

## **AUDIT COMMITTEE**

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

**Wednesday, 26 June 2013**

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 Addis

Councillor Tyerman

Councillor Bent

Councillor Stocks

Councillor Brooksbank

Councillor Pentney

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**Working for a healthy, prosperous and happy Bay**

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# AUDIT COMMITTEE AGENDA

1. **Election of Chairman/woman**  
To elect a Chairman/woman for the 2013/2014 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/woman**  
To appoint a Vice-Chairman/woman for the 2013/2014 Municipal Year.
4. **Minutes** (Pages 1 - 3)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 20 March 2013.
5. **Declarations of interests**
  - (a) To receive declarations of non pecuniary interests in respect of items on this agenda  
**For reference:** Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
  - (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda  
**For reference:** Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.  
  
(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)
6. **Urgent Items**  
To consider any other items that the Chairman decides are urgent.
7. **Audit Committee Terms of Reference** (Pages 4 - 5)  
To note the Audit Committee's Terms of Reference as set out in the Council's Constitution.

- 8. Audit Committee Update for Torbay Council** (Pages 6 - 17)  
To note the progress that Grant Thornton have made in delivering on their responsibilities as the Council's external auditors.
- 9. The Audit Plan for Torbay Council** (Pages 18 - 39)  
To consider a report on the above.
- 10. Annual Governance Statement 2012/13** (Pages 40 - 54)  
To consider the Annual Governance Statement 2012/13, that provides an opportunity for the organisation to review its processes, controls and objectives.
- 11. Treasury Management Outturn 2012/13** (Pages 55 - 72)  
To consider a report that sets out the performance of the Treasury Management function in supporting the provision of Council services in 2012/13.
- 12. Strategic Risk Management 2012/13** (Pages 73 - 89)  
To note a report which outlines the Council's position at the end of 2012/13 in respect of risk management.
- 13. Exclusion of the Press and Public**  
To consider passing a resolution to exclude the press and public from the meeting prior to consideration of the following item on the agenda on the grounds that exempt information (as defined in Schedule 12A of the Local Government Act 1972 (as amended)) is likely to be disclosed.
- 14. Internal Audit Annual Report**  
To consider an exempt report which reviews of the work undertaken by Internal Audit during 2012/13, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.



## Minutes of the Audit Committee

20 March 2013

-: Present :-

Councillor Hill (Chairman)

Councillors Addis, Bent, Brooksbank, Stocks and Pountney (Vice-Chair)

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### 23. Minutes

The Minutes of the meeting of the Audit Committee held on 19 December 2012 were confirmed as a correct record and signed by the Chairman.

### 24. Audit Committee Update for Torbay Council

Members noted the Audit Committee update from Sue Hicks of Grant Thornton. The purpose of this update was to provide the Audit Committee with a report on progress in delivering their responsibilities as the council's external auditors. The report also highlighted key emerging national issues and developments which may be of interest to members of the Audit Committee.

Members wanted assurance that the challenge questions within the report were being fulfilled.

#### Action:

Paul Looby, Executive Head – Finance, to draw up a template with responses to questions and provide Audit Committee with a briefing note.

### 25. Torbay Council's Whistleblowing Policy

Members considered a report which outlined changes that have been made to the Torbay Council Whistleblowing Policy which would avoid inappropriate use of the policy, to signpost to other Council policies that are available and to make clear accountability for action and to reflect legal changes taking effect in April 2013.

#### Resolved:

- i) that the Whistleblowing Policy as out in Appendix 1 to the report be approved;
- ii) that minor changes to the Whistleblowing Policy, arising as a result of changes to the Council's top tier structure be delegated to the Executive Head of Business Services in consultation with the Chairman of the Audit

Committee; and

- iii) that the Chairman of the Audit Committee be notified , as soon as practical, when Whistleblowing incidents occur and if appropriate, for an Audit Committee to meet to be briefed of incidents at an early stage.

## **26. Progress Report on Strategic Risk Management**

Members considered a Progress Report on Strategic Risk Management. The Council has developed a new approach to risk management. The new approach reflects the changing operating position that local government now works within following the comprehensive spending review and a 30% cut in local government by 2014/15.

The aims of the approach are to develop a more strategic approach and to achieve greater clarity on the level of risk the Council is willing to accept and to embed this approach in day to day activity.

### **Action:**

For a report to be brought to June Audit Committee to highlight Risk Management.

## **27. Public Sector Internal Audit Standards**

Members noted the Public Sector Internal Audit Standards report from Rob Hutchins of Devon Audit Partnership (DAP).

It was noted that the numbering on the submitted report at 5.1 and 5.2 were duplicated and Alun Williams from Grant Thornton advised that note 5.2 of the submitted report was incorrect

### **Action:**

**For a joint note from Devon Audit Partnership and Grant Thornton to be circulated to Members within the next few weeks to clarify points 5.2 and 5.3. of the submitted report.**

## **28. Internal Audit Charter/Terms of Reference**

Members noted the Internal Audit Charter/Terms of Reference which described the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP).

## **29. Internal Audit Plan**

Members considered a report on the Internal Audit Plan 2013/14 and noted that all principal Local Authorities, including Torbay Council, are subject to the Accounts and Audit Regulations 2003 (as amended), and the Accounts and Audit Regulations 2006 and 2011, which require that the Authority should make

provision for Internal Audit. From April 2013, organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards.

Rob Hutchins, Devon Audit Partnership, informed Members that 1,321day of internal audit input will be required for Torbay Council in 2013/14 but this remains flexible and the days allocated are a rough guide in order to be proactive and reactive.

**Resolved:**

That the Committee agreed in principle to the proposed Audit Plan for 2013/14.

**30. Exclusion of the Press and Public**

(**Note:** Prior to consideration of the item in Minute 31 the press and public were formally excluded from the meeting on the grounds that the item involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).)

**31. Breakdown of Fee's**

Members noted a detailed breakdown of the hourly rates for auditors, which made up the total fees, as requested at Audit Committee on 19 December 2012.

