 Estimate	2014/2015 Estimate	2015/2016 Estimate	2016/17 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 is relatively high to allow for the value of LOBOs and any potential short term borrowing that could be undertaken in 2014/15.

Maturity structure of fixed rate borrowing	Level as at 31st March 2014 (based on Current Borrowing) %	Lower Limit for 2014/2015 %	Upper Limit for 2014/2015 %
under 12 months	22%	0%	35%
12 months and within 24 months	7%	0%	25%
24 months and within 5 years	14%	0%	35%
5 years and within 10 years	9%	0%	50%
10 years and within 20 years	19%	0%	100%
20 years and within 30 years	8%	0%	100%
30 years and within 40 years	13%	0%	100%
40 years and within 50 years	8%	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.

## Annex D - MRP Statement 2014/15

The annual Minimum Revenue Provision (MRP) Statement sets out the Council's responsibility to ensure it makes adequate provision for funding the consequences of its capital investment decisions.

Capital expenditure is expenditure that provides ongoing benefits to the Council for a period of longer than 1 year. Accounting rules require that where this capital expenditure is not funded through external contributions, external grants, capital receipts or contributions from revenue budgets it must be charged against the Council's General Fund Balances. The period over which this charge is made should reflect the length of time that the expenditure will provide benefits to the Council.

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.

Prior to 2010 the major proportion of MRP relates to the more historic debt liability that was outstanding at the time the Guidance was adopted. This will continue to be charged at the rate of 4%, in accordance with option 1 of the Guidance.

New capital expenditure for each subsequent year will in general be charged in accordance with Option 3 of the Guidance, which recommends that the annual charge should broadly equate to the anticipated life, or period of benefit, which is reflective of the nature of the expenditure. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Charges will commence in the year following the creation of the capital asset, i.e, in the assets first full year of operation.

In the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements, there will be no minimum revenue provision made.

For those types of capital expenditure incurred by the Council which are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

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.

The MRP Statement will be submitted to Council before the start of the 2014/15 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

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# CHESHIRE EAST COUNCIL

## REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of Meeting:** 30<sup>th</sup> January 2014  
**Report of:** Customer Relations and Compliance Manager  
**Subject/Title:** Compliance with Data Protection Act (1998),  
Freedom of Information Act (2000) and Environmental  
Information Regulations (2004)  
**Portfolio Holder:** Councillor David Brown

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### 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 - 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**

- 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 (ICO) is the regulator for these matters and there are regulatory powers, including criminal sanctions, which can be used in cases of non-compliance.

An authority may be breaching the Freedom of Information Act if any of the following takes place:

- i) failure to respond adequately to a request for information;
- ii) failure to adopt the model publication scheme, or to publish the correct information; or
- iii) deliberate destruction, concealment or alteration of requested information to prevent it being released.

Depending on the nature of the incident, this last point is the only criminal offence in the Act (Section 77) that an authority or its individual members of staff could be charged with. The penalty is a fine. Other breaches of the Act are unlawful but not criminal.

The ICO cannot fine an authority for failure to comply with the Act, nor can they require the authority to pay compensation to anyone for breaches of the Act. However any mistakes should be rectified as soon as the authority is made aware of them. If a complaint is not resolved informally the ICO may issue a decision notice.

The ICO issues decision notices on complaints about specific requests for information. However, if a breach of the Act doesn't fall within the scope of a decision notice, the ICO may decide to issue an enforcement notice. The Commissioner may also use an enforcement notice if an authority is repeatedly failing to comply with its obligations. An authority can be found in contempt of court for failing to comply with a decision notice, enforcement notice, or information notice. This could lead to a fine or, in theory, jail for a senior officer of the authority.

## **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 and 8.1.

## 10.0 Background and Options

10.1 The tables below show the number and sources of requests received in 2013 (Jan-Dec) and the Services/Directorates to which they related. Figures are provided for 2012 and 2011 for comparison.

**Table 1**

TYPE OF REQUEST	2013	2012	2011
FOI/EIR requests	1614 <sup>1</sup>	1487	1343
DP requests	619 <sup>2</sup>	467	421
<b>TOTAL</b>	<b>2233</b>	<b>1954</b>	<b>1764</b>

**Table 2**

SOURCE	2013	2012	2011
Individuals	50%	37%	36%
Public Sector	9%	20%	26%
Commercial	18%	18%	17%
Press/Media	10%	13%	15%
Pressure Groups	5%	5%	4%
'What do they know' <sup>3</sup>	6%	5%	-
MP's/Councillors	2%	2%	2%

**Table 3**

SERVICE/DEPARTMENT	2013	2012	2011
Places	48%	35%	27%
Finance	18%	29%	34%
People	25%	26%	23%
HR	5%	4%	8%
Legal and Democratic Services	2%	3%	5%
Performance, Capacity and Customer Services	1%	2%	3%
Shared Services	1%	1%	-

## 11.1 Freedom of Information Requests

Freedom of Information requests continue to increase year on year, and the Council received a number of particularly complex requests in 2012 and 2013. Information is withheld in only a small number of cases (48 out of 1614 requests in 2013). In some cases, only certain aspects of the information are withheld.

<sup>1</sup> In addition to these requests, the Council received 1054 property search requests (863 in 2012), which are treated as requests under EIR.

<sup>2</sup> 355 of the requests were requests to Council Tax from various public authorities, requesting confirmation of address details (269 in 2012)

<sup>3</sup> Website dedicated to Freedom of Information requests

The main reasons for refusing information in this period were as follows:

- the information requested is not held
- all the information requested cannot be provided within the 18 hour limit and a fees notice is issued for the remaining information
- it is personal information
- it is commercially sensitive
- it is draft/in the process of being completed
- it is subject to legal professional privilege

Most of the exemptions available to public authorities under Freedom of Information are subject to a public interest test, i.e. does the public interest in disclosure outweigh the public interest in withholding it? There is a presumption in favour of disclosure, i.e. that it is in the public interest generally to disclose information, in order to promote transparency and accountability, and the Information Commissioner requires cohesive and comprehensive arguments from the Council for withholding information, should requestors submit an appeal.

## **11.2 Referrals to Information Commissioner during 2013**

We received 13 referrals from the Information Commissioner during 2013. Four of the cases were from two requestors.

- 2 cases related to information being disclosed outside the regulatory timescale. Both responses were subsequently issued.
- 1 case related to the amount of information provided. The requestor had been provided with as much information as possible within the 18 hour timescale and a Fees Notice was issued to provide the additional information. Our decision was upheld by the ICO.
- 10 cases related to information which had been withheld. 3 of these were upheld, by the ICO, 3 were partially upheld and 4 are ongoing.

## **11.3 Protection of Freedoms Act 2012, Open Data and Transparency**

The Freedom of Information Act (FOIA) requires every public authority to publish information proactively, as well as responding to requests for information. In accordance with the Act, the Council has a Publication Scheme and currently provides a variety of information under this scheme. Services are encouraged to routinely publish information on the website to make it easier for requestors to access the information they require without having to submit an FOI request.

The Protection of Freedoms Act 2012 added new provisions to FOIA regarding datasets. It has extended rights under FOIA 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. These datasets must also be made available in the

Publication Scheme. The new provisions are about how, rather than what, information is released. If it is a relevant copyright work, i.e. one for which the Council owns the copyright and database rights, then it must be provided under the terms of a specified licence.

The Council has stated its commitment to being open, honest and accountable regarding all decisions, actions and outcomes, and the Transparency Project has been launched in order to review the Council's current Publication Scheme, and to highlight areas where more information should be published. A key output of this will be the publication of a Freedom of Information Disclosure Log, outlining all the FOI requests received by the Council and the responses issued. In 2013, over 90% of the requests received were responded to within 20 working days, and, with increased transparency, more proactive publication of information and improved processes, it is anticipated that numbers of requests may reduce, or at least start to stabilise.

## **12.0 Data Protection**

### **12.1 Subject Access Requests**

Subject Access Requests increased from 198 in 2012 to 264 in 2013 (excluding requests made to Council Tax for confirmation of address details). Requests for access to Social Care files have increased significantly and responding to these is particularly time and labour intensive, because of the volume and sensitivity of the information requested.

### **12.2 Information Assurance**

The Information Assurance Framework has been developed further during 2013. This is published on the Intranet and includes policies, processes, governance arrangements, guidance materials and training, with a view to ensuring that information is dealt with legally, securely and efficiently, and assuring the quality, confidentiality, integrity and availability of all information. The policy sets out the Council's commitment to ensuring transparency, whilst minimising the risk of information being compromised, and providing confidence that personal information is being properly handled.

### **12.3 Data Protection Training and Awareness**

Data Protection training is a mandatory requirement for all members of staff through the Performance Management process.

A significant amount of training and awareness in Data Protection has been delivered across the organisation in the last two years. This has included an external training provider delivering formal training to approximately 300 senior managers, as well as a number of training and awareness sessions delivered by the Data Protection Officer to Service Areas. The Data Protection Officer also delivers a presentation at Corporate Induction, covering all aspects of data handling from record keeping, security, data protection and freedom of information.

## **12.4 Advice and Guidance**

Advice and guidance on data protection issues is provided to all areas of the organisation, including advice on fair processing statements to disclosure or sharing of sensitive information and review of data sharing agreements. Additionally, there is close liaison with Internal Audit regarding the National Fraud Initiative.

## **13.0 Access to Information**

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

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 30 January 2014  
**Report of:** Audit Manager  
**Title:** Review of new CIPFA Guidance on Audit Committees  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.0 As part of the Committee's ongoing efforts to ensure that it operates effectively and fulfils its purpose, a report setting out the Chartered Institute of Public Finance and Accountancy's (CIPFA) view on the role and functions of an audit committee is presented to Members for information.

