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Audit and Governance Committee

Agenda

Date:	**Thursday, 22nd January, 2015**
Time:	**2.00 pm**
Venue:	**Committee Suite 1,2 & 3, Westfields, Middlewich Road, Sandbach CW11 1HZ**

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

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

1. **Apologies for Absence**

2. **Declarations of Interest**

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

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

   In accordance with Procedure Rules Nos.11 and 35 a 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.

For requests for further information
Contact: Cherry Foreman
Tel: 01270 686463
E-Mail: cherry.foreman@cheshireeast.gov.uk with any apologies

4. **Minutes of Previous meeting** (Pages 1 - 6)

To approve the minutes of the meeting held on 20 November 2014 as a correct record.

5. **External Audit Update** (Pages 7 - 24)

To consider an update on the progress of the External Auditors on delivering their responsibilities.

6. **Certification of Claims and Returns** (Pages 25 - 30)

To consider the key findings of the External Auditor following their completion of the certification process for the 2013/14 claims and returns.

7. **Treasury Management Strategy and MRP Statement 2015/16** (Pages 31 - 58)

To consider the Treasury Management Strategy and the MRP Statement for 2015/16.

8. **Compliance with the Data Protection Act, Freedom of Information Act and Environmental Information Regulations** (Pages 59 - 64)

To consider an update on how Cheshire East Council fulfils its obligations under the Data Protection Act (1998), and the Freedom of Information Act (2000), including the Environmental Information Regulations.

9. **Compliance with the Regulation of Investigatory Powers Act 2000** (Pages 65 - 68)

To consider an update on how the Council has complied with RIPA legislation during 2014/15.

10. **Internal Audit Interim Report 2014/15** (Pages 69 - 74)

To consider progress against the Internal Audit Plan 2014/15, revisions to the Plan, and a summary of the work undertaken between October and December 2014.

11. **Audit and Governance Committee Self-Assessment Update** (Pages 75 - 86)

To consider progress in implementing the actions arising from the 2013/14 self-assessment of the Committee against good practice, and against the evaluation of its effectiveness as reported in March 2014.

12. **Fraud and Corruption Update Report** (Pages 87 - 106)

To consider the developments both locally and nationally concerning arrangements to counter the threat of fraud and corruption.

13. **Revising the Council's Code of Corporate Governance** (Pages 107 - 116)

To consider the proposed approach to updating the content and format of the Council's Code of Corporate Governance.

14. **Risk Management Update Report** (Pages 117 - 138)

To consider the Council's risk management assessment and an update on its current Corporate Risk Register.

15. **Work Plan 2014/15** (Pages 139 - 150)

To consider the Work Plan and any amendments needed.

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 20th November, 2014 in Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

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

Councillors B Burkhill, S Corcoran, R Fletcher, M Hardy, M Simon, B Murphy and F Keegan.

Councillors in attendance:
Councillors K Edwards, A Moran, B Moran and P Raynes.

Officers in attendance:
Anita Bradley – Head of Legal Services
Lorraine Butcher – Executive Director of Strategic Commissioning
Dominic Oakeshott – Corporate Manager for Professional and Commercial Services
Jon Robinson – Audit Manager
Judith Tench – Head of Corporate Resources and Stewardship
Joanne Wilcox – Corporate Finance Manager
Cherry Foreman – Democratic Services Officer

External Auditors (Grant Thornton):
Allison Rhodes and Jon Roberts.

25 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors A Kolker, D Marren and L Roberts.

26 **DECLARATIONS OF INTEREST**

During consideration of item 5 (Bettercare Fund Update) Councillor S Corcoran declared a personal interest as his wife was GP.

In the interests of openness Councillor M Hardy declared an interest in item 10 (Payments to Directors of Council Owned Companies) by virtue of being a Trustee of the Everybody Sport and Recreation Trust although no allowance was paid.

27 **PUBLIC SPEAKING TIME/OPEN SESSION**

No members of the public were present.

28 **MINUTES OF PREVIOUS MEETING**

Minute 22 (Report on Customer Feedback) was amended to insert the word ‘policy’ in line 7 of the 2^{nd} paragraph after ‘green waste collection’. The Resolution was amended to read ‘concerns over service provision and changes in policy’. Councillor B Moran was added to the list of Councillors in attendance.

RESOLVED

That, subject to the above amendments, the minutes be approved as a correct record.

29 **BETTER CARE FUND UPDATE**

(During consideration of this item Councillor S Corcoran declared a personal interest.)

Consideration was given to this report which provided an update on the progress of the Cheshire East Bettercare Fund plan, and on the next stages of its delivery prior to implementation on 1 April 2015.

The Better Care Fund had been announced in June 2013 as part of the Government's spending review and it supported the acceleration of the integration of Health and Social Care services particularly in the Community. It was reported that this was not new money but was a recycling of Cheshire East finance into a mandatory pooled budget for use in providing improved, integrated health and social care, with all the professionals in a local area working together to achieve this joint aim.

The Cheshire East Health and Wellbeing Board was responsible for the oversight of the Better Care Fund plan and had approved the April 2014 plan which had subsequently been submitted to the Department of Health for review and approval. Following this, in October 2014, there had been a National Assurance Review and the Cheshire East plan had been assessed as 'approved with support' which was the next to highest category.

The Better Care Fund plan was aligned with the two respective health and social care transformation programmes: Caring Together (Eastern Cheshire CCG and Cheshire East Council) and Connecting Care (South Cheshire CCG, Vale Royal CCG, Cheshire East Council and Cheshire West and Chester Council). As part of the delivery of the Better Care Fund, options were currently being considered at a strategic level as to whether the S75 agreements were set up to reflect the respective transformation programmes; these options were due to be discussed at the forthcoming meeting of the Cheshire East Health and Wellbeing board on 18 November 2014.

The report detailed the plans for the coming months which included developing and implementing the proposed schemes and developing the S75 Agreement. In response to questions from members it was explained that these governance arrangements were not new but they were particularly complex in view of the shared budgets and due to there being two transformation programmes; it was, however, anticipated that CE would host the S75 pooled budget and that the agreement would need to be completed and approved early in 2015.

RESOLVED

1. That the submission of the revised Cheshire East Better Care Fund Plan, on 19 September 2014, be noted.

2. That it be noted that the National Consistent Assurance Review (NCAR) process carried out on behalf of the Department of Health has given

approval for the Plan to proceed with a category of *'Approved with Support'*.

3. That the work underway to progress governance, delivery and risk sharing arrangements across partners as part of the development of the S75 Partnership Agreement be noted.

30 PAYMENTS TO DIRECTORS OF COUNCIL OWNED COMPANIES

(In the interests of openness Councillor M Hardy had declared an interest in this item).

In February 2013 the Council had set out its three year plan to becoming a strategic commissioning council. To date the following Alternative Service Delivery Vehicles (ASDVs) have been established:

- Cheshire East Residents First Ltd (holding company), with the subsidiaries –
  - Engine of the North
  - ANSA Environmental Services Ltd
  - ORBITAS Bereavement Services Ltd
  - Transport Service Solutions Ltd
  - New Cheshire Planning Ltd
  - Cheshire East Energy Ltd
- Tatton Park Enterprises Ltd
- Everybody Sport and Recreation Ltd
- CoSocius Ltd

The report detailed the Council's policy on paying Directors within its owned and controlled companies and provided assurance to the Committee on its implementation.

Additional paragraphs were now added to the report as paras 9.13 and 9.14 as follows:

9.13 All payments will be agreed in advance by each Company Board and accepted by each Director prior to payments being made. Where practicable and economic to do so, all payments will be made directly by each company from their own bank account and via their own payroll system. Any Directors remuneration will be notified to Democratic Services and any Special Responsibility Allowances (SRAs) due to the Councillor will be reduced accordingly. Full disclosure of all Councillors' allowances, SRA, expenses and Directors remuneration will be made and published annually on the Council's website. A Director's mandate document has been prepared and all Directors will need to sign up to verify they will abide by the mandate. Remuneration will only be backdated to cover the three months prior to incorporation where there is robust evidence that significant duties (as detailed in para 9.1.7 of the report) were undertaken throughout the period.

9.14 Whilst payments to Directors of wholly owned companies does not come under the remit of the Local Authorities Companies Order 1995 in the interests of openness and transparency, for 2015 onwards, the

Independent Remuneration Panel will be consulted about payments to Directors and the reduction in SRAs.

Para 9.5 was amended to add the following words 'for 2014/15 onwards' to line three after the word payments.

RESOLVED

That, subject to the additions and amendment detailed above, the report and the assurance it provides in relation to payments to Company Directors, be noted.

31 **EXTERNAL AUDIT ANNUAL LETTER 2013/14**

Consideration was given to the Annual Audit Letter for 2013/14 which summarised the External Auditors key findings. The detailed findings had been reported to the Committee at its last meeting and this letter was intended to communicate the key messages to the Council and external stakeholders, including members of the public.

RESOLVED

That the Annual Audit Letter for 2013/14 be noted.

32 **ANNUAL GOVERNANCE STATEMENT UPDATE**

The Committee considered the report of the Corporate Governance Group. The report had been prepared to provide assurance that the Annual Governance Statement (AGS) was underpinned by an appropriate framework of assurance; it also gave the Committee the opportunity to monitor the implementation of actions to improve governance arrangements and to respond to emerging issues.

The report also included an update on a number of recent developments in governance, risk management and audit arrangements, and their impact on the Work Plan. An Appendix to the report detailed those governance issues that had been identified as requiring further attention and which would continue to be monitored by the Corporate Leadership Board.

RESOLVED

1. That the process for the production of the 2014/15 AGS be endorsed.

2. That progress in relation the implementation of actions to improve governance arrangements and respond to emerging issues be noted, and the changes to governance, risk management and audit arrangements and the impact on the Work Plan be noted.

33 **INTERNAL AUDIT INTERIM REPORT 2014/15 AND INTERNAL AUDIT CHARTER**

This interim report addressed emerging issues in respect of the whole range of areas to be covered in the Annual Report, due to be considered in June 2015. The Audit Manager introduced and explained the format of the report which included a summary of the work carried out in the year to date, issues judged to be relevant to the Annual Governance Statement, a comparison of work planned and undertaken, comments on compliance, and other developments which, in this instance, included a review and update of the Internal Audit Charter following its initial approval in November 2013.

When it was first approved it was agreed that the Internal Audit Charter should be reviewed periodically, and at a minimum annually, by the Internal Audit Manager, presented to the Corporate Leadership Board and then submitted to the Committee for approval. This represented the final stage of that process.

RESOLVED

1. That the issues identified be noted, and the approach to achieving adequate audit coverage in the remainder of 2014/15 be endorsed.

2. That the updated Internal Audit Charter be approved.

34 **COMPLIANCE WITH CONTRACT RULES OF PROCEDURE**

In accordance with the requirements of the Constitution this report updated the Committee on Compliance with Contract Procedure Rules; it also provided an outline of the improvements being implemented via procurement but which also required changes to those rules.

Contract Procedure Rule E11 required that a report be made to this Committee at least every 6 months, setting out the number of non compliance instances in the previous period broken down by service, with a description of the exceptional circumstances. A table (para 10.5 of the report) gave these details.

The Committee was advised that the proposed revisions to the Contract Procedure Rules had been approved by the Constitution Committee the previous day, and would now be submitted to the next meeting of the Council for final approval.

RESOLVED

1. That the update on Compliance with Contract Procedure Rules, in the period since March 2014, be noted.

2. That the revised and updated Contract Procedure Rules, considered by the Constitution Committee on 19 November 2014, be noted and submitted to the Council on 11 December 2014, for approval.

35 **MEMBERS CODE OF CONDUCT: STANDARDS PANELS AND SUB-COMMITTEE UPDATE**

Consideration was given to this report which detailed the numbers and outcomes of complaints under the Code of Conduct for Members which had been considered by the Audit and Governance Initial Assessment Panel, and the Local Resolution Panel, between April and October 2014.

On 14 July 2014 the Council had approved a new process for dealing with complaints although there were some cases that had been submitted under the

Council's previous scheme and remained to be dealt with under the old procedure. The report, therefore, included details of complaints dealt with under both schemes.

At the meeting it was reported that the new procedure was working well and it was confirmed that a complainant could refer the matter on to the Local Government Ombudsman in the event of being dissatisfied with the outcome.

RESOLVED

That the report be noted.

The meeting commenced at 2.00 pm and concluded at 4.10 pm

Councillor J Wray (Chairman)

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	22nd January 2015
Report of:	Chief Operating Officer
Subject/Title:	External Audit Update
Portfolio Holder:	Councillor Peter Raynes (Finance)

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

6.1 Not applicable.

7.0 Implications for Rural Communities

7.1 Not applicable

8.0 Financial Implications

8.1 As covered in the report.

9.0 Legal Implications (Authorised by the Head of Legal Services)

9.1 There are no specific legal issues associated with this report.

10.0 Risk Management

10.1 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.

11.0 Background and Options

11.1 The report provides an update from Grant Thornton on progress to date on delivering their responsibilities.

11.2 The report also highlights emerging issues and developments which may be of relevance to Cheshire East.

11.3 The Audit Manager from Grant Thornton will be attending the meeting to answer any questions raised by members on this report.

12.0 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

Grant Thornton

Audit Committee Update for Cheshire East Council

Year ended 31 March 2015

January 2015

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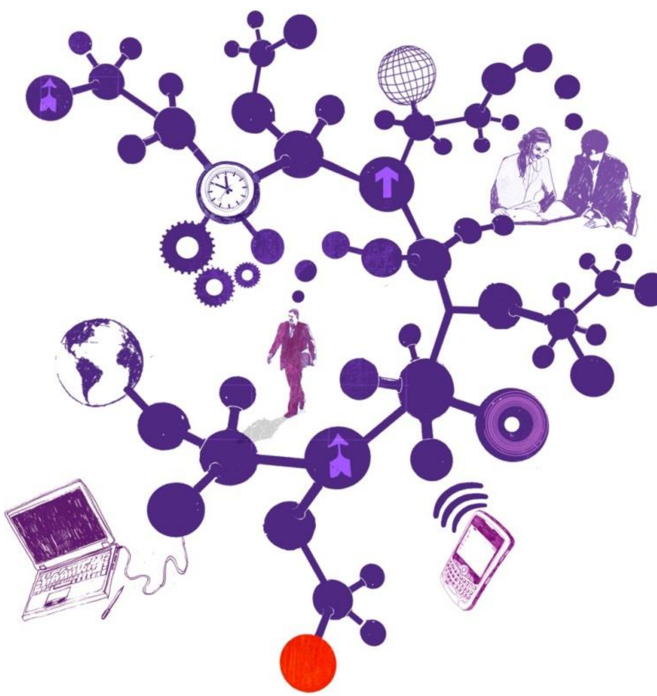

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Introduction

This paper provides the Audit and Governance 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 relevant to you.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Rising to the challenge: the evolution of local government - summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision - exploring finance and policy future for English local government
- Where growth happens - on the nature of growth and dynamism across England.

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 Manager.

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Progress at January 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts audit plan 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 2014/15 financial statements.	January – February 2015	No	We will prepare an audit plan to report to the March meeting of the Audit and Governance Committee.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • initial work on the Value for Money conclusion.	January – March 2015	No	We will discuss and agree a timetable for these key elements of the audit with the Council's management.
2014-15 final accounts audit Including: • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts.	July – September 2015	No	We are meeting with key finance staff to discuss the timetable and requirements for the audit of the financial statements.

