



Tuesday, 14 June 2011

## **AUDIT COMMITTEE**

A meeting of **Audit Committee** will be held on

**Wednesday, 22 June 2011**

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus,  
Torquay, TQ1 3DR

### **Members of the Committee**

Councillor

Councillor Addis  
Councillor Bent  
Councillor Brooksbank

Councillor Hill  
Councillor Pentney  
Councillor Stringer

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**Our vision is for a cleaner, safer, prosperous Bay**

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For information relating to this meeting or to request a copy in another format or language please contact:

**Lisa Warrillow, Town Hall, Castle Circus, Torquay, TQ1 3DR**  
**01803 207064**

Email: [democratic.services@torbay.gov.uk](mailto:democratic.services@torbay.gov.uk)



# AUDIT COMMITTEE AGENDA

1. **Appointment of Chairman**  
To appoint a Chairman for the 2011/12 Municipal Year.
2. **Apologies**  
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
3. **Appointment of Vice-Chairman**  
To appoint a Vice-Chairman for the 2011/12 Municipal Year.
4. **Minutes** (Pages 1 - 2)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 23 March 2011.
5. **Declarations of interests**
  - (a) To receive declarations of personal interests in respect of items on this agenda  
**For reference:** Having declared their personal interest members and officers may remain in the meeting and speak (and, in the case of Members, vote on the matter in question). If the Member's interest only arises because they have been appointed to an outside body by the Council (or if the interest is as a member of another public body) then the interest need only be declared if the Member wishes to speak and/or vote on the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
  - (b) To receive declarations of personal prejudicial interests in respect of items on this agenda.  
**(Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Democratic Services or Legal Services prior to the meeting. Definitions and procedures in relation to interests are set out at the start of the agenda.)
6. **Urgent Items**  
To consider any other items that the Chairman decides are urgent.
7. **Terms of Reference** (Pages 3 - 4)  
To note the terms of reference of this Committee as set out in the report.
8. **Audit Progress Summary to 10 June 2011** (Pages 5 - 6)  
To consider a report that set out work that the Audit Commission was currently undertaking.

- |            |   |                    |
|------------|---|--------------------|
| <b>9.</b>  | <b>Annual Audit Fee 2011/12</b><br>To consider a report which confirms the audit work and fees proposed at Torbay Council for the 2011/12 financial year.   | (Pages 7 -<br>10)  |
| <b>10.</b> | <b>Opinion Audit Plan</b><br>To consider a report that set out the audit work that the Audit Commission proposed to undertake for the audit of financial statements and the value for money conclusion 2010/11. | (Pages 11 -<br>32) |
| <b>11.</b> | <b>Annual Governance Statement 2010/11</b><br>To consider a report on the Annual Governance Statement for 2010/11.  | (Pages 33 -<br>54) |
| <b>12.</b> | <b>Head of Internal Audit's Annual Report 2010/11</b><br>To consider a report that provides and overview of the work undertaken by the Devon Audit Partnership.   | (Pages 55 -<br>68) |
| <b>13.</b> | <b>Treasury Management Outturn 2010/11</b><br>To note and endorse the above report.   | (Pages 69 -<br>86) |

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## Minutes of the Audit Committee

23 March 2011

-: Present :-

Councillors Addis, Excell, Mills and Stringer

(Also in attendance: Councillor Gordon Oliver)

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### 630. Election of Chairman/woman

Councillor Mills was elected Chairman for the remainder of the 2010/11 Municipal Year.

### 631. Apologies

Apologies for absence were received from Councillors Charlwood and Richards.

### 632. Minutes

The Minutes of the meeting of the Audit Committee held on 8 December 2010 were confirmed as a correct record and signed by the Chairman.

### 633. Audit Progress Summary to 10 March 2011

Members noted Report 68/2010 which set out the reports that the Audit Commission had issued since the Audit Committees last meeting on 8 December 2010, the work they were currently undertaking and Audit Commission events and national reports.

Steve Brown of the Audit Commission advised Members that the Audit Commission had consulted on its proposed work programme and scales of fees for 2011/12 which had resulted in a relatively small number of responses. He advised that consultees welcomed the rebates and the reductions in fees but felt that they should be larger, as a result the Audit Commission agreed, subject to affordability, to make additional rebates in 2011/12.

### 634. Certification of Claims and Returns

Members noted Report 69/2011 which summarised the findings from the certification of 2009/10 claims. Report 69/2011 included the messages that arose from the Audit Commissions assessment of Torbay Councils arrangements for preparing claims and returns and information on claims that the Audit Commission have amended or qualified.

Steve Brown of the Audit Commission informed Members that the overall conclusion of the certification of 2009/10 claims was that the control environment for managing grant claims at the Council was adequate, however there were some areas identified where the Council should strengthen its claims arrangements.

**635. Joint Working Protocol - Internal and External Audit**

Members noted Report 70/2011 which set out the objectives of the Joint Working Protocol – Internal and External Audit. Report 70/2011 assured Members that both external and internal audit resources were being applied efficiently and represented good value for money by demonstrating their commitment to work together effectively.

The Joint Working Protocol had a number of objectives such as providing a framework for cooperation in planning and conducting external and internal audits audit work. Members were advised that to achieve the protocols objectives, internal and external audit would need to work together effectively with clear communication throughout the year.

**636. Internal Audit Plan 2011/12**

Members considered Report 71/2011 which set out the Internal Audit Plan for 2011/12. Members were advised that the internal audit function was provided by the Devon Audit Partnership which provides audit services to Devon County Council, Plymouth City Council and Torbay Council, for each of these authorities Audit Plans were prepared using a risk based approach and priority assessment including consultation at both strategic and operational levels to ensure the service provided was aligned to customer needs. The number of audit days for each customer was based upon available resources and previous service levels.

The Assistant Head of the Devon Audit Partnership informed Members that the Audit Plan for 2011/12 had to be flexible especially in light of schools changing to academies as they are required to have a ‘responsible officer’ role rather than an internal audit function. He advised that the Devon Audit Partnership were in a position to provide responsible officers hence the need for the 2011/12 Audit Plan to be flexible.

Resolved:

That in principle the proposed Audit Plan for 2011/12 be agreed.

**637. Progress Report on Risk Management**

The Committee noted Report 72/2011 which provided Members with an update on the recent activities and progress being made within the Risk Management Division. Report 72/2011 demonstrated how the Council was pro-actively managing its risks together with the beneficial outcomes from a corporate and operational stance.

## Audit Committee Terms of Reference

### **Audit Committee:**

#### **Terms of Reference:**

1. To consider the Head of Internal Audit's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
2. To consider summaries of specific Internal Audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of Internal Audit Services.
4. To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the External Auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the Council's external auditor.
9. To commission work from Internal and External Audit within approved resources.

#### **Regulatory Framework:**

10. To maintain a strategic overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour (the primary responsibility for considering and ensuring that the constitution is fit for purpose lies with the Monitoring Officer and the Standards Committee in relation to the codes of conduct).
11. To review any issue referred to it by the Chief Executive, a Commissioner, the Monitoring officer, Section 151 Officer or any Council body.

12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor council policies on 'Raising Concerns at Work' and the 'Anti-fraud and corruption strategy' and the Council's complaints process.
14. To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.
15. To oversee the Council's arrangements for corporate governance and consider necessary actions to ensure compliance with best practice.
16. To review the Code of Corporate Governance.
17. To monitor the Council's compliance with its own and other published standards and controls.

**Accounts:**

18. On behalf of the Council, to approve the annual statement of accounts.
19. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.





## Audit Progress Summary to 10 June 2011

### Torbay Council

#### Reports issued by the Audit Commission since last meeting

- Audit fee letter 2011/12 (attached)
- Opinion audit plan 2010/11 (attached)

#### Work in progress

- Interim audit 2010/11 (largely complete)
- Value for money conclusion work 2010/11
- Review of authority progress in preparing for International Financial Reporting Standards (ongoing)

#### Audit Commission events and national reports

- March 2011- DCLG launched a consultation document on the new audit regime to replace the Audit Commission. The Chairman of the AC, Michael O'Higgins, welcomed the consultation, while commenting that there are likely to be three key issues in the debate:

- safeguarding audit independence;
- accountability to government and Parliament; and
- the impact on audit competition and costs.

He indicated that the aim of the Commission was to ensure that the future arrangements for local public audit were robust and sustainable in professional, technical and economic terms.

- March 2011 - The AC published a set of briefings to help schools use all their staff - teachers, teaching assistants, administration and finance staff - as efficiently as possible. The four briefings, under the heading *Better Value for Money in Schools*, examine patterns of spending in maintained schools in England. They aim to help school heads, governing bodies and councils to control costs without compromising educational attainment. They look at four areas where schools have scope to improve efficiency:
  - The deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants.
  - The breadth and focus of schools' curriculum offer.
  - Approaches to covering for staff absence, including supply teachers.
  - The size, cost and composition of the wider (non-teaching) school workforce.
- April 2011 – The AC launched its latest national fraud and corruption survey, the most authoritative in the public sector. Last year local government successfully detected over 119,000 cases and £135 million lost to public services. The aim of the survey is to build a picture of the levels of identified fraud and corruption in local government, which can be used to inform national debate and develop national & local strategies on combating fraud and corruption. The survey results will be published later this year in the AC's national report *Protecting the Public Purse 2011*.

- April 2011 – The AC launched a free resource pack to help ensure that money spent on services for young people is well used and has the right impact. The *Services for Young People: Value for Money Self-Assessment Pack* was produced by the AC and the Confederation of Heads of Young People’s Services (CHYPS). Already piloted in six areas, it has:
  - helped statutory and voluntary providers to begin longer-term reviews of provision, staffing and costs;
  - increased self-awareness among managers and staff about council youth services;
  - stimulated discussion between partner organisations on improvement and how to achieve better value for money;
  - identified some ‘quick wins’- for example, doing more to celebrate young people’s achievements; and
  - generally raised the profile of youth services.
- June 2011 – The AC briefing, *Improving Value for Money in Adult Social Care*, finds councils need to increase the pace and scale of change of efficiency to release material savings and improve care for people. A major opportunity for councils to do things differently in the coming years will be working more closely with the NHS. The briefing identifies nine areas in which councils can make changes to deliver efficiency savings - procurement; staffing; back office; assessment and care management; prevention; personalisation; changing the balance of care; partnership and charging. The briefing highlights examples of councils who have made substantial savings in these areas.
- June 2011 - DCLG wrote to councils, giving them an update on plans to disband the Audit Commission and to externalise the work of the AC Audit Practice. In the accompanying news release they explained the two favoured options for the transition to a new audit regime.

The documents referred to above are available from either the Audit Commission or the DCLG websites.

Steve Brown  
 Audit Manager  
 Audit Practice  
 10 June 2011

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

11 April 2011

Ms E Raikes  
Chief Executive  
Torbay Council  
Town Hall  
Castle Circus  
Torquay  
TQ2 7TD

**Direct line** 0844 798 5603  
**Mobile** 07909 936177  
**Email** al-williams@audit-  
commission.gov.uk

— Dear Elizabeth

## Annual audit fee 2011/12

I am writing to confirm the audit work that we plan to undertake for the 2011/12 financial year at Torbay Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2011/12.

The fee covers:

- the audit of the financial statements;
- the value for money conclusion; and
- the Whole of Government accounts audit.

As I have not yet completed the audit for 2010/11, the audit planning process for 2011/12 - including the risk assessment - will continue as the year progresses.

## Audit fee

The Audit Commission has set the scale fee for each audited body for 2011/12, rather than providing a fee scale with fixed and variable elements. The scale fee reflects decreases in the total audit fee, as follows:

- no inflationary increase for 2011/12 in the audit & inspection scales of fees and the hourly rates which apply to the certification of claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police, and fire & rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ  
T 0844 798 1212 F 0844 798 6187 [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

The scale fee for Torbay Council is £225,000. The fee is based on the planned 2010/11 fee, adjusted as outlined above, and is shown in the table below.

<b>Audit area</b>	<b>Scale fee 2011/12</b>	<b>Planned fee 2010/11 (before rebates)</b>
<b>Audit fee</b>	<b>£225,000</b>	<b>£250,000</b>
<b>Estimated fee for certification of claims and returns</b> (actual fee will be based upon time and hourly rates set by the Commission)	<b>£36,000</b> (estimate)	<b>£36,000</b> (2009/10 outturn)

I will issue a separate audit plan in spring 2012. This will detail the risks identified to both the financial statements audit and the VFM conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss them with the Executive Head - Finance. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

I intend to apply a risk-based approach to my review of the Council's arrangements for prioritising budgets within tighter resources and for securing financial resilience, to support the VFM conclusion.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work which the Commission may agree to undertake using its advice and assistance powers. In those circumstances we will negotiate each piece of work separately and agree a detailed project specification.

## **The audit team**

The audit team must meet high specifications and must:

- understand you and your priorities, and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

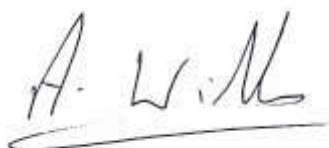
The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Alun Williams District Auditor/Engagement Lead	<a href="mailto:al-williams@audit-commission.gov.uk">al-williams@audit-commission.gov.uk</a> 0844 798 5603	Alun is responsible for: <ul style="list-style-type: none"> <li>• the overall delivery of the audit including the quality of outputs;</li> <li>• liaison with the Chief Executive and Chair of Audit Committee; and</li> <li>• issuing the auditor's report.</li> </ul>
Steve Brown Audit Manager/Engagement Manager	<a href="mailto:s-brown@audit-commission.gov.uk">s-brown@audit-commission.gov.uk</a> 07769 672920	Steve manages and coordinates the different elements of the audit work. He is the key point of contact for the Executive Head - Finance.
Stuart Holmes Team Leader	<a href="mailto:s-holmes@audit-commission.gov.uk">s-holmes@audit-commission.gov.uk</a> 07779 331745	Stuart has considerable experience auditing the financial statements of large local authorities and health bodies. He will lead the on-site team in delivering the audit.