Chairman

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## **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 Operating Officer, a Director, the Monitoring officer, Section 151 Officer (Chief Finance 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 Committee Update for Torbay Council

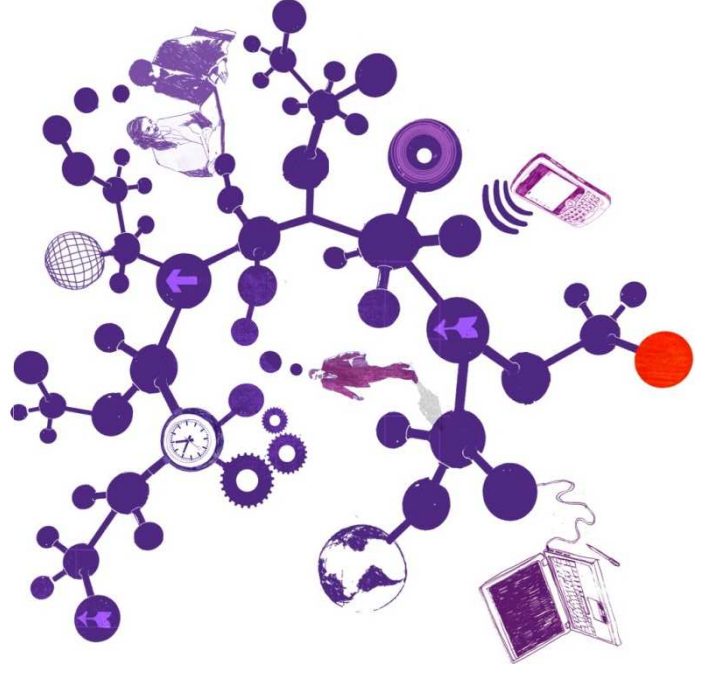
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19 June 2013

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

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# Introduction

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

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

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

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

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# Progress at 19 June 2013

| Work   | Planned date       | Complete? | Comments  |
|--|--------------------|-----------|---|
| <p><b>2012-13 Audit Plan</b><br/>We are required to issue an audit plan to the Council setting out our proposed approach in order to give an opinion on the Councils 2012-13 financial statements.</p>   | March 2013         | Yes       | Our 2012-13 Audit Plan is presented at this Committee.  |
| <p><b>Interim accounts audit</b><br/>Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• update understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul> | March 2013         | Yes       | Our interim accounts audit findings are reported in our Audit Plan.   |
| <p><b>2012-13 final accounts audit</b><br/>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements;</li> <li>• Whole of Government Accounts (WGA) return; and</li> <li>• proposed opinion on the Council 's accounts</li> </ul>  | July – August 2013 | N/A       | Planning meetings have been held with the Council's finance team and a timetable has been agreed for the audit of the financial statements. |

## Progress at 19 June 2012

| Work   | Planned date   | Complete?  | Comments   |
|--|--|------------|--|
| <p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises of assessing whether the Council has proper arrangements in place for:-</p> <ul style="list-style-type: none"> <li>• securing financial resilience; and</li> <li>• challenging how it secures economy, efficiency and effectiveness.</li> </ul> | <p>Initial risk assessment – January 2013</p> <p>Detailed assessment – February/March 2013</p> | <p>Yes</p> | <p>Initial risk assessment completed. No specific risks were identified that would result in separate pieces of work being required.</p> <p>Our detailed risk assessment is currently on-going. Our findings will be reported back to the Audit Committee.</p> |

# Emerging issues and developments

## Accounting and audit issues

### Local government accounts timetable

The key dates in the local government accounts timetable are as follows:

- by 30 June - the responsible financial officer certifies the presentation of the draft statement of accounts
- by 30 September:
  - the responsible financial officer recertifies the presentation of the final statement of accounts before members' approval
  - members approve the statement of accounts
  - the statement of accounts is published, with the audit opinion, certificate and audit report if issued by the auditor.

The key dates for Whole of Government Accounts are:

- by 31 July - submission of unaudited WGA L-Pack by authority
- by 7 October - submission of audited WGA L-Pack by auditor

The Council's finance team are aware of the above accounts timetable.

# Emerging issues and developments

## Grant Thornton

### Local Government Governance report

In February, we published '[Local Government Governance Review 2013](#)', our second annual review into local government governance. The report is based on:

- survey responses from over 60 council senior officers and members on governance reporting and the supporting processes
- a desk top review of 2011/12 Annual Governance Statements and explanatory forewords for 153 councils, against our best practice checklists based on the CIPFA/SOLACE framework and guidance notes.

Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur. It inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

The key findings included:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council Annual Governance Statements follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises.
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

**Challenge questions:**

- **Have you considered the findings of the report?**
- **What action do you plan to take to improve governance arrangements?**

Grant Thornton can provide you with a bespoke, bench-marked governance review. If you have any queries on governance, talk to your engagement manager to see how Grant Thornton could help.



# Emerging issues and developments

## Local government guidance

### Financial sustainability of local authorities

In January, the National Audit Office published '[Financial sustainability of local authorities](#)'. The report examined central government's approach to local authority funding, and reviewed local authorities' financial sustainability against a background of changes to their funding. It has three parts:

- Funding local authority services - setting out the background to the current funding arrangements and the reduction in local authority funding from the government's 2010 spending review
- Local authority budget management - setting out how local authorities have responded to their reduced income
- Maintaining financial sustainability - covering the growing challenges to local authorities' financial sustainability, managing financial risks and opportunities, and the increasing need for central government to make informed decisions as financial and service pressures increase.

Some of the key findings were:

- so far, local authorities have absorbed reductions in central government funding but there is some evidence that services have been reduced
- local authorities may find it harder over the rest of the spending review period to absorb funding reductions and maintain services
- local authorities' ability to make savings while maintaining service levels depends on local circumstances
- by reducing ring-fencing of its grants, central government aims to give local authorities greater spending flexibility
- the government is making changes that create financial opportunities for local authorities but also increase their financial risks and uncertainty, for example, the partial localisation of business rates and the arrangements for council tax benefit
- the accountability framework for local government to address widespread financial failure is untested.

### Challenge questions:

- **Has the authority reviewed this report?**

# Emerging issues and developments

## Local government guidance

### Pay policy statements

The Secretary of State for Communities and Local Government has issued [supplementary guidance on pay policy statements for 2012/13](#) which highlights:

- members should ensure that pay policy statements are set out clearly, that they fully address all of the requirements of the Localism Act 2011 and accompanying guidance, and are accessible.
- full Council should be given the opportunity to vote on salary packages of £100,000 or more. Those authorities who may not have senior posts over £100,000 should seek to achieve the same degree of openness and accountability by adopting a lower threshold for votes, appropriate to their local circumstances.
- full Council should also be given the opportunity to vote on severance payments over £100,000.
- where councils have directly elected mayors, they would involve the directly elected mayor and have regard to any proposals the mayor may have before the statement is considered and approved.

### Challenge questions:

- **Have you considered how to improve the clarity and value of the information your authority is publishing?**

# Emerging issues and developments

## Local government guidance

### Draft local audit bill

The Draft Local Audit Bill was published last year to enable consultation and pre-legislative scrutiny. In January, the Draft Local Audit Bill ad hoc Committee published 'Pre-Legislative Scrutiny of the Draft Local Audit Bill'. The Committee concluded that a number of areas required further examination – most significantly the independent appointment of auditors. The Government plans to introduce the new regulatory regime in 2015/16.

The proposals include the following:

- The Financial Reporting Council will act as the overall regulator for auditors and the National Audit Office will set the code of audit practice.
- From 1 April 2017, local government bodies will appoint their own auditors, in consultation with an independent auditor panel.
- In addition to giving their opinion on the financial statements, auditors will continue to have wider responsibilities. These include considering the arrangements for securing economy, efficiency and effectiveness in their use of resources and having the duty to report in the public interest.

The draft bill is still to go through Parliament for approval.