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Progress at January 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion considers whether the Council has proper arrangements in place for: • securing financial resilience • challenging how it secures economy, efficiency and effectiveness	January – June 2015	No	Work will be completed at an early stage of the audit but then updated to reflect subsequent information on financial or performance matters. The final VfM conclusion is issued at the conclusion of the final accounts audit in September.
Other areas of work Our work to certify grant claims for the year 2013/14 is now complete. The only grant claim to be certified for 2014/15, under the existing Audit Commission framework is the housing benefits subsidy claim.	To November 2014 By November 2015	2013/14 Yes 2014/15 No	Our summary of the grant certification work completed for 2013/14 is reported to this meeting of the Audit and Governance Committee.
Non audit services The Council commissioned our services to perform a 'reasonable assurance engagement' and report on the Local Authority's Teachers' Pensions return. The terms of the engagement, as defined by Teacher's Pensions, were agreed with the Council's Chief Operating Officer. The fee for this specific work is £4,800.	November – December 2014	Yes	We submitted the amended return and our independent reasonable assurance report to the Teachers' Pensions agency. This confirmed the return to be prepared in all material requests in accordance with the regulations. This engagement is separate from our duties and responsibilities as your external auditor. We have considered and concluded that this non-audit service does not present a threat to the independence of our current and future audits of the financial statements or the VFM conclusion.

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Progress at January 2015

Work	Planned date	Complete?	Comments
Supporting Members development - we provided our external audit perspective on the features of an effective audit committee.	September 2014 November 2014	Yes	
Technical accounting developments: • We invited finance staff to attend our workshops on the changes on accounting for maintained schools and infrastructure assets. • We shared our local authority briefing paper – on changes to the Code for 2014/15. • We are again providing workshops in partnership with CIPFA FAN for finance staff covering the key issues affecting the preparation of the 2014/15 statement of accounts and the audit issues that need to be considered.	November 2014 November 2014 February 2015	On-going	We will continue to discuss complex or emerging accounting issues with your finance staff.

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Rising to the challenge

Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

2020 Vision

Grant Thornton
Our national report '2020 Vision' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/ In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector. Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges. Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth. It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future. Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020. Hard copies of our report are available from your Engagement Lead or Audit Manager.

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Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/.

The reports asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering BCF plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Accounting for schools

Accounting and audit issues

The debate about the recognition of school land and buildings on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they could be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet. This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school buildings to be clear cut and local judgement would need to be applied. We have not seen evidence that would support the view taken by CIPFA and have concerns about:

- whether the treatment proposed by CIPFA complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are working with the Audit Commission, CIPFA and the other audit firms suppliers to try to seek a practical way forward as soon as possible. We will continue to share the latest developments with officers. In the mean time we would recommend that you continue your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners. These accounting standards are particularly relevant to Cheshire East Council where you have a range of delivery models in place and are preparing group accounts for the first time in 2014/15.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Our local authority briefing paper covers these changes in more detail. CIPFA have also recently published "Accounting for Collaboration in Local Government" reflecting the revised standards.

Financial sustainability of local government

Local government guidance

In November the National Audit Office published their report on the Financial Sustainability of Local Government.

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010/11 and 2014/15. Further planned cuts will bring the total reduction to 37% by 2015/16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred. The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

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Kerslake report on Birmingham City Council

Local government guidance

Sir Bob Kerslake published his report, The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council, on 9th December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.
- The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.
- Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.
- In moving from an organisation employing 20,000 people in 2010 to 7,000 people in 2018, the Council needs fit for purpose workforce planning.
- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midlands' councils to make the combined authority a reality that delivers jobs and prosperity to the region.

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Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, Auditing the Accounts 2013/14: Local government bodies, on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.

This year the Audit Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014.

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. This move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Grant Thornton

grant-thornton.co.uk

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	22nd January 2015
Report of:	Chief Operating Officer
Subject/Title:	Certification of Claims and Returns
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

1.1 The Council's auditors, Grant Thornton, have completed their certification process of 2013/14 claims and returns. The attached letter summarises their key findings and concludes that the Council has appropriate arrangements to compile complete, accurate and timely claims and returns.

1.2 Grant Thornton certified two claims totalling £91m:

- housing benefit subsidy with a value of £87 million; and
- transport grant with expenditure of £4 million.

1.3 The fees associated with the grant certification work in 2013/14 were £22,501; (compared to £41,600 in 2012/13).

2.0 Recommendation

2.1 That members receive and comment on the Grants Certification Letter 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

6.1 Not applicable.

7.0 Implications for Rural Communities

7.1 Not applicable.

8.0 Financial Implications

8.1 As covered in the report.

9.0 Legal Implications

9.1 There are no specific legal issues associated with this report.

10.0 Risk Management

10.1 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.

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
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Email: Joanne.wilcox@cheshireeast.gov.uk

Appendix 1: Grant Thornton Certification Letter 2013/14 for Cheshire East Council

Grant Thornton

Peter Bates
Chief Operating Officer
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www.grant-thornton.co.uk

8 January 2015

Dear Peter

Certification work for Cheshire East Council for year ended 31 March 2014

We are required to certify certain 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.

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.

We have certified two claims and returns for the financial year 2013/14 relating to:

- housing benefit subsidy with a value of £87 million
- transport grant with expenditure of £4 million.

Further details of the claims certified are set out at Appendix A along with the matters arising from our certification work. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2013/14 for the Council is based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. The indicative scale fee set by the Audit Commission for the Council for 2013/14 is £22,501. This is set out in more detail at Appendix B.

Yours sincerely

Jon Roberts
Partner
For Grant Thornton UK LLP

T 0121 232 5410
E jon.roberts@uk.gt.com

Appendix A - Details of claims and returns certified for 2013/14

Claim or return	**Value**	**Details of Amendment or qualifications**
Housing benefits subsidy claim	£87,392,503	The claim was amended by £144 to correct for an isolated error identified where an overpayment of benefit, arising in specific circumstances, was misclassified on the claim form. The claim was also subject to a qualification letter to the DWP. This was required to highlight an anomaly in the housing benefit system that resulted in the misclassification of expenditure between two cells. This has no effect on the value of benefit paid but does result in the subsidy claim being understated. Due to the nature and complexity of this issue, we did not quantify the value or the number of cases affected. The Council may wish to address this matter in future: • either by securing a software solution in liaison with Northgate; or • by making a manual adjustment to the claim for the specific cases known to be affected by this misstatement (our testing indicated that this misclassification between cells 12 and 13 occurs where the case is subject to part week occupancy and also has an identified overpayment amount) Alternatively the Council may consider that the increase in subsidy that could be claimed would not be commensurate with the time to address this issue. A similar matter was reported in the 2012/13 annual grant report.
Transport Grant – Alderley Edge Bypass	£3,969,176	We certified the final claim without amendment or qualification.

Appendix B: Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee per audit plan(£)	2013/14 revised indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim	36,930	25,164	22,144	22,144	0	The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme.
Transport Grant – Alderley Edge Bypass	1,390	357	357	357	0	
Teachers' pension return	1,230	1,379	N/a	N/a	N/a	Certification work for this claim was removed from the Audit Commission framework.
National non-domestic rates return	2,050	N/a	N/a	N/a	N/a	There is no requirement to certify this return in 2013/14.
Total	41,600	26,900	22,501	22,501	0	No variation from the indicative fee.

The original audit plan reported a grant certification indicative fee of £26,900 but this reduced to £22,501 to reflect the changes in the certification requirements covered by the Audit Commission arrangements.

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	22nd January 2015
Report of:	Chief Operating Officer
Subject/Title:	Treasury Management Strategy and MRP Statement 2015/16
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

1.1 Cheshire East Council is a large unitary local authority, providing services to over 370,000 residents and almost 18,000 businesses. The budget for delivering services can be as much as £1bn in a single year. The Council puts residents first and takes a responsible approach to managing and controlling the finances that meets the ambitions around service delivery and infrastructure development whilst also managing risks associated with investing and borrowing on a large scale.

1.2 The Treasury Management strategy is an important element in the overall financial health and resilience of Cheshire East Council. The strategy focuses on 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 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 The Council remains committed to delivering appropriate levels of capital investment to support service improvement and local economic growth, which increases the importance of sound Treasury Management Strategy in the medium term. The current strategy is to ensure that investment in capital schemes 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.

1.5 In 2015/16 the Council will 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 is supported by maximisation of alternative funding sources such as grants, developer contributions and capital receipts, as well as careful management of capital cash flows to ensure that any short term borrowing requirements can be met from internal resources.

1.6 The key elements of the strategy for 2015/16 are for the Council to:

- Retain capital financing costs within an affordable limit of c.£14m
- Not enter into any overall additional external borrowing in 2015/16
- Take an appropriate approach to risk if short term loans are required, by only borrowing from lenders identified in the strategy
- Maintain security of investments by only using counterparties detailed in the strategy
- Support a flexible approach to treasury management that can react to opportunities and market conditions to maximise effectiveness, whilst protecting the public funds managed within the strategy

1.7 The Treasury Management Strategy set out in Appendix A will be reported to Cabinet on 3rd February 2015 before being presented to Full Council for approval on 26th February 2015.

2.0 Recommendations

2.1 To note the Treasury Management Strategy and the MRP Statement for 2015/16 set out in Appendix A.

3.0 Reasons for Recommendations

3.1 The report presents the 2015/16 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2015/18, required under Part 1 of the Local Government Act 2003.

3.2 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2015/16. The Strategy for 2015/16 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.

3.3 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

6.1 Not applicable.

7.0 Implications for Rural Communities

7.1 Not applicable

8.0 Financial Implications (Authorised by the Chief Operating Officer)

8.1 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.

9.0 Legal Implications (Authorised by the Head of Legal Services)

9.1 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.

10.0 Risk Management

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

10.2 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.

10.3 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.

10.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

11.0 Background and Options

11.1 A number of important 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.

11.2 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. 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.

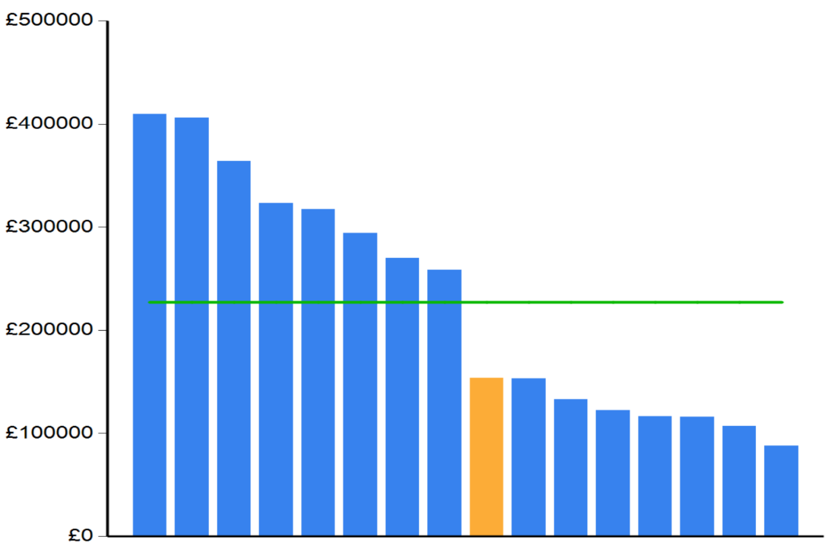
11.3 The capital programme for 2015/18 is intentionally aspirational, reflecting the Council's ambition to pursue additional external funding, private sector investment and capital receipts. Future capital receipts arising from the rationalisation of the asset base and the Engine of the North development 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.

11.4 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.

11.5 The Council currently has external borrowing of £117m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 3.8%). Currently long term interest rates are around 3.4%.

11.6 Compared to our nearest neighbours' levels of external borrowing are significantly below average. Data is available for the 2012/13 position and is highlighted in the graph below. In the year before this graph had been produced Cheshire East borrowing, including PFI arrangements, remained level compared to an average increase of £55m by near neighbours.

Cheshire East Council compared to similar areas:
Statistical nearest neighbours, 2012/13



11.7 The Council has further reduced borrowing by £17m since this comparison above was provided. Over the financial period covered by this strategy, a further £14m of PWLB loans are also due to be repaid (see table 1 – Balance Sheet Summary and Forecast).

11.8 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 2015/16 and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.

11.9 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used is budgeted to be £0.2m.

11.10 The capital financing budget is at a very prudent level of £14m, 5.7% of the 2015/16 net revenue budget.

Capital Financing Budget 2015/16

Capital Financing Budget	2014/15 Original £m	2014/15 Revised £m	2015/16 £m
Repayment of Outstanding Debt	8.0	7.8	10.0
Contribution re: Schools TLC Schemes	-0.9	-0.9	-0.9
Direct Revenue Funding	0.4	0.4	0.8
Interest on Long Term Loans	5.2	4.9	4.3
Total Debt Repayment	12.7	12.2	14.2
Less: Interest Receivable on Cash Balances	-0.2	-0.2	-0.2
Net Capital Financing Budget	12.5	12.0	14.0

11.11 The principal changes to the 2015/16 Treasury Strategy have been:

- Given the increasing risk and continued low returns from short-term unsecured bank investments, the Councils aims to diversify into more secure and/or higher yielding asset classes during 2015/16; these include covered bonds, repurchase agreements and investments in pooled property funds. This diversification will represent a substantial change in strategy over the coming year as the majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds.
- The Local Capital Finance Company has recently been established by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. The Council currently has no plans to undertake any external borrowing in 2015/16 and any decision to borrow from the Agency in the future will be the subject of a separate report to Cabinet and Council.

Contract for merchant card services and treasury advice

11.12 Following a retendering exercise for the contract for merchant card services, this will now be provided by Lloyds banking group for a four year period commencing in 2015/16.

11.13 The contract for treasury advice services expired in December 2014, following a tender exercise Arlingclose have been re-appointed for a further 3 years.

12.0 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
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Appendices:

Appendix A – Treasury Management Strategy Statement & Investment Strategy 2015/16 – 2017/18

Appendix A

Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2017/18

Contents

Annexes

1. Background

1.1. On 23rd 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:** There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

2.2 The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for an 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August *Inflation Report*.

2.3 **Credit outlook:** The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

2.4 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, **the credit risk associated with making unsecured bank deposits will increase** relative to the risk of other investment options available to the Authority.

2.5 **Interest rate forecast**: The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

2.6 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at ***Annex A***.

2.7 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.50.

3. Local Context

3.1 The Authority currently has borrowings of £117m and investments of £64m. 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

	31.3.14 Actual £m	**31.3.15 Estimate £m**	**31.3.16 Estimate £m**	**31.3.17 Estimate £m**	**31.3.18 Estimate £m**
General Fund CFR	204	230	284	271	267
Less: Other long-term liabilities *	-25	-25	-23	-22	-20
Borrowing CFR	**179**	**205**	**261**	**249**	**-247**
Less: External borrowing **	-128	-117	-108	-102	-103
Internal (over) borrowing	**51**	**88**	**153**	**147**	**-144**
Less: Usable reserves	-72	-67	-64	-61	-59
Less: Working capital	-44	-43	-43	-40	-41
Investments (or New borrowing)	**65**	**22**	**(46)**	**(46)**	**(44)**

* 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 2015/16.

4. Borrowing Strategy

4.1 The Authority currently holds loans of £117m, a decrease of £11m 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 2015/16.

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. The benefits of internal borrowing will 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 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
- local capital finance company and any special purpose companies created to enable joint local authority bond issues.