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me.

Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ  
([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk))

Yours sincerely



District Auditor

cc Executive Head - Finance

cc Chair of the Audit Committee

## Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	Spring 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and the value for money conclusion	September 2012
Final accounts memorandum (to management)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

# Opinion audit plan

Torbay Council

**Audit 2010/11**



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**



# Contents

<b>Introduction</b> .....	<b>2</b>
<b>Responsibilities</b> .....	<b>3</b>
<b>Fee for the audit</b> .....	<b>4</b>
Specific actions the Council could take to reduce its audit fees .....	4
<b>Auditors report on the financial statements</b> .....	<b>5</b>
Materiality .....	5
Identifying opinion audit risks .....	5
<b>Identification of specific risks</b> .....	<b>6</b>
Value for money risks .....	7
<b>Testing strategy</b> .....	<b>8</b>
<b>Value for money conclusion</b> .....	<b>10</b>
<b>Key milestones and deadlines</b> .....	<b>11</b>
<b>The audit team</b> .....	<b>12</b>
Independence and objectivity .....	12
Meetings .....	12
Quality of service .....	12
Planned outputs .....	13
<b>Appendix 1 Basis for fee</b> .....	<b>14</b>
<b>Appendix 2 Independence and objectivity</b> .....	<b>15</b>
<b>Appendix 3 Working together</b> .....	<b>17</b>
<b>Appendix 4 Glossary</b> .....	<b>18</b>

# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

1 The audit is divided into:

- Financial statements; and
- Value for Money conclusion.

2 This document describes how I will deliver my audit work for Torbay Council.

3 The work is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

4 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

5 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

6 My statutory responsibilities governing the audit work and powers are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice (the Code).

7 The Audit Commission's Code summarises my responsibilities into two objectives, requiring me to review and report on your:

- financial statements (including the Annual Governance Statement): providing an opinion on your accounts; and
- value for money: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

8 The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council.

## Fee for the audit

### **The fee for the audit is £250,000, as indicated in my letter of 7 July 2010.**

9 The audit fee for this Council is £250,000 (less subsequent abatements made by the Commission). The fee is 2.5% above the scale fee and is within the normal level of variation specified by the Commission.

10 In setting the 2010/11 fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit to support compliance with International Financial Reporting Standards (IFRS); this will include details for current year and prior year comparators;
- your financial statements and, if published, the annual report, are made available for audit in line with the agreed timescales;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to queries and draft reports; and
- Internal Audit undertakes appropriate work on all material systems and this is available for my review on a timely basis.

11 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Chief Financial Officer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

12 Further information on the basis for the fee is set out in appendix 1.

### **Specific actions the Council could take to reduce its audit fees**

13 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take, over and above those set out above, to secure a fee reduction and ensure that there is no need to increase the audit fee above the current level.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**14** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**15** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**16** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

## Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<b>Implementation of International Financial Reporting Standards</b>	
<p>The Council is required to implement new International Financial Reporting Standards in 2010/11.</p>	<p>I review the Council's plans for implementing and accounting for these new Standards.</p> <p>I have been liaising with the Council's finance team to review the principles that have been applied in adopting IFRS for the 2010/11 accounts.</p> <p>Where possible, I am reviewing key elements of the restated 2009/10 core statements prior to the main statements audit.</p> <p>I will carry out appropriate audit tests on the IFRS compliant accounts to ensure that they are materially correct.</p>
<p>Foundation schools accounting under IFRS.</p>	<p>I am reviewing the council's accounting for foundation schools under IFRS to ensure that it is correct.</p>
<p>Changes in borrowing relating to pre 1998 debt and financing of capital programme.</p>	<p>I will review the accounting for these significant transactions.</p>
<p>Possibility that group accounts may be required under IFRS</p>	<p>The council has carried out an assessment to quantify the value of group transactions and has concluded that they are not material. I am reviewing the assessment to ensure that group accounts need not be produced.</p>
<p>Payroll controls - During 2009/10, although some existence checks on payroll payments were made, confirmations were not carried out and followed up systematically across the payroll.</p>	<p>In agreement with the Chief Financial Officer, a 100% check was carried out at the end of the year. Internal audit have reviewed the arrangements and I will verify that the checks provide the assurance needed.</p>

## Value for money risks

**17** I am undertaking a risk assessment for the VFM conclusion which, as specified by the Commission, focuses in particular upon:

- securing financial resilience
- challenging how the Council secures economy, efficiency and effectiveness

**18** If, as a result, further substantive work is required, I will advise you and the Chief Financial Officer.

# Testing strategy

**On the basis of risks identified above I have produced a testing strategy which consists of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**19** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**20** Where possible, I complete some substantive testing earlier in the year before the financial statements are available for audit. Areas where substantive testing can be carried out early include:

- IFRS restated accounts
- Review of accounting policies
- Cash and bank reconciliation
- Related party disclosures
- Investments and borrowing verification;
- Year end material journals
- Year-end feeder system reconciliations
- Consistency checks between the core statements and supporting disclosure notes.

**21** Also, I seek to rely on the work that Internal Audit does in support of the section 151 officer and the Annual Governance Statement to help meet my responsibilities. For 2010/11, I expect to be able to use some of the results of the following pieces of work on material systems:

- Debtors
- Creditors
- Main accounting system
- Bank reconciliations
- Payroll
- Treasury management
- Council tax & non-domestic rates
- Benefits
- Fixed (non-current) assets
- Schools Finance
- Children's Service (looked after children)
- Supporting People.

**22** I will also seek to rely upon the work of other auditors and experts, as appropriate, to meet my responsibilities.



**23** For 2010/11, I plan to rely on the work of other auditors in the following area:

- The Audit Commission appointed auditor for Devon Pension Fund in respect of FRS 17 information included in the financial statements.

**24** I also plan to rely on the work of experts in the following areas:

- The Council's in-house valuer in respect of non-current assets valuations.
- Gerald Eve - the external auditor's expert for non-current asset valuations.

# Value for money conclusion

## **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**25** As noted previously, this is focused on two criteria, specified by the Commission, covering your arrangements for:

- securing financial resilience – whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**26** I will plan substantive VFM audit work, if required, based on my risk assessment. If additional work is needed I will report this to you and to the Chief Financial Officer.

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**27** The key stages in producing and auditing the financial statements are set out in table 4.

**28** I have agreed with management a schedule setting out the minimum working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**29** Every week, during the financial statements audit, the audit team will discuss progress with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	November 2010 to April 2011
Receipt of accounts	June 2011
Sending working papers supporting the accounts to the auditor	June 2011
Start of detailed testing	June 2011
Progress meetings	Weekly or as required during financial statements audit.
Present report to those charged with governance at the Audit Committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

## The audit team

**Table 5 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Alun Williams District Auditor	<a href="mailto:al-williams@audit-commission.gov.uk">al-williams@audit-commission.gov.uk</a> 0844 798 5603	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion & conclusion, and liaison with the Chief Executive.
Steve Brown Audit Manager	<a href="mailto:s-brown@audit-commission.gov.uk">s-brown@audit-commission.gov.uk</a> 07769 672920	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Financial Officer.
Stuart Holmes	<a href="mailto:s-holmes@audit-commission.gov.uk">s-holmes@audit-commission.gov.uk</a>	Manages the detailed audit work on the systems and financial statements audit.

### Independence and objectivity

**30** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**31** I comply with the ethical standards issued by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

### Meetings

**32** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

### Quality of service

**33** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

**34** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**35** My team will discuss and agree reports with management before issuing them to the Audit Committee.

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Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Value for money conclusion	September 2011
Final accounts memorandum to management	October 2011
Annual audit letter	November 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.
- You will inform me of significant developments impacting on the audit.
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit.
- You provide:
  - good quality working papers and records to support the financial statements by 30 June 2011;
  - information asked for within agreed timescales; and
  - prompt responses to draft reports.
- There is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Financial Officer	District Auditor (DA) and Audit Manager (AM)	Regular liaison meetings throughout the year.	Regular general updates plus specific discussions about the audit plan, audit & accounts progress and the annual governance report.
Chief Accountant	AM and Team Leader (TL)	Regularly and weekly during Financial Statements audit	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"><li>■ Audit Plan</li><li>■ Annual governance report</li><li>■ Other issues as appropriate</li></ul>

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Directors**

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full Council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements; and
- for other local government bodies – the full authority or board or Council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

## **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.



Title: **Annual Governance Statement 2010/11**

Wards Affected: **All Wards**

To: **Audit Committee**                      On: **22 June 2011**

Key Decision: **No**

Change to Budget: **No**                      Change to Policy Framework: **No**

Contact Officer: **Caroline Taylor**  
Telephone: **01803 207016**  
E.mail: **Caroline.taylor@torbay.gov.uk**

## **1. What we are trying to achieve and the impact on our customers**

1.1 The preparation of the Annual Governance Statement provides the opportunity for the organisation to review its processes, controls and objectives and to provide assurance to Members, Senior Officers and stakeholders as to the reliability of its statement of accounts and the probity of its operations.

## **2. Recommendation(s) for decision**

**2.1 That the Committee consider and agree the proposed Annual Governance Statement for 2010/11 which can then be approved by the Mayor and Chief Executive and appended to the Statement of Accounts report to be approved by Council in September.**

**2.2 That, following the review of the Annual Governance Statement by External Audit, Officers be requested to bring an action plan back to this Committee.**

## **3. Key points and reasons for recommendations**

### Key points

3.1 The key features of the Annual Governance Statement (AGS) are summarised as follows: -

- It is a requirement of the Accounts & Audit (Amendment) (England) Regulations 2006, Regulation 4
- The Statement of Required Practice (SORP) requires the AGS to be included

with the Statement of Accounts, therefore it will need to be completed and signed off prior to the Council considering the Statement of Accounts at its meeting in September.

- The AGS is not audited but it is reviewed by external audit. This, in itself, will not give rise to qualifications on the accounts but it will be an integral part of other assessments of our arrangements eg. our use of resources.
  - The AGS should relate to the entire financial year, it is not something which should be done only at year end but the assurance should be in place throughout the year.
  - The statement will need signing by the Chief Executive and Mayor (as most senior Member of the Council).
  - Action Plans will need to be produced to address any weaknesses/issues that are identified in the consequential inspection.
- 3.2 The Annual Governance Statement for 2010/11 is attached as Annex 1 to this report. The format of the statement is in accordance with the CIPFA / SOLACE Code of Practice and the contents of the Statement have been agreed with the Senior Officers of the Council.
- 3.3 Business Unit Managers have undertaken a self assessment of their areas' position and have identified suitable evidence to support the assertions made where applicable. The statement produced reflects those issues identified from those assessments plus any audit or inspection reports. Appropriate action plans will need to be produced to address the significant weaknesses identified.

#### Reasons for the Recommendations

- 3.4 To inform Members of the Council's Governance and Internal Control framework and any significant control issues in line with statutory requirements under the Accounts & Audit (Amendment) (England) Regulations 2006.
- 3.5 To ensure key issues are communicated to and actioned by the Council to ensure risks are managed and the Governance Framework is sound.
- 3.6 The Use of Resources assessment is marked down if the Annual Governance Statement is not considered separately and before the full Statement of Accounts.

**For more detailed information on this proposal please refer to the supporting information attached.**

**Caroline Taylor  
Deputy Chief Executive.**

## **Supporting information**

### **A1. Introduction and history**

- A1.1 The Accounts and Audit Regulations 2006 require every local authority as good practice to include in their annual statement of accounts a “Annual Governance Statement” signed by the Leader/Most senior Member (i.e. Elected Mayor) of the Council and the Chief Executive. The statement is wide ranging and includes an assessment of risks, Corporate Governance and the delivery of the Council’s functions. Internal Audit work forms an element of the evidence required but it is the management of the organisation that is responsible for the governance and internal control framework and for providing the assurance required.
- A1.2 In assessing our use of resources a number of elements are considered. One such area is internal control and this includes the requirement for the Annual Governance Statement to be considered independently by Members prior to the consideration of the final Statement of Accounts.

### **A2. Risk assessment of preferred option**

#### **A2.1 Outline of significant key risks**

- A2.1.1 The report is predominantly for information and therefore there are no risks associated with the recommendations. However the report highlights a number of issues, which if not addressed could potentially expose the Council to risk.

### **A3 Remaining risks**

- A3.1 It is the responsibility of management to establish systems of governance and internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. It does not matter how good the systems of internal control are, it is not possible to guarantee that a fraud will not occur, although it is hoped any irregularity would be quickly identified and resolved. As such Internal Audit can never give full assurance that the controls are working effectively or that fraud is not occurring. However with reference to the annual report from the Head of Internal Audit the Council can take reasonable assurance regarding the controls in place are operating satisfactorily.

### **A4. Other Options**

- A.4.1 The issues raised in this report are predominantly for information and as such there is no requirement to consider alternative options.
- A.4.2 There is a statutory requirement for the Council to publish an Annual Governance Statement as part of its Statutory Accounts.
- A.4.3 Internal Audit provides one element of the assurance required to enable the Mayor and Chief Executive to sign the Annual Governance Statement required under the Accounts and Audit Regulations 2006 (amended). Service Managers provide another source of assurance and should provide evidence to support their view that the governance framework and internal controls are adequate. External reviews provide a further source of assurance.