### Challenge questions:

- **Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?**



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# The Audit Plan for Torbay Council

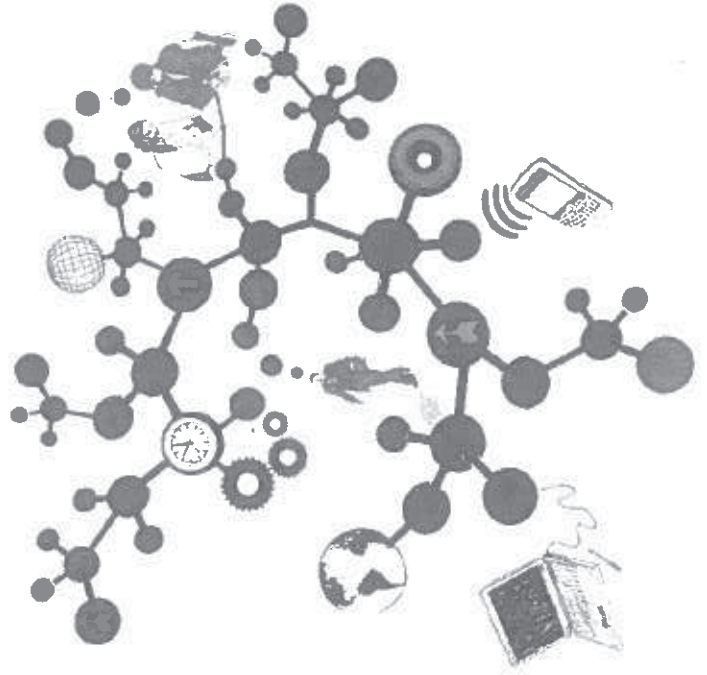
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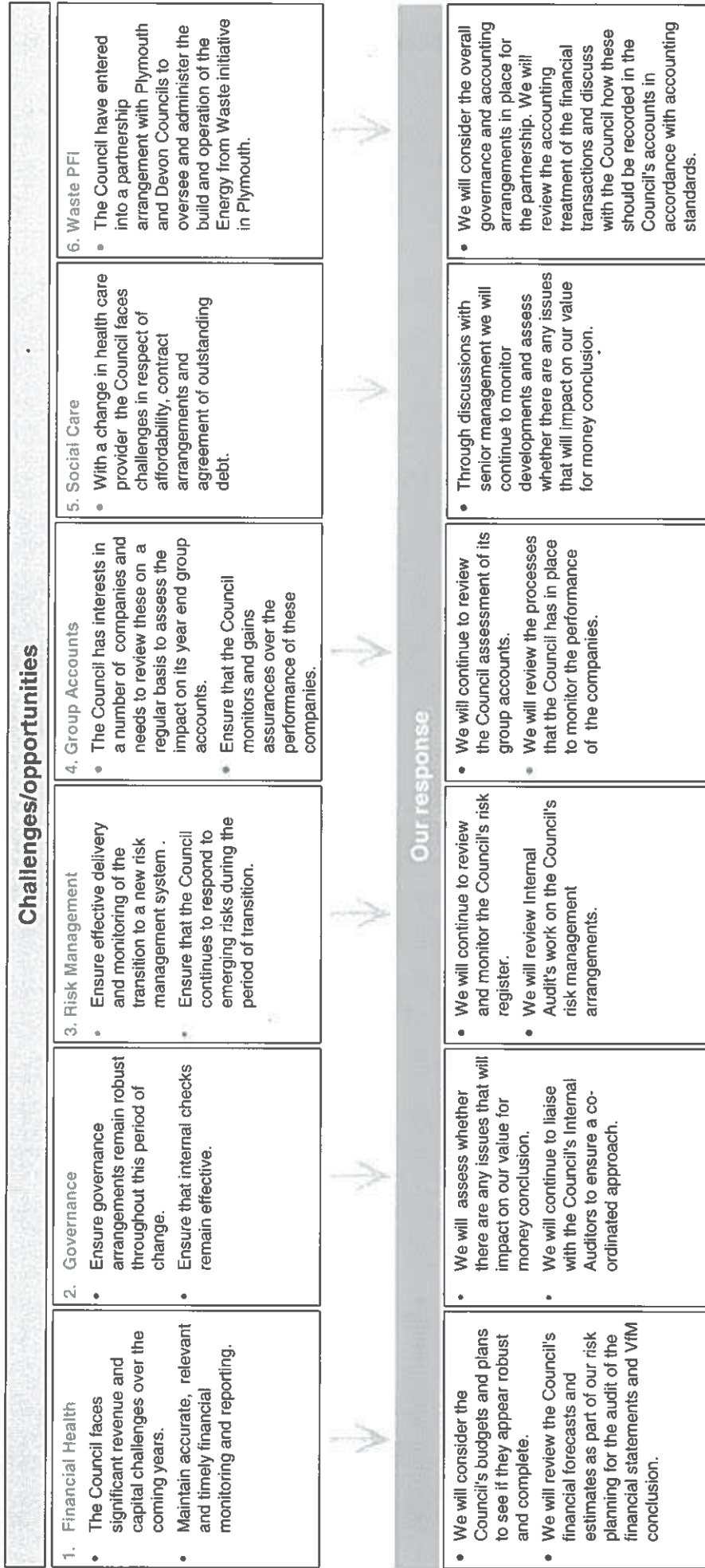
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8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