4.7 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.8 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.

4.9 **LGA Bond Agency:** Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a separate report.

4.10 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 2015/16, 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.

4.11 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.

4.12 **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 £49m and £109m. 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 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for the estimated £20m that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

5.4 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 and Limits

Credit Rating	Banks* Unsecured	Banks* Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
BBB+	£3m 100 days	£5m 6 months	£3m 2 years	£3m 6 months	£3m 2 years
BBB or BBB-	£3m next day only	£5m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£5m 25 years	£50,000 5 years	£5m 5 years
Pooled funds	£10m per fund				

*Banks includes Building Societies

The above limits apply to individual counterparties and represent the maximum amount and maximum duration of any investment per counterparty.

5.5 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.6 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank, Barclays Bank.

5.7 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.8 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.9 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

5.10 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

5.11 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market 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 pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.12 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short 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.

5.13 **Segregated Fund Manager:** 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.

5.14 **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.

5.15 **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.

5.16 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 or invested in government treasury bills 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.

5.17 **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".

5.18 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.

5.19 **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%	£40m
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%	£60m

5.20 **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 £10m. 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	100%	£25m per broker
Foreign countries	40%	£10m per country
Registered Providers	25%	£25m in total
Unsecured investments with Building Societies	10%	£10m in each
Loans to unrated corporates	10%	£10m in total
Money Market Funds	50%	£10m in each

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:

	2015/16	2016/17	2017/18
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:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£40m	£25m	£15m

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, including those present in pooled funds, 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:** Following a recent tender exercise, the Authority has re-appointed Arlingclose Limited as treasury management advisers to provide 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 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 £295 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 Anticipated investment income in 2015/16 is £0.32 million, based on an average investment portfolio of £65 million at an interest rate of 0.50%. The budget for debt interest paid in 2015/16 is £4.3 million, based on an average debt portfolio of £112 million at an average interest rate of 3.8%. 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 2014)

Underlying assumptions:

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP in 2015.

- We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.

- Inflationary pressure is currently low (annual CPI is currently 1.3%) and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.

- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

- Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.

- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.

- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.

- While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

- The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

Forecast:

- We continue to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

- Market sentiment (derived from forward curves) has shifted significantly lower in the past two months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.

- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**	**1.75**
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.60**	**0.75**	**0.90**	**1.05**	**1.20**	**1.35**	**1.50**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**1.00**	**1.05**	**1.20**	**1.35**	**1.50**	**1.65**	**1.80**	**1.95**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**
Downside risk	-0.15	-0.20	-0.30	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	**1.45**	**1.60**	**1.75**	**1.90**	**2.00**	**2.15**	**2.25**	**2.35**	**2.45**	**2.50**	**2.55**	**2.60**	**2.60**
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	**2.55**	**2.65**	**2.75**	**2.85**	**2.95**	**3.00**	**3.05**	**3.10**	**3.15**	**3.20**	**3.25**	**3.30**	**3.30**
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	**2.65**	**2.70**	**2.80**	**2.90**	**3.00**	**3.05**	**3.10**	**3.15**	**3.20**	**3.25**	**3.30**	**3.55**	**3.60**
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60

Annex B

Existing Investment & Debt Portfolio Position

	05/01/15 Actual Portfolio £m	05/01/15 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	100	3.91%
PWLB - Variable Rate	0	-
Local Authorities	0	-
LOBO Loans	17	4.63%
Total External Borrowing	**117**	**4.01%**
Other Long Term Liabilities:		
PFI	21	-
Finance Leases	5	-
Total Gross External Debt	**143**	-
Investments:		
Managed in-house		
Short-term investments	44	0.63%
Long-term investments	5	0.74%
Managed externally		
Pooled Funds	10	0.93%
Property Funds	5	?
Total Investments	64	0.69%
Net Debt	79	-

Annex C

Prudential Indicators revisions to 2014/15 and 2015/16 – 2017/18

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 2014/15, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. **Estimates of Capital Expenditure:**

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

Capital Expenditure	2014/2015	2015/2016	2016/2017	2017/2018	Future years
	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Total	**116.9**	**147.3**	**124.5**	**110.7**	**82.3**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2014/2015	2015/2016	2016/2017	2017/2018	Future years
	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Capital receipts	10.0	14.4	57.4	29.8	26.3
Government Grants	54.2	47.8	47.5	61.3	34.8
External Contributions	14.1	18.5	19.2	10.8	21.2
Revenue Contributions	0.9	1.8	0.0	0.0	-
Total Financing	**79.2**	**82.6**	**124.1**	**101.9**	**82.3**
Prudential Borrowing	37.7	64.7	0.4	8.8	0
Total Funding	**37.7**	**64.7**	**0.4**	**8.8**	**0.0**
Total Financing and Funding	**116.9**	**147.3**	**124.5**	**110.7**	**82.3**

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	2014/2015 Estimate %	2015/2016 Estimate %	2016/2017 Estimate %	2017/2018 Estimate %
Total	**4.93**	**5.68**	**5.88**	**5.96**

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	2014/2015 Estimate £m	2015/2016 Estimate £m	2016/2017 Estimate £m	2017/2018 Estimate £m
Total	**230**	**284**	**271**	**267**

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 31/03/2014	£m
Borrowing	128
Other Long-term Liabilities	25
Total	**153**

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	2015/2016 Estimate £	2016/2017 Estimate £	2017/2018 Estimate £
Band D Council Tax	**16.28**	**23.51**	**0**

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.

	2014/2015 Estimate £m	2015/2016 Estimate £m	2016/2017 Estimate £m	2017/2018 Estimate £m
Authorised Limit for Borrowing	240	295	285	280
Authorised Limit for Other Long-Term Liabilities	25	22	23	22
Authorised Limit for External Debt	**265**	**317**	**308**	**302**
Operational Boundary for Borrowing	230	285	275	270
Operational Boundary for Other Long-Term Liabilities	25	22	23	22
Operational Boundary for External Debt	**255**	**307**	**298**	**292**

9. Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 23rd February 2012

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

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

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

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

	Existing Level or (Benchmark level) at 02/01/2015 %	2014/2015 Approved %	2014/2015 Estimate %	2015/2016 Estimate %	2016/2017 Estimate %	2017/2018 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 2015/16.

Maturity structure of fixed rate borrowing	Level as at 31st March 2015 (based on Current Borrowing) %	Lower Limit for 2015/2016 %	Upper Limit for 2015/2016 %
under 12 months	22%	0%	35%
12 months and within 24 months	5%	0%	25%
24 months and within 5 years	16%	0%	35%
5 years and within 10 years	4%	0%	50%
10 years and within 20 years	23%	0%	100%
20 years and within 30 years	7%	0%	100%
30 years and within 40 years	14%	0%	100%
40 years and within 50 years	9%	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 2015/16

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 2015/16 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

Date of Meeting: **22nd January 2015**
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 Paul Findlow**

1.0 Report Summary

1.1 This report provides an update on how Cheshire East Council fulfils its obligations under the Data Protection Act (1998) and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)). It also highlights volumes of requests, trends and current and future issues.

2.0 Recommendation

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

3.0 Reason for recommendation

3.1 The Audit and Governance Committee has a key role in assessing the adequacy and effectiveness of these arrangements.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 Compliance with Freedom of Information (FOI) and Data Protection (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) with which an authority or its individual members of staff could be charged. 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 does not 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 repeatedly fails 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, a custodial sentence 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

10.1 The tables below show the number and sources of requests received in 2014 (Jan-Dec) and the Services to which they relate. Figures are provided for previous years also, although direct comparisons cannot be made on an area by area basis because of the significant amount of organisational change during the past twelve months. Any company wholly owned by one or more public authorities is subject to FOI legislation. Therefore, most of the new companies (ASDV's – Alternative Service Delivery Vehicles) established by the Council in recent years are also subject to FOI.

Table 1

TYPE OF REQUEST	**2014**	**2013**	**2012**	**2011**
FOI/EIR requests	1598	1614	1487	1343
DP requests	554[1]	619	467	421
TOTAL	**2152**	**2233**	**1954**	**1764**

Table 2

SOURCE	**2014**	**2013**	**2012**	**2011**
Individuals	46%	50%	37%	36%
Commercial	20%	18%	18%	17%
Press/Media	14%	10%	13%	15%
Public Sector	8%	9%	20%	26%
'What do they know'[2]	6%	6%	5%	-
Pressure Groups	4%	5%	5%	4%
MP's/Councillors	2%	2%	2%	2%

Table 3 (a)

SERVICE DEPARTMENT	**2014**
Children's and Adults	27%
Communities	26%
Chief Operating Officer services	17%
Economic Growth & Prosperity	15%
Highways	8%
ASDV'S	7%

Table 3 (b)

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%	-

[1] 224 of the requests were requests directly to Council Tax from various public authorities. (355 in 2013)

[2] Website dedicated to Freedom of Information requests

11.0 Freedom of Information Requests

11.1 Freedom of Information requests have decreased marginally in 2014 for the first time since the inception of the Council. Over 94% of the requests received were responded to within 20 working days. Information is withheld in only a small number of cases (39 out of 1598 requests in 2014). Most of the exemptions available to public authorities to withhold 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. The Information Commissioner requires cohesive and comprehensive arguments from the Council for withholding information should requestors submit an appeal.

12.0 Referrals to the Information Commissioner

12.1 The Information Commissioner received 4 complaints about Cheshire East Council during 2014, compared with 13 in 2013. One related to a request which had not been responded to within the statutory timescale. The information was subsequently disclosed and the case was closed by the ICO. The remaining 3 referrals from the ICO relate to complaints made to them about information provided in responses. Two are ongoing and the fourth has been closed as the ICO have advised that no further action needs to be taken as the authority had fully complied.

13.0 Protection of Freedoms Act 2012 and Transparency

13.1 The Freedom of Information Act 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.

13.2 The Protection of Freedoms Act 2012 added new provisions to the Freedom of Information Act regarding datasets. It extended rights under the legislation 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.

13.3 The Council has stated its commitment to being open, honest and accountable regarding all decisions, actions and outcomes, and the Transparency Project was launched in 2013 in order to review the Council's current Publication Scheme and to highlight areas where more information should be published. In addition, the Department for Communities and Local Government issued The Local Government Transparency Code 2014 on 3rd October 2014. The Code regulates the publishing of local government data and the Project Team is currently working with the relevant services to ensure that the required data is published.

13.4 A key output of the Transparency Project will be the publication of a Freedom of Information Disclosure Log, outlining all the FOI requests received by the Council and the responses issued.

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14.0 Data Protection Subject Access Requests

14.1 Subject Access Requests increased from 264 in 2013 to 330 in 2014. This figure includes an increase in requests from care leavers for access to their social care records. Responding to these is particularly time and labour intensive because of the volume and sensitivity of the information requested.

15.0 Training and Awareness

15.1 FOI processes around the Council are currently being reviewed and further training delivered to ensure that all teams, as well as the ASDV's, are fully aware of their obligations under both the Freedom of Information Act and the Protection of Freedoms Act.

15.2 Data Protection training is a mandatory requirement for all members of staff through the Performance Management process. Training and awareness in Data Protection, including data handling, record keeping and security, is delivered at Induction and across the organisation at regular intervals.

16.0 Access to Information

16.1 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 & GOVERNANCE COMMITTEE

Date of Meeting: **22nd January 2015**
Report of: **Compliance and Customer Relations Manager**
Title: **Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)**
Portfolio Holder: **Councillor Paul Findlow**

1.0 Report Summary

1.1 This report provides an update on how the Council has complied with RIPA legislation during 2014/15 and the number of RIPA applications which have been authorised to date.

2.0 Recommendation

2.1 That the Committee notes the contents of the report in respect of the numbers of applications and the current arrangements in place to ensure the Council complies with the legislation.

3.0 Reasons for Recommendation

3.1 The Audit & Governance Committee has a key role in assessing the adequacy and effectiveness of these arrangements.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 Using RIPA powers can conflict with an individual's human rights and so it is imperative that, when investigating alleged wrongdoing, certain conditions are met in each case in order that successful prosecutions can be made. By following the authorisation procedures set out in RIPA legislation, officers can demonstrate that any surveillance is necessary for a purpose permitted by the Human Rights Act 1998 and that it is a proportionate measure to take, given all the circumstances.

7.0 Financial Implications

7.1 Failure to comply with the legislation can lead to the Officer of the Surveillance Commissioner withdrawing the Council's ability to conduct directed surveillance for a period of time, which would then result in an inspection. This would have a detrimental impact on the Council's ability to conduct investigations. Fines may also be imposed if the Council were found to be breaching Human Rights legislation.

8.0 Legal Implications

8.1 The Regulation of Investigatory Powers Act 2000 was enacted to consolidate and update a range of law enforcement investigative powers to ensure these powers were fit for purpose, as well as being compliant with the UK's obligations under the European Convention on Human Rights. A number of codes of practice have also been issued under this Act.

8.2 The Protection of Freedoms Act 2012 introduced additional safeguards in respect of certain surveillance undertaken by local authorities.

8.3 Given the possible infringement of people's human rights when using these powers, it is important that the Council complies fully with the law and its own policy and that it reflects on its use of these powers to ensure it is proportionate at all times.

9.0 Risk Management

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

10.0 Background

10.1 The Council occasionally needs to use directed surveillance in order to carry out its enforcement functions effectively, e.g. benefit fraud, planning enforcement, licensing enforcement, trading standards, environmental health and community safety investigations. RIPA provides a regulatory framework to enable public authorities to obtain information through the use of certain covert investigatory techniques. It is imperative that, when investigating alleged wrongdoing, certain conditions are met in each case in order that successful prosecutions can be made. In particular, it is essential that covert surveillance is only used when it is necessary and proportionate to do so. Therefore, this must be properly authorised and recorded, the tests of necessity and proportionality must be satisfied, and the potential for collateral intrusion must be considered and minimised.

10.2 The Council's Authorising Officers are:
Chief Executive
Chief Operating Officer
Executive Director of Strategic Commissioning
Director of Public Health
Director of Children's Services
Director of Adult Social Care
Head of Service – Early Help and Protection

10.3 Once authorised, all applications need the approval of a Justice of the Peace/Magistrate, as required by the Protection of Freedoms Act 2012. The Act also restricts the use of surveillance to the investigation of offences which attract a custodial sentence of six months or more.

10.4 The Monitoring Officer assumes responsibility for the integrity of the process to ensure that the Council complies with the legislation.

11.0 Access to Communications Data – use of National Anti Fraud Network (NAFN)

The Regulation of Investigatory Powers (Communications Data) Order 2010 sets out which organisations can access communications data and for what purposes. The Council is limited to accessing only service user and subscriber data, i.e. the 'who', 'when' and 'where' of a communication, but not the actual content. The Council is required to nominate a Single Point of Contact (SPOC), who needs to be an accredited person, to ensure that data is obtained lawfully and to facilitate access to the data with the communications service providers. The SPOC may be an employee of the council or an externally appointed person. The Council has been using the SPOC service provided by NAFN since October 2012 and this process has run smoothly.

12.0 Applications authorised

	Directed surveillance	Communications Data
2011-12	7	2
2012-13	16[1]	3
2013-14	8	3
2014-15 to date	3	2

13.0 Inspections.

13.1 The Office of the Surveillance Commissioners is responsible for inspecting the Council's use of and compliance with RIPA, and the Council was last inspected on 2nd May 2013. As these are generally biennial inspections, it is likely that there will be another inspection in Spring 2015. The latest report was a positive one, with some recommendations for further improvement. These recommendations have been implemented.