**A5. What impact will there be on equalities, environmental sustainability and crime and disorder?**

A5.1 Resource implications are therefore related to staff time in preparing the Statement and in monitoring the controls in place to ensure the achievement of the Council's objectives.

**A6. Consultation and Customer Focus**

A6.1 The Annual Governance Statement is a statutory requirement and describes the Council's systems of governance and internal control and its processes for monitoring compliance with legislative requirements including equalities, environmental sustainability and crime and disorder.

**A7. Consultation and Customer Focus**

A7.1 The draft Statement has been subject to consultation with Service Management Teams, External Auditors and the Torbay Care Trust.

A7.2 The Annual Governance Statement has to be included within the Council's Statement of Accounts and is therefore available to the general public and all stakeholders and interested parties.

**A8. Are there any implications for other Business Units?**

A8.1 The Annual Governance Statement covers all services of the Council and will therefore have linkages and implications for all business units and for Torbay schools.

**Appendices**

Annex 1 Annual Governance Statement 2010/11

**Documents available in members' rooms**

None

**Background Papers:**

The following documents/files were used to compile this report:

Self Assessment Checklists completed by Business Unit Managers

Internal Audit Out-turn Report 2009/10

CIPFA FAN Guidance

CIPFA / SOLACE Delivering Good Governance in Local Government framework, Guidance Note and Briefing Note.



### **ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2010/11**

#### **Introduction**

The purpose of the annual governance statement is to provide for Members, stakeholders and other interested parties an accurate representation of the governance (the management and decision making) arrangements in place during the year. It should also evidence how the authority gets its assurance that these arrangements are operating as planned and are robust. The annual review should also highlight those areas where improvement is required and reflect upon improvements that have been implemented since the previous statement.

#### **Scope of responsibility**

Torbay Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Torbay Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Torbay Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website at [The Council's Constitution](#) or can be obtained from Democratic Services. This statement explains how Torbay Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

#### **The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system

of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Torbay Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Torbay Council throughout the year ended 31<sup>st</sup> March 2011 and up to the date of approval of the annual report and statement of accounts.

### **The Governance framework**

The key elements of Torbay Council's governance framework are summarised below:

#### **(A) Arrangements for identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

Both the Council and the Torbay Strategic Partnership have a clear vision of the future for Torbay, driven by the Community Plan for Torbay. The most recent Community Plan was published in 2007 and this has driven the priorities for the area. A refresh of the Community Plan will be published in the summer of 2011. More specifically the Council has refreshed, annually, its own Corporate Plan to reflect the Council's contribution to the achievement of the Community Plan.

The Mayor and fellow Council Members have undertaken consultation with the public through the "Torbay Connect" caravan and other mediums on a regular basis. Members and officers have also undertaken consultation with stakeholders when new strategies and policies have been developed.

As part of its Priorities and Budget setting arrangements the Council co-ordinates a series of public events to gain an understanding of the communities views. The Council's main partners, the Care Trust, Police, Fire and Rescue and the Voluntary Sector also attend these events so that the local community has a comprehensive understanding of its local public and voluntary sectors.

The Council works closely with and supports the work of the Torbay Strategic Partnership. This developed the Community Plan referred to above and is fully accepted by all. The partnership has held a number of events with the wider community, to look at aspects of how priorities identified in the Community Plan contribute to all the themes. The outcomes have been fed into the overall planning for the delivery of the expected outcomes.

The Council has continued with the ideas developed in the "Mayoral Vision", originally launched in October 2007, and which has been fully described in previous years' Annual Governance Statements. The Council, through its Economic Development Function, has progressed a number of these projects and engaged the community in meaningful and constructive consultation.

The Council and the Care Trust, together with the Police and other partners have worked together to identify the needs of the area, including Health matters, and published a **Joint Strategic Needs Assessment**. With full agreement of the Torbay Strategic Partnership the latest version of the JSNA covered more than just the Health issues within the area and now represents a true needs assessment for many communities within the Bay and is the basis for commissioning services to meet most needs. Once again this followed considerable consultation with stakeholders.

The Corporate Plan and Business Plans are reviewed annually as part of the Council's Annual Planning Cycle.

Further information in respect of planned outcomes is contained within the Council's Local Area Agreement and Annual Report.

The Council's **Communication Strategy**, as approved by full council, is communicated to staff, and all stakeholders via regular internal and external updates using promotional material, the web, the intranet, resident's magazine, staff newsletter and consultation caravan.

The strategy has had a number of recent successes. The Torbay Together Campaign was a national award winner in the 2010 LG Reputation Awards. This year the council's new internal communication strategy 'It's good to talk' is shortlisted for two prestigious national awards. The CIPR Excellence Awards (the only local authority in its category) and the 2011 LG Communication Awards.

The Council has, in recent years, made much more use of the **Community Partnerships** where local ward members and stakeholders can discuss concerns and issues with their constituents. These were used to help assess the impact and proposals included in the following year's budget and are gradually developing into major influencing and responsible bodies within the Community.

#### **(B) Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements**

The short term aims of the Community Plan have been delivered through the Local Area Agreement. The Performance Indicators and stretch targets included in the LAA were monitored on a quarterly basis through the TSP Executive Board, which reports to the full TSP. The success of this approach is verified by Torbay being the second highest achiever in terms of percentage of stretch targets achieved in the South West.

The Council has recognised the growing importance and influence of partnerships in delivering the outcomes for the community. To this end it has completed an audit of existing partnerships and produced a Policy and Guidance for all partnerships, existing and future. This Policy and Guidance includes the governance arrangements for partnerships and identifies clear accountability for ensuring such arrangements are in place.

The authority has also kept under review other key initiatives such as the actions arising from the Joint Strategic Needs Assessment for Health and Well Being, development of an Older Persons Strategy etc. and where appropriate have adapted the priority issues facing the Council. The Council has refreshed its Local Area Agreement with new targets agreed for those indicators most affected by the current economic climate.

Regular consultation events were also used to inform the development and review of the Authority's vision. These have continued to be used to obtain feedback on both service delivery and proposed plans and developments.

The budget setting process includes detailed scrutiny of proposals and their links to the Council's vision, priorities and stakeholder views, including meetings with representatives of the Community Partnerships from within the Torbay area.

Issues identified in the Community Plan are monitored and tracked through the Corporate Plan and Business Plans and performance against targets is recorded on SPAR and reported through the scorecard to the appropriate body, the senior management team on a monthly basis and the Cabinet and Overview and Scrutiny quarterly.

The Council is also very mindful that the staff are also key stakeholders and as such, senior officers and Members have taken part in road shows. Internal communication approaches have been reviewed to ensure all staff are aware of all issues and new policies and practices.

**(C) Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

The Council has continued to improve its collection and use of performance information and has made significant improvements in its data collection and verification of Performance Indicators. In addition it has developed a range of Balanced Scorecards from the Strategic level down to Business Unit level, to measure performance across a basket of performance indicators linked to Customer, Pounds, Process and Employees. In essence the scorecard measures the activities, processes and outcomes that are most important in delivering the agreed outcomes.

Surveys of users in service specific groups and Place Survey results are used together with specific Viewpoint and YEP (Youth Panel) surveys to assess quality of service and policy changes to be made in light of user feedback. All these surveys and results are publicly accessible on the Council website. In addition the Council also encourages user involvement in appropriate services areas, examples being SPOT within the learning disabilities and TTIG for consultation groups.

The Council records performance information using performance-reporting

software (SPAR) and action on areas of poor performance is closely scrutinised, monthly by the senior management team and quarterly by Cabinet and Overview and Scrutiny members. The performance reporting system is based on exceptions and where performance is identified as a concern, appropriate corrective action will be considered, scrutinised and monitored.

The Council participates in a range of Benchmarking clubs including those provided by CIPFA, SOCITM, PWC, as well as the Audit Commission comparative data sets. It uses the data to measure performance against comparators and to identify authorities from whom the Council could learn. There is also a range of consultation and feedback mechanisms for obtaining feedback from customers.

**(D) Arrangements for defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The **Council's Constitution** sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Following a referendum, Torbay moved to an Elected Mayor form of governance with the first Elected Mayor taking up office in October 2005. The full Council of 37 elected Members, including the Mayor, is responsible for approving the Mayor's budget and the policy framework. The Mayor is responsible for decisions within this framework and has been supported by a cabinet of up to 7 other Members who oversee and advise on specific areas of Council business. Prior notice of matters for Mayoral or Officer level decisions, which are classed as key decisions, are published within the Forward Plan. Cabinet meetings are public and notice of all areas for discussion is published in advance. Matters outside of the budget and policy framework are referred to full Council for decision.

The **Council's Constitution** is designed to ensure the Council acts lawfully at all times and to ensure compliance with its policies and procedures. The Constitution includes Standing Orders, Financial Regulations, Contract Procurement rules and the budget and policy framework. These are underpinned by Codes of Conduct for officers and Members, Gifts and Hospitality rules, local protocols and by the Authority's Code of Corporate Governance.

The **Schemes of Delegation** to Officers and Members are contained within the Constitution and are subject to regular review. The Council has a well developed and successful Scrutiny function with the Overview & Scrutiny Board which undertakes a range of reviews into policies and performance. The Board also has the facility to 'call-in' Mayoral decisions or Officer key decisions and makes recommendations to the Cabinet / Council as appropriate. Overview and Scrutiny arrangements were reviewed in 2009, through a peer review, to reflect the new Community and Corporate Plans.

The Council also created a “stand alone” Audit Committee in 2008-09, taking this function out of the Overview and Scrutiny Board remit. The Committee has taken responsibility for all internal and external audit matters along with some other Governance associated matters.

Some regulatory functions remain the responsibility of the Council rather than the Mayor and most of these are delegated to a small number of regulatory committees appointed annually by the Council.

All meetings are open to the public but a small number of confidential matters are considered in private when the press and public are formally excluded from meetings. It is the Council’s objective to keep these private papers to a minimum with only the confidential elements being kept exempt from the press and public. This ensures open and transparent decision making is undertaken at all times. Council officers provide appropriate advice at the points of consideration and decision, and report to Members on progress and outcomes of decisions taken.

The council has further improved its approach to safeguarding by the appointment of an independent chair for child and adult safeguarding. This is in line with best practice and ensures appropriate challenge to the council and partners in exercising their statutory responsibilities. However external assessors have recently highlighted weaknesses in both the Children’s and Adult Social care areas of service provision and both the Council and the Care Trust have put in place a plan of action to improve the position.

Since its publication, Torbay Council has complied with the principles enshrined within the original CIPFA/SOLACE code on Corporate Governance and has developed a revised code of Corporate Governance based around the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”.

The Authority has developed a number of **Local Protocols** (including in relation to Member and Officer Relations; Planning Matters and the role of the Monitoring Officer), all in line with good Corporate Governance. These documents are available on the Council’s website. In addition, the Council’s Standards Committee has a majority of Independent Members (six independent members, four Torbay councillors and 3 Brixham Town councillors) and is chaired by an Independent Member. This far exceeds the legal requirement for involvement of Independent Members and the Committee has been given responsibility for promoting high ethical standards amongst Members; monitoring the operation of the Members’ Code of Conduct (including observing performance at public meetings and training members); and dealing with complaints against Members under the Local Protocols.

The Council has an approved organisational structure with job descriptions for all officers and Members supported by a relevant scheme of delegation.

**(E) Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council's intranet contains a range of policies, procedures and guidance for all staff including Human Resources (HR) policies, Computer Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution. This is supported by regular updates from HR in respect of new policies and guidance.

Regular HR updates are produced and Newsflash system monitors press releases which reflect external legislative change issues. These are also communicated widely to staff by a number of methods.

Corporate induction courses are run on a regular basis and managers have the responsibility to ensure that all new staff attend these induction events. They are also responsible for more local induction arrangements. All officers who are in politically restricted posts and those responsible for negotiating contracts etc are required to provide HR with a register of their personal interests.

The Council has a Fraud and Corruption Policy which is reviewed regularly and has been communicated to all staff and is available on the Council's Intranet. That has been discussed and approved by the Council's Standards Committee.

The Standards Committee's remit includes monitoring the conduct of Members and investigating complaints in respect of individual Members and is comprised of a majority of independent co-opted Members. The Standards Committee develops an annual work programme to promote and embed ethical standards and this is reported to the Council.

The Standards Committee's independent members also observe Council, Cabinet and other meetings and provide feedback reports on probity and conduct issues. This has resulted in improvements to the Constitution, procedures and a coaching programme for individual councillors.

**(F) Arrangements for reviewing and updating Standing Orders and Financial Regulations, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution is continually reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Democratic Services Manager in consultation with the Mayor and Group Leaders to ensure the Council's governance arrangements reflect best practice. It includes various codes of conduct and local protocols, as well as defining the relative responsibilities of the Council, the Mayor, Scrutiny and senior officers. This also includes the Council's Standing Orders and Financial Regulations, and is based upon recommendations from officers in order that the Council continues to operate in an efficient and effective way.

The Council underwent a major restructuring during 2008-09 to move to a Commissioning organisation. As a consequence a full review of the Standing Orders was undertaken and Council approved the revised document in June 2009. Since that time further amendments have been implemented in accordance with agreed procedures.

Commissioners and Executive Heads are responsible for risk management within their departments, with advice and support from the Council's Risk Management officer. Business Plans identify the key risks affecting Business Units and identify control measures where applicable. The Executive Head of Governance has been given responsibility for overseeing the implementation and monitoring of the risk management strategy and policy and provides regular progress reports to the Audit Committee which has responsibility for monitoring the approach to Risk Management. The overall risk register has been considered by the Audit Committee and Cabinet as part of the process.