#### **2.0 Recommendation**

2.1 That the Committee be advised of CIPFA's view on the role and functions of an audit committee and note that:

- (i) The report will be shared with the Constitution Working Group which is reviewing the Audit and Governance Committee's Terms of Reference as part of the Constitution Committee work programme.
- (ii) Final approval for amendments to the Committee's Terms of Reference will be for full Council to approve, following reference to and recommendation from the Constitution Committee, because it forms part of the Constitution.
- (iii) A report on the self assessment of the effectiveness of the Committee using the latest guidance will be brought to the Committee in March 2014.

#### **3.0 Reasons for Recommendations**

3.1 Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of the Council. The existence of the Audit and Governance Committee does not remove responsibility from senior managers, Members and the Leader, but provides an opportunity and resource to focus on these issues.

3.2 In order to support the Committee in performing effectively, this report advises Members of CIPFA's view on the role and functions of an audit committee as detailed in Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition). CIPFA's 2013 Position

Statement on Audit Committees in Local Authorities, their suggested Terms of Reference and the Audit and Governance Committee's current Terms of Reference are included as Appendices A, B and C of this report.

#### **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 The Accounts and Audit (England) Regulations 2011 state that the Council is responsible for ensuring that financial management is adequate and effective and that the system of internal control is sound and facilitates the effective exercise of functions and the management of risk. Furthermore, Section 151 of the Local Government Act 1972 requires the Council to 'make arrangements for the proper administration of its financial affairs'.

7.2 The Chief Operating Officer role is key to discharging the requirement for sound financial management at the Council. To be truly effective, the Chief Operating Officer requires an effective Audit and Governance Committee that provides support and challenge, as well as adequate and effective audit arrangements.

#### **8.0 Legal Implications**

8.1 Whilst not a statutory requirement, audit committees in local authorities are a key component of governance and are necessary to satisfy the wider requirements for sound financial management highlighted at paragraph 7.1.

#### **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 The Audit and Governance Committee is, therefore, an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. A review of current best practice will help the Committee to fulfil its responsibilities.

## **10.0 Background and Options**

10.1 During September 2013, CIPFA announced that it had decided to update its original 2005 guidance on audit committees in local government. *Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)* updates the core functions of the audit committee in relation to governance, risk management, internal control and audit to reflect the changes since 2005. This report looks at the latest guidance in order to support the Audit and Governance Committee in performing effectively.

10.2 The 2013 Position Statement on audit committees in local authorities (Appendix A) sets out CIPFA's view of the role and core functions of an audit committee. In order to allow Members to consider current arrangements against best practice, CIPFA's suggested Terms of Reference are included at Appendix B and the Audit and Governance Committee's current Terms of Reference are included at Appendix C. Members are asked to note that this report will be shared with the Constitution Working Group which is reviewing the Audit and Governance Committee's Terms of Reference as part of the Constitution Committee work programme.

10.3 The guidance recognises that one area that has significantly developed since 2005 is that Authorities now have a wide range of partnership arrangements in place and Cheshire East is no exception. The headline proposed governance and stewardship arrangements of the new Alternative Service Delivery Vehicles (ASDVs) are subject to a separate paper at this Committee meeting, and the guidance on 'Partnership Governance' is included in paragraph 10.5 of this report.

10.4 The remainder of the report looks at factors that will, in accordance with the guidance issued by CIPFA, support improvement and increase the effectiveness of an audit committee.

### **Partnership Governance**

- 10.5 CIPFA recognise that local authorities commonly have a wide range of partnership arrangements and, that although ensuring the adequacy of governance and risk management over such arrangements can be complicated, it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons the role of a Council's audit committee should be clearly defined.
- 10.6 The guidance goes on to state that this role could include considering the assurance available on whether the partnership arrangements are satisfactorily established and are operating effectively. For example, an audit committee could seek assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. This role could also include establishing what arrangements have been put in place to maintain accountability to stakeholders, ensure transparency of decision making and ensure standards of probity are maintained.
- 10.7 Furthermore, where an authority is developing new partnership arrangements, its audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.
- 10.8 An audit committee should also consider the coverage of assurances that underpin the Annual Governance Statement (AGS) to make sure that partnerships are adequately covered and may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities (where major areas of governance or risk is shared with other public bodies) or a joint committee (where there is a shared management team and single functions for finance, audit and risk).

### **Independence**

- 10.9 CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee because combining audit with other committees can create confusion about the role and dilute focus. A local authority's audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process. Financial scrutiny is a different role from that fulfilled by an audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance.

- 10.10 However constituted, all members should be aware that the work of an audit committee is non-political.

### **Decision making powers and delegations**

- 10.11 CIPFA states that all audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision-making. The committee's effectiveness does not depend on the delegation of powers.
- 10.12 The constitution of a local authority may, however, also include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review.

### **Administrative and operational arrangements**

- 10.13 It is recommended that where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and thus unproductive meetings. Equally, all audit committees should review whether the inclusion of each agenda item results in added value and whether some time consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, an audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers.

### **Supporting the audit committee and key relationships**

- 10.14 The regular attendance of key senior management figures is important both to maintain the credibility of an audit committee and to ensure that members are adequately supported by appropriate professionals.
- 10.15 A number of officers will have an important relationship with the committee. The Chief Finance Officer (CFO) role (Chief Operating Officer at Cheshire East) and the remit of the audit committee are closely aligned and complementary. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government emphasises the importance of having an effective audit committee to support the CFO. The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that an audit committee receives any necessary advice and information, so that both

functions can operate effectively. An audit committee should then be in a position to provide effective support to the CFO.

- 10.16 CIPFA indicates that it may be appropriate to consider how an audit committee operates outside formal meetings especially where it is necessary to keep committee members briefed on issues that are on the agenda, and other matters that are too detailed for inclusion on the committee agenda.

### **Accountability**

- 10.17 Given its role in the governance structure and in promoting the principles of good governance, an audit committee should be clear how it supports one of the key principles: accountability. It is also important that all audit committees are held to account on the extent to which they fulfil their purpose.
- 10.18 Through review of internal and external audit reports, monitoring of risk registers and other key strategies, an audit committee will hold those responsible for the implementation of recommendations and action plans to account. In addition, by overseeing the process of evaluating and improving governance, risk management and control, an audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.
- 10.19 CIPFA's view is that an audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council.

The aspects that should be specifically considered include:

- Whether the committee has fulfilled its agreed terms of reference.
  - Whether the committee has adopted recommended practice.
  - Whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities.
  - Whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review.
  - What impact the committee has on the improvement of governance, risk and control within the authority.
- 10.20 The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account.

### **Composition and operation**

- 10.21 Any audit committee that is a properly constituted committee of a council will need to abide by its rules concerning political balance. One factor important for the success of an audit committee, however, is ensuring a non-political approach to meetings and discussions.
- 10.22 CIPFA discourages membership from executive members on the committee because it could deter the committee from being able to challenge or hold the executive to account on governance, risk and control matters.
- 10.23 The guidance goes on to say that the leader of the cabinet should not be a member of an audit committee. However, an audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

### **Developing audit committee effectiveness**

- 10.24 An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, an authority's business. Since it is primarily an advisory body, it can be more difficult to identify how an audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence' and 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness.
- 10.25 Using the recommended practice from the new CIPFA guidance should help the Authority to achieve a good standard of performance. Completing the evaluation within the guidance will support an assessment against recommended practice to inform and support the Audit and Governance Committee. This will be completed with the Chair and Vice Chair and brought to the March 2014 meeting.

## **11.0 Access to Information**

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

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**CIPFA Position Statement: Audit Committees in Local Authorities****The Purpose of Audit Committees**

- **Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- **The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place. For a local authority, CIPFA's judgement is that the audit committee should report directly to council rather than another committee, as the council itself most closely matches the body of 'those charged with governance'.

**The core functions of an audit committee are to:**

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it and demonstrate how governance supports the achievements of the authority's objectives.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and professionalism
  - support the effectiveness of the internal audit process
  - Promote the effective use of internal audit within the assurance framework
- Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
- Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.

**CIPFA Position Statement: Audit Committees in Local Authorities**

- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

**Audit committees can also support their authorities by undertaking a wider role in the other areas including:**

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Providing oversight of other public reports, such as the annual report

**Although no single model of audit committee is prescribed, all should:**

- Act as the principal non-executive, advisory function supporting those charged with governance.
- Be independent of both the executive and scrutiny functions.
- Have clear rights of access to other committees/ functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent body.
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief finance officer or appropriate senior and qualified substitute, the chief executive, head of internal audit and appointed external auditor. Other attendees may include the monitoring officer

**CIPFA Position Statement: Audit Committees in Local Authorities**

(for standards issues), and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.

- Report regularly on their work, and at least annually report an assessment of their performance.

**Good audit committees are characterised by:**

- A membership that is balanced<sup>1</sup>, objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.<sup>2</sup>
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

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<sup>1</sup> The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.

<sup>2</sup> There are many personal qualities needed to be an effective chair, but key to these are promoting an apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in, and knowledge of financial and risk management, audit, accounting concepts and standards and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

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**Suggested Terms Of Reference – Local Authorities****Statement of Purpose**

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

**Governance, Risk and Control**

- 3 To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- 4 To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 11 To monitor the counter fraud strategy, actions and resources.

**Internal audit**

- 12 To approve the internal audit charter.

**Suggested Terms Of Reference – Local Authorities**

- 13 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 14 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 15 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 16 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 17 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- 18 To consider the head of internal audit's annual report:
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
  - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- 19 To consider summaries of specific internal audit reports as requested.
- 20 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 21 To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

**Suggested Terms Of Reference – Local Authorities**

- 22 To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
- 23 To support the development of effective communication with the head of internal audit.