13.2 The Interception of Communications Commissioner's Office (IOCCO) is responsible for inspecting applications to access communications data. Inspections are carried out on NAFN rather than on the Council. The most recent report from the IOCCO stated that their inspection of NAFN showed 'very good compliance'.

14.0 Access to information

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

[1] The apparent rise in applications in 2012/13 includes five renewals of existing investigations, which were recorded in the central register as new applications.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 22 January 2015
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Interim Report 2014/15
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2014/15, revisions to the plan and to summarise work undertaken between October and December 2014.

2.0 Recommendation

2.1 That the Committee note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2014/15 and discuss future audit issues and ways of working as appropriate.

3.0 Reasons for Recommendation

3.1 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the Internal Audit Annual Report, due in June 2015.

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.

8.0 Legal Implications

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

9.0 Risk Assessment

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

10.0 Background

10.1 The Public Sector Internal Audit Standards (PSIAS) states that in addition to the annual report, arrangements should be made for interim reporting to the organisation in the course of the year.

10.2 Members were provided with a detailed Interim Report at the November 2014 meeting of this Committee. As such, the latest update, which can be found at Appendix A, has been prepared in the form of a highlight report and covers the programme of work delivered between October and December 2014 along with a brief outline of work planned for the remainder of the financial year.

11.0 Access to information

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

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Internal Audit

Interim Report 2014/15

October 2014 - December 2014

www.cheshireeast.gov.uk

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

1 Introduction

1.1 This report covers the programme of work delivered between October and December 2014 along with a brief outline of work planned for the remainder of the financial year.

2 Summary of Audit Work undertaken

2.1 The work carried out between October and December 2014 can be summarised as follows:

2.2 Assurance Work

- Three audits have been progressed to the draft report stage.
- Four audits are either in progress or the terms of reference have been agreed with management
- Five audits where the terms of reference have been issued to management.

2.3 In accordance with normal practice, once the reports have been finalised, further detail will be provided to the Committee on any of these audits with 'Limited' or 'No' assurance.

2.4 School Audits

- Three audits completed and reports issued
- Three further visits scheduled for quarter four.

2.5 Supporting Corporate Governance

- Internal Audit has been closely involved in developing the proposed revision of the Council's Code of Corporate Governance. This is subject to a separate report to this Committee
- The work completed has included the provision of advice and support to the merger of the previous Corporate Governance Group and the Corporate Risk Management Group into the new Corporate Assurance Group
- Update of the AGS Action Plan as reported to the November Committee
- Internal Audit also contributed to the Compliance with Contract Procedure Rules report that was presented to the November Committee.

2.6 Risk Management

- As Members are aware, responsibility for coordinating and monitoring risk management now sits within Internal Audit
- A detailed update on work carried out and proposed developments to the Council's arrangements are detailed in a separate report to this Committee.

2.7 Anti-Fraud and Corruption

- A comprehensive update on both national and local developments in this area is provided in a separate report to this Committee.

2.8 Investigations

- Support has been provided to a small number of investigations in association with colleagues from Human Resources
- Action has been taken in accordance with the appropriate policies but there are no significant issues arising to bring to the attention of Members.

2.9 Technical Enabler Group

- Attendance at TEG meetings has continued during the period with the provision of support, advice and constructive challenge to the consideration of proposed projects.

2.10 Consultancy and Advice

- Corporate Leadership Board has requested support in obtaining assurance that payments in excess of £5,000 are subject to appropriate controls via a programme of monthly transaction testing
- Having completed the first round of testing, Internal Audit has identified and reported on a number of thematic findings for implementation prior to further testing being carried out.

2.11 Implementation of Recommended Actions

- Work has continued to obtain assurance from management that Internal Audit recommendations have been implemented in accordance with agreed timescales.
- The approach taken is dependent upon the level of assurance provided by the initial audit review. Those with Limited or No Assurance are subject to a more detailed review process.
- In accordance with normal practice, detailed performance figures relating to the implementation of recommended actions within agreed timescales will be reported in the Annual Report 2014/15. This will allow the figures to reflect those actions that are due to be implemented during quarter 4.

2.12 Supporting the Audit and Governance Committee

- Internal Audit has prepared or contributed towards the following reports to this Committee during the quarter:

  11 November 2014

  - Annual Governance Statement Update
  - Internal Audit Interim Report
  - Compliance with Contract Procedure Rules

  22 January 2015

  - Anti-Fraud and Corruption Update
  - Internal Audit Interim Report
  - Revising the Council's Code of Corporate Governance
  - Risk Management Update
  - Audit and Governance Committee Work Plan

3 Ongoing and Forthcoming areas of Work

3.1 As previously reported to this Committee, changes have been made to the audit structure which have taken effect during Quarter 3. These include:

- The Corporate Manager Audit and Governance joined the organisation on 8th December 2014
- The holder of the deleted Audit Manager post has taken up a new position within Finance
- The remaining Audit Manager has responsibility for coordinating and monitoring Risk Management while the Performance and Risk Manager is seconded to the Chief Executive's Office.

3.2 In recognition of these changes, the annual plan has been revisited and a refocus of planned audit work for the remainder of the year will be necessary in order to reflect the revised resource position.

3.3 In delivering the remainder of the 2014/15 Audit Plan, priority will be given to those pieces of work which inform the Corporate Manager Audit and Governance's annual audit opinion, such as:

- Key Financial Systems – assurance that the expected controls are in place and operating effectively.
- Corporate Governance and Risk – supporting and contributing to the production of the Annual Governance Statement
- Anti-Fraud and Corruption - coordination of the investigation of National Fraud Initiative data matches
- Follow up Audits – proactive monitoring of the implementation of audit recommendations

3.4 In addition to completing the planned work relating to 2014/15, we will be preparing the Audit Plan for 2015/16.

3.5 The plan will need to carefully balance statutory responsibilities and risk with the resources available within the team.

3.6 This will involve meetings with senior managers and heads of service to discuss the risks associated with their areas of responsibility and to agree priorities for the coming year.

3.7 It will also require detailed consideration of strategic and service risk registers, other sources of assurance such as external inspection reports and issues identified during the current year.

3.8 The proposed plan will be presented to the March 2015 meeting of this Committee for consideration and approval.

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	22 January 2015
Report of:	Audit Manager
Title:	Audit and Governance Committee Self- Assessment Update
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

1.1 This report advises Members on progress in implementing the actions arising from the 2013/14 self-assessment of the Audit and Governance Committee against good practice and the evaluation of its effectiveness that was reported in March 2014.

1.2 Members are asked to consider the progress made in implementing the agreed actions and whether there is scope to do more.

2.0 Recommendations

2.1 That the Committee note:

(i) the progress in relation to the implementation of actions to improve its effectiveness and determine any required amendments; and

(ii) that the self-assessment of the Audit and Governance Committee against good practice and the evaluation of its effectiveness for 2014/15 will be brought to the March 2015 meeting.

3.0 Reasons for Recommendations

3.1 An effective audit committee has a key role in overseeing and assessing the risk management, control and corporate governance arrangements and advising on the adequacy of these arrangements.

3.2 A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for the Audit and Governance Committee to be effective.

3.3 Regular self-assessments can be used to support the planning of the Committee's work programme, training plans and inform the annual report.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

7.1 No specific financial implications.

8.0 Legal Implications

8.1 As detailed within the report the Council is required to abide by the Accounts and Audit Regulations 2011.

9.0 Risk Assessment

9.1 It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. Regular self-assessment against best practice may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

10.0 Background and Options

10.1 Regulation 6 of the Accounts and Audit Regulations 2011 requires the Council to conduct an annual review of the effectiveness of its internal audit. The 2013/14 review included a self-assessment of the Audit and Governance Committee against good practice and an evaluation of its effectiveness using the recommended practice contained within 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)'. The outcome of the review was reported to Committee in March 2014 and can be summarised as follows:

Self-assessment of Good Practice	
Assessment	No. of Good Practice Questions
Yes	12
Partly	7
No	1
Total	20

Evaluating the Effectiveness of the Audit Committee	
Assessment	No. of areas where the committee can add value by supporting improvement
Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable	0
Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.	7
The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.	2
There is some evidence that the committee has supported improvements, but the impact of this support is limited.	0
No evidence can be found that the audit committee has supported improvements in this area.	0
Total	9

10.2 The Audit and Governance Committee endorsed the actions arising from the self-assessment and evaluation and noted that a further report giving an update on the progress of these actions be submitted to a future meeting of the Committee.

10.3 Progress in implementing the agreed actions together with further options for improvement is included at Appendix A of this report. In order to ensure that improvement opportunities are not missed Members are asked to consider the progress made and whether there is scope to do more.

11.0 Access to Information

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

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Good practice question & Action for Improvement March 2014		Update January 2015	Further Improvement options
Self-assessment of Good Practice			
Audit committee purpose and governance			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement*? <u>Action</u> The Constitution Working Group is reviewing the Audit & Governance Committee's Terms of Reference (ToR) as part of its work programme. * The Purpose of Audit Committees (CIPFA Position Statement) extract: *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.*	Council approved amendments to the Audit and Governance Committee's Terms of Reference in May 2014 following reference to and recommendation from the Constitution Committee. The Terms of Reference, approved in May 2014, are based on the latest guidance from CIPFA - Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition).	In order to inform and support the Audit & Governance Committee a self-assessment against recommended practice will take place during quarter 4 of the 2014/15 financial year. The outcomes being reported to members in March 2015. The results will be used to support the planning of the Committee's work programme for 2015/16, training plans and inform the 2014/15 annual report. The 2014/15 annual report will 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

Good practice question & Action for Improvement March 2014		Update January 2015	Further Improvement options
			review • what impact the Committee has on the improvement of governance, risk and control within the authority
4	Is the role and purpose of the audit committee understood and accepted across the authority? <u>Action</u> Consideration should be given to further publicising the role and purpose of the Committee to all members.	The Audit & Governance Committee Annual Report 2013/14 set out how the Committee fulfilled its responsibilities. The report was received by Council on 16 October 2014.	See item 3 above regarding the Annual report 2014/15. Expand attendance at Audit and Governance Committee meetings. For example invite newly elected members to attend.
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily? <u>Action</u> Compare the Committee's Annual Report and Terms of Reference against best practice.	The Committee's Annual Report 13/14 was based on recommendations made by the CIPFA Better Governance Forum and those contained in Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition). The Audit and Governance Committee's Terms of Reference, approved in May 2014, are based on the latest guidance from CIPFA - Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition).	See item 3 above regarding the Annual Report 2014/15.
Membership and support			
15	Has the membership of the committee	A training session in November 2014 introduced	Committee members formally review their

Good practice question & Action for Improvement March 2014		Update January 2015	Further Improvement options
	been assessed against the core knowledge and skills framework and found to be satisfactory? <u>Action</u> Assess membership and Chair of the Committee against the core knowledge and skills framework to identify gaps and address any areas for improvement.	the committee to the core knowledge and skills framework. There was agreement that there are some core areas of knowledge that committee members will need to acquire. The need for regular briefings or training to help committee members keep up to date or extend their knowledge was also acknowledged.	knowledge and skills, for example as part of a self-assessment process or training needs analysis. This can then be used to guide members on their training needs and establish a programme of support that involves regular briefings and updates as well as formal training programmes.
Effectiveness of the committee			
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? <u>Action</u> Committee could obtain feedback from other stakeholders e.g. External Audit.	The Council's external auditors concluded that: "The Audit and Governance Committee provide adequate challenge but there is scope to improve the focus of its discussions to provide more effective oversight, support and challenge for the Council's financial management and system of internal control *Grant Thornton UK LLP, Audit Findings Report, September 2014.* In order to support the Committee in its role the Council's external auditors ran training sessions in September and November 2014 that included guidance on the public sector audit committee – role, features of an effective audit committee, what works well, approach, the pitfalls to avoid and guidance.	The Chair could seek feedback from meeting participants. Seeking feedback on the operation of the committee may be helpful to supplement the 2014/15 self-assessment.

Areas where the audit committee can add value by supporting improvement & Action for Improvement March 2014	Update January 2015	Improvement options
Evaluating the Effectiveness of the Audit Committee		
Promoting the principles of good governance and their application to decision making. <u>Action</u> Consider how the Committee can work with other Members to improve their understanding of the Code of Corporate Governance and the Annual Governance Statement and their contribution to it. This could include raising awareness through Cabinet and Scrutiny, for example.		That the Committee be advised of, and endorse, revisions to the Council's Code of Corporate Governance with final approval being reserved for Cabinet. The Code could then be sent to Council for information.
Contributing to the development of an effective control environment. <u>Action</u> Consider attendance at Committee by senior managers, if there are concerns over the control framework or non/delayed implementation of recommendations from auditors/other inspection regimes. i.e. this	From May 2014 the Committee's Terms of Reference include: 12. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain lack of progress.	

Areas where the audit committee can add value by supporting improvement & Action for Improvement March 2014	Update January 2015	Improvement options
could include external inspection reports/actions.	The committee has agreed to request senior managers to attend meetings if, following receipt of assurance reports, there are concerns regarding risk, control or the implementation of recommendations.	
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks. <u>Action</u> Review, through the Corporate Risk Management Group, the overall risk management arrangements of the Council and consider risk management benchmarking.	The Annual Report on Risk Management 2013/14 to this Committee included details of the Council's risk maturity assessment and progress on plans for improvement. See also Risk Management Update Report January 2015.	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively. <u>Action</u> Map the assurance framework of the Council, specifying the Committee's assurance needs and identifying any gaps or	The Committee received a report in November 2014 from Corporate Governance Group that described the framework of assurance underpinning the Annual Governance Statement. The Work Plan presented to Committee now includes details of how the assurance reports enable the Committee to meet its terms of	

Areas where the audit committee can add value by supporting improvement & Action for Improvement March 2014	Update January 2015	Improvement options
overlaps. Review the effectiveness of assurance providers through, for example, benchmarking.	reference.	
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence. <u>Action</u> Ongoing review of Internal Audit performance indicators. This could be carried out through the Member/Officer Group.	The Internal Audit Annual Report 2013/14 (June 2014) included a number of performance indicators including a new indicator – implementation of agreed recommendations within agreed timescales at the request of members.	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements. <u>Action</u> Consider receiving a briefing to better understand governance and assurance arrangements for major projects and programmes from the Executive Monitoring Board (EMB).	The Committee receives update reports on the work of Internal Audit including key findings, issues of concern, and action in response to the findings and recommendations. The reports include relevant information regarding Internal audit reviews of projects and programmes.	Receive a briefing to better understand the Council's performance management arrangements. Care should be taken to maintain focus on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

Areas where the audit committee can add value by supporting improvement & Action for Improvement March 2014	Update January 2015	Improvement options
Consider receiving a briefing to better understand the performance management arrangements.		
Supporting the development of robust arrangements for ensuring value for money. <u>Action</u> Consider the Committee's role with regard to VFM against CIPFA's new guidance on Audit Committees.	From May 2014 the Committee's Terms of Reference make the role more explicit by including: 8. To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements. Annually the Committee considers the external audit conclusion on value for money. In September 2014 Grant Thornton confirmed that they would be issuing an unqualified VfM conclusion. *Grant Thornton UK LLP, Audit Findings Report, September 2014.*	

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CHESHIRE EAST COUNCIL
REPORT TO: Audit and Governance Committee

Date of meeting: 22 January 2015
Report of: Corporate Manager Governance and Audit
Title: Fraud and Corruption Update Report
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

1.1 Audit & Governance Committee has responsibility for overseeing the Council's arrangements to counter the threat of fraud and corruption. As such, it is important that the Committee is kept up to date with the latest developments, both locally and nationally, in this area.