The Council completed a detailed review of its Risk Management Policy and Strategy and the Strategic Risk Register in the current year. Council officers review the risk register on a quarterly basis and the key risks and significant changes are reported up through the organisation.

The Council, when considering any matter, will have a risk assessment within the report in which officers identify both the risks attached to the decision and the consequences of not undertaking the recommendation.

The Council fully recognises the need to continue to control risks in all projects and, as part of standard procedures Prince II and MSP are the adopted approaches that are applied to all such exercises.

**(G) Ensuring the Authority's financial management arrangements conform with the governance arrangements of the CIPFA statement on the role of the CFO in local government.**

Following the implementation of the commissioning strategy within Torbay Council, the Chief Financial Officer (CFO) has direct access to the Chief Executive on all matters and has direct access to all Members and senior officers of the Council.

The Council follows a number of well established practices to ensure it makes best use of its resources. The CFO ensures that the Commissioning Officer Group (COG) receive regular monitoring statements on both volatile or key budgets and the overall position which indicate possible trends and reports on management actions necessary to bring any budgets at variance back on track. These then get reported formally to members on a quarterly basis but the Cabinet member with responsibility for finance has monthly briefings. This applies to both revenue and capital budgets. All new monies received by the Council are reported at the earliest opportunity along with recommendation regarding its use.



All reports to Members that are brought forward include a section on the resource implications of the recommendations and these are cleared before publication by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate and available.

The Council takes its financial responsibilities very seriously and to this end, the full Council approves the Treasury Strategy on an annual basis and all Members are briefed on key financial issues.

The CFO also has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems and the Devon Audit Partnership undertake the role of auditing these systems to give the assurance needed. This is described in more detail in section M.

The Council undertakes a long term view about its financial requirements and, to aid this process, publishes a Medium Term Resource Plan (MTRP) on an annual basis. However, as events are taking place all the time that impact on the MTRP, this is a working document that reflects the latest projections and which is used to inform recommendations that appear in reports to Members. A more detailed plan though is developed through the annual budget process and is against which the Council monitors its financial performance and is used to deliver its expected outcomes.

**(H) Undertaking the core functions of an Audit Committee, as defined in CIPFA's *Audit Committees – Practical Guidance for Local Authorities***

As indicated earlier, a stand alone Audit Committee was established during 2008-09 and meets on a quarterly basis where reports from both Internal and External Audit are considered as well as Risk and associated matters.

**(I) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The system of internal financial control is based on a coherent accounting and budgeting framework including Financial Regulations, Contract Standing Orders, Scheme of Delegation and accountability. In particular the system includes: -

- Medium-term resource plans covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements. These also link in with the business development proposals which are fed by the Strategic Plan
- Operation of the Capital Strategy aims to ensure that investment is linked to Strategic Objectives. Bids for capital and other asset management funding require an effective 'business case' linked to Strategic Objectives, and progress in delivering projects is formally monitored by the Capital Asset Management Team, Councillors and Commissioners' Management Teams. Linked in with this is the Asset

Management Plan which ensures that assets are only retained for effective business purposes.

Financial stewardship in respect of both capital and revenue is reported to Overview and Scrutiny and Cabinet quarterly, and is considered regularly by the Commissioning Officer Group. In addition Commissioners' Management Teams also consider their respective budgets on a regular basis. This is supported by an established budget monitoring process by managers and Finance staff.

Commissioners and Executive Heads are required to produce an annual statement of Internal Control for their areas which includes statements about risk and the internal control framework. This is supported by Internal Audit who help embed risk management by cyclical audits and other risk management initiatives including some risk control self assessment workshops.

**(J) Arrangements for Whistle-blowing and for receiving and investigating complaints from the public**

The **Fraud & Corruption Policy, Fraud Response Plan and Whistle Blowing Policy** were reviewed and updated in 2008. The Policy is available on the website, intranet and direct from the Information Governance team. The Authority also subscribes to Public Concern at Work which provides a staff helpline.

The Council has an established phone line that any whistle blowing call can be made to and which goes directly to the area which has responsibility for dealing with these issues in the first instance. These are recorded and passed on to the appropriate part of the organisation to investigate and the outcomes are monitored.

The Council has previously introduced new procedures for dealing with customer complaints and this provides the means for customers to feedback concerns or issues. Data is collected from all service areas regarding complaints including the number of complaints they have received, the complaint issue and the resolution. This information is analysed and reported back to Members and Senior Managers along with the actions taken to improve services where there are relevant learning points. An Annual Report is also produced which gives an account of the complaints and compliments received and handled by the Council and Ombudsman complaints during the previous financial year. This report is presented to the Overview & Scrutiny Board. Customer Care standards have been agreed and published. The complaints procedures are regularly reviewed, including incorporating 'lessons learned' from the investigation of complaints.

**(K) Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training**

A comprehensive induction took place for elected Members following the local elections in May 2007. Dedicated support within the Democratic Services

team has been identified to work on the Council's approach to member development and the Council was awarded the South West Charter for Elected Member Development in March 2008 and Charter Plus in 2010. Annual one to one development sessions with senior officers from the Democratic Services team are offered to all Members and a Members' skills framework is used to identify development needs which in turn inform the annual Members' development programmes. 35 members have personal development plans. Corporate training needs for Members are also identified by the Commissioning Officer Group.

The Member Development Strategy seeks to build on the work already undertaken to ensure a structured approach and that all members, including our co-opted members on Overview and Scrutiny and Independent Members on the Standards Committee, are supported in their role. It also ensures that the Members are effective in supporting the Council's corporate objectives.

Strategic roles and development needs are identified and assessed through Senior Management Forums, annual RADARs and Management Team Meetings. The Council has also undertaken senior officer training on the Commissioning framework with Birmingham University.

The Council has strongly supported staff development, particularly through programmes such as ILM.

Training has been given to officers and at senior management events on protocols on decision making e.g. initiative development.

**(L) Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

There is a series of monthly consultation and feedback events with the Connect caravan where members of the public can feed back on those issues that interest them directly to the Mayor, Councillors and officers. This is supplemented by other specific consultation events using the caravan.

The Council used the Audit Commission stakeholder analysis to improve local relations. Regular consultation events are held with public and voluntary services plus regular business forum meetings. Other consultation and feedback surveys are also undertaken throughout the year including via the refreshed Viewpoint Panel.

Torbay Council operates a Call Centre which is based in Torquay and deals with a wide variety of calls from residents and visitors over an expanding range of issues as more services are included in those dealt with in the first instance by the centre.

All customer contact received via our Call Centre or our Connections offices is documented to ensure the information is actioned by, or forwarded to, the relevant department, as necessary. The Council also uses its libraries and Tourist Information Centres as initial contact points from which enquiries can

also be dealt with.

The Consultation and Engagement framework is available on the website indicating mechanisms and groups and how the Consultation and Engagement Group effectively manages engagement with the public and voluntary sector. There are also a number of Community Partnerships across Torbay and regular newsletters to Viewpoint Panel members and a residents' magazine Torbay View, which is distributed to every household. Councillors have also been encouraged to produce their own means of communication and, for example a number have created their own website.

A number of community groups have been established to support those members of the community who can be regarded as "hard to reach", e.g. BME, LGBT, Faith, Older Persons, Young People and those with Disabilities. The Council's approach is to support the development of these groups and build their capacity to make them largely self-sufficient.

**(M) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements**

The governance of the Torbay Strategic Partnership was considered and reviewed in 2007 to ensure its fitness for purpose in delivering the new Community Plan. The Strategic Partnership is underpinned by a number of delivery partnerships all of which are represented on TSP.

The Council's Code of Corporate Governance is available on its website and Local Strategic Partnership stakeholders are aware of governance arrangements and the link to the council code and processes. There is a robust Constitution established for the Torbay Strategic Partnership and for the local Community Partnerships.

Strategic Commissioning Partnerships have been established, based on the four quadrants of the TSP's Wheel, at a level below the TSP itself to deliver Joint Commissioning Strategies. The 'Wheel' has been adopted to represent, as its hub, the commitment to improve economic prosperity and thereby the overall prosperity of the local community. This will be achieved through four key focus areas, shown as quadrants of the wheel – Pride in the Bay, Learning and Skills for the Future, the New Economy and Stronger Communities.

Joint Commissioning Strategies further refine and define outcomes, measures, targets and spending plans across each quadrant, including all other agency 'must do's', not just those relating to the Community Plan. They ensure effective "join-up" of all relevant agencies and partners, and effective engagement with suppliers and users of services. In summary it merges each partner's intentions into one overall statement of strategic commissioning intent, aligning budgets and policies wherever possible, and reflecting the needs of the people of Torbay.

The Council has also established appropriate arrangements in respect of service specific partnerships such as the Torbay Care Trust and the Torbay Coast & Countryside Trust and more recently with the newly formed TOR2 and English Riviera Tourist Company.

As mentioned previously, a Policy and Guidance for all partnerships, existing and future has been agreed and introduced. This Policy and Guidance includes the governance arrangements for partnerships and identifies clear accountability for ensuring such arrangements are in place.

### **Review of effectiveness**

Torbay Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of the Devon Audit Partnership's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

Overall responsibility for the governance framework including the system of internal control rests with the Mayor and Chief Executive and they receive regular reports from the Section 151 Officer on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Resource Plan.

This is supported by an annual review of Internal Audit by the Section 151 Officer which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. 2010-11 saw the second year of operation of the Devon Audit Partnership which was the amalgamation of the three Internal Audit functions of Devon County Council, Plymouth City Council and Torbay Council and has continued during this year. As in previous years the service undertook certain assurance work on behalf of the Council and to give assurance to the external auditors as part their audit opinion. The external auditors raised no concerns by the standard of work. No major issues were identified and the service has maintained the level of assurance it is able to provide to management.

The Council's Constitution is continually reviewed throughout the year by a Constitution Working party and defines the relative responsibilities of the Council, the Mayor, Overview and Scrutiny Board and Senior Officers. This also includes the Scheme of Delegation to the Mayor, Cabinet, Committees and Officers, and also the Officer Scheme of Delegation.

### **Internal Audit**

The Council's Internal Audit Plan, which is risk based, is agreed annually with Commissioners and the Council's Audit Committee. This provides the basis for the review of internal control and governance within the Council and includes the following: -

- Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
- Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which considers the strategic and operational risks identified in the Corporate Risk Register and Business Plans and also includes consideration of materiality, sensitivity and previous audit and inspection findings;
- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council's whistle-blowing policy.
- Advice and support to ensure future safeguards when implementing new systems
- Value for Money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary.

Achievement of the Audit Plan is reported to the Audit Committee on a twice yearly basis. This report also includes an opinion and assurance about the system of internal control throughout the Council.

The Council's Constitution is continually reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Democratic Services Manager in consultation with the Mayor and Group Leaders and defines the relative responsibilities of the Council, the Mayor, Overview and Scrutiny and Senior Officers. This also includes the Scheme of Delegation to the Mayor, Cabinet, Committees and Officers, and also the Officer Scheme of Delegation.

Regular meetings were also held between the Section 151 Officer and a representative of the Devon Audit Partnership to discuss specific issues that have arisen.

### **External Review**

Following the General Election, in May 2010, the Coalition Government decided that local authorities would no longer have to undertake a Comprehensive Area Assessment (CAA). The Council had produced action plans following the 2009 CAA and Use of Resources Assessments that would have seen the performance as monitored by those forms of inspection improve. Despite the abolition of these measures, Torbay Council continues to seek to provide continuous improvements in all areas of performance and will continue to use the former measures as an indicator of best practice.

### **Areas of the Council's work where further action is required**

As a consequence of the above reporting mechanisms, Members and Commissioners have been continually updated and advised on the

implications of reviews of the effectiveness of the system of internal controls. Plans have been devised and put in place to ensure continuous improvement. The Council's annual review of the governance framework including the system of internal controls and associated reviews during the year identified some areas where action is appropriate to enhance the governance and internal control environment and ensure continuous improvement. These are listed below, along with the proposed action to remedy or improve the position.