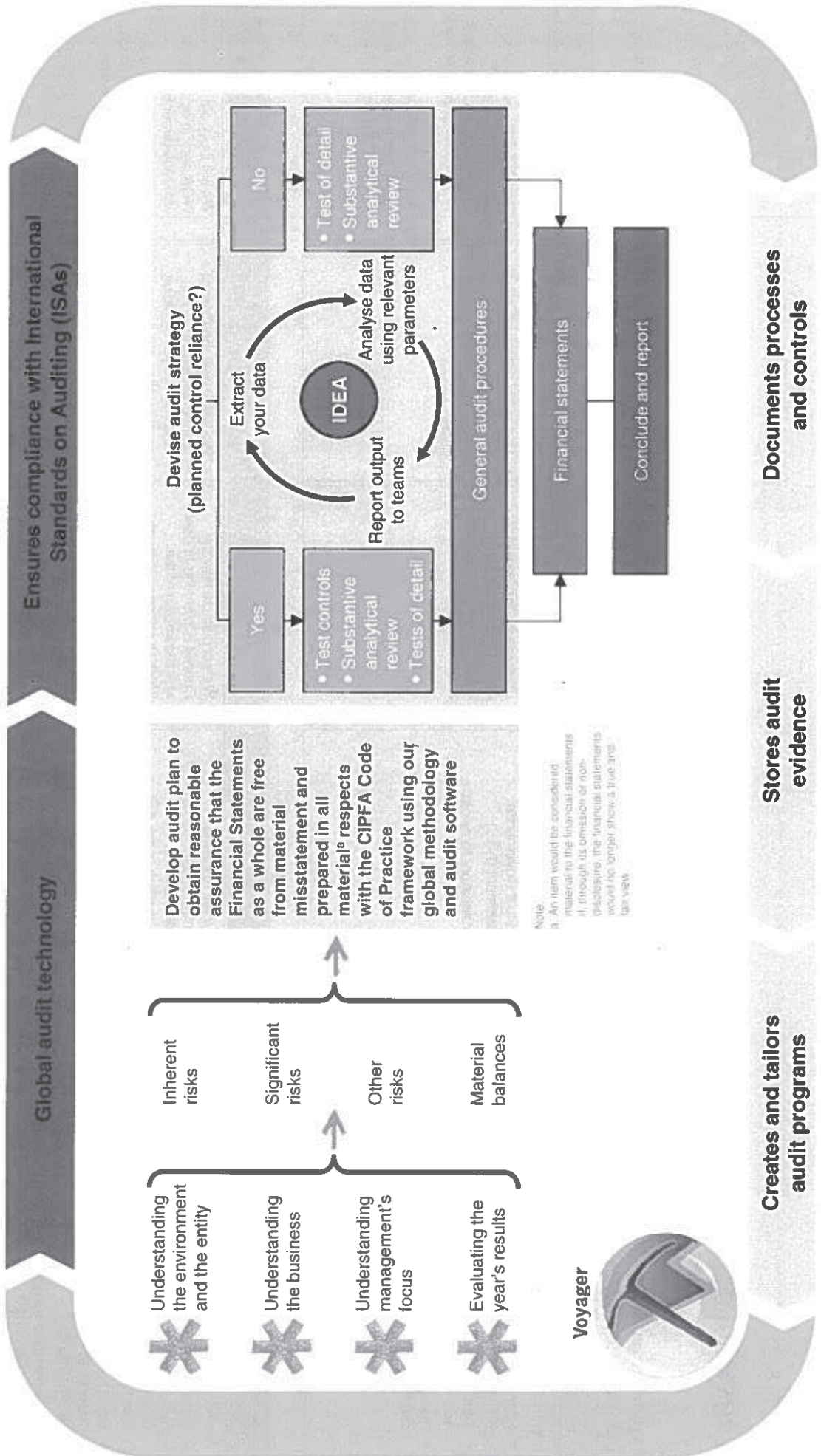


# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

| Developments and other requirements   |   |
|---|---|
| <p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Transfer of assets to Academies</li> <li>Recognition of grant conditions and income</li> </ul>   | <p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul> |
| <p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>Local Government Finance settlement 2012/13</li> <li>Welfare reform Act 2012</li> </ul>   | <p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>Managing service provision with less resource*</li> <li>Progress against savings plans</li> </ul>   |
| <p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>   | <p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>Planning for the impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)</li> </ul>  |
| <p><b>Our response</b></p> <p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>grant income is recognised in line with the correct accounting standard</li> </ul> | <p><b>Our response</b></p> <ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>  |
| <p>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</p>   | <p>We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan</p> <ul style="list-style-type: none"> <li>We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>                    |
| <p>We will review the arrangements the Council has in place for the production of the AGS</p> <ul style="list-style-type: none"> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>  | <p>We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management</p>   |

# Our audit approach



## An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

| Account  | Material (or potentially material) balance? | Transaction Cycle             | Inherent risk | Material misstatement risk? | Description of Risk                  | Substantive testing? |
|--|---|-------------------------------|---------------|-----------------------------|--------------------------------------|----------------------|
| Cost of services - operating expenses              | Yes   | Operating expenses            | Medium        | Other                       | Operating expenses understated       | ✓                    |
| Cost of services – employee remuneration           | Yes   | Employee remuneration         | Medium        | Other                       | Remuneration expenses not correct    | ✓                    |
| Costs of services – Housing & council tax benefit  | Yes   | Welfare expenditure           | Medium        | Other                       | Welfare benefits improperly computed | ✓                    |
| Cost of services – other revenues (fees & charges) | Yes   | Other revenues                | Low           | None                        |                                      | ✓                    |
| (Gains)/ Loss on disposal of non current assets    | Yes   | Property, Plant and Equipment | Low           | None                        |                                      | ✓                    |
| Precepts and Levies                                | No  | Council Tax                   | Low           | None                        |                                      | ✗                    |



## An audit focused on risks (continued)

| Account  | Material (or potentially material) balance? | Transaction Cycle           | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|---------------------|----------------------|
| Interest payable and similar charges                                 | Yes   | Borrowings                  | Low           | None                        |                     | ✓                    |
| Pension interest cost  | Yes   | Employee remuneration       | Low           | None                        |                     | ✓                    |
| Interest & investment income   | No  | Investments                 | Low           | None                        |                     | X                    |
| Return on Pension assets   | Yes   | Employee remuneration       | Low           | None                        |                     | ✓                    |
| Income from council tax  | Yes   | Council Tax                 | Low           | None                        |                     | ✓                    |
| NNDR Distribution  | Yes   | NNDR                        | Low           | None                        |                     | ✓                    |
| PFI revenue support grant & other Government grants                  | Yes   | Grant income                | Low           | None                        |                     | ✓                    |
| Capital grants & Contributions (including those received in advance) | Yes   | Property, Plant & Equipment | Low           | None                        |                     | ✓                    |

## An audit focused on risks (continued)

| Account  | Material (or potentially material) balance? | Transaction Cycle           | Inherent risk | Material misstatement risk? | Description of Risk                  | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|--------------------------------------|----------------------|
| (Surplus)/ Deficit on revaluation of non current assets        | Yes   | Property, Plant & Equipment | Low           | None                        |                                      | ✓                    |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Yes   | Employee remuneration       | Low           | None                        |                                      | ✓                    |
| Other comprehensive (gains)/ Losses                            | No  | Revenue/ Operating expenses | Low           | None                        |                                      | X                    |
| Property, Plant & Equipment                                    | Yes   | Property, Plant & Equipment | Medium        | Other                       | PPE activity not valid               | ✓                    |
| Property, Plant & Equipment                                    | Yes   | Property, Plant & Equipment | Medium        | Other                       | Revaluation measurements not correct | ✓                    |
| Heritage assets & Investment property                          | Yes   | Property, Plant & Equipment | Low           | None                        |                                      | ✓                    |
| Intangible assets  | No  | Intangible assets           | Low           | None                        |                                      | X                    |
| Investments (long & short term)                                | No  | Investments                 | Low           | None                        |                                      | X                    |
| Debtors (long & short term)                                    | Yes   | Revenue                     | Low           | None                        |                                      | ✓                    |
| Assets held for sale   | No  | Property, Plant & Equipment | Low           | None                        |                                      | X                    |
| Inventories  | No  | Inventories                 | Low           | None                        |                                      | X                    |
| Cash & cash Equivalents  | Yes   | Bank & Cash                 | Low           | None                        |                                      | ✓                    |