**External Audit**

- 24 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 25 To consider specific reports as agreed with the external auditor.
- 26 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 27 To commission work from internal and external audit.
- 28 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

**Financial Reporting**

- 29 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 30 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

**Accountability Arrangements**

- 31 To report to those charged with governance on the committee's findings conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- 32 To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

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**Cheshire East Council**  
**Audit and Governance Committee - Current Terms of Reference (January 2014)**

The Audit and Governance Committee is responsible for:

1. overseeing the Council's role and responsibilities in respect of Corporate Governance and Audit;
2. developing a Code of Corporate Governance and to undertake as appropriate an assessment of wider governance issues;
3. supporting the Council's audit function, both internal and external;
4. ensuring the Council has in place appropriate policies and mechanisms to safeguard the Council's resources;
5. supporting the Chief Financial Officer in relation to the performance of their duties;
6. approving any Council Statement of Accounts as may be required by the relevant Account and Audit Regulations;
7. ensuring any Council's Risk Management arrangements are operating effectively;
8. 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;
9. considering the Head of Internal Audit's annual report and opinion and a summary of internal audit activity and the level of assurance over corporate governance arrangements;
10. receiving the Internal Audit Plan and summary reports on performance against the plan;
11. reviewing and approving the Annual Governance Statement;
12. seeking assurance that customer complaint arrangements are robust;
13. reviewing and making recommendations upon the whistle blowing arrangements process;
14. considering external audit and other external agencies reports to those charged with governance as a source of assurance;
15. ensuring that the Council maintains a robust counter fraud culture via the implementation of an anti fraud and corruption policy and strategy;

**Cheshire East Council  
Audit and Governance Committee - Current Terms of Reference (January 2014)**

16. submitting an annual report to the Council;
17. promoting high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity)
18. ensuring that Members receive advice and training as appropriate on the Members Code of Conduct
19. granting dispensations under the provisions of the Localism Act 2011 to enable a member or co-opted Member to participate in a meeting of the Authority

The Committee has appointed three ad-hoc sub-committees/panels as follows:

Initial Assessment Panel

3 Members plus Independent Person. The panel is responsible for:

- Receiving and determining whether to refer for investigation or other appropriate action, any written complaints regarding alleged mis-conduct and breach of the Code of Conduct by any Borough Councillor or Town or Parish Councillor within Cheshire East.

Local Resolution Panel

3 Members plus Independent Person. The panel is responsible for:

- The hearing and determination of complaints referred to it by the Initial Assessment Panel that there has been a breach of the Code of Conduct by any Borough Councillor or any Town or Parish Councillor within Cheshire East. The panel will act in consultation with the Independent Person.
- Matters may be referred for external investigation should the panel consider it appropriate due to the complexity of the matter or if serious issues emerge.

Hearing Sub-Committee

3 Members plus Independent Person. The sub-committee is responsible for:

- Consideration of the written report of the external investigator in relation to a complaint that a Borough Councillor or Town or Parish Council Member has broken the Code of Conduct and the determination of any appropriate action in consultation with the Independent Person. NB sanctions for Parish Councillors will be referred to the Parish Council.

**Cheshire East Council  
Audit and Governance Committee - Current Terms of Reference (January 2014)**

The memberships of the panels and sub-committee are drawn from a pool of 15 members constituted on a politically proportionate basis which includes the members of the Audit and Governance Committee.

An Independent Person appointed by Council will be present at any Panel meetings or a meeting of the hearing Sub Committee

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# CHESHIRE EAST COUNCIL

## REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of meeting:** 30 January 2014  
**Report of:** Performance and Risk Manager  
**Title:** Risk Management Update Report  
**Portfolio Holder:** Councillor David Brown

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### 1.0 Report Summary

1.1 This is a summary of risk management work undertaken since the previous meeting of 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 recent risk management work so that it may undertake this oversight.

### 2.0 Decision Requested

2.1 The Audit and Governance Committee is requested to note and comment on the update report on risk management, which is for Members' information and assurance.

### 3.0 Reasons for Recommendations

3.1 Risk Management provides a structured, consistent and continuous process across the whole of Cheshire East Council for identifying, assessing, deciding on responses to, and reporting on opportunities and threats that affect the achievement of the Council's 3 Year Plan objectives and outcomes. Risk management is central to good governance and effective strategic management. 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.

3.2 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 to both Members and staff to support a higher appetite for risk, at a time when major change is necessary and desirable.

### 4.0 Cheshire East Council 3 Year Plan – Corporate Risk Update

4.1 Working towards the Council's vision, medium term priorities and community outcomes as part of the delivery of the 3 Year Council Plan brings both risk challenges and opportunities. Cabinet and management have a significant challenge in ensuring that the vision, culture and organisational structure are fully aligned, as the Council works as one to increase efficiency and undertakes major change programmes to innovate as effectively and cost efficiently as possible. At a time of considerable and constant change, when managers are dealing with many competing demands, it is possible to miss the risks that arise suddenly or

unexpectedly. Risk identification, assessment and management are therefore an integral part of the delivery of our 3 Year Council Plan. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving desired outcomes.

- 4.2 It is considered good practice to include an update to Audit and Governance Committee on progress against key risks. Attached at **Appendix A** is a summary of the Council's Corporate Risk descriptions and the net risk rating for the risks scored to date. The summary provides a tracking of the direction of travel of risks, with a commentary for any risks that change. This can then be utilised as a tool to ensure that any risks not being managed to an acceptable level are monitored, reported on and escalated as required.
- 4.3 At its meeting on 11 December 2013, the Corporate Risk Management Group discussed and considered the risk ratings for the following key risks:-
- Corporate Risk 1 – Political and Economic Environment (Threat)
  - Corporate Risk 7 – Reputation (Threat)
  - Corporate Risk 9 – Workforce (Threat)
  - Corporate Risk 10 – Project and Programme Management Skills (Threat)
  - Corporate Risk 12 - Local Plan Examination (Threat)
  - Corporate Risk 18 – Legal Challenge (Threat)
  - Corporate Risk 19 – Fraud (Threat)
  - Corporate Risk 21 - Information Assurance (Threat)
- 4.4 The Corporate Risk Management Group also considered the most significant risks identified by the Alternative Service Delivery Steering Group and agreed that two of these should be escalated to corporate level. As a result, the wording of the description for corporate risk 20 – Contract and Relationship Management has been updated to incorporate specific concerns around contract specifications, and a new risk has been added, corporate risk 22 – Alternative Service Deliver Vehicle Business Plans.
- 4.5 As detailed on **Appendix A** and shown on the heat map attached at **Appendix B**, six of the key corporate risks, CR3 Leadership and Management, CR9 Workforce, CR11 Commissioning and Service Delivery Chains, CR15 Protection of Children and Young People, CR18 Legal and CR20 Contract and Relationship Management, have been assessed as having a 'High' net risk rating.
- 4.6 Work is ongoing to update risk descriptions, review and score the remaining opportunities and threats as identified.
- 4.7 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. (For this purpose, short briefing means attending the meeting and being able to talk through the risk stewardship template to explain the risk and controls.) The most up to date version of the risk stewardship template for corporate risk 9, Workforce Risk is attached at **Appendix C** to this report for discussion with the Risk Owner/Risk Manager during the Audit and Governance Committee meeting.
- 4.8 The assessment methodology used to score the risks is attached at **Appendix D** to this report for information.

## 5.0 Wards Affected

- 5.1 All

**6.0 Local Ward Members**

6.1 All

**7.0 Policy Implications**

7.1 Risk management is integral to the overall management of the authority and, therefore, key policy implications and their effective implementation are considered within service risk registers and as part of the risk management framework.

**8.0 Financial Implications**

8.1 There are no financial implications in relation to this report. However, a risk around financial control is included as a corporate risk.

**9.0 Legal Implications**

9.1 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.

**10.0 Risk Management**

10.1 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 threats or to exploit, share, enhance or ignore opportunities due to poor risk management

**11.0 Background and Other Risk Work**

**11.1 Specialist Risk Areas – Insurance**

At a previous meeting, the Audit and Governance Committee requested information on insurance arrangements for elected members be included in the risk update report. The Council’s corporate insurance arrangements include the following insurance covers. Please note that the definition of employees extends to include members.

*Employers Liability* – covers the Council as employer against claims for bodily injury, illness or disease suffered by employees in the course of their employment where the Council is held to be legally liable for such losses.

*Public Liability* – covers the Council for claims from members of the public, pupils and clients for accidental damage to property, bodily injury, illness or disease arising from the negligence of the Council or its employees.

*Officials Indemnity* – covers the Council for financial loss claims from third parties resulting from a negligent act or error or omission committed by an employee.

*Libel and Slander* – covers the Council for claims made relating to defamatory statements made by employees

*Personal Accident* – covers employees for specified benefits in the event of death and specified disablement injuries.

### 11.2 Risk Management Section for Reports

The Corporate Risk Management Group considered the most appropriate way of including the allocation of a measure/score of risk on written reports. Whilst the allocation of scoring for individual risks identified within the risk section of written reports was not considered practical, it is exploring further the use of a measure around risk appetite, which would be useful in the risk section for reports on a decision for a new venture or significant project. Draft templates for articulating a risk appetite statement, which incorporate a numbering scale of Zero to Five, are presently being circulated for comment. If approved, this could then be utilised within the risk section for certain written reports.

### 11.3 Risk Management Networking

The Performance and Risk Manager regularly shares and discusses risk information with colleagues in Cheshire West and Chester Council and recently met with risk consultant colleagues from Zurich to discuss risks facing the public sector. The Performance and Risk Manager also attended a CIPFA Risk Management Hot Topics forum with North West colleagues at the end of November. This included discussion and updates on risk aspects of governance & financial challenges, and the difficulties of identifying and managing risks for shared services and extended enterprises.