<b>Areas for further work</b>	<b>Action Planned</b>
(1) Risk Management	Whilst operational risk management is embedded in a large number of areas within the Council, there are still some concerns over the robustness of Business Continuity Plans and a focus is being put on this area of work to ensure the Council can respond appropriately given the proposed reductions in spending identified by the government on the one hand against both the legal framework and expectations from the public over service provision.
(2) Review Corporate Governance arrangements and performance management of the Council and its partnerships	<p>Governance arrangements will be kept under review as the Government's new policies impact on our services. This is particularly relevant in relation to the future of Public Health.</p> <p>The Council has in place a framework for the quarterly monitoring of performance across all its services and its partners including the Torbay Care Trust and TOR2. In addition, through the TSP Executive Board it also monitors the delivery of its LAA targets, including the performance of partners.</p> <p>In moving towards the Commissioning Model the Council recognises that it needs to keep under review its current performance management arrangements to ensure they are effective for monitoring a potential range of service providers. This is achieved through an annual review of the performance management framework.</p> <p>The Council will look to strengthen its 'performance' management of partners to encompass potential resource issues as the CSR impacts on existing commitments.</p>
(3) Payroll processing and administration and work force planning	The Council, following previous audit reports, has only recently completed the re-implementation of the payroll system. Whilst the implementation appears to have been successfully achieved the new payroll has not yet been in operation for a full audit cycle and

	therefore there may to be further checks made before officers and auditors are fully satisfied of the total integrity of the system.
(4) Management of information and data	The continuing loss of PCs and data nationally has continued to highlight the need to ensure that all Torbay data is properly secured and handled in accordance with agreed protocols. Further work will be undertaken on this both internally and with partners in line with the agreed work programme and national standards.
(5) Safeguarding of Children and Adults	During 2010-11 the Council and its partner, the Torbay Care Trust, both received critical reports on the safeguarding procedures in place for Children's Services and Adult Care Services respectively. In both cases the Council and the TCT have put in place action plans to significantly reduce the areas of weakness identified by the respective inspections. These will be continually monitored both by the Council and the respective inspectorates and updates and reviews will be made during 2011-12 to ensure appropriate progress is being made.
(6) Contractual compliance with European tendering procedures.	European legislation is changing at a rapid pace and with the Council moving to a Commissioning organization, it is essential that the Council is kept up to date on all changes in this area. The Council has appointed a specialist Procurement Solicitor to provide expert guidance on this crucial area. Part of the role of this member of staff is to ensure that officers are kept up to date with changes whilst at the same time commissioning officers are expected to check with the legal team before committing the council during any negotiating arrangements.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Signed



Elizabeth Raikes  
Chief Executive

Date: June 2011

Gordon Oliver  
Mayor of Torbay

Date: June 2011

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Title: **Head of Internal Audit's Annual Report 2010/11**

Wards Affected: **All Wards**

To: **Audit Committee** On: **22 June 2011**

Key Decision: **No**

Change to Budget: **No** Change to Policy Framework: **No**

Contact Officer: **Martin Gould or Robert Hutchins**  
Telephone: **01803 207320 / 01392 382437**  
E.mail: [Martin.gould@devonaudit.gov.uk](mailto:Martin.gould@devonaudit.gov.uk),  
[Robert.hutchins@devonaudit.gov.uk](mailto:Robert.hutchins@devonaudit.gov.uk)

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## **1. What we are trying to achieve**

- 1.1 This report provides an audit opinion on the adequacy of Torbay's internal control environment, summarises the work undertaken by Devon Audit Partnership during 2010/11, and reviews the performance and effectiveness of the Internal Audit service. This report also informs Members of the views of the Head of Internal Audit as to whether there are any matters of concern for Members.
- 1.2 The report forms part of the evidence to allow the Council to prepare its Annual Governance Statement, and provides the opportunity for the organisation to review its processes, controls and objectives and to provide assurance to Members, Senior Officers and stakeholders as to the reliability of its statement of accounts and the probity of its operations.

## **2. Recommendation(s) for decision**

- 2.1 **That the Committee considers the Head of Internal Audit's opinion as set out in Section 9 of the report and determines whether there are any matters requiring to be brought to the attention of the Mayor and Cabinet.**
- 2.2 **That the contents of this report be noted, in particular the adequacy and effectiveness of Torbay Council's system of internal audit for the year ended 31 March 2011.**

## **3. Key points and reasons for recommendations**

- 3.1 The Internal Audit (IA) Service for Torbay Council is a commissioned service delivered by the Devon Audit Partnership.
- 3.2 All local authorities and other relevant bodies subject to the Local Government Act 1972 Section 151 and the Accounts and Audit Regulations 2003 (as amended 2006) must maintain an adequate and effective system of Internal Audit of its accounting records

and of its system of Internal Control in accordance with the proper practices in relation to internal control.

3.3 To satisfy the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom and to enable full consideration of the Annual Governance Statement which is included in the Council's Statement of Accounts, the Head of Internal Audit must provide a written report to those charged with governance which must: -

- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
- Disclose any qualifications to that opinion, together with the reasons for the qualification
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
- Comment on the compliance with the standards contained in the CIPFA Code of Practice on Internal Audit in Local Government in the United Kingdom and communicate the results of the internal audit quality assurance programme

This report is prepared in line with the above requirements and provides the Head of Audit's opinion for the 2010/11 financial year.

3.4 Based on the audit work undertaken throughout the year, irregularity investigations and any other relevant information, our overall opinion is that there is reasonable assurance as to the adequacy and effectiveness of the Authority's internal control environment.

**For more detailed information please refer to the supporting information.**

**Martin Gould**  
**Head of Devon Audit Partnership**

## Supporting Information

### 1 INTRODUCTION

- 1.1 The Audit Committee, under its Terms of Reference contained in Torbay Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.
- 1.2 The Internal Audit plan for 2011/12 has already been presented and approved by Audit Committee on 23rd March 2011. The following report and appendices, therefore, set out the background to audit service provision, reviews work undertaken in 2010/11, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 1.3 The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

### 2 BACKGROUND

#### 2.1 *Service Provision*

- 2.1.1 The Internal Audit (IA) Service for Torbay Council is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000; the Partnership was formed on 1<sup>st</sup> April 2009. The Partnership undertakes an objective programme of audits to ensure that there are sound and adequate internal controls in place across the whole of the Council. It also ensures that the Council's assets and interests are accounted for and safeguarded from error, fraud, waste, poor value for money or other losses.

#### 2.2 *Regulatory Role*

- 2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:
  - **Section 6 of the Accounts and Audit Regulations 2003 (England and Wales) (as amended)** which states that ".....a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control ....."
  - **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.
- 2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including CIPFA's Code of Practice for Internal Audit in Local Government and the Institute of Internal Auditors' Standards and Guidelines.
- 2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

2.2.4 The Internal Audit Strategy sets out how the service will be provided and the Internal Audit Charter describes the purpose, authority and principal responsibilities of the Section.

### **3 OBJECTIVES AND SCOPE**

3.1 The Internal Audit Plan for 2010/11 was submitted to, and agreed by, the Audit Committee on 24<sup>th</sup> March 2010.

3.2 This report now compares the work carried out with the work that was planned; presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements;
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives; and
- a summary of evidence of the quality of internal audit work delivered.

3.3. The Chief Internal Auditor is required to provide the Council with an assurance on the system of internal control of the Council. The opinions provided for each Commissioning area and units within those Commissioning areas have contributed to this overall assurance. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

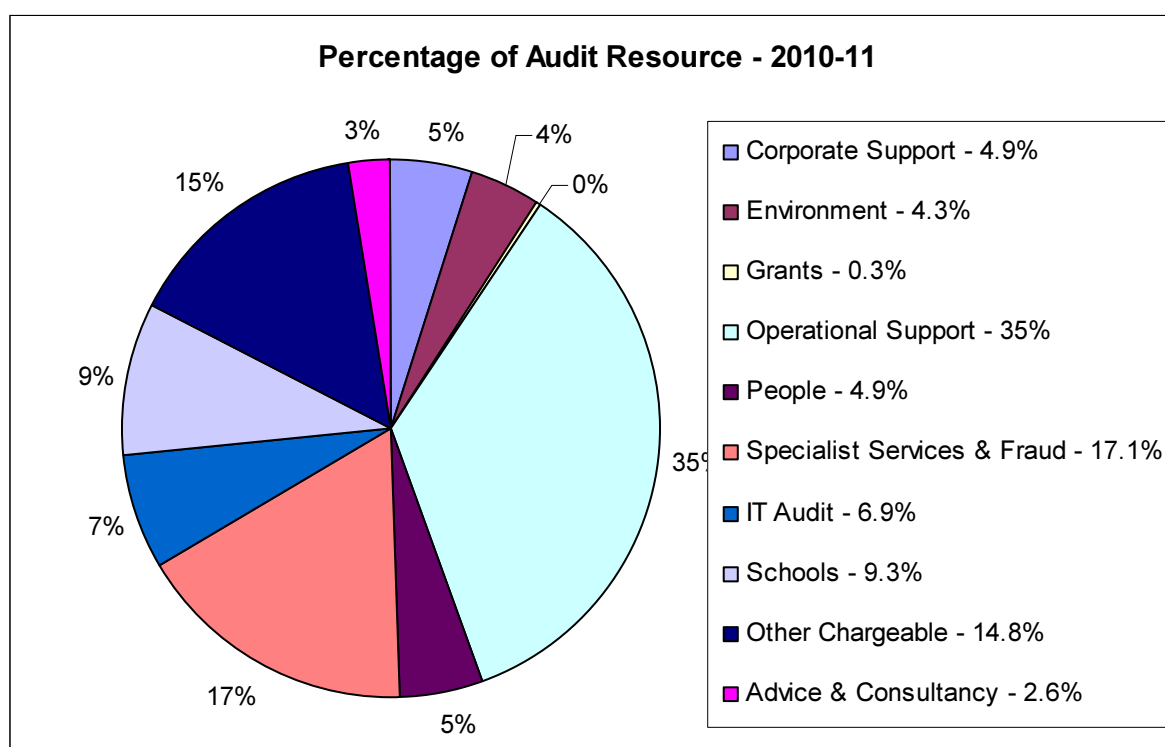
- all audits completed during 2010/11, including those audits carried forward from 2009/10;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.

## 4 INTERNAL AUDIT COVERAGE 2010/11

### 4.1 Delivery Against Plan

4.1.1 The pie chart below and Appendix 1 attached shows total actual number of direct audit days in the year ended 31 March 2011, compared with the total number of days planned. There has been some variation between planned and actual days within individual audit assignments as we have adjusted the plan to meet operational needs. Some audits that were originally planned were not completed as the timing was inappropriate for the area under review; a number of projects have therefore been planned for review in 2011/12.

4.1.2 It will be noticed that there was a small shortfall in the total number of audit days provided during the year. When we prepare our plans we make an educated assessment of the number of days that an audit is likely to take. When the fieldwork is actually completed there is inevitably a variance from the planned days. In addition we provide an allowance for work on areas such as fraud and corruption; in some years the requirement will exceed the planned budget and in others the need for our resource will be less than planned. It should also be noted that some audits required a richer mix of staff resource due to the complexity / sensitivity of the area under review. In such instances we expect that a more senior officer will be able to complete the review in less time than a junior and also the need for managerial review of working papers will be less. In summary, and after taking the above factors into account, we have been able to deliver the plan with less audit days than originally expected.



### 4.2 Operational Support and Corporate Support

4.2.1 In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in these Commissioning areas.

- 4.2.2 Material systems controls have been maintained and improvements have been made to address previously identified weaknesses. However, our IT Audit coverage identified a number of control weaknesses; in general ICT were aware of the issues and are taking action to address them. Our assignment reports highlighted the need to consider the impact, including cost, on the organisation arising from the risk of IT failure in any restructuring activity, and to ensure that IT business continuity plans are established and effective in a shrinking organisation.
- 4.2.3 There have been no significant irregularities brought to our attention for this year, however it should be noted that there were instances of presentation of fraudulent Council cheques. Although concerning, robust controls at the Council and the Council's bankers promptly identified the cheques and there was no loss to the Council. The matter was referred to the Police who concluded that it was a known scam originating from Ghana.
- 4.2.4 National Fraud Initiative (NFI) - Co-ordination of the work associated with the 2010/11 National Fraud Initiative (NFI) exercise has continued. The exercise, which is run every two years by the Audit Commission, requires all councils to provide data for cross-matching with information supplied by other organisations, such as the Department for Works and Pensions and the NHS, to identify potential cases of fraud and error. To date, work on over 600 of the high priority matches has been completed; our work is ongoing.
- 4.2.5 Some audits originally included in the plan for Operational Support and Corporate Support were not undertaken due to the need to resource other audit priorities for the Council, however these areas have been included in the 2011 – 12 plan where appropriate.

### **4.3 People**

- 4.3.1 In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in this Commissioning area. Where weaknesses have been identified and reported upon, recommendations have been made to strengthen controls in those audit areas reviewed.
- 4.3.2 A potential irregularity regarding land sale proceeds from a local school was referred to us. Internal Audit was asked to review compliance with Financial Regulations and communication arrangements. We concluded there was no clear breach of Regulations; however, there was a lack of any formal written agreements and only verbal / e-mail discussions to determine financial values.

### **4.4 Environment**

- 4.4.1 In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in this Commissioning area. Weaknesses were identified in the arrangements for concessionary fares and the TOR2 JVC contract arrangements; recommendations have been made to strengthen controls in these areas.
- 4.4.2 During 2010/11 we continued to support the South West Devon Waste Partnership PFI project as it progressed through Competitive Dialogue. We were able to report to the Project Executive Board that the bids were received and opened in accordance with recognised procedures; that the evaluation process had been carried out in line with the



agreed, published criteria and methodology and the overall scores reported to the Board and Joint Working Committee were correct.

- 4.4.3 The audit of Climate Change found a high standard of control with recognition of the potential impacts of climate change and the willingness to take action are likely to be key drivers for local authorities in the years to come. It is evident that Torbay Council acknowledges this and has produced a comprehensive Climate Change Strategy which acts as a mechanism in identifying the potential impacts of climate change and the actions required for mitigation and adaptation. Behind the scenes, a strong management and reporting structure is in place and the Environmental Policy Team is staffed with a committed team underpinned by a sound knowledge of climate change issues.
- 4.4.4 Some audits originally included in the plan for Environment were not undertaken due to the need to resource other audit priorities for the Council, however these areas have been included in the 2011 – 12 plan where appropriate.

## **4.5 Schools**

- 4.5.1 Our opinion - based on the work to date is that the systems and controls in schools are of a “Good to High Standard” and generally mitigate the risks identified.
- 4.5.2 The two key matters arising from the audits are the:
- demonstrable financing of school improvement plans and;
  - absence of controls in school security.
- 4.5.3 Recommendations have been made to reduce risks and in other areas, recommendations made serve to strengthen what are reasonably reliable procedures.
- 4.5.4 We completed 21 school audits in 2010-11. The requirements to meet the challenges of FMSiS were significant for schools in their first attempt; however the majority of schools met the standard prior to its abolition in November 2010. The FMSiS will be replaced by a simpler standard in September 2011 which will be applicable to all maintained schools but now not independent schools or academies.
- 4.5.5 We have been part of the DfE pilot study on the SFVS which has in general received positive comment from the pilot schools. Comments have been restricted to procedural aspects of its completion and the need for training and support. We have fed back similar comments and the need for LA’s to positively engage with the schools following review of their SFVS self-assessments.
- 4.5.6 Instances of fraud and irregularity have been limited, however each and every case is investigated by Internal Audit and disciplinary action will be taken if required.