1.2 This report provides members with:

- an overview of developments that are taking place nationally,
- an update on anti-fraud and corruption activity at Cheshire East; and
- details of work that will be completed to ensure compliance with best practice and improve Cheshire East's resilience to the threat of fraud and corruption.

2.0 Recommendation

2.1 Audit and Governance Committee is asked to note this report.

3.0 Reasons for Recommendation

3.1 In order to ensure that the Council has robust arrangements to counter the threat of loss through fraud and corruption it is essential that the relevant systems and procedures are subject to regular review against best practice and that identified weaknesses are managed.

3.2 Audit and Governance Committee's role in overseeing the Council's counter fraud arrangements is crucial for the Council to achieve its anti fraud and corruption objectives.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 The existence of anti-fraud arrangements, in line with the Fighting Fraud Locally Strategy will contribute towards good governance.

7.0 Financial Implications

7.1 An overriding responsibility of the Council is the provision of effective and efficient services in a manner that seeks to ensure the best possible protection of the public purse in its delivery arrangements. Hence the Council must have appropriate policies and mechanisms to safeguard the Council's resources and reduce losses to fraud and corruption in all areas to an absolute minimum.

8.0 Legal Implications

8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs and appoint an officer to have responsibility for the administration of these arrangements.

9.0 Risk Assessment

9.1 The Council as a large organisation is at risk of loss due to fraud and corruption both from within the Council and outside it. The impact of fraud on the Council can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself. In order to mitigate this risk the Council needs to be explicit about the way fraud will be regarded and dealt with.

10.0 Background

National Issues and Developments

10.1 Fraud is a major issue facing the United Kingdom, and Local Government is not exempt from this. The Annual Fraud Indicator 2013, which was prepared by the National Fraud Authority prior to it being dissolved in March 2014, estimated total fraud loss against public bodies as £20.6bn with £2.1bn of this relating to Local Government.

10.2 Following the abolition of the National Fraud Authority, responsibility for the promotion of anti-fraud and corruption arrangements was passed to CIPFA.

10.3 In response, CIPFA launched the Counter Fraud Centre in July 2014 to lead and co-ordinate the fight against fraud and corruption across the public services. It is the UK's centre of excellence for counter fraud and is headed by Rachael Tiffen, former Deputy Director of the National Fraud Authority.

10.4 The Centre has close links with the Department for Communities and Local Government (DCLG), the National Crime Agency (NCA), Cabinet Office and other agencies with the aim of helping counter fraud practitioners:

- **Save money** by increasing organisations' ability to detect, prevent and recover losses from fraud.
- **Protect reputations** by providing access to a comprehensive package of tools, training and consultancy to manage and minimise risk.
- **Develop valuable skills** by offering new professional qualifications as well as CDP modules that explore the latest counter fraud threats and issues.

10.5 One of the first outputs from the centre was the publication, in October 2014, of the CIPFA *Code of Practice on Managing the Risk of Fraud and Corruption.* This was followed up in December 2014, when detailed guidance notes were published in support of the Code of Practice. These build on, and replace, CIPFA's previous guidance, *Red Book* (*Managing the Risk of Fraud, Actions to Counter Fraud and Corruption)* against which the Council's current arrangements were developed.

10.6 The Code is based upon the following five principles and the guidance notes provide detailed information on the implementation of each:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption

10.7 In response, Internal Audit has commenced the following work the outcome of which will be reported to future meetings of the Committee:

- A review of the current arrangements against the Code to identify areas of improvement and bring the Council in line with best practice.
- Review and refresh of the Council's Fraud Risk Assessment including incorporating this and the Bribery Risk Assessment into the same document. This will ensure that as an organisation we are aware of the potential areas where fraud may occur and have robust controls in place to protect the Council and its resources.
- Existing policies and procedures are being updated to take account of the latest guidance and will be supplemented by the production of the Council's Anti-Fraud and Corruption Strategy for 2015/16. The strategy will provide a clear direction, and set out responsibilities, for Members, managers and staff for identifying risks, prioritising resources and measuring the effectiveness of our approach to protecting the Council from fraud and corruption.

Local Government Transparency Code

10.8 From 2 February 2015 the Government's Local Government Transparency Code will be extended to cover a number of areas, including fraud.

10.9 Local authorities will be required to publish the following information about their counter-fraud work:

- Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information)(England) Regulations 2014, or similar powers
- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
- Total amount spent by the authority on the investigation and prosecution of fraud, and
- Total number of fraud cases investigated.
- This information will be published in the transparency area of the Council's website and also on the data.gov.uk website

10.10 An authority wide project is ongoing to ensure that the Council complies with the requirements of the Transparency Code and Internal Audit has liaised with the lead officer to provide support in ensuring that the sources of information relating to fraud have been identified.

Counter Fraud Fund

10.11 During July 2014, the Government announced that it was to make up to £16m available over the next two years in the form of a Counter Fraud Fund. The aim of the fund was to support local authorities during the implementation of the Single Fraud Investigation Service and increase the capacity and capability of local government to tackle losses from non-benefit fraud. Applications were invited between July and September 2014 with an expectation that submissions would be innovative, sustainable and not simply request funding to develop a corporate fraud unit.

Local Anti-Fraud and Corruption Activity

10.12 In response to the launch of the Counter Fraud Fund described above, our Internal Audit team met with colleagues from Cheshire West & Chester, Warrington and Halton Councils to discuss whether it would be possible to develop a collaborative bid for funding. As a result, a joint bid entitled 'Fighting Fraud in Cheshire' was submitted.

10.13 In addition, the four Cheshire authorities also joined a larger bid led by London Borough of Bromley to fund the development of a Counter Fraud Smartphone App. This will provide information to users around the latest frauds and scams as well as providing a medium for reporting suspected fraud and corruption.

10.14 We are pleased to confirm that we were recently notified that both of these bids were successful and that work is now in progress to implement our proposals.

10.15 The joint Cheshire bid was for funding to appoint a member of staff to carry out the following tasks:

- Development of electronic training materials to increase knowledge and awareness of fraud issues amongst staff and members.
- Production of other awareness raising tools, for example newsletters and information for the Counter Fraud smart phone app.
- Proactive analysis of areas of operation identified as being at high risk of fraud. Initially this will focus on procurement fraud and insurance fraud which have been highlighted as significant risks by the Audit Commission in their latest publication of Protecting the Public Purse 2014.
- Consideration and potential investigation of any anomalies identified in the above analysis.

10.16 Warrington Borough Council will take the lead in recruiting and appointing the member of staff under their policies and procedures.

National Fraud Initiative

10.17 Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), a biennial exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

10.18 The 2014/15 exercise is the last to be carried out by the Audit Commission prior to closing at the end of March 2015, at which point responsibility will pass to Cabinet Office.

10.19 As was the case in previous years, Internal Audit successfully coordinated the extraction and submission of the required data sets which were uploaded in October 2014 and the matches are expected to be released on 29 January 2015.

10.20 Once the results have been received, investigations will commence within individual services to determine whether the matches represent a fraud and to recover any overpayments. Internal Audit will have an overview of progress in investigating matches and ensure that where fraud has been identified, appropriate action is taken.

10.21 Findings from the NFI exercise will also inform future proactive anti-fraud work and the fraud and corruption risk assessment.

Protecting the Public Purse Fraud Briefing 2014

10.22 This briefing is produced by the Audit Commission based upon the results of the annual fraud and corruption survey and provides councils with comparative information of fraud detection levels.

10.23 Submission of the survey is a mandatory requirement on all local government bodies and the external auditors confirm that the submissions are reflective of the auditors' knowledge of fraud detection activities at the local authority.

10.24 A copy of the briefing, in the form of a series of PowerPoint slides, is attached as Appendix A to this report. However, the key findings are as follows:

Fraud Type	Cases	Value	Comments
Housing Benefit and Council Tax Benefit Fraud			
Cheshire East	192	£889,379	Average £4,632 per case
Unitary Authority Average	162	£538,412	Average £3,324 per case
Council Tax Discount Fraud			
Cheshire East	N/R	N/R	Included in the benefit figures detailed above.
Unitary Authority Average	170	£86,424	Average £508 per case
Blue Badge Fraud			
Cheshire East	3	-	Bigger issue where congestion charges are in effect.
Unitary Authority Average	19	-	
Procurement Fraud			
Cheshire East	N/R	£7,679	External Purchase Card fraud. No other fraud detected.
Unitary Authority Total	25	£824,511	Average £32,980 per case
Insurance Fraud			
Cheshire East	0	0	No fraud detected.
Unitary Authority Total	34	£988,636	Average £29,078 per case
Social Care Fraud			
Cheshire East	N/R	N/R	Misspent monies recovered but not pursued as fraudulent.
Unitary Authority Total	47	£731,379	Average £15,561 per case
Internal Fraud			
Cheshire East	N/R	N/R	A small number of staff investigated for benefit fraud.
Unitary Authority Total	320	£1.03m	Average £3,220 per case

10.25 These figures confirm that Cheshire East has proactive arrangements in place for the investigation and prosecution of suspected benefit fraud. However, in common with many other authorities, the arrangements for non-benefit fraud are not as well developed.

10.26 Our successful bid for Counter Fraud Fund monies described in 10.15 above will help us develop our performance within the areas of non-benefit fraud by provide resource to proactively seek out procurement and insurance fraud along with the development of training materials and awareness raising resources.

10.27 With regards to Social Care fraud, Internal Audit reviews of Personal Budgets and Direct Payments are planned for 2015 and will seek assurance as to the robustness of arrangements in place to prevent, detect and investigate fraud in these areas.

10.28 In completing the survey it was clear that managers acknowledge fraud as an issue that affects them. However, they require further support in ensuring that they have the means of accurately recording and escalating suspected cases and in raising awareness amongst staff of the warning signs of fraud.

11.0 Access to information

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

Name: Michael Todd
Designation: Principal Auditor (Fraud)
Tel No: 01270 685864
Email: michael.todd@cheshireeast.gov.uk

Protecting the Public Purse Fraud Briefing 2014

Cheshire East Council

audit commission

Purpose of Fraud Briefing

Provide an information source to support councillors in considering their council's fraud detection activities

Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities

Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed

Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

Understanding the bar charts

Outcomes for the first measure for your council are highlighted in yellow in the bar charts. The results of your comparator authorities are shown in the green bars.

Outcomes for the second measure for your council are highlighted as a green symbols above each bar. The results of your comparator authorities are shown in the white triangles.

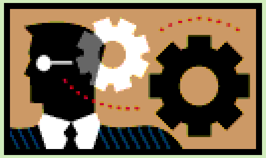
A '*' symbol has been used on the horizontal axis to indicate your council.

All data are drawn from council submissions on the Audit Commission's annual fraud and corruption survey for the financial year 2013/14.

In some cases, council report they have detected fraud and do not report the number of cases and/or the value. For the purposes of this fraud briefing these 'Not Recorded ' records are shown as Nil.

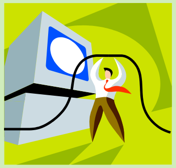
Interpreting fraud detection results

Contextual and comparative information needed to interpret results



Detected fraud is indicative, not definitive, of counter fraud performance *(Prevention and deterrence should not be overlooked)*

No fraud detected does not mean no fraud committed *(Fraud will always be attempted and even with the best prevention measures some will succeed)*



Councils who look for fraud, and look in the right way, will find fraud *(There is no such thing as a small fraud, just a fraud that has been detected early)*

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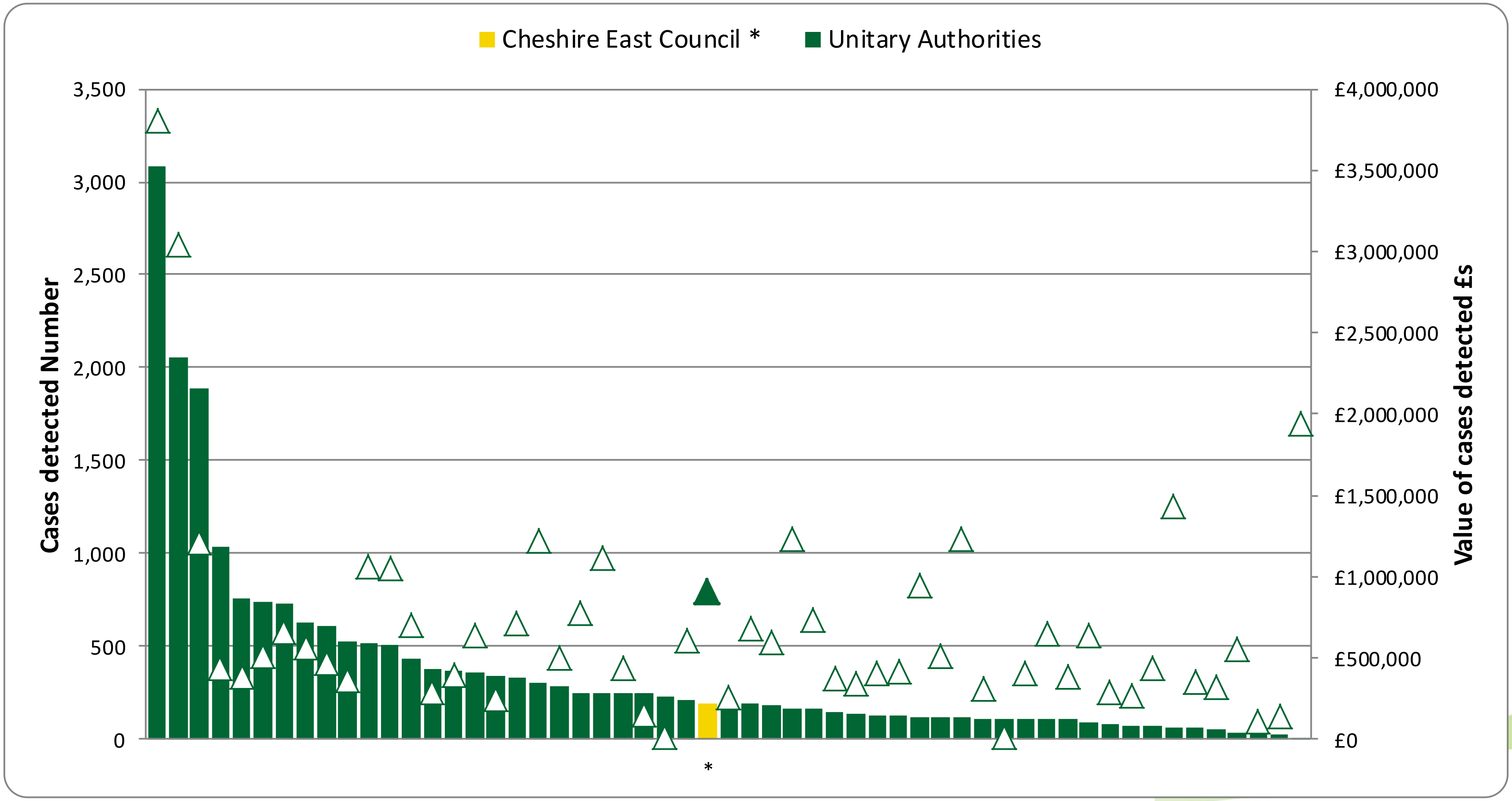
Total detected cases and value 2013/14
(Excludes Housing tenancy fraud)