## **12.0 Access to Information**

### 12.1 Risk Management Policy

The updated Risk Management Policy was approved by Cabinet at its meeting on 22 July 2013. 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

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR1	Threat	<b>Political and Economic Environment:</b> That development and changes as a result of government policy and reviews and in the economic climate compromise the Council's ability to deliver, due to financial consequences or market changes, preventing the achievement of all or some of our objectives and outcomes.	Chief Executive	Leader of the Council	8 Medium	↔	Review due now. The likelihood of this risk occurring is always going to be high, 4 because the Council operates in a political and changing environment, however taking account of the mitigation and contingency arrangements the impact of this risk is significant,2 giving a net risk score of 8 Medium risk.
CR2	Opportunity	<b>Managing Expectations:</b> Opportunity to ensure that there is a mutual understanding and recognition of responsibilities between the people of Cheshire East and the Council, preventing an expectations gap between expected and actual Council service delivery; such that we influence our Voluntary and Faith Groups and Communities, to become more self-reliant, reduce unnecessary demand, and improve public perception of the Council's effectiveness in its aim to best serve the people of Cheshire East and be a leading, commissioning and responsible Council.	Exec Director of Strategic Commissioning	Deputy Leader & Strategic Communities Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring. (This includes engagement / consultation, citizens panel work, engagement workshops with health partners and the appointment of the Head of Resilient Communities.)
CR3	Threat	<b>Strategic Leadership and Management:</b> Risk that a number of interlinked change factors result in ineffective strategic leadership and management arrangements in place meaning there is no clear	Chief Executive	Leader of the Council	12 High	↓	Although there are significant existing controls some of these processes are perhaps not fully embedded yet. The likelihood of

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		<p>and consistent understanding of our business for staff, members and partners. This reduces our ability to achieve all of our priorities, objectives and outcomes.</p> <p>These factors include:</p> <ul style="list-style-type: none"> <li>new strategic commissioning operating model</li> <li>management restructure</li> <li>new and incoming senior appointments</li> <li>scale of delivery on substantial change programmes</li> </ul>					this risk occurring at present is 3 likely but is reducing as the restructure is being completed and new appointments settle roles. The impact of this risk is critical to the achievement of the Council's objectives. Overall the current score is 12 high risk.
CR4	Threat	<p><b>Financial Control:</b> 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 objectives and outcomes.</p>	Chief Operating Officer	Finance Portfolio Holder	9 Medium	↓	The net risk rating has reduced to 9 medium risk. The likelihood of this risk has reduced within the likely category of 3. This positive direction of travel is evidenced within the Pre-Budget Report (published Jan 2014). It is clear that strong financial management is now embedded within the organisation. Estimated levels of reserves also remain adequate to support medium term investment and protect the Council against a range of potential risks which reduces the impact should this risk materialise and so this has been reduced to 3 major risk.

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR5	Opportunity	<b>External Funding:</b> Opportunity that the Council identifies, bids for, or captures new alternative sources of external funding or income, or aligns other public sector local expenditure (such as by the NHS) to create added public value and increases its ability to achieve its objectives and outcomes.	Chief Operating Officer	Finance Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.
CR6	Opportunity	<b>Evidenced Decision Making:</b> Opportunity to more effectively utilise information and business intelligence to properly and adequately take into account supplementary evidence and public need, resulting in a better ability to apply evidence based decision making, and strengthening our ability to effectively and efficiently reshape our commissioning approach to deliver services more innovatively to best serve the people of Cheshire East and achieve our intended outcomes.	Chief Operating Officer	Business Intelligence and JSNA Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.
CR7	Threat	<b>Reputation:</b> Risk that consideration is not given and management action is not taken, to effectively maintain the reputation of the Council, leading to a loss of public confidence, threatening the stability of the Council and our ability to meet the corporate priorities.	Chief Executive	Leader of the Council	9 Medium	↔	Overall rating remains at 9 medium risk. Likelihood is always prevalent and impact is dependent upon subject matter but the scoring uses worst case scenario for impact.

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR8	Opportunity	<b>Public Sector Effort:</b> Opportunity to ensure that a consensus approach and joint strategic planning by several Council partners reduces duplication of effort and ensures best use of resources in varying geographic areas, such that efforts are not contradictory and/or do not leave gaps and we maximise public resources such that the Council and its partners are better able to achieve intended objectives and outcomes.	Chief Executive	Leader of the Council	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring. (This includes sub-regional work, work with other public sector commissioners i.e. health / police)
CR9	Threat	<b>Workforce:</b> Risk that the fast pace and scale of change in the Council results in a de-motivated, disengaged and poor performing workforce which prevents the Council from achieving all its outcomes and priorities and fails to be a leading Council. The fast pace and scale of change gives rise to:- <ul style="list-style-type: none"> <li>disconnect as roles and responsibilities change and settle</li> <li>increased pressure on staff to improve their skills and knowledge</li> <li>overstretched staff capacity</li> <li>increase in staff stress and sickness levels</li> <li>loss of productivity</li> <li>loss of key staff, skills and knowledge</li> </ul>	Chief Executive	Performance Portfolio Holder	<b>12 High</b>	↔	The likelihood of this risk occurring is a 3 likely, capacity as Officers move into the new management structure but continue to undertake their previous roles remains a concern, as is clarity over accountability during this time. Taking account of the existing mitigation the impact should this risk occur would be a 4 as the workforce has a major impact on the achievement of the corporate outcomes and performance (reduction in likelihood may result in less disengaged staff and would result in a less negative impact on performance and capacity). The overall rating for this risk is 12 high risk

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR10	Threat	<b>Project and Programme Management Skills:</b> Risk that the Council does not have a sufficient number of skilled and knowledgeable staff managing projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales. This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for failing to deliver on our promises.	Chief Operating Officer	Performance Portfolio Holder	8 Medium	↓	Likelihood is reduced to less than 40% chance of this risk occurring given the increase in project management staff and up skilling of existing staff. The impact of this risk is clearly critical if it were to materialise due to the high level and significant number of change programmes and contracting. The score is 8 medium risk.
CR11	Threat	<b>Commissioning and Service Delivery Chains:</b> Risk that as the Council moves into a more active "market making" role, it will progressively form complex and more fragmented supply 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) increasing the materialisation of commissioning and service delivery chain risks which would prevent the Council from achieving its planned objectives, priorities and outcomes. Examples of these risks include:-  inappropriate, ineffective and inefficient provider commissioning failure to meet/deliver service expectations/standards	Chief Executive	Corporate Policy Portfolio Holder	12 High	↔	The likelihood of this risk at present is a 3 'likely' and has a number of interdependencies with other corporate risks. We are working on strengthening our corporate infrastructure in order to become more strategic and commissioning and the staffing review plays an important role in this. The impact of this risk if it were to fully materialise would have a critical impact on the achievement of our corporate objectives and so is presently a 4, giving an overall risk rating of 12 'High Risk'.

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		<p>supplier/partner financial failure</p> <p>increase in supplier incidents, non-compliance with contracts or agreements</p> <p>tension between profit motives and public sector ethos</p> <p>budget overruns</p> <p>increase in systematic risks in increasingly shared services</p> <p>disaffected voluntary sector</p> <p>inadequate supplier and contract management/relationship</p>					
CR12	Threat	<p><b>Cheshire East Local Plan Examination</b> – Risk that the Cheshire East Core Strategy is found to be unsound and does not pass examination by the Planning Inspectorate. This may result in delays to the planning framework, leaving Cheshire East vulnerable to unwanted development, budget pressures, loss of public and government confidence, and impacting upon our ability to provide the right type of housing and development sites in the right places and stimulate growth in the local economy.</p>	Director of Economic Growth and Prosperity	Prosperity and Economic Regeneration Portfolio Holder	8 Medium	↓	The risk has been reviewed and whilst there are some subtleties within all of this, the core issue remains as described, although some of the mitigation measures are now paying dividends, we cannot substantially alter or remove the remaining risk, so the scores remain the same at 8 Medium Risk.
CR13	Opportunity	<p><b>New Responsibilities for Public Health and Wellbeing:</b> There is an opportunity to embed and promote a better understanding of the Council's statutory and other new responsibilities for Public Health services, activities and its wider responsibilities for local health improvement and</p>	Director of Public Health	Health and Adult Social Care Portfolio Holder	6 Medium	New	The net score is 6 which is medium at present, although a number of actions have been put into place. This reflects the immaturity of the public health responsibilities for the Council. It is expected that as

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		protection. This will result in the Council successfully placing public health at the centre of all its planning and commissioning activities, leading to more effective and collaborative services which improve and protect the public's health and enabling the Council to achieve its intended outcome that local people live well and for longer.					the Council becomes familiar with its new responsibilities and the public health team continues to put the relevant processes in place, then the likelihood of the risk will increase (target score = 3) and hopefully increase the impact on the corporate objectives to significant (score of 3).
CR14	Threat	<b>Business Planning –Resource:</b> Risk that we have not planned the resource required to deliver both business as usual and our significant projects, to be delivered over a relatively short period of time, causing overreliance on internal support services (e.g. Assets, Insurance, Legal, Procurement, ICT) and insufficient resource and capacity to deliver, resulting in increased costs, failure to deliver priority projects, business operational issues and an inability to achieve the Council's intended objectives and outcomes.	Chief Operating Officer	Performance Portfolio Holder	TBD		Further work required on documenting actions taken and planned to mitigate this threat before scoring.
CR15	Threat	<b>Protection of Children and Young People:</b> The risk that a combination staff retention and an inability to recruit sufficient qualified and competent social workers and supervisors to meet statutory children Social Care statutory duties, results in children and young people being unprotected and at potential risk of harm thus impacting upon our ability to deliver the outcome of local people living well and for longer.	Executive Director of Strategic Commissioning	Children and Family Services Portfolio Holder	<b>12 High</b>	New	<i>Risk description amended to be considered by CRMG</i>  The overall net risk rating is 12, high risk. The existing mitigation will take a sustained period of time to be reduced, so at present is 3, very likely. The impact of not retaining and recruiting sufficient experienced and competent social