## **5. INTERNAL AUDIT PERFORMANCE**

- 5.1. There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI’s:

<b>Local Performance Indicator (LPI)</b>	<b>2010/11</b>	<b>2010/11</b>
	<b>Target</b>	<b>Actual</b>
Percentage of Audit plan Completed (Torbay)	90%	91.5%
Actual Audit Days as percentage of planned (Torbay)	90%	94.9%
Percentage of fundamental / material systems reviewed annually	100%	100%
Percentage of chargeable time	65%	62.2%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	96%
Draft Reports produced within target number of days (currently 15 days)	90%	90%
Final reports produced within target number of days (currently 10 days)	90%	97%
Average level of sickness absence	2%	3%
Percentage of staff turnover	5%	0%
Out-turn within budget	Yes	Yes

5.2 Overall, performance against the indicators has been highly commendable. We have exceeded the targets in respect of percentage of Audit Plan completed and Actual Audit Days as a percentage of Planned. In addition, Customer satisfaction has exceeded the target and in addition specific complimentary correspondence has also been received from our customers. Performance in relation to prompt issuing of final reports has also exceeded targets.

5.3 The customer satisfaction results derive from questionnaires completed after each audit, and the results continue to demonstrate the very high regard placed on the service by all sectors of the Authority.

## **6. REVIEW OF INTERNAL AUDIT BY EXTERNAL AUDIT**

6.1 Internal Audit is obliged under the Accounts and Audit Regulations to meet the standards specified in CIPFA's Code of Practice for Internal Audit in Local Government. These standards set out specific essential requirements of an Internal Audit department which include e.g. independence, staffing and training, planning, recording, performance and effectiveness etc.

6.2 External Auditors use CIPFA standards as a model against which to regularly assess and report on the competency and effectiveness of Internal Audit, to enable them to place reliance on Internal Audit's work as part of the 'managed audit' arrangements.

6.3 The External Auditors have carried out a review of the partnership during 2009/10 and concluded, overall, that "Internal Audit is effective as a management control, and that we can place reliance on specific pieces of work, where that work covers areas relevant to our own Code of Audit Practice." Further review has been completed in 2010/11 and the results are awaited.

## **7 REVIEW OF INTERNAL AUDIT SERVICE 2010/11**

### **7.1. Staffing**

7.1.1 The Devon Audit Partnership structure operated throughout 2010/11 with an approved total establishment of 41.6 FTE. These resources were distributed throughout all clients of the partnership and staff were utilised at more than one client.

## **7.2 Audit Service Quality**

- 7.2.1. The service we provide is designed to ensure compliance with the standards for internal audit published by CIPFA in its Code of Practice for Internal Audit in Local Government in the UK. The latest Code of Practice was published in December 2006, and Devon Audit Partnership's processes continue to comply with the professional standards required.
- 7.2.2. We have comprehensive procedures to ensure that all audits are conducted to the required standard. In particular, the scope of audit and audit brief are approved, before site work commences, by the appropriate Audit Manager, who also reviews each draft and final report before it is issued to ensure that all key controls have been properly evaluated and that adequate audit evidence has been obtained to support the findings.
- 7.2.3. We issue a "client satisfaction survey" form with audit reports, for a confidential response to the Head of the Devon Audit Partnership. The vast majority of those returned have continued to be very positive about the audit service received, the audit report, and the conduct of the audit by our team members, and this is a tribute to their professional conduct of the audits.
- 7.2.4. Based on the responses received, 96% of the responses covering all areas of the audit were "satisfactory" or "very satisfactory", and for a considerable number of audits (36%) every single response was "very satisfactory". The analysis of responses for this year shows that the team has maintained high standards achieved in previous years. This is a very commendable achievement by the team.

## **8 INTERNAL AUDIT OPINION**

- 8.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.
- 8.2 All final audit reports also include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.
- 8.3 Commissioners have been provided with details of Internal Audit's opinion on each audit review carried out in 2010/11 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be included with its published Statement of Accounts for 2010/11.
- 8.4 Overall, and based on work performed during 2010/11, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

## Appendix 1

### Internal Audit Plan 2010/11 Progress Against Plan

#### Comparison of Planned Days to Actual Use of Resources

	Planned Days No.	%	Actual Days No.	%
Corporate Support	65	5	72	4.9
Environment	71	4.2	63	4.3
People	100	10.9	72	4.9
Operational Support	515	30.2	513	35
Grants	3	0.9	4	0.3
Specialist Services and Fraud	311	20.5	250	17.1
IT Audit	150	8.8	101	6.9
Schools	123	7.2	136	9.3
Other chargeable	160	9.4	217	14.8
Advice & Consultancy	50	2.9	38	2.6
Contingency	86		86	
<b>Total Audit Days</b>	<b>1,634</b>	<b>100</b>	<b>1,552</b>	<b>100</b>

**Table of Audit Reviews Undertaken 2010/11 and Assurance Opinion.****Operational and Corporate Support**

Audit Area	Year	Status	Assurance Opinion
LAA	2010/11	Final	Good Standard
H&S	2010/11	Final	Improvements Required
Corporate Governance	2010/11	Not applicable	Support and consultancy during the development of the new Information Security Policy.
Partnerships	2010/11	Not applicable	Follow up audit. All recommendations either implemented or in the process of implementation.
Transformation Agenda	2010/11	Not applicable	Watching brief maintained. Outlined the principle points on the Transformation Programme and the council's approach to programmes and projects in general.
Castle Circus Regeneration	2010/11	Work in Progress	Not applicable
Support Services Project	2010/11	Work in Progress	Not applicable
Commissioning Support	2009/10	Final	Improvements Required
New Burdens	2010/11	Final	Grant Conditions Satisfied
NI 179 Value for Money	2010/11	Not applicable.	The government has abolished NI179.
Pump Priming	2010/11	Final	Grant Conditions Satisfied
Asset Register	2009/10	Final	Good Standard
Bank Reconciliation	2009/10	Final	Good Standard
Benefits	2009/10	Final	Improvements Required
Commercial Rents	2009/10	Final	Improvements Required
Creditors	2009/10	Final	Improvements Required
Debtors	2009/10	Final	Improvements Required
FIMS Sys Admin	2009/10	Final	Good Standard
General Ledger	2009/10	Final	Good Standard
IBS Open Systems	2009/10	Final	Improvements Required
Payroll	2009/10	Final	Improvements Required
POP (electronic ordering)	2009/10	Final	Good Standard

Treasury Management	2009/10	Final	Good Standard
Bank Reconciliation	2010/11	Final	Good Standard
CTAX & NDR	2010/11	Draft	Improvements Required
Debtors	2010/11	Final	Improvements Required
Income Collection	2010/11	Final	Good Standard
Payroll	2010/11	Draft	Improvements Required
POP (electronic ordering)	2010/11	Draft	Good Standard
Treasury Management	2010/11	Final	Good Standard
Main Accounting System	2010/11	In progress	
FIMS Sys Admin	2010/11	In progress	
IBS Sys Admin	2010/11	In progress	
Benefits	2010/11	In progress	
Asset Register	2010/11	In progress	
Creditors	2010/11	In progress	
Active Directory & Exchange	2009/10	Final	Improvements Required
IT Risk Assessment	2009/10	Final	Improvements Required
IT Risk Assessment	2010/11	In progress	N/A
Change Control	2010/11	Final	Improvements Required
E Commerce	2010/11	Draft	Good Standard
IT IS Strategy	2010/11	Report Memo	N/A
ICT Resilience	2010/11	Final	Improvements Required
FIMS Upgrade Project	2010/11	Report Memo	
Internet Controls	2010/11	Final	Improvements Required
PCI Compliance Project	2010/11	Final	Improvements Required

## People

Audit Area	Year	Status	Assurance Opinion
Consultation and Research	2009/10	Final	High Standard
Housing Needs & Homelessness	2009/10	Final	Improvements Required
Housing Standards – Improvement Grants	2009/10	Final	Improvements Required
Pupil Admissions	2009/10	Final	High Standard
Contact Point	2010/11	Final	Certification
PARIS	2010/11	Draft	Good Standard
Permanency Planning	2010/11	Draft	Good Standard
School Organisation & Policy	2010/11	Final	Improvements Required
SIMS	2010/11	Final	Good Standard
Supporting People	2010/11	Draft	High Standard

Contract Audit Kings Ash School	2010/11	Final	Fundamental weaknesses identified
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### Environment

Audit Area	Year	Status	Assurance Opinion
Beach Services	2010/11	Final	Improvements Required
Concessionary Fares	2010/11	Follow Up Audit	Improvements Required
Museums	2010/11	Final	Improvements Required
Contract Audit Torquay Community College	2010/11	Final	Good Standard
Climate Change	2010/11	Final	High Standard
TOR2 JVC – initial review	2010/11	Final	Improvements Required
TOR2 JVC – second review	2010/11	Draft	Improvements Required
Economic Development Company	2010/11	Watching brief	
New Tourism Company	2010/11	Watching brief	
South West Devon Waste Partnership	2010/11	Final	Good Standard

### Schools

School	Year	Status	Assurance Opinion
Upton St James Church of England Primary School	2010/11	Final report issued	Improvements Required
Cockington Community Primary School	2010/11	Final report issued	Good Standard
Galmpton Primary School	2010/11	Final report issued	High Standard
Eden Park Primary school	2010/11	Final report issued	Good Standard
Sherwell Valley Primary School	2010/11	Final report issued	High Standard
Barton Primary School	2010/11	Final report issued	High Standard
Shiphay School and Orchard Nursery	2010/11	Final report issued	Good Standard
Roselands Primary School	2010/11	Final report issued	High Standard

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Title: **Treasury Management Outturn 2010/11**

Wards Affected: **All Wards in Torbay**

To: **Audit Committee  
Council**

On: **22 June 2011  
13 July 2011**

Contact Officer: **Pete Truman**

☎ Telephone: **7302**

✉ E.mail: **[Pete.truman@torbay.gov.uk](mailto:Pete.truman@torbay.gov.uk)**

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## **1. What we are trying to achieve**

1.1 This report informs the Council/Committee of the performance of the Treasury Management function in supporting the provision of Council services in 2010/11 through management of cash flow, debt and investment operations and the effective control of the associated risks.

### **1.2 Recommendation**

**That the report be noted and the Treasury Management decisions made during 2010/11 as detailed in this report be endorsed.**

## **2. Background**

2.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual outturn report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11.

2.2 This report also meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.3 Treasury management is defined by the Code as:

*“The management of the authority’s investments and cash flows, it’s banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*

2.4 During 2010/11 the minimum reporting requirements were that full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Report 22/2010, Council 3<sup>rd</sup> February 2010)
- A mid-year review report (appended to Report 321/2010, Council 14<sup>th</sup>

December 2010)

- An annual report following the year describing the activity compared to the strategy (this report)
- 2.5 Recent changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved by members.
- 2.6 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to full Council.
- 2.7 A major element of the Treasury Management function is the implementation and control of the Council's borrowing decisions. Like all local authorities Torbay Council uses borrowing as a key source of funding for enhancing, purchasing or building assets within the approved capital plan.
- 2.8 Borrowing allows capital expenditure to be spread over future years which means that the costs of roads, schools etc are more likely to be met by those who use the assets than would be the case if the full cost of providing these facilities were met by taxpayers at the time of their construction.
- 2.9 As part of the annual budget process the Council sets limits for the total amount of borrowing that it considers is affordable in terms of revenue resources available to make repayments. Treasury Management officers are tasked with maintaining borrowing within these levels and obtaining best value for the Council in terms of repayment rates and length of loans.
- 2.10 The Treasury Management team also carry out management of the Council's surplus cash balances arising from, for example:
- Short term revenue balances
  - Cash backed reserves
  - Capital funding received in advance of commencement of schemes

Balances are invested with approved financial institutions and other local authorities to obtain the best return for periods which ensure cash is available when needed. Security of cash and liquidity are the absolute priorities in all investment decisions.

- 2.11 The key points arising from Treasury Management operations in 2010/11 are:
- Challenging interest rate conditions with a static bank rate and upward pressure on borrowing levels (see paragraphs A7.2 and A9.1)
  - Adjustments to the original headline strategy with further borrowing taken and some investments locked out for up to 18 months duration (see paragraph A5.4)
  - Transfer of ownership of £20million of borrowings previously administered by Devon County Council as part of Local Government Reorganisation (see paragraph A8.5)
  - Average rate of borrowing reduced from 4.36% to 4.20% (see paragraph A4.1)
  - An overall return on investments of 1.25% exceeding the benchmark rate of 0.43% (see paragraphs A4.1 and A10.7).
  - Revenue budget outturn within target (see paragraph A11.1).

2.12 Treasury Management strategies were planned and implemented in conjunction with the Council's appointed advisors, Sector Treasury Services although the Council officers were the final arbiters of the recommended approach.