Cheshire East Council



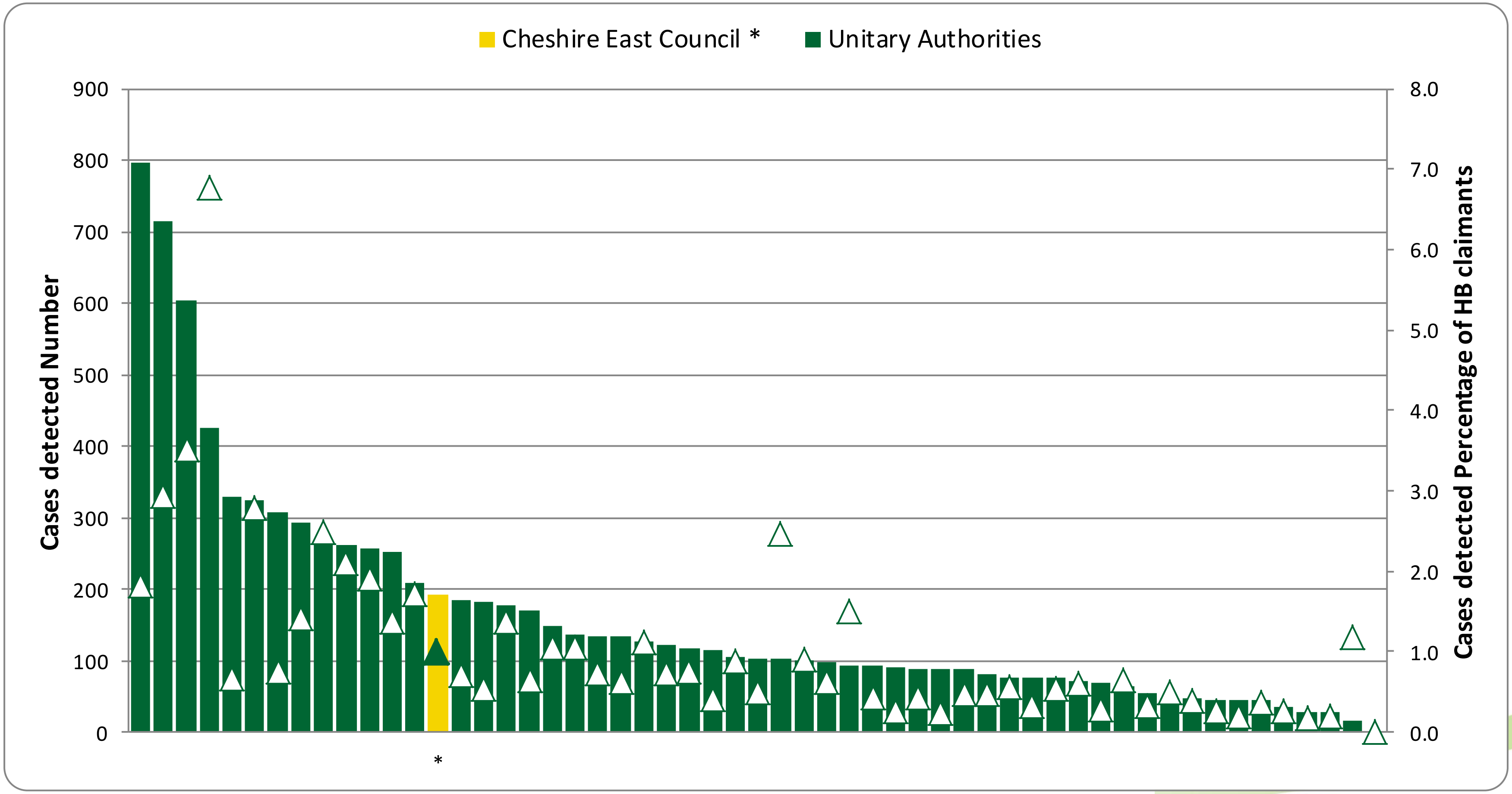
Cheshire East Council detected 195 cases #. The value of detected fraud was £897,058 #.

Average for other Unitary Authorities: 373 cases, valued at £690,187

audit commission

Housing Benefit (HB) and Council Tax Benefit (CTB) 2013/14
Total detected cases, and as a proportion of housing benefit caseload

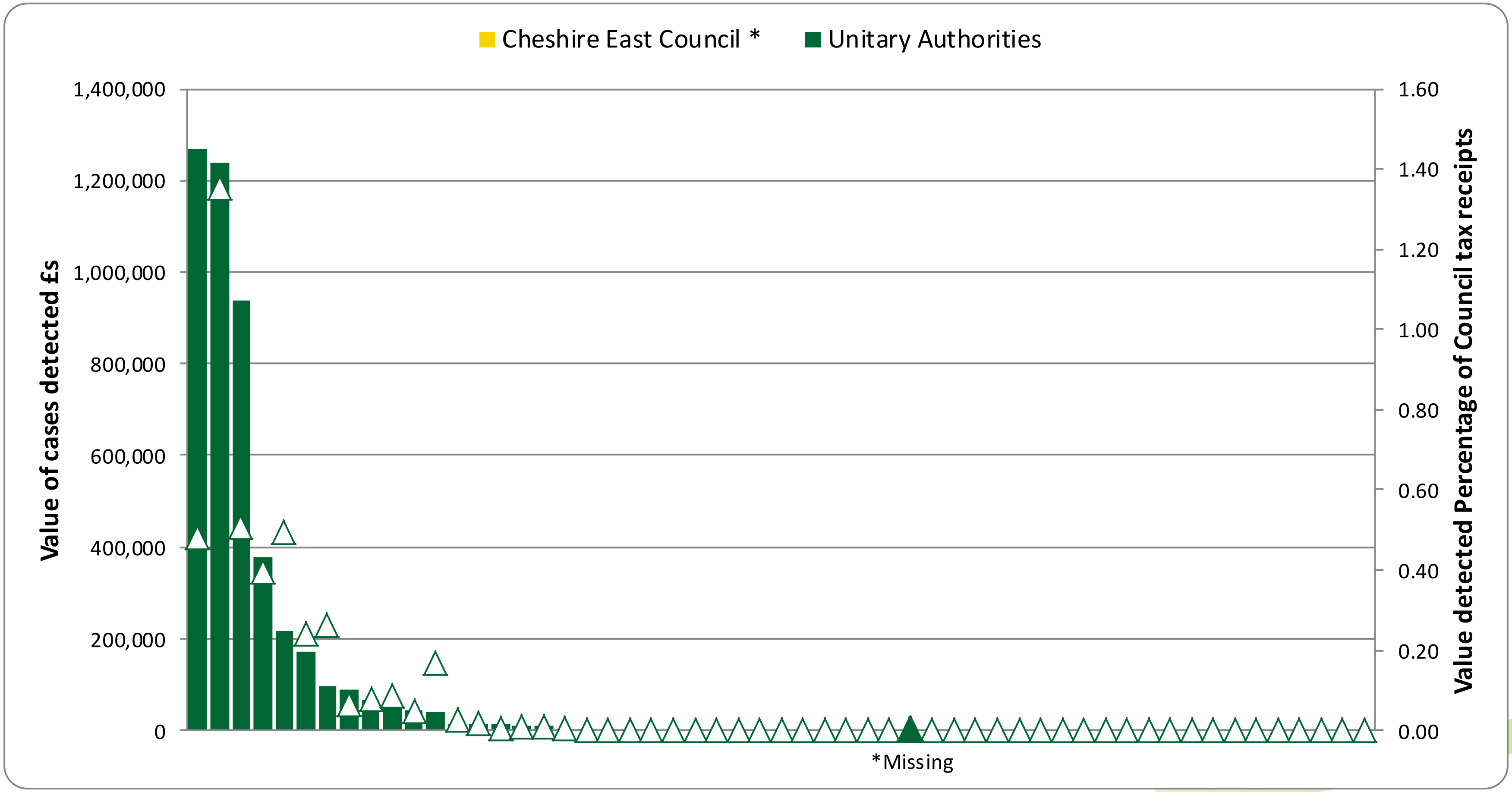
Cheshire East Council



Cheshire East Council detected 192 cases of this type of fraud. The value of detected fraud was £889,379.
Average for other Unitary Authorities: 162 cases, valued at £538,412

Council tax discount fraud 2013/14
Total detected value, and value as a proportion of council tax income

Cheshire East Council



Cheshire East Council detected this type of fraud and did not report the number of cases.
Average for other Unitary Authorities: 170 cases, valued at £86,424

Councils without housing stock 2013/14
Housing tenancy fraud

4 per cent of social housing stock in London and 2 per cent outside London is subject to tenancy fraud

Second largest fraud loss to local government, £845 million

The Prevention of Social Housing Fraud Act 2013: criminalises tenancy fraud

Combined with housing associations the total loss in England, £1.8 billion

Councils have powers to investigate and prosecute tenancy fraudsters on behalf of housing associations

Should you be using this legislation and powers to work in partnership with local housing associations?

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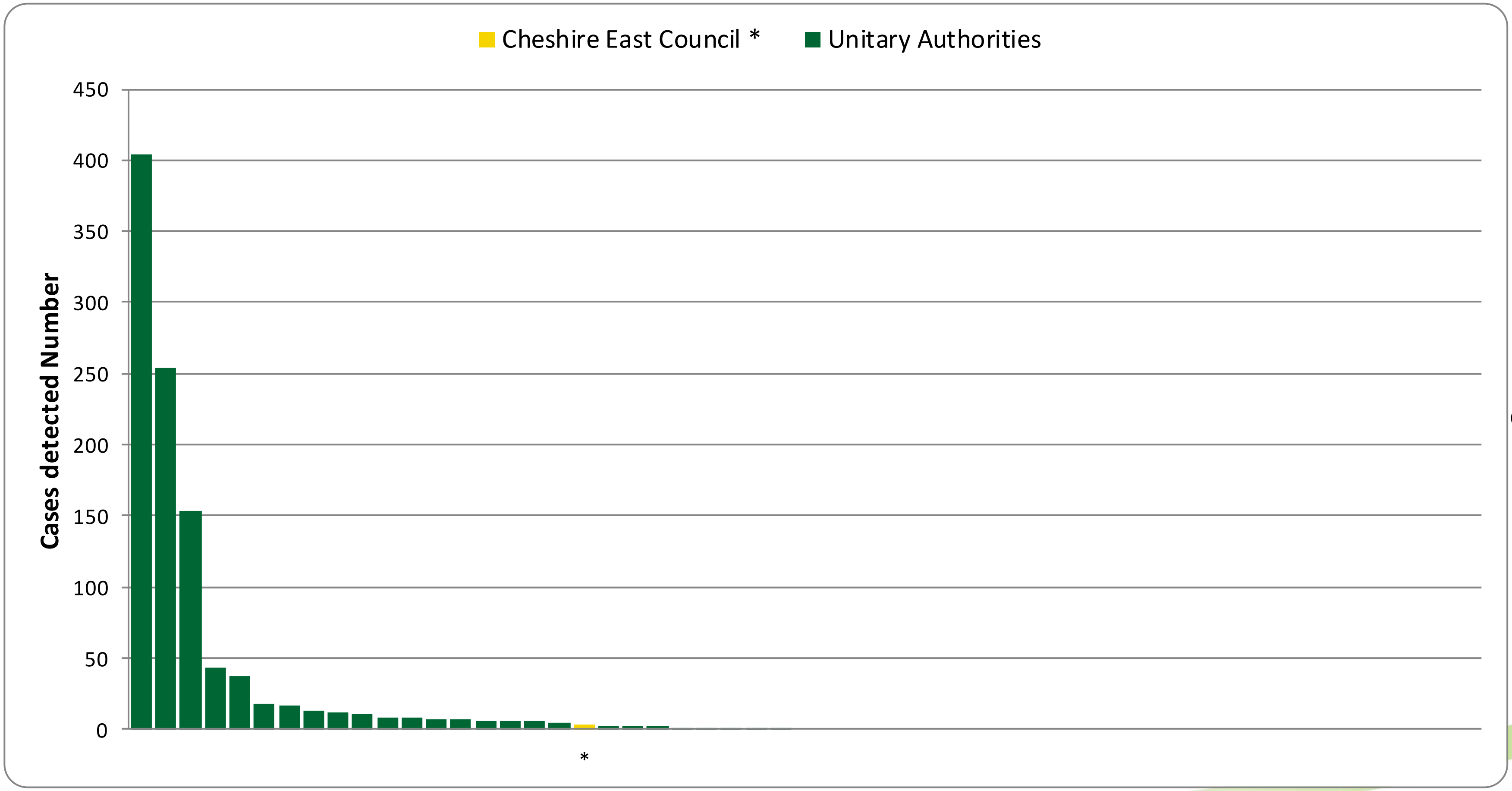
Disabled parking (Blue Badge) fraud 2013/14

Cheshire East Council



Cheshire East Council detected 3 cases of this type of fraud.
Average for other Unitary Authorities: 19 cases

Other frauds 2013/14
Cheshire East Council

Procurement: Cheshire East Council detected this type of fraud and did not report the number of cases. The value of detected fraud was £7,679.
Total for other Unitary Authorities: 25 cases, valued at £824,511

Insurance: Cheshire East Council did not detect any cases of this type of fraud.
Total for other Unitary Authorities: 34 cases, valued at £988,636

Social care: Cheshire East Council detected this type of fraud and did not report the number of cases.
Total for other Unitary Authorities: 47 cases, valued at £731,379

Internal: Cheshire East Council detected this type of fraud and did not report the number of cases.
Total for other Unitary Authorities: 320 cases, valued at £1,030,498

Correctly recording fraud levels is a central element in assessing fraud risk.
It is best practice to record the financial value of each detected case

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Questions elected members and decision makers may wish to ask

Post SFIS	Local priorities	Partnerships	Using information and data
Are our remaining counter-fraud resources and skill sets adequate after our benefit fraud investigators have left to join SFIS?	Are local priorities reflected in our approach to countering fraud?	Have we considered counter-fraud partnership working?	Are we satisfied that we will have access to comparative information and data to inform our counter-fraud decision making in the future?

audit commission

Any questions?

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 22nd January 2015
Report of: Corporate Manager Governance and Audit
Title: Revising the Council's Code of Corporate Governance
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

1.1 The purpose of this report is to update the Committee on the proposed approach to updating the content and format of the Council's Code of Corporate Governance.

2.0 Recommendation

2.1 To note and agree the approach to updating the Council's Code of Corporate Governance.

3.0 Reasons for Recommendation

3.1 To ensure that the Council has proper and effective governance arrangements in place.

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 Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

8.0 Legal Implications

8.1 The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA Framework *Delivering Good Governance in Local Government (2012)*. The AGS is used by the Council to report publically on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations (England) 2011.

9.0 Risk Assessment

9.1 Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. Failure to develop and maintain a local Code of Corporate Governance and publish an AGS means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

10.0 Background

Local Government Corporate Governance

10.1 Good governance is about ensuring that the Council does the right things, in the right way, in a timely, open, and accountable manner. It must therefore include the systems, processes, cultures and values by which services are directed and controlled, and by which we are accountable to, and engage with our stakeholders and communities.

10.2 CIPFA and the Society of Local Authority of Chief Executives (SOLACE) have provided best practice guidance on establishing a local Code of Corporate Governance. This was originally published in 2001, refreshed in

2007 and most recently updated in 2012; *Delivering Good Governance in Local Government – Framework*.