## An audit focused on risks (continued)

| Account                        | Material (or potentially material) balance? | Transaction Cycle     | Inherent risk | Material misstatement risk? | Description of Risk   | Substantive testing? |
|--------------------------------|---|-----------------------|---------------|-----------------------------|---|----------------------|
| Borrowing (long & short term)  | Yes   | Debt                  | Low           | None                        |   | ✓                    |
| Creditors (long & Short term)  | Yes   | Operating Expenses    | Medium        | Other                       | Creditors understated or not recorded in the correct period | ✓                    |
| Provisions (long & short term) | Yes   | Provision             | Low           | None                        |   | ✓                    |
| Pension liability              | Yes   | Employee remuneration | Low           | None                        |   | ✓                    |
| Reserves                       | Yes   | Equity                | Low           | None                        |   | ✓                    |

## Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk                                   | Description  | Substantive audit procedures  |
|--|--|---|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.     | <p>Work completed to date:</p> <ul style="list-style-type: none"> <li>• Review of revenue recognition policies</li> </ul> <p>Further work planned:</p> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Performance of attribute testing on material revenue streams</li> </ul>   |
| Management over-ride of controls                   | Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. | <p>Work completed to date:</p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul> <p>Further work planned:</p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul> |

## Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description   | Work completed to date  | Further work planned   |
|---------------------------------|---|---|--|
| Operating expenses              | Operating expenses understated                              | <ul style="list-style-type: none"> <li>Review of systems documentation and walkthrough of transaction.</li> </ul> | <ul style="list-style-type: none"> <li>Undertake analytical procedures to identify unrecorded liabilities.</li> <li>Review a sample of creditors / accruals to confirm they have been appropriately accounted for.</li> <li>Review subsequent year payments and sample check for unrecorded liabilities.</li> </ul>                |
| Operating expenses              | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> <li>Review of systems documentation and walkthrough of transaction.</li> </ul> | As above.  |
| Employee remuneration           | Remuneration expenses not correct                           | <ul style="list-style-type: none"> <li>Review of systems documentation and walkthrough of transaction.</li> </ul> | <ul style="list-style-type: none"> <li>Review a sample of employee remuneration expenses to confirm they have been appropriately accounted for.</li> <li>Review employee remuneration liabilities to ensure they have been calculated in accordance with the Code (eg, holiday pay).</li> </ul>                                    |
| Welfare Expenditure             | Welfare benefits improperly computed                        | <ul style="list-style-type: none"> <li>Review of systems documentation and walkthrough of transaction.</li> </ul> | <ul style="list-style-type: none"> <li>Reconcile the housing benefit and council tax benefit subsidy claim to the ledger and accounts.</li> <li>Substantially complete the required HB count testing, which includes testing a sample of benefit claims to ensure they are eligible and have been calculated correctly.</li> </ul> |



## Other risks (continued)

| Other reasonably possible risks | Description                         | Work completed to date  | Further work planned   |
|---------------------------------|-------------------------------------|---|--|
| Property, Plant & Equipment     | PPE activity not valid              | <ul style="list-style-type: none"> <li>Review of systems documentation and walkthrough of transaction.</li> </ul> | <ul style="list-style-type: none"> <li>Review the capitalisation policy and confirm repairs and maintenance accounts have not been capitalised.</li> <li>Compare the actual capital spend with the programmed spend to ensure the expected costs have been capitalised.</li> <li>Review a sample of current year additions to confirm they are appropriately accounted for.</li> </ul> |
| Property, Plant & Equipment     | Revaluation measurement not correct | <ul style="list-style-type: none"> <li>Review of systems documentation and walkthrough of transaction.</li> </ul> | <ul style="list-style-type: none"> <li>Evaluate the qualifications and the work completed by the Valuer to ensure the Code has been complied with.</li> <li>Confirm the asset values have been appropriately accounted for in the asset register and accounts.</li> </ul>  |

## Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component                            | Significant? | Level of response required under ISA 600 | Risks identified | Planned audit approach            |
|--------------------------------------|--------------|--|------------------|-----------------------------------|
| Torbay Economic Development Company  | No           | Analytical                               | N/A              | Desktop review performed by GT UK |
| English Riviera Tourism Company      | No           | Analytical                               | N/A              | Desktop review performed by GT UK |
| TOR2                                 | No           | Analytical                               | N/A              | Desktop review performed by GT UK |
| Careers SW                           | No           | Analytical                               | N/A              | Desktop review performed by GT UK |
| PLUSS                                | No           | Analytical                               | N/A              | Desktop review performed by GT UK |
| Riviera International Centre Limited | No           | Analytical                               | N/A              | Desktop review performed by GT UK |

## Results of interim audit work

### Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

|                     | Work performed   | Conclusion/ Summary   |
|---------------------|--|---|
| Internal audit      | We have reviewed the overall arrangements for internal audit in accordance with auditing standards. Where the arrangements are considered to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council. | Overall, we have concluded that the Internal Audit service continues to provide an independent service to the Council and that we can take assurance from its work in contributing to an effective internal control environment at the Council.                         |
| Walkthrough testing | Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.  | No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.  |
| Redundancy payments | We have reviewed a sample of redundancy payments made during the first 9 months to ensure that the Council's policies have been complied with. No issues have been identified that require to be reported.   | We will undertake further testing of redundancy payments as part of our final accounts audit fieldwork.<br>We will report to management any issues that we find during the course of the audit and summarise them in our final report to those charged with governance. |

## Results of interim audit work (continued)

|  | Work performed  | Conclusion/ Summary  |
|--|---|--|
| Review of information technology (IT) controls | Our information systems specialist is performing a high level review of the general IT control environment, as part of the overall review of the internal controls system.  | Our information systems specialist has yet to conclude their review. We will report the results to management and summarise any issues for those charged with governance.  |
| Journal entry controls                         | <p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that require to be reported.</p> | <p>We will undertake further testing of journal entries as part of our final accounts audit fieldwork.</p> <p>We will report to management any issues that we find during the course of the audit and summarise them in our final report to those charged with governance, before the financial statements are approved.</p> |

# Value for Money

## **Introduction**

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

## **2012/13 VfM conclusion**

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

## **Code criteria**

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources



We will consider whether the Council is prioritising its resources with a view to securing Value for Money.