**Paul Looby**  
**Executive Head of Finance**

### **Appendices and Annexes**

Appendix 1	Treasury Management Activities in 2010/11
Annex 1	The Economy and Interest Rates in 2010/11
Annex 2	Analysis of Actual Borrowing against Prudential Indicators 2010/11
Annex 3	Counterparties with which funds have been deposited in 2010/11

### **Documents available in members' rooms**

None

### **Background Papers:**

The following documents/files were used to compile this report:

## Treasury Management Activities in 2010/11

### A1. Introduction

A1.1 This Appendix covers:

- Capital Expenditure and Financing 2010/11;
- Capital Financing Requirement;
- Treasury Position at year End;
- The Strategy for 2010/11;
- The Economy and Interest rates 2010/11;
- Borrowing Rates in 2010/11;
- Borrowing Outturn for 2010/11;
- Investment Rates in 2010/11;
- Investment Outturn for 2010/11;
- Revenue Budget Performance;
- Reporting Arrangements and Management Evaluation

### A2 Capital Expenditure and Financing 2010/11

A2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

A2.2 The actual capital expenditure forms one of the required prudential indicators and is shown in the table below.

£m	2009/10 Actual	2010/11 Revised	2010/11 Actual
Total capital expenditure	49	47	44

### A3 Capital Financing Requirement

A3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

A3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the money markets), or utilising temporary cash resources within the Council.

A3.3 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

A3.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2010/11 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2010/11 on 2<sup>nd</sup> February 2010.

A3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

CFR (£m)	31 March 2010 Actual	31 March 2011 Revised Indicator	31 March 2011 Actual
Opening balance	123.6	129.7	129.7
Capital expenditure in year funded from borrowing	11.1	13.1	12.3
Minimum Revenue Position	(4.1)	(4.0)	(4.0)
Repayment of Deferred Liabilities	(0.9)	(0.4)	(0.4)
<b>CFR at Year End</b>	<b>129.7</b>	<b>138.4</b>	<b>137.6</b>

A3.6 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

**A3.7 Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2010 Actual	31 March 2011 Original	31 March 2011 Actual
Net borrowing position	£54m	£85m	£56m
CFR	£130m	£158m	£138m

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term liabilities net of investment income) against the net revenue stream.

	2010/11
Authorised limit	£224m
Maximum gross borrowing position	£173m
Operational boundary	£195m
Average gross borrowing position	£162m
Financing costs (excluding revenue contributions) as a proportion of net revenue stream	7.7%

## A4 Treasury Position at Year End

A4.1 The Council's funding and investment positions at the beginning and end of year was as follows:

	At End of Year 2010/11 31st March 2011		At Beginning of Year 2010/11 1st April 2010	
	Principal	Rate/ Return	Principal	Rate/ Return
<b>Fixed Rate Funding:</b>				
- LGR (Devon CC)			£20.535m	5.39%
- PWLB	£147.461m	4.29%	£122.337m	4.17%
- Market	£10.000m	£157.461m 4.55%	£10.000m	£152.872m 4.55%
<b>Variable Rate Funding</b>		£ 5.000m 0.69%		£ 0.000m
<b>Total Borrowing</b>		<b>£162.461m 4.20%</b>		<b>£152.872m 4.36%</b>
<b>Investments *:</b>				
- In-House	£80.660m	1.28%	£73.450m	2.33%
- With Managers**	£35.500m	1.20%	35.500m	3.84%
<b>Total Investments</b>		<b>£116.160m 1.25%</b>		<b>£108.950m 2.64%</b>

\* Rates for investments reflect the average rate achieved over the full year.

\*\* The principal for external management of funds reflects the original amount applied to the contract on 21<sup>st</sup> June 2007 and subsequent additions in 2009/10

A4.1 The outturn against approved treasury limits is analysed over the following tables.

### Maturity Structure of the fixed rate borrowing portfolio

	31 March 2011 Actual	31 March.2011 Proportion	2010/11 Original Limits Upper-Lower
Under 12 months	£0.0m	0%	3% - 0%
12 months and within 24 months	£0.0m	0%	3% - 0%
24 months and within 5 years	£4.0m	3%	10% - 0%
5 years and within 10 years	£15.0m	10%	15% - 5%
10 years and within 25 years	£36.4m	23%	25% - 15%
10 years and above	£102.0m	65%	79% - 54%

### Principal Sums Invested for over 364 Days

	2009/10 Actual	2010/11 Original	2010/11 Actual
Investments of 1 year and over	£14m	£66m	£12m

### Exposure to Fixed and Variable Rates

	31 March 2010 Actual	2010/11 Original Limits	31 March 2011 Actual
Net principal re fixed rate borrowing / investments	£83m	£154m	£116m
Net principal re variable rate borrowing / investments	-£25m	£33m	-£29m

#### A5. The Strategy for 2010/11

- A5.1 The expectation for interest rates within the strategy for 2010/11 anticipated low but rising Bank Rate (starting in quarter 4 2010) with similar gradual rises in medium and longer term fixed interest rates over 2010/11. Variable or short-term rates were expected to be the cheaper form of borrowing over the period.
- A5.2 Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in a limited number of institutions in which to invest with low returns compared to borrowing rates.
- A5.3 In this scenario, the overall treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investment and reduce counterparty risk. Investments were planned to be short term to track the anticipated rise in Bank Rate.
- A5.4 The adopted strategy was adjusted during the period in response to potential government action limiting borrowing capabilities and lack of expected movement in the level of Bank Rate:

**Borrowing.** A further £10million of borrowing was taken as detailed in section A8.5 of this report.

**Investments.** Maturing short term deposits were replaced with longer deals. This is expanded upon in section A9 of this report.

#### A6 The Economy and Interest rates 2010/11

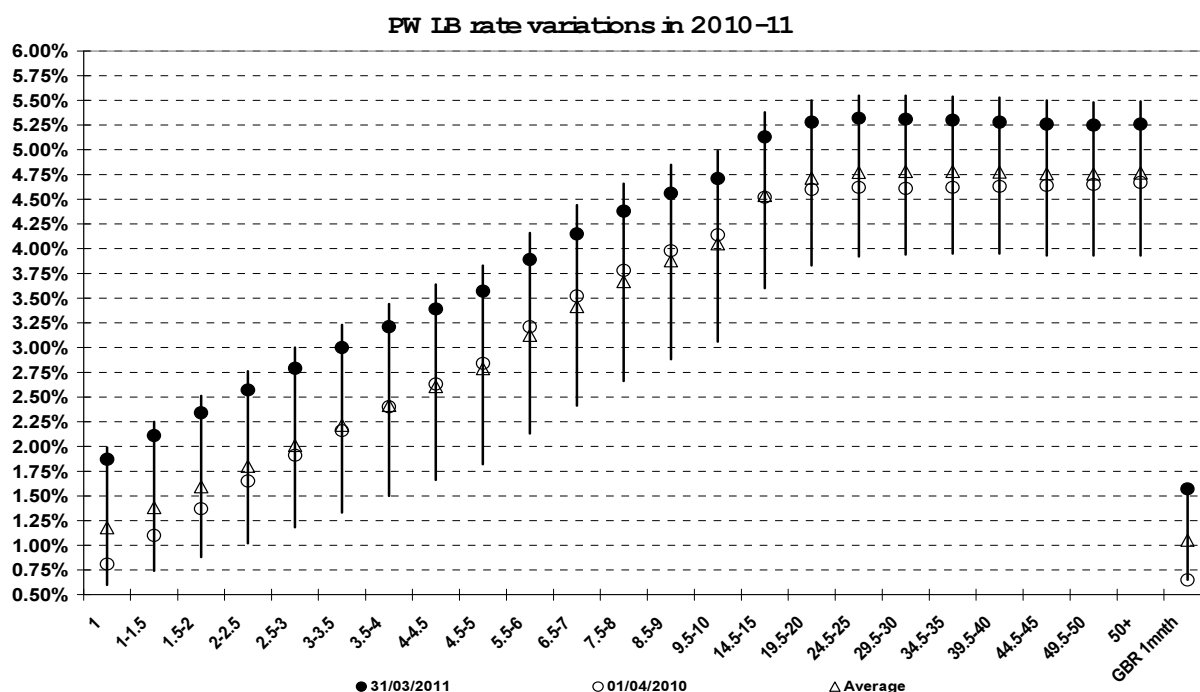
- A6.1 A commentary of the economic factors prevalent in 2010/11 is given at Annex 1.



## A7. Borrowing Rates in 2010/11

A7.1 The following graph and table below show, for a selection of PWLB maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and end of the financial year.

A7.2 Variations in most PWLB rates have been distorted by the October 2010 decision by Government to raise borrowing rates by 0.75% - 0.85% e.g. if it had not been for this change, the 25-year PWLB rate at 31<sup>st</sup> March 2011 (5.32%) would have been only marginally higher than the position at 1<sup>st</sup> April 2010.



**PWLB Borrowing Rates 2010/11 for 1 to 50 Years**

	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/10	0.810%	1.370%	1.910%	2.400%	2.840%	4.140%	4.620%	4.650%	0.650%
31/03/11	1.870%	2.340%	2.790%	3.210%	3.570%	4.710%	5.320%	5.250%	1.570%
High	1.990%	2.510%	3.000%	3.440%	3.830%	4.990%	5.550%	5.480%	1.570%
Low	0.600%	0.880%	1.180%	1.500%	1.820%	3.060%	3.920%	3.930%	0.650%
Average	1.177%	1.590%	2.009%	2.413%	2.788%	4.050%	4.771%	4.756%	1.052%
Spread	1.390%	1.630%	1.820%	1.940%	2.010%	1.930%	1.630%	1.550%	0.920%
High date	07/02/11	07/02/11	07/02/11	07/02/11	09/02/11	09/02/11	09/02/11	09/02/11	07/03/11
Low date	15/06/10	12/10/10	12/10/10	12/10/10	12/10/10	31/08/10	31/08/10	31/08/10	01/04/10

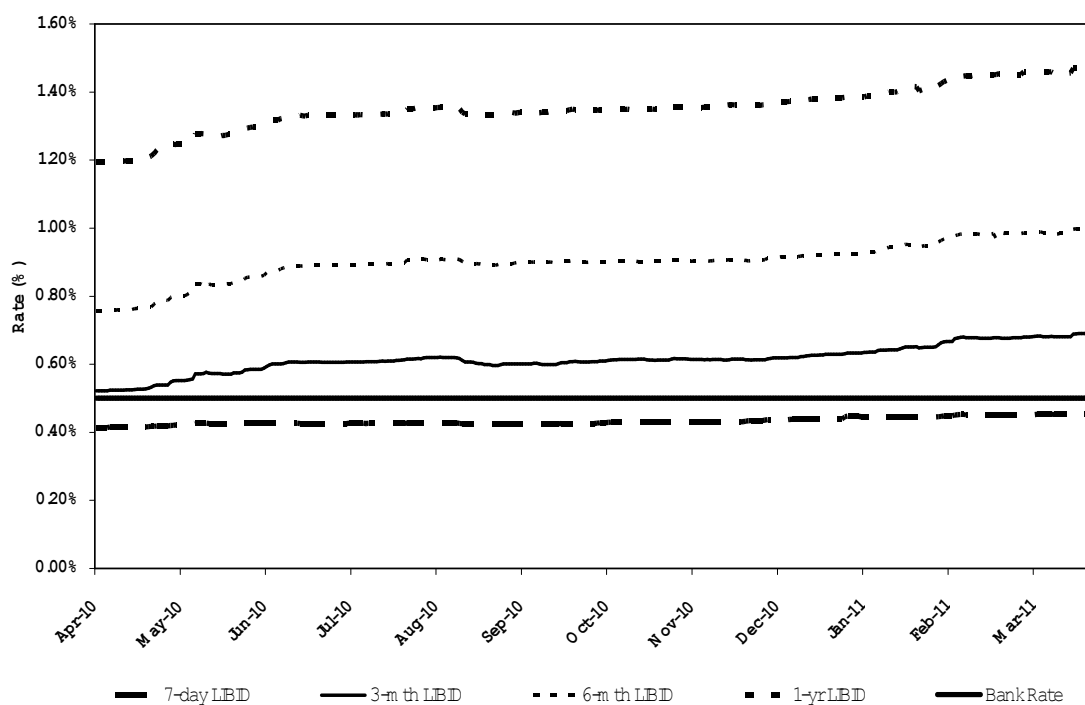
## **A8 Borrowing Outturn for 2010/11**

- A8.1 The Borrowing strategy for 2010/11 anticipated no new borrowing with current year requirements having previously been taken in advance of expected rises in rates.
- A8.2 However, in view of the uncertain economic outlook a decision was made by senior management in May 2010 to amend this headline treasury strategy and take a further £10 million of borrowing to ensure sufficient funding of approved capital schemes.
- A8.3 A structure was taken with the Public Works Loan Board (PWLB) with £5million borrowed for 15 years at a fixed rate of 4.38% and £5million for 10 years at a variable rate initially set at 0.70% with six-monthly reviews.
- A8.4 Following this decision PWLB levels actually dropped as investors bought up UK gilts. However, the increased margin placed on PWLB rates over gilts as part of the Comprehensive Spending Review has seen levels rise significantly above the Council's current average rate of 4.20%.
- A8.5 On 1<sup>st</sup> October 2010 the Council took on direct responsibility for £20million of PWLB loans previously administered by Devon County Council as part of Local Government Reorganisation. The Council will have greater control of these loans going forward and in-year savings have contributed to the Revenue Budget performance in section 4 of this report.
- A8.6 ***Borrowing Performance*** – The average borrowing portfolio rate, including the Devon County Council element, has been reduced from 4.36% to 4.20%.

## **A9 Investment Rates in 2010/11**

- A9.1 The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.
- A9.2 Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.
- A9.3 The graph below illustrates the path of market benchmark rates over the year. The following table shows, for a range of investment durations, the range (high and low points) in rates, the average rates and individual rates at the start and end of the financial year.