10.3 Cheshire East Council has previously approved and adopted a Code of Corporate Governance. The Council's Code of Corporate Governance was first approved by the Governance and Constitution Committee in November 2009. The Code has subsequently been reviewed and updated to reflect best practice and organisational changes, most recently in November 2013. Cheshire East Council's Code is consistent with the principles of the CIPFA/SOLACE Framework.

10.4 The CIPFA/SOLACE guidance defines the six core principles, each supported by sub-principles that should underpin the governance framework of a local authority:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

3. Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risks

5. Developing the capacity and capability of members and officers to be effective

6. Engaging with local people and other stakeholders to ensure robust public accountability

10.5 The Code articulates the expected standards, principles and values by which Cheshire East Council Officers and Members will operate. There should be clear links between the principles of the Code, and the governance framework of strategies, policies and procedures which underpin the Code.

Revising the Code

10.6 The Chief Operating Officer is responsible for ensuring the Code of Corporate Governance is reviewed annually, at the start of the Annual Governance Statement process, to ensure it remains fit for purpose. The outcome of the review, along with any suggested revision to the Code, is reported to the Audit and Governance Committee.

10.7 The AGS is a statutory document, required by the Account and Audit (England) Regulations 2011. It is published alongside the Annual Accounts of the Council, and demonstrates and evaluates how the Council has complied with its Code. It also highlights any significant governance issues which have arisen, where the Council has not been able to achieve the performance standards set out in the Code, supported by an action plan for improving and enhancing governance in these specific areas.

10.8 A draft AGS is taken to the June Audit and Governance Committee to obtain feedback from Members, who are also updated throughout the year. The final AGS is taken to the September Audit and Governance Committee for approval. It is then signed by the Chief Executive and Leader of the Council and published on the Council's website.

10.9 Although the Chief Operating Officer has responsibility for the Code being updated, in practice the detailed review of the Code will be undertaken by the Corporate Assurance Group, which also has responsibility for overseeing the production of the AGS.

10.10 The forthcoming assessment of the Code will be undertaken from the position of operating as a Commissioning Council. It will also review the continuing relevance of the principles and sub principles of the Code, and provides an opportunity to ensure that the evidence sources used to demonstrate compliance with the Code are as wide ranging and comprehensive as possible. Failure to capture all relevant evidence may undermine the quality of the AGS process, and increase the risk of significant governance issues emerging outside of the AGS process

10.11 The format of the published current Code does not include the sources of evidence, but the suggested format of the revised Code will be updated to include it. This provides clarity for Members, Officers and stakeholders about how the organisation uses the principles of the Code in practice. A suggested format is included in Appendix 1; this shows just the first principle of the Code in its anticipated new format.

10.11 An updated Code will then be presented to the June 2015 Audit and Governance Committee for consideration. The suggested approval process would be for Audit and Governance Committee to receive, review and recommend the revised Code to Cabinet. Cabinet would receive the recommended Code, and if in approval, would recommend it to Council to approve the financial and other arrangements set out in the Code. Following this process would help in raising awareness of the Code amongst Officers and Members.

10.12 The AGS process for 2014/15 will be reviewed against the existing Code as this has been in operation throughout the year, although the opportunity to consider any additional evidence sources identified in revising the Code will be taken. We will also ensure that any issues identified as part of the AGS are considered in detail to determine whether they require a change to the Code, or whether a lack of awareness of the Code could be causing the issues.

11.0 Access to information

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

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Suggested revised format for the Local Code of Corporate Governance (Principle 1 only)

Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas:		
Supporting Principles	**To meet the requirements of this Principle, Cheshire East Council will;**	**This will be evidenced by:**
Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and users	Develop and promote the authority's purpose and long term vision	• Sustainable Community Strategy • Medium Term Financial Strategy • Budget Report 2013/16
	Review on a regular basis the authority's priorities for the local area and its implications for the authority's governance arrangements	• Quarterly performance reporting • Annual Governance Statement production • Annual budget and service delivery plans
	Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	• Constitution/ • Finance and Contract Procedure Rules
	Communicate the authority's activities and achievements, its financial position and performance	• Statement of Accounts • Annual Governance Statement • Quarterly performance reporting to Cabinet
Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning	Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	• Commissioning Strategies
	Put in place effective arrangement to identify and deal with failure in service delivery	• Project Management framework • Commissioning arrangements; contracts, specifications etc

Appendix 1

Suggested revised format for the Local Code of Corporate Governance (Principle 1 only)

Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas:		
Supporting Principles	**To meet the requirements of this Principle, Cheshire East Council will;**	**This will be evidenced by:**
Ensuring that the authority makes best use of resources, that tax payers and service users receive excellent value for money, and the charge to tax payers to be affordable and reasonable	Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions	• Value for Money Strategy • Environmental impact assessments • Carbon Reduction
	Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use	• Project Management framework • Quarterly performance reporting • Calendar of committee meetings
	Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary	• Medium Term Financial Strategy • Quarterly performance reporting • Annual Statement of Accounts • External inspection of accounts • Internal audit reporting • Reports to Audit and Governance Committee, Cabinet and or Scrutiny
	Ensure compliance with CIPFA's The Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management Code	• Treasury Management Strategy • Reports to Audit and Governance Committee, Cabinet and or Scrutiny

Appendix 1

Suggested revised format for the Local Code of Corporate Governance (Principle 1 only)

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 22 January 2015
Report of: Corporate Manager Governance and Audit
Title: Risk Management Update Report
Portfolio Holder: Councillor David Brown

1.0 Report Summary

1.1 Audit and Governance Committee has responsibility for monitoring the effectiveness of the Council's risk management arrangements. In order to support the Committee in fulfilling its role this report provides Members with:

- the key role an audit committee plays in supporting and reviewing risk management in their organisation;
- details of the Council's risk maturity assessment and the work required to move the Council towards the minimum target standard; and
- an update on the current status of the Council's Corporate Risk Register

2.0 Recommendation

2.1 That the Committee:

i) Note and consider the contents of this report;
ii) Note that a further update report will be brought to the Committee in March 2015; and
iii) Consider selecting one of the Corporate Risks for review at the meeting in March 2015.

3.0 Reasons for Recommendations

3.1 The terms of reference for the Audit and Governance Committee include:

- monitoring the effectiveness of the Council's risk management arrangements;
- monitoring progress in addressing risk related issues reported to the committee; and
- advising the Council on the adequacy and effectiveness of these arrangements.

3.2 In order to fulfil its role Audit & Governance Committee has traditionally requested that it receives a short briefing from one of the Corporate Risk Owners / Managers.

4.0 Wards Affected

4.1 All

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Effective risk management provides organisations with a means of improving strategic and operational performance.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

7.1 Effective risk management helps to maximise opportunities and minimise loss events including those with financial consequences.

8.0 Legal Implications (Authorised by the Head of Legal Services)

8.1 The Accounts and Audit (England) Regulations 2011 require the Council to have a sound system of internal control which includes arrangements for the management of risk.

9.0 Risk Management

9.1 Best practice dictates that governance, risk management and strong internal controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.

9.2 Effective internal control and the establishment of an audit committee can never eliminate risk. However, an effective audit committee can:

- raise awareness of the need for robust risk management arrangements
- support the establishment of effective arrangements to govern and manage risks that help the Council to achieve its goals and objectives
- provide assurance through a process of independent and objective review of actions being taken on risk related issues

10.0 Background and Options

<u>The key role an audit committee plays in supporting and reviewing risk management in their organisation</u>

10.1 Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. Risk management isn't just about dealing with problems effectively; it is also an aid to improvement.

10.2 The internal controls of an organisation should be influenced by the risks. An effective control will manage an identified risk, perhaps by reducing the likelihood of the risk happening, or minimising the impact if it did. When controls are reviewed their success in managing those risks should be considered. Sometimes controls are put in place to manage risks but continue to operate even though the risk has changed or other controls now address the risk. This can lead to inefficiency.

10.3 The importance of risk management in supporting good governance is clearly set out in principle (4) of the Good Governance in Local Government Framework, 'Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.' The framework emphasises the importance of risk management for the successful delivery of services, challenging organisations to put themselves in a position where they can demonstrate that they have a formal framework in place for managing risk.

10.4 An audit committee's role in relation to risk management covers three major areas:

- assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks

- monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management

- keeping up to date with the risk profile of the organisation and the effectiveness of risk management actions

10.5 The way that an audit committee fulfils these roles include:

- commenting on changes to the risk management policies of the organisation
- reviewing the risk management annual report
- reviewing the assessment of risk maturity of the organisation (see paragraph 10.10)

- understanding the key risks facing the organisation, by reviewing risk registers or receiving briefings on key risk areas and seeking assurance that these risks are managed effectively and owned appropriately
- reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine and challenge and support the risk assessment process to ensure consistency.

10.6 A good understanding amongst audit committee members of what risk management can and should be doing, will help to raise the profile of risk management across the organisation.

10.7 By monitoring the effectiveness of risk management and any obstacles to improvement, an audit committee can help to ensure the adoption of good practice across the organisation.

10.8 When an audit committee reviews the organisation's key risks it may want to seek assurance that the actions being undertaken are having an effect. If there are concerns about critical risks then questions from an audit committee can help to ensure that the appropriate action is taken.

The Council's risk maturity assessment

10.9 An assessment of risk maturity helps an organisation to determine where it is with regards to the development of risk management and where it wants to be.

10.10 As previously reported to this Committee the Council has been assessed as between risk aware and risk defined with Cabinet setting a target minimum standard of risk managed.

Risk Naive	Risk Aware	Risk Defined	Risk Managed	Risk Enabled
No formal approach or processes developed for risk management, avoidance and lack of engagement.	Scattered silo based approach to risk management using standalone processes, reactive approach.	Risk appetite defined. Strategy and policies in place and communicated. Some understanding and application but passive acceptance and compliance with reliance on risk registers.	Enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement and risk based decision making.	Risk management and internal controls fully embedded into the operations. Regular review and improvement of risk processes, fully committed to risk management and confident risk taking.

<u>Planned work to move the Council towards the minimum target standard</u>

10.11 In order to provide a high level focus on risk management, control and governance arrangements the Corporate Governance and Risk Management (CRMG) Groups have merged to become the Corporate Assurance Group (CAG). Merging the groups will help to ensure that assurance is planned and delivered in an efficient and cost effective manner and more specifically that:

- assurance regarding the robustness of the risk management approach will be strengthened; and
- all risk activities/disciplines will be integrated into corporate governance processes

Terms of Reference and membership need to be finalised and a comprehensive work programme developed to ensure that the Group is clear about, and fulfils its responsibilities.

10.12 The Corporate Assurance Group has recently considered how to move the Council towards the target standard and address the sometimes ad hoc approach to updating, escalating and reporting on risks that was observed in the Corporate Risk Management Group Annual Report to this Committee in June 14. A small number of actions have initially been identified that will be taken forward by CAG over the coming months the outcomes of which will be reported to future meetings of the Committee. The actions are as follows:

- The arrangements for Risk Management are set out within the 'Risk Management Policy 2014/2015' which was last updated in June 2014. The Policy provides a strong basis on which to develop the Council's risk management approach but it was felt that it may not be readily understood by those less familiar with the risk management process. The Policy will therefore be revised in order to provide greater clarity with regard to:
    - how the Council's Senior Managers and elected members intend to manage risk – being explicit about what needs to be accomplished, how, by when, and who is responsible for what, recognising that embedding risk management and strong controls in the daily and regular business of the Council is an iterative process
    - the scope of the risk management activity in the Council – being explicit about how all of the risks faced by the organisation are being considered, starting at the strategic level and cascading down into the Council's structure as considered appropriate
    - what processes are to be applied corporately to ensure consistency of approach.

- The work the Council has been carrying out to introduce commissioning plans has afforded the opportunity to fully integrate risk management as part of the Service Planning process. Once complete this will help ensure that risk is considered and responses chosen at the business planning stage and that risk activity is focused on the delivery of key organisational objectives. Furthermore, the performance management processes should ensure that the Risk Registers are critically examined and refreshed throughout the year. Further refinement to this process is planned to ensure that:

    - a balance is struck in managing risk so that the approach is not over bureaucratic and process driven but has sufficient rigour
    - risk management is not just about preventing things from happening it is also about capitalising on opportunities.

- These changes will need to be underpinned by new learning and development opportunities and guide material to support those tasked with identifying and managing risks on behalf of the Council.

Current status of the Council's Corporate Risk Register

10.13 The Corporate Risk Register forms part of the Council's overall governance arrangements and helps demonstrate that the Organisation is aware of and managing the risks and opportunities it faces in striving to achieve its strategic objectives. The Register has recently been reviewed in line with the Council's Risk Management Policy. The Register identifies 21 Corporate Risks.

10.14 The tables below inform the Audit and Governance Committee on the current status of the Council's Corporate Risk Register in terms of the 3 highest rated corporate risks, the risk watch list and diminishing risks. Attached at Appendix A is a more detailed summary of these risks including the Risk Owner, Cabinet Strategic Lead and comments on the net risk rating.

3 Highest Rated Corporate Risks				
Ref	Type	Short Risk Title	Net Rating	Direction
08	O	Public Sector Effort	12 High	⇔
12	T	Cheshire East Local Plan Examination	12 High	⇧
15	T	Protection of Children & Young People	12 High	⇔
T = Threat, O = Opportunity				

Risk Watch List				
Ref	Type	Short Risk Title	Net Rating	Direction
04	T	Financial Control	9 Medium	⇔
05	O	External Funding	9 Medium	⇔
06	O	Evidenced Decision Making	9 Medium	⇔
07	T	Reputation	9 Medium	⇔
11	T	Commissioning and Service Delivery Chains	9 Medium	⇩
18	T	Legal Services	9 Medium	⇔
19	T	Fraud Risk	9 Medium	⇔
20	T	Contract and Relationship Management	9 Medium	⇩
21	T	Assurance of Information	9 Medium	⇔
22	T	ASDV Business Plans	9 Medium	⇔
23	T	Health Integration	9 Medium	⇔
T = Threat, O = Opportunity				

Managed (diminishing) Risks				
Ref	Type	Short Risk Title	Net Rating	Direction
14	T	Business Planning Resource	6 Medium	⇩
17	T	Adult Social Care	6 Medium	⇩
T = Threat, O = Opportunity				

10.15 The assessment methodology used to score the risks is attached at Appendix B of this report.

10.16 Members are asked to note that the Register will be comprehensively revisited from January 2015 by CAG with reports being made to the Corporate Leadership Board and Cabinet, in order to identify new and emerging risks and seek agreement for the 2015/16 Corporate Risk Register. The outcomes of which will be reported to future meetings of the Committee.

10.17 In order to help Audit & Governance Committee to fulfil its role members are asked to select one of the Corporate Risks for review at the meeting in March 2015.

11.0 Access to Information

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

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Top 3 Corporate Risks					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
8 Opp	**Public Sector Effort:** 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. We will maximise public resources such that the Council and its partners are better able to achieve intended objectives and outcomes. Current examples include: community safety, complex dependency, health and care integration.	Chief Executive	Leader of the Council	**12 High** ***New*** ⇔	The future financial context for local government will continue to require services to be funded and delivered differently. Maximum opportunities will continue to be sought to secure improved value from the totality of public resources available locally, as well as continuing to build upon the promotion of communities and individuals to be less reliant upon publicly funded services where appropriate.
12 Threat	**Cheshire East Local Plan Examination :** Risk that the Cheshire East Local Plan Strategy cannot be successfully adopted – either because the work necessary to resume the examination cannot be undertaken, that the plan has to be withdrawn or subsequently it is found to be unsound once the examination resumes. This will result in delays to the planning framework, leaving Cheshire East vulnerable to unplanned 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.	Director of Economic Growth and Prosperity	Finance Portfolio Holder	**12 High** ⇧	Substantial effort is being made to ensure the necessary work can be carried out on time, concerns are addressed and the plan modified, without withdrawal from the inspection process – although that possibility cannot be ruled out at this stage.