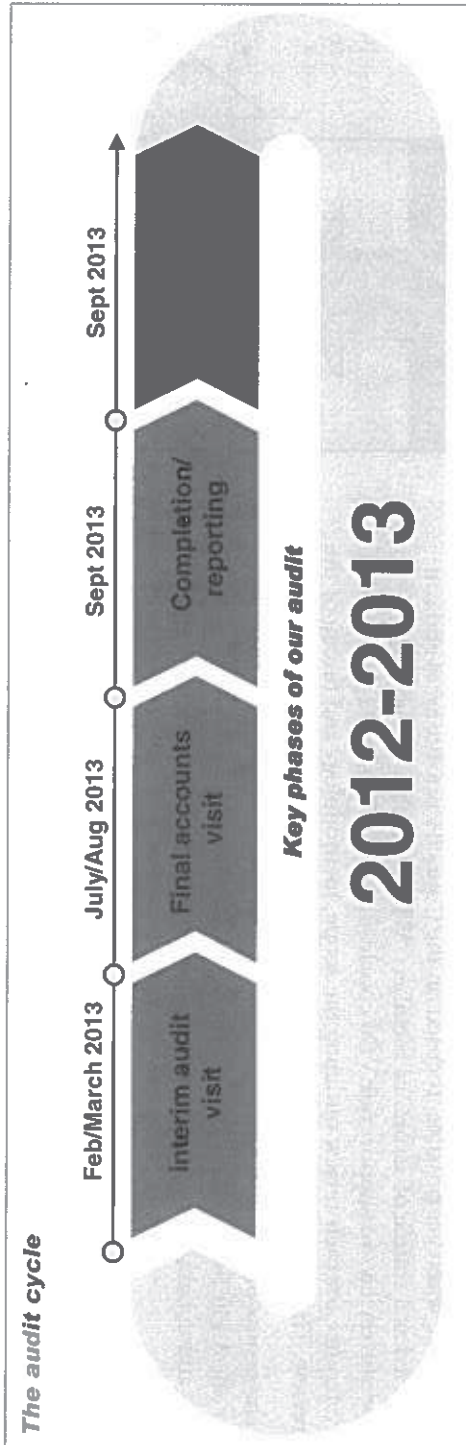
## **Work to be undertaken**

Risk-based work focusing on arrangements relating to:-

- financial governance, strategic financial planning, financial control; and
- prioritising resources and improving efficiency and productivity.



# Logistics and our team



| Date                 | Activity                                       |
|----------------------|--|
| January 2013         | Planning meeting                               |
| February/ March 2013 | Interim site work                              |
| June 2013            | The audit plan presented to Audit Committee    |
| July 2013            | Year end fieldwork commences                   |
| August 2013          | Audit findings clearance meeting               |
| September 2013       | Audit Committee meeting to report our findings |
| September 2013       | Sign financial statements and VFM conclusion   |
| October 2013         | Issue Annual Audit Letter                      |

## Our team

|  |   |
|--|---|
| <b>Alun Williams</b><br><b>Engagement Lead</b><br>T 0117 305 7797<br>M 07880 456143<br>E alun.g.williams@uk.gt.com | <b>Sue Hick</b><br><b>Audit Manager</b><br>T 0117 305 7872<br>M 07880 456 133<br>E sue.hick@uk.gt.com |
| <b>Stuart Holmes</b><br><b>Audit Executive</b><br>T 0117 305 7871<br>E stuart.m.holmes@uk.gt.com                   |   |

# Fees and independence

## Fees

|                                  | £              |
|----------------------------------|----------------|
| Council audit                    | 135,000        |
| Grant certification (indicative) | 18,675         |
| <b>Total</b>                     | <b>153,650</b> |

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

### Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## **Respective responsibilities**

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan   | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance  | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications   | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought |            | ✓              |
| Confirmation of independence and objectivity   | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.                               | ✓          | ✓              |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.  |            |                |
| Details of safeguards applied to threats to independence   |            |                |
| Material weaknesses in internal control identified during the audit  |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements   |            | ✓              |
| Non compliance with laws and regulations   |            | ✓              |
| Expected modifications to the auditor's report, or emphasis of matter  |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |





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Title: **Annual Governance Statement 2012/13**

Wards Affected: **All Wards**

To: **Audit Committee**                      On: **26 June 2013**

Key Decision: **No**

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

Contact Officer: **Mark Bennett**

☎ Telephone: **01803 207360**

✉ E.mail: **Mark.bennett@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 2012/13 which can then be approved by the Mayor and Chief Operating Officer 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 Operating officer 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 2012/13 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.

#### Reasons for the Recommendations

- 3.3 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.
- 3.4 To ensure key issues are communicated to and actioned by the Council to ensure risks are managed and the Governance Framework is sound.

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

**Mark Bennett**  
**Head of Business Services**

## **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 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 2012/13

**Documents available in members' rooms**

None

**Background Papers:**

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

CIPFA FAN Guidance

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



**ANNUAL GOVERNANCE STATEMENT 2012/13**

## **ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2012/13**

### **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 31st March 2013 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**

- A Community Plan refreshed in Autumn 2011 sets out the Council's vision developed jointly with the Torbay Strategic Partnership which brings together representatives of the public, voluntary and business sectors
- A Corporate Plan revised in March 2013 to reflect the current priorities of the Council
- A medium term resource plan which is regularly and updated to support the achievement of the Council's corporate priorities
- A performance management framework which includes performance reports reported to the public
- A programme of consultation with the public through public meeting and other mediums on a regular basis
- As part of its budget setting process the Council co-ordinates a series of public events to gain an understanding of the communities views.
- 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
- The Corporate Plan and Business Plans are reviewed annually as part of the Council's Annual Planning Cycle
- The Council's Communication Strategy, is communicated to staff, and all stakeholders via regular internal and external updates using promotional material, the web, the intranet
- Torbay Council 2012/13 Statement of Accounts for the year ended 31st March 2013
- Community Partnerships where local ward members and stakeholders can discuss concerns and issues with their constituents

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

- 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,
- 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, together with equalities impact assessments

- The Council is also very mindful that 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. Positive working relationship with trades unions through monthly formal meetings and informal meetings with the Chief Operating Officer and consultation where appropriate

**(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**

- Surveys of users in service specific groups are used together Viewpoint 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 Speaking out in Torbay (SPOT) within the learning disabilities
- The Council records performance information using performance-reporting software 'Service Performance and Risk' (SPAR) and action on areas of poor performance is closely scrutinised, by the senior leadership team 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 uses a range of benchmarking information, including the Audit Commission comparative data set and National Health Service (NHS) data. It uses the data to measure performance against comparators and to identify authorities from whom the Council could learn, and to identify potential areas of focus for budget reductions
- 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 Constitution sets out how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people
- This includes the publication of a monthly Forward Plan containing all key decisions
- The Constitution includes Standing Orders, Financial Regulations, Delegated powers, 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 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 other Members who oversee and advise on specific areas

- Matters outside of the budget and policy framework are referred to full Council for decision or advice to the mayor who normally makes decisions at the full council
- A 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 as appropriate
- An Audit Committee is responsible 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 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
- The Localism Act 2011 abolished the Standards Board regime and the national code of conduct that went with it and replaced it with a requirement that authorities promote and maintain high standards of conduct by members. Part of this requirement is that the Council adopts a 'local' code of conduct dealing with what is expected of members and co-opted members of the authority when they are acting in that capacity and that such code makes appropriate provision for the registration by members of pecuniary and other interests of members. This code was adopted by the Council at its meeting of 12 July