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
							workers will result in children not being adequately safeguarded and therefore will have a major impact on the council's outcomes of; local people living well and for longer and our communities being strong and supportive.
CR16	Opportunity	<b>Intervention:</b> Opportunity to take co-ordinated intervention between internal and external partners resulting in fewer young people and families being escalated up the levels of need, fewer children and young people ending up in the criminal justice system and care, resulting in a decrease in exponential spend. This will have a positive impact on financial resources, public safety, health & wellbeing, positive contributions to society and successful transition to adulthood such that it will aid the achievement of the corporate outcomes for 2013-16.	Executive Director of Strategic Commissioning	Children and Family Services Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring. (Including the Improvement Plan)
CR17	Threat	<b>Adult Social Care:</b> The risk that a combination of causes such as staff turnover, sickness and an inability to recruit, mean that there is insufficient qualified and capable staff to meet statutory adult social care duties (e.g. reassessments). This may result in some individuals assessed needs and risks not being met, individuals not being effectively safeguarded, consequential legal	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	9 Medium	New	<b>Draft for consideration by CRMG:</b> Presently the likelihood of this risk is assessed as a 3 which is likely; a number of the actions taken may take a while to reduce the likelihood and the impact of the risk. The impact of the risk should it materialise is mitigated by the

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		challenges and credibility issues (e.g. with CQC) and could have a detrimental impact upon our ability to deliver the outcomes of local people living well and for longer, and of our communities being strong and supportive.					action taken but would still have a major impact, score of 3, on the Council's outcomes of local people living well and for longer, and of our communities being strong and supportive. The overall net risk rating is therefore 9 medium risk.
CR18	Threat	<p><b>Legal:</b> 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 diverting significant financial and non financial resources into possibly lengthy legal disputes and impacting upon the Council's ability to achieve its key outcomes.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>inappropriate procurement of goods and services</li> <li>no proper consultation undertaken or findings acted upon</li> <li>no equality impact assessment undertaken or findings acted upon</li> </ul>	Chief Operating Officer	Leader of the Council	12 High	↔	Review due. There are a number of causes and interdependencies with other corporate risks that make this risk more likely at present, including legal capacity and resource to meet the change agenda, the impact is dependent upon the type or extent of legal challenge but to be prudent could cause a critical impact on corporate objectives, performance, reputation and financial consequences so is also a score of 4. The overall net risk rating is a 12 High Risk.
CR19	Threat	<b>Fraud Risk:</b> Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and	Chief Operating Officer	Finance Portfolio Holder	9 Medium	New	As the Council commissions and lengthens its supply chain and the uncertainty of the level of controls

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		procedures in place to mitigate the risk of fraud, particularly at a time of financial hardship, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.					and assurance arrangements the likelihood of this risk is increased. Alongside this, change of key personnel due to the staffing review may also increase the risk of unexplained or suspicious expenditure. The impact of this risk should it occur is a 3 'major' as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. The overall risk rating is 9 medium risk.
CR20	Threat	<b>Contract and Relationship Management:</b> Risk that the Council does not have a sufficient number of skilled, experienced and knowledgeable staff to manage contracts and ongoing relationships with the Council's new alternative service delivery vehicles (ASDVs), such that contractual arrangements may not be robustly specified (including exit strategies), or that they fail to deliver expected outcomes and/or within contracted costs and/or within expected timescales and/or fail to comply with contract agreements. This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for	Chief Operating Officer/ Executive Director of Strategic Commissioning	Corporate Policy Portfolio Holder	<b>12 High</b>	New	Likelihood of this risk occurring at present has been recognised as very likely and work on an intelligent client function is underway along with the retention of staff that understand the outsourced services. The impact of this risk is clearly major if it were to materialise due to the nature of contracting and the significance of the service delivery areas being outsourced. Further work is planned to mitigate this risk and the net score of 12 high risk is expected to reduce.

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		failing to deliver on our promises.					
CR21	Threat	<b>Assurance of Information :</b> Risk that poor stewardship of information results in information being lost, inappropriately disclosed, unavailable, inaccessible or inaccurate, leading to issues with information access, quality, security, retention and disposal. This will affect the Council's ability to provide the right information to the right people at the right time. The consequences of this are poor or inappropriate service delivery, failure to comply with legislation and government standards resulting in possible financial or reputational damage, all of which will have a detrimental impact on the achievement of the Council' outcomes and may expose the Council and Cheshire East residents to other serious risks.	Chief Operating Officer	Deputy Leader & Strategic Communities Portfolio Holder	9 Medium	↔	Once the Information Assurance Framework has been fully developed, it will take a significant period of time to fully implement through all levels of the organisation. Given the current environment of becoming a commissioning Council and setting up of ASDVs the likelihood of this risk occurring remains likely and the net risk score remains at 9 medium risk.
CR22	Threat	<b>ASDV Business Plans:</b> Risk that there is inadequate information available to allow the development of rigorous and fully costed business cases and plans for the alternative delivery vehicles. This may result in the vehicles not being viable and in the worst case scenario eventually failing. This may affect the Council's ability to meet its statutory duties in the short-term, give rise to legal, financial and credibility issues and have a detrimental impact on	Chief Operating Officer	Leader of the Council	9 Medium	New	The likelihood of this risk is mitigated in the short-term because of the existing knowledge and intelligence held by the Council in the longer-term the business plans are to be presented to the shareholder annually. The risk is scored as 3 likely at present as some of the detail is still to be determined and

## Corporate Risks Summary – January 2014

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
		achieving some of the Council's outcomes (dependent upon area at risk).					the business plans produced. The impact of this risk should it materialise and an ASDV fail (worst case scenario) is that the consequences would have a major impact on the Council's ability to achieve some of its planned outcomes. The net risk rating is therefore 9 medium risk.
CR23	Threat	<b>Health Integration Programme:</b> The risk that programme timescales do not pay attention to available resources such that there is a lack of capacity to maintain the pace required to meet the multiple partner health integration programme, this could have a detrimental impact upon our ability to deliver target budget savings (adult social care), meet the conditions of funding arrangements, and to deliver the outcomes of local people living well and for longer, and of our communities being strong and supportive.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	TBD	New	Newly articulated risk. Further work required on documenting actions taken and planned before scoring.

<b>Risk Ref: Corporate Risk 9 (13-14)</b>		<b>Date template updated: 20/12/13 (JD )</b>	
<i>Cross reference the risk to the Corporate and Service Delivery Plan Objective to which it relates, only key risks that require monitoring will be recorded in the Corporate / Significant Risk Register.</i>			
<b>Corporate Priorities / Service Delivery Objective / Project Objective :</b>		<b>Risk to all Council Plan Outcomes –</b>	
		<ol style="list-style-type: none"> <li>1. OUR LOCAL COMMUNITIES ARE STRONG AND SUPPORTIVE</li> <li>2. CHESHIRE EAST HAS A GROWING AND RESILIENT ECONOMY</li> <li>3. PEOPLE HAVE THE LIFE SKILLS AND EDUCATION THEY NEED TO THRIVE</li> <li>4. CHESHIRE EAST IS A GREEN AND SUSTAINABLE PLACE</li> <li>5. LOCAL PEOPLE LIVE WELL AND FOR LONGER</li> <li>∇ BE A LEADING, COMMISSIONING &amp; RESPONSIBLE COUNCIL</li> </ol>	
<i>Risk description should include the <b>cause</b> of the impact and the <b>consequence</b> to the objective which might arise.</i>			
<b>Identified Risk Description:</b>			
<p><b>Workforce:</b> Risk that the fast pace and scale of change in the Council results in a de-motivated, disengaged and poor performing workforce which prevents the Council from achieving all its outcomes and priorities and fails to be a leading Council.</p> <p>The fast pace and scale of change gives rise to:-</p> <ul style="list-style-type: none"> <li>disconnect as roles and responsibilities change and settle</li> <li>increased pressure on staff to improve their skills and knowledge</li> <li>overstretched staff capacity</li> <li>increase in staff stress and sickness levels</li> <li>loss of productivity</li> <li>loss of key staff, skills and knowledge</li> </ul>			
<b>Risk Comments:</b>			
Capacity as Officers move into the new management structure but continue to undertake their previous roles is a concern, as is clarity over accountability during this time. Managing change in culture and attitude is key to managing this risk.			
<i>Who owns and is accountable for the risk?</i>		<i>Who is responsible for taking forward the actions?</i>	<i>Is the risk new, enduring, dying or re-emerging?</i>
<b>Risk Owner:</b> Chief Executive		<b>Risk Managed by:</b> Head of People & Organisational Development	<b>Risk Status:</b> New
<b>Strategic Lead:</b> Performance Portfolio Holder			
<i>Assess the combined risk of the likelihood and impact of the risk being realised before taking account of any controls in place to manage the risk. This is the gross risk score.</i>		<b>Likelihood</b> 4	<b>x Impact</b> 4 <b>= Gross Risk Score</b> 16
<i>What controls are already in place to mitigate the risk? Controls could consist of authorisation and approval processes, governance arrangements and monitoring processes, physical controls, segregation of duties, organisational, personnel, management and supervisory controls or arithmetic and accounting controls. Where is the evidence for these controls kept?</i>			
<b>Existing Controls and Evidence:</b>			
<ul style="list-style-type: none"> <li>• Major change project 8.2 – building capacity and engagement</li> <li>• Delivery of the Senior Manager Review (due for completion by 31 March)</li> <li>• Engagement with the Chief Executive as lead and engagement with key leaders in this project</li> <li>• The People Panel, Team Talk and Team Talk Back</li> <li>• Staff Roadshows continuing (new round in January)</li> <li>• Aspire recognition – the best of the best event in December</li> <li>• PDR process and competency framework</li> <li>• Improved consultation over change – new consultation framework agreed with the Unions – Change</li> </ul>			