Top 3 Corporate Risks					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
15 Threat	**Protection of Children and Young People:** There is a risk that if the Council does not recruit and retain a sufficient number of qualified and competent social workers and supervisors to meet children's Social Care statutory duties, children and young people may not be protected from harm or risk of harm. This will impact on the Council's outcome for local people living well and for longer.	Executive Director of Strategic Commissioning	Safeguarding Children and Adults Portfolio Holder	**12 High** ⇔	The recruitment and retention of high quality permanent Social Workers continues to be a challenge both locally and nationally. Whilst Cheshire East has carried out a significant amount of work to recruit and retain high quality Social Workers, this will remain a priority to ensure that the good work carried out to date is sustained.

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
04 Threat	**Financial Control:** 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.	Chief Operating Officer	Finance Portfolio Holder	9 Medium ⇔	The Council has continued to develop its financial management processes and has reflected upon the recent audit by Grant Thornton, the Council's external auditors. The audit process has shown improvements with a clean audit, including a positive value for money assessment. The accounts continued to be signed off by the Auditors with a clean audit statement, and the Council is reflecting on the feedback and learning from the performance across 2014/15. Improvements have been made during 2014/15, including developing and improving the financial reporting across the Council. Taking all the above into account the risk faced by the Council continues to be carefully managed reducing a gross risk of 16 to at least 9 in net terms at this stage and to a planned 6 with all actions in hand.
05 Opp	**External Funding:** 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	Chief Operating Officer	Finance Portfolio Holder	9 Medium ⇔	Opportunities should increase as the process of searching for grant funding is being embedded in to the TEG/EMB/Business Planning processes.

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
	increases its ability to achieve its objectives and outcomes.				
06 Opp	**Evidenced Decision Making:** 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	Deputy Leader and Strategic Outcomes Portfolio Holder	9 Medium ⇔	The Council has put in place a core Business Intelligence (BI) Team to address this opportunity. This brings together the corporate Research and Consultation Team with the Children & Families and Adults Performance Teams. Other BI resource is mapped across the organisation to enable a networked approach to data gathering and analysis. It is anticipated that as a whole this resource will provide relevant business intelligence data capable of informing and driving commissioning decisions thereby ensuring that resources are targeted at areas of most need.
07 Threat	**Reputation:** 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 ⇔	There are a number of controls and actions that need to be revised over the next twelve months in order to ensure a continued or improved control mechanism for this risk. Key areas of activity with regard to this are development of effective protocols and processes to act as controls over activity, agreement of

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
					effective monitoring arrangements with teams and individuals across the organisation who have influence or are central to reputation-critical activity. Overall net rating remains at 9. We expect that the effective implementation of the planned actions will reduce the likelihood further.
11 Threat	**Commissioning and Service Delivery Chains:** 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 ➢ supplier/partner financial failure ➢ increase in supplier incidents, non-	Chief Executive	Service Commissioning Portfolio Holder Governance Portfolio Holder	9 Medium ⇩	The Procurement Board meet at regular intervals overseeing the developments of the new procurement arrangements, the monitoring of procurement activity, including savings/reductions being achieved and the future direction for procurement activity across the Council. The first phase of a Council Procurement Improvement Plan has been completed and will be reported to the Procurement Board in January 2015, along with a second phase of improvement activity which will focus on communication and engagement across the Council. The procurement team, whilst losing some experienced members of staff to other Councils, has successfully recruited new staff members and are currently busy

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
	compliance with contracts or agreements ➢ tension between profit motives and public sector ethos ➢ budget overruns ➢ increase in systematic risks in increasingly shared services ➢ disaffected voluntary sector and provider market ➢ inadequate supplier and contract management/relationship				ensuring that the new team is suitably inducted to fully strengthen the function. The newly formed Procurement Manager role has been evaluated and is currently out to advert, with a closing date in early January 2015. Considerable progress has been made in establishing the contractual arrangements with the Council owned companies and Leisure Trust. Commissioning and client arrangements are in place and reporting and accountability is established to the relevant overview and scrutiny committees. Adjustment has been required for Officers and Members alike regarding the role of overview and scrutiny in relation to these new contractual arrangements and to Members on Company Boards regarding new accountability arrangements.
18 Threat	**Legal:** The rate of change and different delivery models may mean doing things quickly without	Chief Operating Officer	Governance Portfolio Holder	9	The continuing downward pressure on council budgets is requiring new

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
	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. Examples include: ➢ unlawful procurement of goods and services ➢ no proper consultation undertaken or findings acted upon ➢ no equality impact assessment undertaken or findings acted upon			Medium ⇔	and innovative ways of delivering services and a faster pace of change than previously. This has increased the demand for advice from Legal Services at a time when budgetary pressures will have an effect on the resources available to deal with the extra work. This increases the likelihood of incomplete instructions and mistakes. The overall net risk rating is a 9 medium risk. The Council has bought in additional legal resource to address this risk.
19 Threat	**Fraud and Corruption Risk:** Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption including bribery, 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.	Chief Operating Officer	Finance Portfolio Holder	9 Medium ⇔	Fraud is a significant risk to the whole of the UK and local authorities are often viewed as an 'easy target' by criminals. As such it is important that robust and effective arrangements are in place to minimise both the likelihood and impact of fraud against the Council. Traditionally, councils have focussed on benefits as the area most at risk of fraud but national studies have identified that areas such as procurement are equally if not more vulnerable to loss. In December

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
					2015, Housing Benefit Fraud staff will transfer to DWP thus significantly reducing the Council's investigative resource and it is therefore important that detailed risk assessments are completed by service managers to identify where the Council is most vulnerable so that appropriate controls can be introduced to protect public monies. This will also enable an informed view to be taken as to the level of resource required to manage the threat of fraud and corruption. The risk rating remains at 9 which is medium risk.
20 Threat	**Contract and Relationship Management:** 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	Executive Director of Strategic Commissioning	Service Commissioning Portfolio Holder Governance Portfolio Holder	9 Medium ⇩	The Council has made progress establishing the client commissioning function reporting through to the Deputy Chief Executive, which has allowed the business case and plans for a number of ASDVs to have been formalised and put in place. Further negotiations have begun to develop the management fees for the ASDVs for 2015/16, which incorporates contract specification and management.

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
	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.				
21 Threat	**Assurance of Information:** 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's priorities (as above) and may expose the Council and Cheshire East residents to other serious risks.	Chief Operating Officer (SIRO)	Deputy Leader and Strategic Outcomes 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. Over the long term, it is expected that the likelihood can be significantly reduced, but the work will require a number of phases. Initial work will reduce the likelihood score and subsequent phases of work will further reduce the likelihood. As a commissioning Council and continued development of ASDVs the likelihood of this risk occurring remains likely and the net risk score remains at 9 medium risk.
22 Threat	**ASDV Business Plans:** Risk that there is inadequate information available to allow the development of rigorous and fully costed business cases and plans for the alternative	Chief Operating Officer	Leader of the Council	9 Medium	Continued work with the new model of ASDVs, along with the contract management functionality has allowed stronger and more refined

Corporate Risks – Watch List					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
	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 achieving some of the Council's outcomes (dependent upon area at risk).			⇔	development and management of the business cases and within the ASDVs themselves the business plans.
23 Threat	**Health Integration Programme:** The risk that programme timescales do not pay attention to available resources such that there is a lack of commitment 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	Care and Health in the Community Portfolio Holder	9 **Medium** ⇔	Further work is required on internal targets and timescales to reduce the likelihood of this risk which is 3, very likely at present. The integration programmes are key to the Councils outcomes of people living well and for longer, and communities being strong and supportive so would have a major impact and is rated as 3. The overall net risk rating is 9 medium risk.

Corporate Risks – Managed (Diminishing) Risks					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
14	**Business Planning – Resource:** 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	6 Medium ⇩	Risk score has reduced as processes introduced during 2014 have enhanced the staffing structure. Links to outcomes have been improved through the monitoring process. Commissioning plans have been established, and incorporated in to schedule meeting with senior staff. Estimates were based on a budget performing well and settlement figures that were provisionally set out a year in advance.
17 Threat	**Adult Social Care:** 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 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	Executive Director of Strategic Commissioning	Care and Health in the Community Portfolio Holder	6 Medium ⇩	Presently the likelihood of this risk is assessed as a 3 which is likely; a number of the actions taken to date have impacted on the likely impact as a result of introducing improved systems and processes overall to enhance the practice and build in levels of assurance and monitoring. Additional major changes including the impact of new legislation and the further integration with health partners will result in the likelihood remaining the same whilst the improvements in the service and support to staff will reduce the impact of the risk. The impact of the risk should it materialise is therefore mitigated by the action taken and would still have a score of 2, on the Council's

Corporate Risks – Managed (Diminishing) Risks					
Ref & Type	**Risk Description**	**Risk Owner**	**Cabinet Lead**	**Rating & Direction**	**Comments**
	supportive.				outcomes of local people living well and for longer, and of our communities being strong and supportive. The overall net risk rating is therefore 6 - medium risk.

SCORING CHART FOR IMPACT			
	Factor	Score	Effect on Corporate Objectives
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.
	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.
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from
	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.
	Factor	Score	Effect on Corporate Objectives
Opportunities	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives

SCORING CHART FOR LIKELIHOOD				
	Factor	Score	Description	Indicator
Threats	Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly
	Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)
	Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
	Very unlikely	1	<10% chance of occurrence	Rarely/never before
	Factor	Score	Description	Indicator
Opportunities	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.
	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	10% to 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 or some chance of favourable outcome in the medium term	Has happened rarely/never before

Risk Matrix – Likelihood and Impact

Likelihood				
Very Likely **4**	LOW	MEDIUM	HIGH	HIGH
Likely **3**	LOW	MEDIUM	MEDIUM	HIGH
Unlikely **2**	LOW	LOW	MEDIUM	MEDIUM
Very Unlikely **1**	LOW	LOW	LOW	LOW
Impact	Minor **1**	Significant **2**	Serious **3**	Major **4**

THE RISK MATRIX (With Scores)			
4	8	12	16
3	6	9	12
2	4	6	8
1	2	3	4

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting:	22 January 2015
Report of:	Corporate Manager Governance and Audit
Title:	Work Plan 2014/15
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

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

2.0 Recommendation

2.1 That the Committee:

i) consider the Work Plan and determine any required amendments
ii) 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.

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

10.3 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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Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	**Detail**
22 Jan 2015			
External Audit Update	The report provides the Audit and Governance Committee with an update from the External Auditors, Grant Thornton on progress in delivering their responsibilities.	31	To consider the external auditor's annual report, relevant reports, and the report to those charged with governance.
Certification of Claims and Returns	A summary of the key findings that have been identified during the External Auditors' certification process for 2013/14 claims and returns.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Treasury Management Strategy and MRP Statement 2015/16	The report presents the 2015/16 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2015/18, required under Part 1 of the Local Government Act 2003. 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	17	To review and monitor the Council's Treasury Management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
	year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.		
Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004).	An update on how Cheshire East Council fulfils its obligations under the Data Protection Act (1998) and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)). It also highlights volumes of requests, trends and current and future issues.		
Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)	This report provides an update on how the Council has complied with RIPA legislation during 2014/15 and the number of RIPA applications which have been authorised to date.		
Internal Audit Interim Report 2014/15	Progress report against the Internal Audit Plan 14/15.	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain lack of progress.

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	**Detail**
		21 23 25	To approve significant interim changes to the risk-based Internal audit plan and resource requirements. 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. To consider summaries of specific internal audit reports as requested.
Audit Committee Self- Assessment	A report giving an update on the progress of the actions arising from the 2013/14 self-	28	To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	**Detail**
Update	assessment.		required to do so by the Accounts and Audit Regulations.
Fraud and Corruption Update Report	This report provides members with: • an overview of developments that are taking place nationally, • an update on anti-fraud and corruption activity at Cheshire East; and • details of work that will be completed to ensure compliance with best practice and improve Cheshire East's resilience to the threat of fraud and corruption.	13 15 40	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption. To monitor the counter fraud strategy, actions and resources. To approve and monitor Council policies relating to "whistleblowing" and anti- fraud and corruption.
Revising the Council's Code of Corporate Governance	A report on the proposed approach to updating the content and format of the Council's Code of Corporate Governance.	6	To review the Council's corporate governance arrangements against the Good Governance Framework and consider annual governance reports and assurances.
Risk Management Update Report	Update report on Risk Management.	10 11	To monitor the effective development and operation of risk management in the council. To monitor progress in addressing risk related issued reported to the committee.
Work Plan 14/15	Review of 2014/15 Work Plan to ensure comprehensive coverage of the Committee's responsibilities.	All	
19 March 2015			

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Informing the Risk Assessment for Cheshire East Council	A report that facilitates compliance with International Standards on Auditing (UK and Ireland).	32	To consider specific reports as agreed with the external auditor.
External Audit – Audit Plan 14/15	External Audit's planned work for the audit of financial statements and the value for money conclusion 14/15.	33	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Internal Audit Plan 15/16	Approval of risk based Internal Audit Plan for following year.	20	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.
Risk Management Update Report	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation.	10 11	To monitor the effective development and operation of risk management in the council. To monitor progress in addressing risk related issues reported to the committee.
Contract Procedure Rules – Waivers	An update on non compliance with Contract Procedure Rules since September 2014.		In accordance with the Council's Constitution, Contract Procedure Rule E11, the Committee reviews instances of non compliance with CPRs at least half yearly.
Members Code of Conduct Complaints Update	Update on the number and outcome of complaints.	5	To promote 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).

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	**Detail**
Audit Committee Self Assessment	Self assessment of the effectiveness of the Committee, which feeds into the AGS process.	28	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.
Alternative Service Delivery Vehicle Governance and Stewardship.	An update on governance arrangements for alternative service delivery vehicles (ASDVs).		At the request of Members.
Disclosure of Officers' Remuneration-Senior Employees in the Financial Statements.	To consider the disclosure of officers' remuneration – senior employees, note 25 to the Financial Statements.		At the request of Members.
Work Plan	Forward looking programme of meetings and agenda items 2015/16 to ensure comprehensive coverage of the Committee's responsibilities.	All	
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			
Emerging Issues Briefing for Cheshire East Council	This paper provides the Audit and Governance Committee with a summary of emerging national issues that may be relevant to a unitary council and how such reports are dealt with by the Council.	32	To consider specific reports as agreed with the external auditor.
The following Terms of Reference may require reports to the Committee in order for it to fulfil its duties.			

Appendix A

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	**Detail**
		19	To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations
		22	To make appropriate enquiries of both management and the head of internal audit.
		26	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.
		27	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.
		29	To support the development of effective communication with the head of internal audit.
		34	To commission work from internal and external audit.
The following Terms of Reference may require reports to Cabinet in order for the Committee to fulfil its duties			
		14	To make recommendations to the Executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.
		16	To advise the Executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	**Detail**
		30	To review and make recommendations to the Executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.
The following Terms of Reference may require inclusion in the Annual Report or separate reports to Council in order for the Committee to fulfil its duties			
		35	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
		38	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