**(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, I-learn training modules, Computer Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution
- Legislative changes are monitored and reported to Strategic Leadership Team (SLT) and communicated to staff as required.
- Corporate induction courses are run on a regular basis. Managers are responsible for local induction arrangements. Officers in politically restricted posts and those responsible for negotiating contracts are required to register 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 the conduct of Members and investigating complaints in respect of individual Members. The Standards Committee has an annual work programme to promote and embed ethical standards and this is reported to the Council

**(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 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
- Directors and Executive Heads are responsible for managing risk within their departments
- The Executive Head Business Services is responsible for the implementation and monitoring of the risk management strategy
- The Council completed a detailed review of its Risk Management Policy and Strategy and the Strategic Risk Register in the current year including the identification of 6 strategic risks with clearly identified measures for mitigation
- The Council, when considering any matter, will have a risk assessment within the report
- The Council fully recognises the need to continue to manage risks in all projects and, where appropriate Prince II and MSP are applied

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

- The Chief finance Officer (CFO) has direct access to the Chief Operating Officer on all matters and has direct access to all Members and senior officers of the Council
- The Council follows practices to ensure it makes best use of its resources. The CFO works with Directors and Executive Heads to identify any financial issues which may require management action. These are reported to the Overview and Scrutiny Board and Council on a quarterly basis, regular discussions take place with the Executive Member with responsibility for finance
- All reports to Members include a section on the resource implications, prior to publication these implications are cleared by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate
- The full Council approves the Treasury Management Strategy on an annual basis and all Members are briefed on key financial issues
- The CFO has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems. Devon Audit Partnership undertake the role of auditing these systems to give the assurance needed

- The Council has developed a Medium Term Resource Plan, which is reviewed on an on-going basis to take into account new information and changing circumstances, this is used to inform reports to members, detailed in year plans are produced as part of the annual budget process, these in year plans represent the business units individual business plans through which financial and operational performance are monitored

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

- 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
- 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 Council quarterly, and is considered regularly by the Strategic Leadership Team. 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 and the electronic distribution of budget monitoring reports to all managers
- Directors 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 management initiatives

**(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. A further review was undertaken during 2012/13 with an updated Whistle Blowing policy being agreed on 20 March 2013. 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 procedures for dealing with customer complaints and provides the means for customers to feedback concerns or issues. Complaints are analysed and reported back to Members and Managers along with the actions taken. An Annual Report is produced outlining the complaints and compliments handled by the Council and Ombudsman during the previous financial year. This is reported to the Overview & Scrutiny Board. Customer Care standards have been agreed and published. The complaints procedures are regularly reviewed.

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

- All members have personal development plans, corporate training needs are identified through the Strategic Leadership Team
- The Member Development Policy provides a structured approach to member development to ensure all members are supported in their role. The majority of training delivered through the Devon member development shared service
- The Council has strongly supported staff development, particularly through programmes such as Institute of Leadership and Management

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

- 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 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 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. Councillors have also been encouraged to produce their own means of communication and, for example a number have created their own websites

**(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 Council's Code of Corporate Governance is available on its website. There is a robust Constitution established for the local Community Partnerships
- Appropriate arrangements in respect of service specific partnerships such as the Torbay Care Trust and the Torbay Coast & Countryside Trust, TOR2 and English Riviera Tourist Company and Economic Development Company 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 Operating Officer 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. 2012-13 saw the fourth 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 about the standard of work performed by the Devon Audit Partnership. 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 the Monitoring Officer, Section 151 Officer and Governance Support 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 Schemes of Delegation, and also the Officer Scheme of Delegation
- Torbay operates a mayoral system and has a constitutional working party whereby improvements and changes to the constitution are made and agreed. All members are inducted into the importance and processes of good governance and have informal and if required, formal ways of raising governance issues with the monitoring officer, chief executive, section 151 Officer and the senior leadership team
- Since the May 2011 elections the Mayor has chosen to make the majority of his decisions at council meetings to ensure they are taken in public both full council

decisions (part of the policy framework) and Mayoral decisions are taken in public with full questions by council in order to further introduce further transparency and public accountability

- The Audit Committee and Overview and Scrutiny Board operate to provide assurance and call the executive to account, through decisions in the forward plan, performance management and risk and the use of 'call in' where appropriate
- Risk is embedded in performance management and can therefore be challenged and has oversight through the Executive, Audit Committee and Overview and Scrutiny Board
- The standards committee continue to be part of the successful operation of the council's governance,
- There is also the whistle blowing mechanism which can be used to raise concerns which can include governance matters. Standards also provide independent feedback to members in their public duties through observing conduct at Council, and Overview and Scrutiny. This has allowed members to improve their performance individually and collectively, in addition to the 1-1s of member performance management
- The Council continues to challenge itself in governance and includes governance 'days' for all members to refocus when required
- The council's section 151 officer holds regular meetings with the Head of the Devon Audit Partnership (DAP) with responsibility for Torbay to discuss all on-going and planned work and any issues which arise. The Head of Internal Audit reports 6 monthly to the Audit Committee setting out work undertaken and the planned work for the year. This will include reporting on audits and work undertaken where there are concerns over practice or systems of internal control and sets out how these will be addressed

### **Internal Audit**

- The internal audit services is provided by Devon Audit Partnership (DAP). This is a shared service arrangement between Torbay, Plymouth and Devon councils and is constituted under section 20 of the Local Government Act 2000
- Public Sector Internal Audit Standards – Collaboration between the Institute of Internal Auditors, CIPFA and International Audit Standards Setters has resulted in the first set of public sector internal audit standards (PSIAS) for the UK. The PSIAS, which came into force on 1 April 2013, have been developed to create consistent standards for the practice of internal audit across the public sector. An independent review of DAP was completed in November 2012 and confirmed that DAP were "ready" for the planned changes in approach
- 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
- The Council also receive reliance from the NHS Internal Audit Confederation over the controls in operation at Torbay and Southern Devon Health and Care NHS Trust. The controls cover the provision of the adult social services
- 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
- 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

### **Significant governance Issues**

- No significant governance issues have been identified. Overall, and based on work performed during 2012/13, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

# Agenda Item 11



**Meeting: Audit Committee  
Council**

**Date: 26<sup>th</sup> June 2013  
18<sup>th</sup> July 2013**

**Wards Affected: All Wards in Torbay**

**Report Title: Treasury Management Outturn 2012/13**

**Executive Lead Contact Details:** Mayor Gordon Oliver, 01803 207001,  
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**Supporting Officer Contact Details:** Pete Truman, Principal Accountant, 01803 207302,  
pete.truman@torbay.gov.uk

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## **1. Purpose and Introduction**

- 1.1 This report informs the Council/Committee of the performance of the Treasury Management function in supporting the provision of Council services in 2012/13 through management of cash flow, debt and investment operations and the effective control of the associated risks.

## **2. Proposed Decision**

### **Audit Committee:**

- 2.1 **That the Treasury Management decisions made during 2012/13 as detailed in this report be endorsed.**

### **Council:**

- 2.2 **That the Audit Committee recommends Council endorse the Treasury Management decisions made during 2012/13, as detailed in the submitted report; and**
- 2.3 **That Council be recommended to approve the Prudential and Treasury Indicators as set out in Annex 1 to this report.**

## **3. Reason for Decision**

- 3.1 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 2012/13.