<p>Protocol for Improved Consultation.</p> <ul style="list-style-type: none"> <li>• Training – comprehensive corporate training programme and service specific workforce development</li> <li>• Change programme processes – Programme Management Office, Technical Enablers Group and Executive Monitoring Board and strengthening of key business cases to provide clarity on direction for staff.</li> <li>• Project Management Training for Senior Responsible Officers and Project Managers</li> <li>• Positive relations with Trade Unions – ongoing. Evident at Corporate TU meetings and Staffing Committee.</li> <li>• Development of a Stress Management Toolkit jointly with HR, H&amp;S and OHU to further support employees. A Stress Management' site on the intranet has now been developed and a number of Stress Awareness / Wellbeing Events were held during the year. A specific Stress Management guide for Staff has been developed in partnership with the Trade Unions and this is now available to all staff.</li> <li>• Learning &amp; Development – comprehensive Corporate Training Programme in place for all staff and a collaborative leadership programme. The Council has also recently developed an online learning tool to broaden the scope of learning and development and open up cost effective opportunities for a more diverse range of staff.</li> <li>• Oracle Learning Management – this online tool has now been rolled out across the council and will better enable the Council to manage development resources and identify skills gaps in key areas.</li> <li>• Individual and tailored development plans are in place following management review – these will provide support to improve performance in the new management roles.</li> <li>• Dedicated Senior HR resource to support the new delivery vehicles.</li> <li>• Introduction of new pay and grading structure and increment freeze ended.</li> <li>• Leadership conference in November has identified skills gaps across the top 120 managers and this will shape the OD workforce development plan and offering.</li> </ul>			
<p>Assess the combined risk of the likelihood and impact of the risk being realised after taking account of the existing controls in place to manage the risk. This is the net risk score – as it is now.</p>	<p><b>Likelihood</b></p> <p>3</p>	<p><b>x Impact</b></p> <p>4</p>	<p><b>= Net Risk Score</b></p> <p>12</p>
<p>Is the net risk now acceptable or not? Are there further reasonable controls or planned actions you can take to manage the risk down to an acceptable level? If not, consider the need for a contingency plan for what will happen if the risk is realised. Members of the Corporate Risk Management Group are responsible for ensuring that actions proposed to mitigate corporate and significant operational risks are sufficient and proportional to the risk identified.</p>			
<p><b>Future Planned Actions / Contingency:</b></p> <ul style="list-style-type: none"> <li>• Performance related pay – to provide clarity on pay and performance measures</li> <li>• Pay and Reward Strategy to go to Cabinet</li> <li>• Staff survey imminent – results of this will be analysed and appropriate action followed up</li> <li>• Employee assistance programme imminent</li> <li>• Succession planning framework to be designed and implemented with job families</li> <li>• Agile working commitment / modern office / next generation desktop</li> <li>• Development of the Strategic Commissioning Strategy and intelligent client function</li> </ul>			
<p><b>Next Review Date:</b></p> <p>End of February 2014</p>		<p>Some risks require weekly or monthly monitoring, others will only need to be revisited following the proposed date for the completion of the planned action.</p>	
<p>The reason for monitoring key risks is to create an early warning system; risk registers should be regularly reviewed and amended. Questions asked during monitoring are: Is the risk still relevant? Is there any movement in the net risk score? Are the controls still in place and operating effectively? Has anything occurred which may change its impact and/or likelihood? Have any significant control failures or weaknesses occurred since the risk was last monitored? Is the risk increasing - do I need to devise more controls? Is the risk decreasing – can I relax existing controls?</p>			

<p><b>Monitoring Arrangements:</b></p> <p>Key Risk Indicators:-</p> <ul style="list-style-type: none"> <li>• Absence (long term/ short term)</li> <li>• Referrals to OHU</li> <li>• Employee Engagement (following next staff survey)</li> </ul>			
<p><i>Predict the combined risk of the likelihood and impact of the risk being realised after taking account of the existing and planned controls in place to manage the risk. This is the target risk score.</i></p>	<p><b>Likelihood</b></p> <p><b>3</b></p>	<p><b>x Impact</b></p> <p><b>3</b></p>	<p><b>= Expected Score</b></p> <p><b>9</b></p>
<p><b>Comments</b></p> <p>20 Dec 13: The likelihood of this risk occurring is a 3 likely, capacity as Officers move into the new management structure but continue to undertake their previous roles remains a concern, as is clarity over accountability during this time. Taking account of the existing mitigation the impact should this risk occur would be a 4 as the workforce has a major impact on the achievement of the corporate outcomes and performance (reduction in likelihood may result in less disengaged staff and would result in a less negative impact on performance and capacity). The overall rating for this risk is 12 high risk.</p>			

Scoring chart for IMPACT

	Factor	Score	Effect on Corporate Objectives	Effect on Service/Project	Embarrassment/ Reputation	Personal Safety	Financial Implications
THREATS	Critical	4	Critical impact on corporate objectives and performance and could seriously affect reputation. Long term damage that may be difficult to restore with high costs.	<b>Service</b> - Major loss of several important areas. Disruption 5+ Days <b>Project</b> - Complete failure or extreme delay (3 months or more)	Adverse and persistent national media coverage Adverse central government response	Death	> £1m <b>Or</b> >£5m for <b>corporate risks</b>
	Major	3	Major impact on corporate objectives and performance, could be expensive to recover from and would adversely affect reputation in the medium to long term.	<b>Service</b> - Complete loss of an important area. Major effect to services in one or more areas for a period of weeks Disruption 3-5 Days <b>Project</b> - Significant impact on project or expected benefits fail/ major delay (2-3 months)	Adverse local publicity of a major and persistent nature Adverse publicity in professional/municipal press arena	Major injury	Between £1m and £500,000
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.	<b>Service</b> - Major effect on an important area or adverse effect on one or more areas for a period of weeks Disruption 2-3 Days <b>Project</b> - Adverse effect on project/ significant slippage (3 weeks–2 months)	Adverse local publicity /local public opinion aware	Severe injury	Between £500,000 and £100,000
	Minor	1	Minor impact on the corporate objectives and performance, could cause slight delays in achievement. However if action is not taken, then such risks may have a more significant cumulative effect.	<b>Service</b> - Brief disruption of important area Significant effect to non-crucial service area Disruption 1Day <b>Project</b> - Minimal impact to project/ slight delay less than 2 weeks	Complaint from individual/small group	Minor injury or discomfort	Less than £100,000
OPPORTUNITIES	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives	Major improvement to service, generally or across a broad range	Positive national press National award or recognition by national government	Major improvement in health, welfare & safety	Producing more than £50,000
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives	Major improvement to service or significant improvement to critical service area	Recognition of successful initiative Sustained recognition and support from local press	Significant improvement in health, welfare & safety	Producing up to £50,000

**Scoring Chart for LIKELIHOOD**

Factor	Score	THREATS - Description	Indicators	OPPORTUNITIES (Favourable Outcome) - Description	Indicators
Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly	>75% chance of occurrence or achieved in one year.	Clear opportunity, can be relied on with reasonable certainty to be achieved in the short term.
Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)	40% to 75% chance of occurrence. Reasonable prospects of favourable results in one year.	May be achievable but requires careful management. Opportunities that arise over and above the plan.
Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years	<40% chance of occurrence or some chance of favourable outcome in the medium term.	Possible opportunity which has yet to be fully investigated by management.
Very unlikely	1	<10% chance of occurrence	Rarely/never before	<10% chance of occurrence	Has happened rarely/never before

**Risk Matrix – Likelihood and Impact**

Likelihood		THE RISK MATRIX (With Scores)							
Very Likely	4	LOW	MEDIUM	HIGH	HIGH	4	8	12	16
Likely	3	LOW	MEDIUM	MEDIUM	HIGH	3	6	9	12
Unlikely	2	LOW	LOW	MEDIUM	MEDIUM	2	4	6	8
Very Unlikely	1	LOW	LOW	LOW	LOW	1	2	3	4
<b>Impact</b>		Minor 1	Significant 2	Serious 3	Major 4				



SCORING CHART FOR IMPACT				SCORING CHART FOR LIKELIHOOD				
	Factor	Score	Effect on Corporate Objectives		Factor	Score	Description	Indicator
Threats	Critical	4	Critical impact on corporate objectives and performance and could seriously affect reputation. Long term damage that may be difficult to restore with high costs.	Threats	Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly
	Major	3	Major impact on corporate objectives and performance, could be expensive to recover from and would adversely affect reputation in the medium to long term.		Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.		Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
	Minor	1	Minor impact on the corporate objectives and performance, could cause slight delays in achievement. However if action is not taken, then such risks may have a more significant cumulative effect.		Very unlikely	1	<10% chance of occurrence	Rarely/never before
Opportunities	Factor	Score	Effect on Corporate Objectives	Opportunities	Factor	Score	Description	Indicator
	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives		Very likely	4	>75% chance of occurrence or achieved in one year.	Clear opportunity, can be relied on with reasonable certainty to be achieved in the short term.
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives		Likely	3	40% to 75% chance of occurrence. Reasonable prospects of favourable results in one year.	May be achievable but requires careful management. Opportunities that arise over and above the plan.
					Unlikely	2	<40% chance of occurrence or some chance of favourable outcome in the medium term.	Possible opportunity which has yet to be fully investigated by management.
				Very unlikely	1	<10% chance of occurrence	Has happened rarely/never before	

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 30 January 2014  
**Report of:** Chief Operating Officer  
**Title:** Proposed Governance, Stewardship and Control Arrangements for the Alternative Service Delivery Vehicles (ASDVs)  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.1 The purpose of the report is to update the Audit and Governance Committee on the proposed governance, stewardship and control arrangements for the Alternative Service Delivery Vehicles (ASDVs) that are being created by the Council.