Investment Rates 2010-11



	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2010	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/2011	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High date	31/12/10	30/03/11	30/03/11	30/03/11	30/03/11	30/03/11
Low date	01/04/10	01/04/10	01/04/10	01/04/10	01/04/10	01/04/10

## A10 Investment Outturn for 2010/11

**A10.1 Investment Policy** – the Council’s investment policy is governed by CLG guidance which emphasis the priorities of security and liquidity of funds and requires Local Authorities to set out their approach for selecting suitable counterparties. The policy was approved by Council within the Annual Investment Strategy on 3<sup>rd</sup> February 2010 and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data.

**A10.2** The crisis in the Greek economy prompted a decision in April 2010 to limit duration on all deals, regardless of counterparty status, to three months while the effect on the banking sector was assessed. The limit was rescinded for UK part-nationalised

banks in July following continued evidence of market confidence in the UK's creditworthiness. The limit for all other banks was withdrawn in August following the publication of stress test results by the European Union which showed no worsening in quality of banks on the Council's approved list.

A10.3 With interest rates continuing at their historic low levels and the resulting revision to forecasts, the headline strategy of short term deposits was adjusted with deal durations extended to six and twelve months in August/September, locking into exceptional rates offered by certain approved banks, for the period of static Bank Rate.

A10.4 A list of those institutions with which the in-house team invested funds during the year is provided at Annex 4. No institutions with which investments were made showed any difficulty in repaying investments and interest in full during the year.

A10.5 **Externally Managed Investments** – Scottish Widows Investment Partnership (SWIP) was appointed to manage £13,500,000 of the Council's cash on 21<sup>st</sup> June 2007. Additional funds were placed with SWIP during the 2009/10 financial year.

A10.6 During the year their strategy has followed a similar path to the in-house team whereby the length of the portfolio was shortened in their belief that interest rates would rise. Since then longer dated deposits have been made to enhance return.

A10.7 **Performance Analysis** - Detailed below is the result of the investment strategy undertaken by the Council. Despite the continuing difficult operating environment the Council's investment returns remain well in excess of the benchmark.

	Average Investment Principal	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark/ Target Return
<b>Internally Managed</b>	£85,799,881	1.277%	N/A	0.433%
<b>Externally Managed</b>	£35,500,000	1.200%	1.050%	0.479%

The benchmark for internally managed funds is the average 7-day LIBID rate (uncompounded). The benchmark for externally managed funds is the 7-day LIBID rates, averaged for the week and compounded weekly.

A10.8 In interest terms, the in-house treasury function contributed an additional £724,000 to the General Fund over and above what would have been attained from the benchmark return. SWIP's net return achieved an additional £277,000 over their target return level of 10% above benchmark.

## A11 Revenue Budget Performance

A11.1 The effect of the decisions outlined in Appendix 1 to this report on the approved revenue budget is outlined in the table below.

	Revised Budget	Actual 2010/11	Variation
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	2010/11		
	£M	£M	£M
Investment Income	(1.8)	(1.5)	0.3
Interest Paid on Borrowing	6.2	6.3	0.1
Transferred Debt Interest	0.6	0.6	0.0
<b>Net Position (Interest)</b>	<b>5.0</b>	<b>5.4</b>	<b>0.4</b>
Minimum Revenue Provision	4.4	4.0	(0.4)
PFI Grant re: MRP	(0.4)	(0.4)	0.0
Transferred Debt Principal	0.4	0.4	0.0
<b>Net Position (Other)</b>	<b>4.4</b>	<b>4.0</b>	<b>(0.4)</b>
<b>Net Position Overall</b>	<b>9.4</b>	<b>9.4</b>	<b>0.0</b>

11.2 The changing position was regularly reported to Cabinet and OSB throughout the year as part of the budget monitoring reports to Members

## **A12 Reporting Arrangements and Management Evaluation**

A12.1 The management and evaluation arrangements identified in the annual strategy and followed for 2010/11 were as follows:

- Weekly monitoring report to Cabinet Member for Finance (latterly to the Mayor) and Chief Finance Officer
- Monthly meeting of the Treasury Manager and Chief Accountant to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Regular meetings with the Council's appointed Fund Managers
- Membership and participation in the CIPFA Benchmarking Club

A12.2 Draft results for the 2010/11 CIPFA Benchmarking Club, show that the treasury management team achieved interest rate performance in the top 20% of participating Authorities for borrowing and the top 40% for investments.

## **The Economy and Interest Rates 2010/11**

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any “giveaway” in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

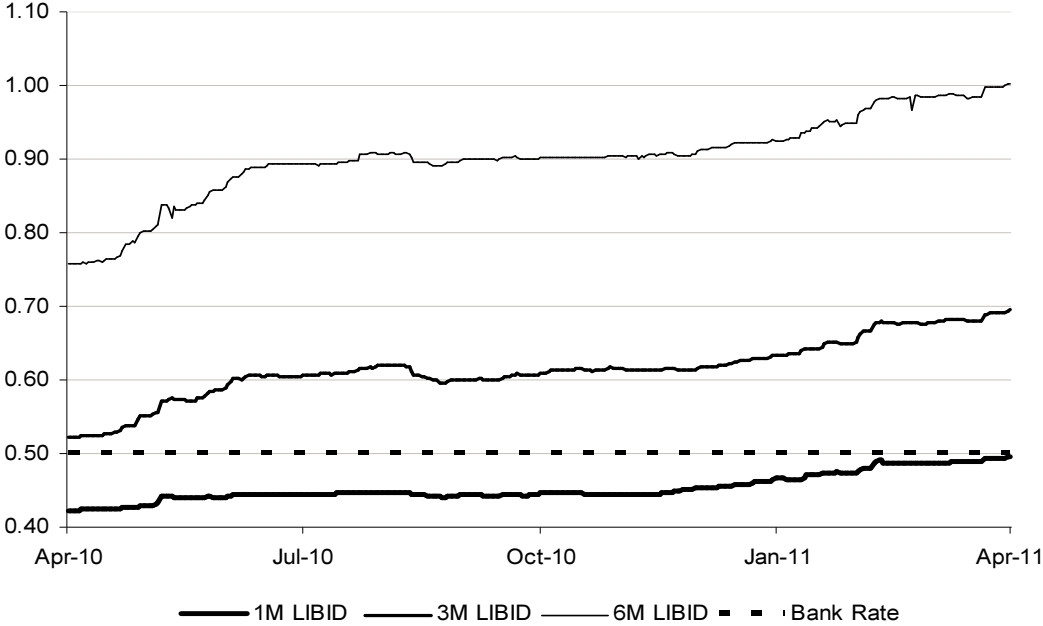
Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government’s debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February / March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

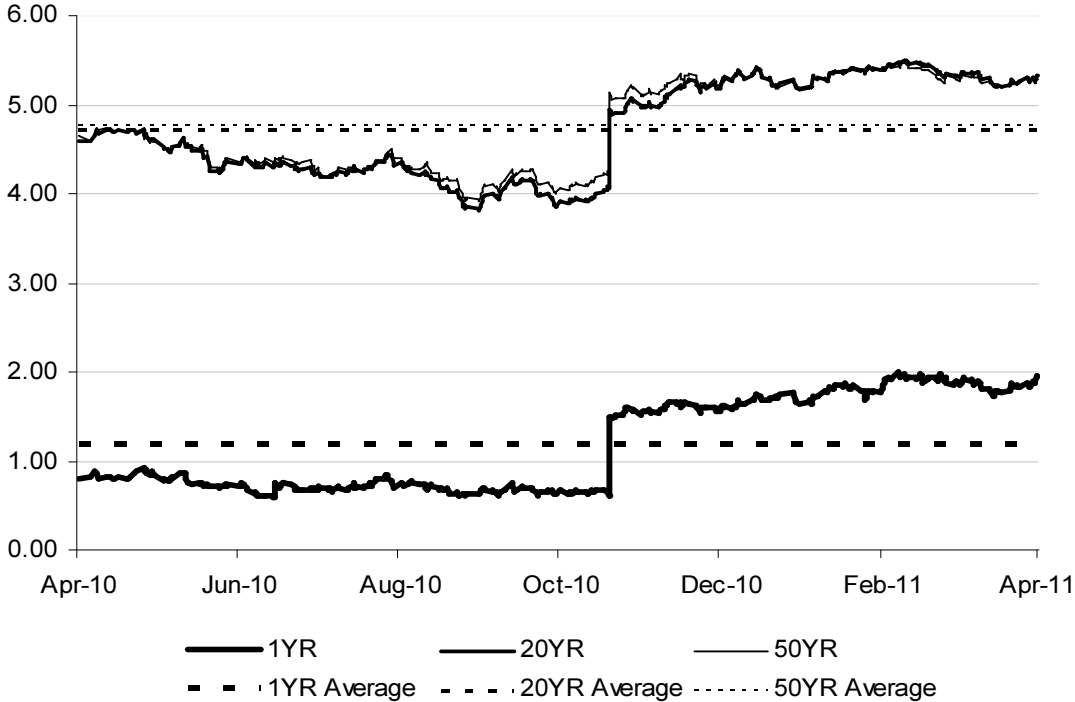
Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks “failed” the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid-2011.

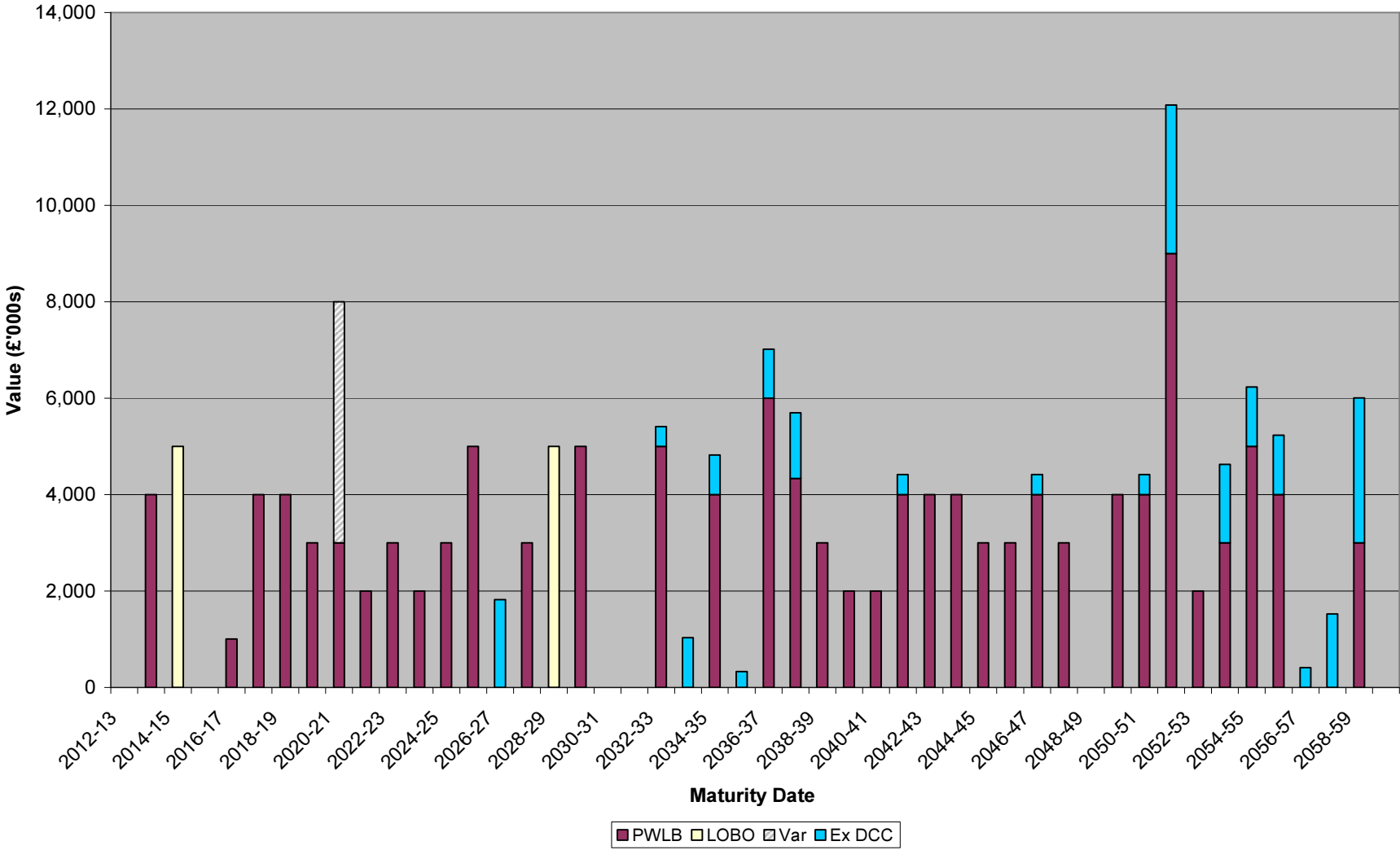
**Chart 1: Bank Rate v LIBID investment rates**



**Chart 2: Average v new borrowing rates**



## Annex 2 Borrowing Maturity Profile





**Counterparties with which funds were deposited (April 2010 – March 2011)**

**Banks and Building Societies**

Bank of Scotland  
Barclays Bank  
Dexia Bank Belgium  
Lloyds TSB  
National Australia Bank  
Nationwide Building Society  
Oversea Chinese Banking Corporation (Singapore)  
Royal Bank of Scotland/National Westminster  
Santander  
United Overseas Bank (Singapore)

**Local Authorities and Government Agencies**

City of Newcastle Upon Tyne  
Corby District Council  
Ipswich Borough Council  
Lancashire County Council  
London Borough of Bromley  
Sandwell Metropolitan Borough Council  
Salford City Council  
Debt Management Agency Deposit Facility

**Other Approved Institutions**

Royal Bank of Scotland Money Market Fund  
Scottish Widows Investment Partnership

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