#### **2.0 Recommendation**

2.1 That the Committee endorse the arrangements as set out in Appendix A.

#### **3.0 Reasons for Recommendation**

3.1 It is important that the Committee is reassured that the overall governance arrangements for the ASDVs, and the role of the Audit & Governance Committee, in respect of those arrangements, is fit for purpose.

3.2 The Committee's Terms of Reference includes: "overseeing the Council's roles and responsibilities in respect of Corporate Governance and Audit" and "...to undertake as appropriate an assessment of wider governance issues".

#### **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 There are no additional financial implications, other than those highlighted in this report.

**8.0 Legal Implications**

8.1 The requirements for the Companies Act 2006 have been given due consideration to ensure that the Council’s procedure is compliant.

**9.0 Risk Assessment**

9.1 The content of this report aims to mitigate the following key risk and to mitigate/exploit our recognised corporate threat/opportunity risks:-

Key Risks
That Cheshire East Council fails to ensure the adequacy of governance and risk management arrangements over its commercial relationships and other service delivery arrangements, such that it is unable to account for the stewardship of public money and demonstrate its priority of ensuring quality and value of public services, in delivering its planned community outcomes.
Corporate Risk Links
CR6 Opportunity – Evidenced Decision Making CR7 Threat – Reputation CR9 Threat - Workforce CR11 Threat – Commissioning and Service Delivery Chains CR18 Threat – Legal CR19 Threat – Fraud CR20 Threat – Contract and Relationship Management CR22 Threat – ASDV Business Plans

9.2 Other risks recognised and being managed around governance and stewardship arrangements includes governance training for Members that are appointed as Non-Executive Directors of the new vehicles.

**10.0 Background and Options**

10.1 As part of strengthening the management response to the 2012/13 Audit Findings Report from the External Auditors, Grant Thornton (which was presented to the Audit & Governance Committee in November 2013), the Chief Operating Officer added, at that meeting: “that a report outlining the proposed governance and stewardship arrangements and particularly the overall control environment for the operation of the new Alternative Service Delivery Vehicles is brought to the Audit and Governance Committee’s next meeting in January 2014”.

**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: Chief Operating Officer

Tel No: 01270 686013

Email: [peter.bates@cheshireeast.gov.uk](mailto:peter.bates@cheshireeast.gov.uk)

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## Proposed Governance, Stewardship and Control Arrangements for the Alternative Service Delivery Vehicles (ASDVs)

### 1. Introduction

- 1.1. The Council is creating a number of Alternative Service Delivery Vehicles (ASDVs) as part of its move to becoming a Strategic Commissioning Council. The Council's aim in setting up the ASDVs is to ensure the best long term success of the services by the continued delivery of quality to residents whilst, over time, becoming more commercial.
- 1.2. The overriding principle for the governance, stewardship and control arrangements for the ASDVs is that although the new vehicles take on responsibility for the service delivery, the Council remains responsible for ensuring that it uses the public funds the Council provides properly and can demonstrate value for money.
- 1.3. The proposed approach to the ASDVs is that of 'safety first' and the overall governance framework of the Council is being reviewed to ensure the arrangements are robust and fit for purpose at the outset. Maintaining accountability to service users, citizens and local members following the introduction of the ASDVs is vital and the arrangements introduced must ensure this and therefore will remain under regular review.
- 1.4. This paper sets out the proposed governance, stewardship and control arrangements for the ASDVs and the role of the Audit and Governance Committee in relation to them. The arrangements specified are for Wholly Owned Companies (WOCs), which is the main delivery vehicle utilised so far. Arrangements for other delivery vehicles e.g. charitable trust will vary.

### 2. Role of the Audit & Governance Committee

- 2.1. Ensuring the adequacy of governance and risk management over shared service arrangements, commercial relationships and other service delivery arrangements such as ASDVs can be complicated but is very important as accountability for performance and stewardship of the public funds involved remains with the Council. For these reasons the role of the Audit and Governance Committee need be clearly defined.
- 2.2. The latest CIPFA guidance, *Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)* suggests the role of the Committee with regard to ASDVs should be:
  - to consider the assurance available on whether the arrangements are satisfactorily established and are operating effectively. For example, the Committee should seek assurance that the Council has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance.
  - to know what arrangements have been put in place to maintain accountability to stakeholders, to ensure transparency of decision making and to ensure standards of probity are maintained.

## **Proposed Governance, Stewardship and Control Arrangements for the Alternative Service Delivery Vehicles (ASDVs)**

- where the Council is developing new arrangements, to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the new ASDV.
  - to consider the coverage of assurances that underpin the Annual Governance Statement (AGS) to make sure that ASDVs are adequately covered.
- 2.3. Please note that a separate report on the new guidance for Audit Committees is being presented at this Committee meeting.

### **3. Overall Governance, Stewardship and Control Arrangements**

- 3.1. An overview of the proposed governance, stewardship and control arrangements of the Wholly Owned Companies (WOCs) is shown as Appendix 1 and detailed below.

#### **The Contract**

- 3.2. The contract sets out how the services will be delivered by the ASDV to the residents and business of Cheshire East and is effectively divided into four elements:
- Contract Terms
  - Output Specification
  - Method Statements
  - Performance Monitoring

#### **Contract Terms**

- 3.3. This is the main part of the contract and sets out the respective obligations of the contractor, the ASDV and the Council, as client. They also set out the consequences of failure to comply with an obligation. In addition, the contract terms deal with issues such as how disagreements between the parties may be resolved.

#### **Output Specification**

- 3.4. The output specification will set out what the Council wishes the ASDV to do. Modern best practice is for the specification to set out the outcomes required by the client but not to specify how the contractor is to deliver those outcomes.

#### **Method Statements**

- 3.5. This is where the contractor sets out in detail how it is going to deliver the outcomes that the client requires. The contract terms make it clear that the contractor is to deliver both the specified outcomes and what is set out in the method statements.

#### **Performance Monitoring**

- 3.6. A number of key performance key indicators will be used to measure the extent to which the contractor is or is not delivering the desired outcomes. It is the

## **Proposed Governance, Stewardship and Control Arrangements for the Alternative Service Delivery Vehicles (ASDVs)**

responsibility of the Council to monitor the contractor's performance by reference to those key indicators. It is best practice to ensure that the core service retains staff who understand how the outsourced service is delivered. The contract terms establish a forum for interaction between the Council and identified managers within the contractor.

- 3.7. Although contractual, the relationship established by the contract between the Council and the contractor can also be said to be a strategic or a partnering relationship. That strategic relationship will entail meetings taking place on a periodic basis between the relevant portfolio holder and the managing director of the ASDV. In the same way as members currently raise concerns directly with a portfolio holder; in future, this will still be the case.

### **Sanctions**

- 3.8. Within each contract there will be provision for sanctions, if the contractor has not performed its obligations, as set out in the terms of the contract. Such sanctions will depend on the nature of the non-performance but could include the withholding or deduction of monies payable under the contract.

### **The Shareholder**

- 3.9. The Council is the Principle Shareholder within an ASDV. The Articles of Association are the company's Constitution, setting out the rules by which the company will be governed and the decision making processes that will be operated. They have been developed to comply with the requirements of the Companies Act 2006 and aim to provide the appropriate controls for the Council as the shareholder whilst at the same time providing the required independence, flexibility, and commercial decision making for the company.

- 3.10. The Articles of Association set out powers of the shareholders including:

- Appointment and removal to the Board
- Appointment of Auditors
- Setting all key strategy decisions of the company
- Approval of the business plan
- Scrutinise the Company's performance and Board's activities.

### **The Shareholder Committee**

- 3.11. The Shareholder Committee is a sub-committee of and accountable to Cabinet and will exercise the Council's powers as shareholder. This Committee will provide a single point of contact between the management of the ASDVs and the Council as shareholder.

## **Proposed Governance, Stewardship and Control Arrangements for the Alternative Service Delivery Vehicles (ASDVs)**

- 3.12. The Shareholder Committee will be made up of the Leader, Deputy Leader, Chief Executive, Executive Director of Strategic Commissioning and Finance representation amongst others.
- 3.13. The Committee will ensure that clarity of roles is maintained, hold the Directors of the ASDVs accountable and provide a formal mechanism whereby the Shareholder's views can be communicated to the ASDV.

### **Audit**

#### **General**

- 3.14. The Council's auditors have a statutory right to fully inspect the Company accounts and the power to visit and inspect books and records at any time.

#### **External Audit**

- 3.15. ASDV accounts will be consolidated into the Council's Statements and subject to audit by the External Auditors. They will also carry out a Value For Money assessment.

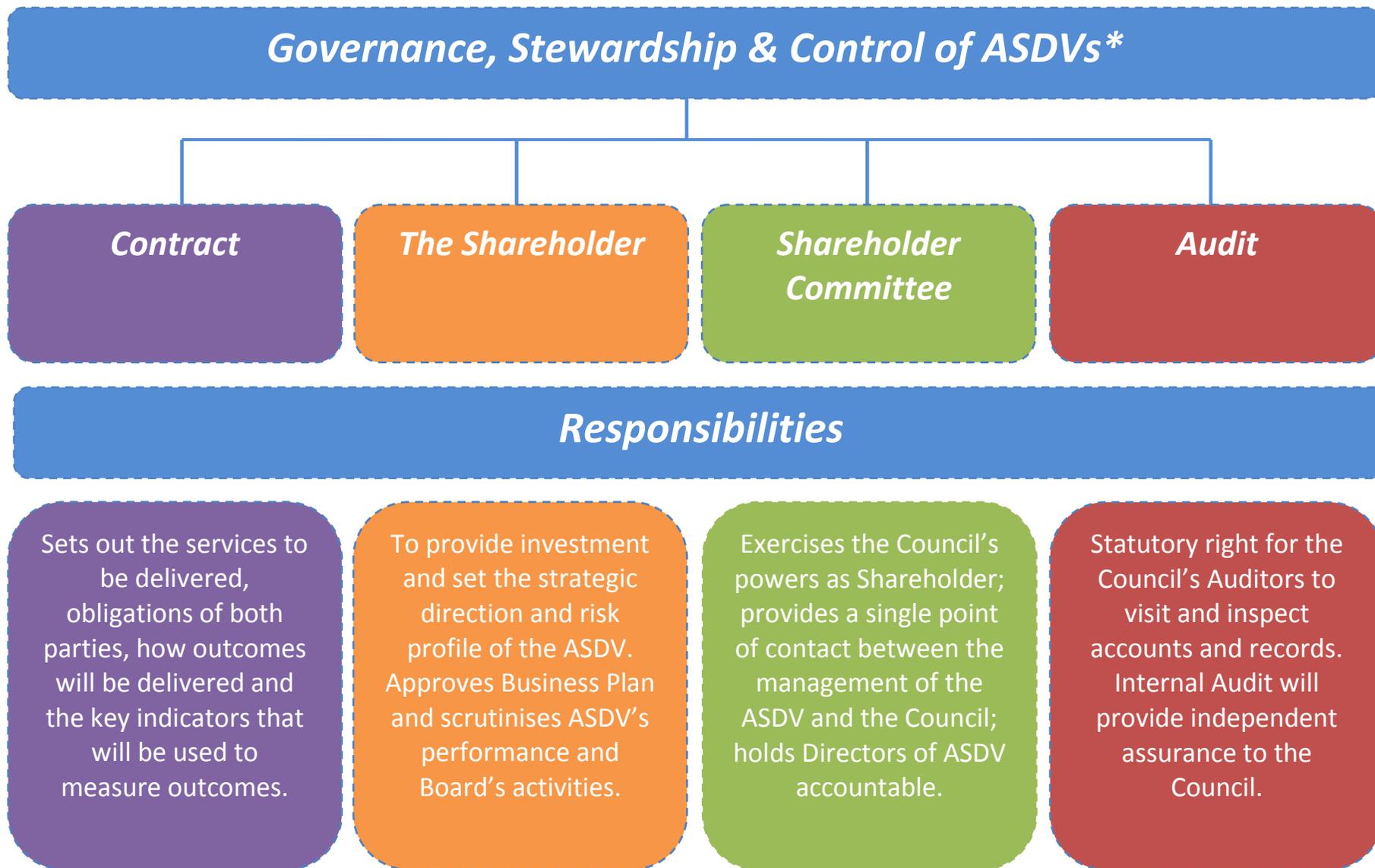
#### **Internal Audit**

- 3.16. Internal Audit provides independent assurance to the Council. In respect of ASDVs, this assurance will be required over the following risks:
- Risks to the Council's strategic objectives posed by the use of ASDVs at a broad level for the Council i.e. Macro level, strategic risks, and
  - Risks to individual business/service areas i.e. Micro level, operational risks.
- 3.17. To provide independent assurance to the Council, Internal Audit will need to:
- Establish the governance arrangements in place at both the Council and the ASDV and whether they are operating effectively.
  - Map the assurance framework to determine whether reliance can be placed on the ASDV's own internal auditors or external auditors/assurance providers.
  - If sufficient reliance cannot be placed, Internal Audit may need to obtain assurance directly itself. Access to records is included within the Powers of Audit included in the Articles of Association.
- 3.18. As part of the Annual Governance Statement (AGS) process, there will be an assessment of partnership arrangements, which will include ASDVs.
- 3.19. As with the Council itself, Internal Audit will also make arrangements to share information and co-ordinate audit activities with the External Auditors to ensure adequate coverage and minimise duplication of effort in respect of the ASDV.

## Proposed Governance, Stewardship and Control Arrangements for the Alternative Service Delivery Vehicles (ASDVs)

### Risk Management

- 3.20. The Council's risk procedures are being updated to ensure there are adequate arrangements on risk management in relation to new and alternative delivery models. The Council needs to meet two key responsibilities for each new delivery model vehicle:
- provide assurance that the risks associated with working as a new vehicle have been identified and prioritised and are being appropriately managed
  - ensure that the new vehicle has effective risk management procedures in place.
- 3.21. Each new vehicle must ensure that risk management is embedded in the business and that the risk management methodology conforms to good practice. The specific challenge is being clear about where the new vehicle's objectives overlap, and can be aligned, to address a common goal with common risks, as opposed to where they are fully independent. Consideration will need to be given to matters such as:
- Reporting on shared key risks to management
  - Defining arrangements for joint risk registers or escalating risks from the new vehicle to the Council's risk register
  - Facilitating prioritisation of action plans
- 3.22. In considering the alternative models we need to think about risk appetite. This is not a single, fixed concept. There will be a range of appetites for different risks which need to align and these appetites may well vary over time. The risk appetite must take into account differing views of all stakeholders at a strategic, tactical and operational level. It needs to be measurable and should be developed in the context of both the Council's and the new vehicle's risk management capability and risk maturity. Risk appetite from a strategic level (Council's viewpoint) is proportionately more about risk taking than exercising control, while at the operational level (New Vehicle's viewpoint) the proportions are broadly reversed.



\* Arrangements relating specifically to Wholly Owned Companies (WOCs).

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 30 January 2014  
**Report of:** Audit Manager  
**Title:** Work Plan 2013/14  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.0 To present an updated Work Plan for 2013/14 to the Committee for consideration.

#### **2.0 Recommendation**

2.1 That the Committee:

- § consider the Work Plan for 2013/14 and determine any required amendments,
- § note the changes to the plan since it was last discussed in November 2013, and
- § 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 changes 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 November 2013:

- The Standards Review Report has been deferred until the Head of Legal and Monitoring Officer takes up her post in February 2014. The report will be presented to the Audit and Governance Committee in March 2014.

- A report outlining the proposed governance and stewardship arrangements and the overall control environment for the operation of the new Alternative Service Delivery Vehicles has been added to the January 2014 Agenda.
- A report on how the Audit and Governance Committee gain assurance over management processes and arrangements in place to prevent and detect fraud and to ensure compliance with law and regulation has been deferred following discussion with the Council's external auditors. It is anticipated that this report will be included as part of the March Agenda.

10.2 In order to help with their deliberations regarding the Work Plan, Members are asked to consider whether:

- the inclusion of each item on its agenda results in added value
  - the assurance process has a cost to the organisation and it should therefore be proportional to the risk
  - care should be taken to avoid duplication and maintain the focus of an audit committee on its core functions as defined by its terms of reference rather than wider issues that are subject to the work of other committees or assurance functions
- there are any time consuming aspects of Committee business that could be more effectively addressed elsewhere
  - an audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers
  - the number and frequency of reports should be proportional to the risk in order to give the core business of an audit committee sufficient focus and attention and to avoid lengthy and thus unproductive meetings

10.6 It should be noted that the Work Plan will be re-submitted to the Committee periodically for further development and approval.

### **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: Audit Manager  
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Email: jon.robinson@cheshireeast.gov.uk

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**Audit & Governance Committee  
Work Plan**

Committee Date/Agenda Item	Description
<b>30 Jan 2014</b>	
External Audit update report	To consider an update report from Grant Thornton in delivering their responsibilities as external auditors.
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 Interim Report	Progress against the Internal Audit Plan 13/14.
Treasury Management Strategy and MRP Statement 2014/15	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. The Treasury Management Strategy is also reported to Cabinet before being presented to Full Council for approval.
Data Protection and Freedom of Information Update	Update on Data Protection and Freedom of Information issues including volumes of requests and trends.
Review of new CIPFA Guidance on Audit Committees	A report setting out CIPFA's view on the role and functions of an audit committee.
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Alternative Service Delivery Vehicles – Proposed Governance Arrangements.	Report outlining the proposed governance and stewardship arrangements and the overall control environment for the operation of the new Alternative Service Delivery Vehicles.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
<b>27 March 2014</b>	
Compliance with Contract Procedure Rules	A report setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances.
External Audit – Audit Plan 13/14	External Audit's planned work for the audit of financial statements and the value

**Audit & Governance Committee  
Work Plan**

Committee Date/Agenda Item	Description
	for money conclusion 13/14
Internal Audit Plan 14/15	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	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2013/14
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Compliance with Regulation of Investigatory Powers Act (RIPA)	A report on the Council's compliance with the Regulation of Investigatory Powers Act.
Standards Review	Review of Members Standards/Procedures.
Members Code of Conduct Complaints Update	Update on the number and outcome of complaints
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
	<b><i>It should be noted that the following item will be presented to the Committee but has not, as yet, been allocated to a specific agenda</i></b>
Compliance with International Auditing Standards 2013/14	To comply with International Auditing Standards, each year the Council's External Auditors are required to refresh their understanding of how the Audit and Governance Committee gain assurance over management processes and arrangements.
	<b><i>The following items may, subject to requirement, be presented to the Committee.</i></b>
Insurance	The Committee is, where necessary, responsible for 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

**Audit & Governance Committee  
Work Plan**

<b>Committee Date/Agenda Item</b>	<b>Description</b>
	Council, and as the Council's representatives on outside bodies.  To be included in a future Risk Management Update Report.
Anti Money Laundering	Consideration of any updates to the Anti Money Laundering Policy and assurance from management that measures are operating effectively.
Training for Standards Hearings	Hearings training for panel members.

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