3.2 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).

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## Supporting Information

### 4. Position

4.1 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”.*

4.2 During 2012/13 the minimum reporting requirements were that full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 13<sup>th</sup> February 2012)
- A mid-year review report (distributed to Members on 12<sup>th</sup> December 2012)
- An annual report following the year describing the activity compared to the strategy (this report)

4.3 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.

4.4 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.

4.5 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.

4.6 Borrowing allows the repayment costs of 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.

4.7 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.

4.8 The Treasury Management team also carry out management of the Council’s surplus cash balances arising from, for example:

- Short term revenue balances (working capital)
- 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.

- 4.9 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.

## **5. Possibilities and Options**

- 5.1 Not applicable

## **6. Fair Decision Making**

- 6.1 Not applicable

## **7. Public Services (Social Value) Act 2012**

- 7.1 Not applicable

## **8. Consultation**

- 8.1 Not applicable

## **9. Risks**

- 9.1 Not applicable

## **Appendices and Annexes**

|            |  |
|------------|--|
| Appendix 1 | Treasury Management Activities in 2012/13                      |
| Annex 1    | Prudential and Treasury Indicators 2012/13                     |
| Annex 2    | The Economy and Interest Rates in 2012/13                      |
| Annex 3    | Counterparties with which funds have been deposited in 2012/13 |

## **Additional Information**

Treasury Management Strategy 2012/13



#### Treasury Management Activities in 2012/13

##### A1. Introduction

A1.1 This Appendix covers:

- Capital Expenditure and Financing 2012/13;
- Capital Financing Requirement;
- Treasury Position at year End;
- The Strategy for 2012/13;
- The Economy and Interest rates 2012/13;
- Borrowing Rates in 2012/13;
- Borrowing Outturn for 2012/13;
- Investment Rates in 2012/13;
- Investment Outturn for 2012/13;
- Revenue Budget Performance;
- Reporting Arrangements and Management Evaluation

##### A2 Capital Expenditure and Financing 2012/13

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 (though the timing of borrowing may be delayed through the application of cash balances held by the Council).

A2.2 The actual capital expenditure forms one of the required prudential indicators and is shown in the table below. Other Prudential and Treasury Indicators are presented at Annex 1 to this report.

|                           | 2011/12<br>Actual<br>£m | 2012/13<br>Revised<br>£m | 2012/13<br>Actual<br>£m |
|---------------------------|-------------------------|--------------------------|-------------------------|
| Total capital expenditure | 22                      | 24                       | 19                      |

##### 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 net 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 2012/13 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been financed 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 [PWLb] or the money markets), or utilising temporary cash resources within the Council.

A3.3 **Reducing the CFR** – the Council's 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 the reserving of funds for repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. The Council's 2012/13 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13 on 13<sup>th</sup> February 2012.

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).

A3.5 Following the transfer of Local Government reorganisation debt from Devon County Council in 2010/11 the Council now budgets £500,000 per annum to reflect a provision for the repayment of this debt on maturity (similar to MRP) and all payments to 31<sup>st</sup> March 2013 have been made.

A3.6 The Council's CFR for the year represents a key prudential indicator analysed at Annex 1 and summarised below. This includes PFI schemes on the balance sheet, which increase the Council's long term liabilities. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

| CFR (£m)        | 31 March<br>2012<br>Actual | 31 March<br>2013<br>Revised<br>Indicator | 31 March<br>2013<br>Actual |
|-----------------|----------------------------|--|----------------------------|
| CFR at Year End | 137                        | 138                                      | 136                        |

A3.6 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit presented at Annex 1 to this report.

#### 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:

|                                    | 31 March 2012<br>Principal | Rate/<br>Return | Average<br>Life yrs | 31 March 2013<br>Principal | Rate/<br>Return | Average<br>Life yrs |
|------------------------------------|----------------------------|-----------------|---------------------|----------------------------|-----------------|---------------------|
| <b>Fixed rate funding:</b>         |                            |                 |                     |                            |                 |                     |
| -PWLB                              | £143.5m                    |                 |                     | £138.1m                    |                 |                     |
| -Market                            | <u>£10.0m</u>              | £153.5m         | 4.31%               | 27.0                       | <u>£10.0m</u>   | £148.1m 4.33% 26.9  |
| <b>Variable rate funding:</b>      |                            |                 |                     |                            |                 |                     |
| -PWLB                              | £0.00m                     |                 |                     | £0.0m                      |                 |                     |
| -Market                            | <u>£0.00</u>               | £0.00m          | 0%                  | <u>£0.0m</u>               | <u>£0.0m</u>    | <u>0%</u>           |
| <b>Total Borrowing</b>             | <b>£153.5m</b>             | <b>4.31%</b>    | <b>27.0</b>         | <b>£148.1m</b>             | <b>4.33%</b>    | <b>27.0</b>         |
| Other Long Term Liabilities        |                            | £9.7M           | 5.26%               | 15.0                       | £9.3M           | 5.26% 14.0          |
| <b>Total Borrowing/Other LTL</b>   | <b>£163.2M</b>             | <b>4.37%</b>    | <b>25.9</b>         | <b>£157.4M</b>             | <b>4.39%</b>    | <b>24.9</b>         |
| <b>CFR</b>                         | <b>£137.0m</b>             |                 |                     | <b>£136.0m</b>             |                 |                     |
| <b>Borrowing in excess of CFR*</b> | <b>£26.2m</b>              |                 |                     | <b>£21.4m</b>              |                 |                     |
| <b>Investments**</b>               |                            |                 |                     |                            |                 |                     |
| - in house                         | £67.6m                     | 1.41%           |                     | £52.1m                     | 2.03%           |                     |
| - with managers***                 | £35.5m                     | 1.51%           |                     | £29.8m                     | 1.40%           |                     |
| <b>Total investments</b>           | <b>£103.1m</b>             | <b>1.43%</b>    |                     | <b>£81.9m</b>              | <b>1.81%</b>    |                     |

\* The Capital Investment Plan approved in February 2013 requires £27m to support approved schemes over the next four years.

\*\* 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 in 2007 and subsequent additions and withdrawals

A4.2 The total borrowing figure at year end of £148.1m includes borrowing supported by central government. The Local Government Finance Settlement for 2012/13 (available on the Communities and Local Government website) recognises a figure of £89m on which central funding is based for interest payments and MRP.

A4.3 The outturn against approved treasury limits is analysed at Annex 1 to this report.

## A5. The Strategy for 2012/13

A5.1 The central strategy aimed to reduce the difference between gross and net borrowing levels in order to reduce the credit risk and cost incurred by holding high levels of investment.

A5.2 The economic outlook for 2012/13 however, expected little opportunity to repay borrowing. The expectation for interest rates anticipated continuing low levels with only a gradual rise in the latter part of the year.

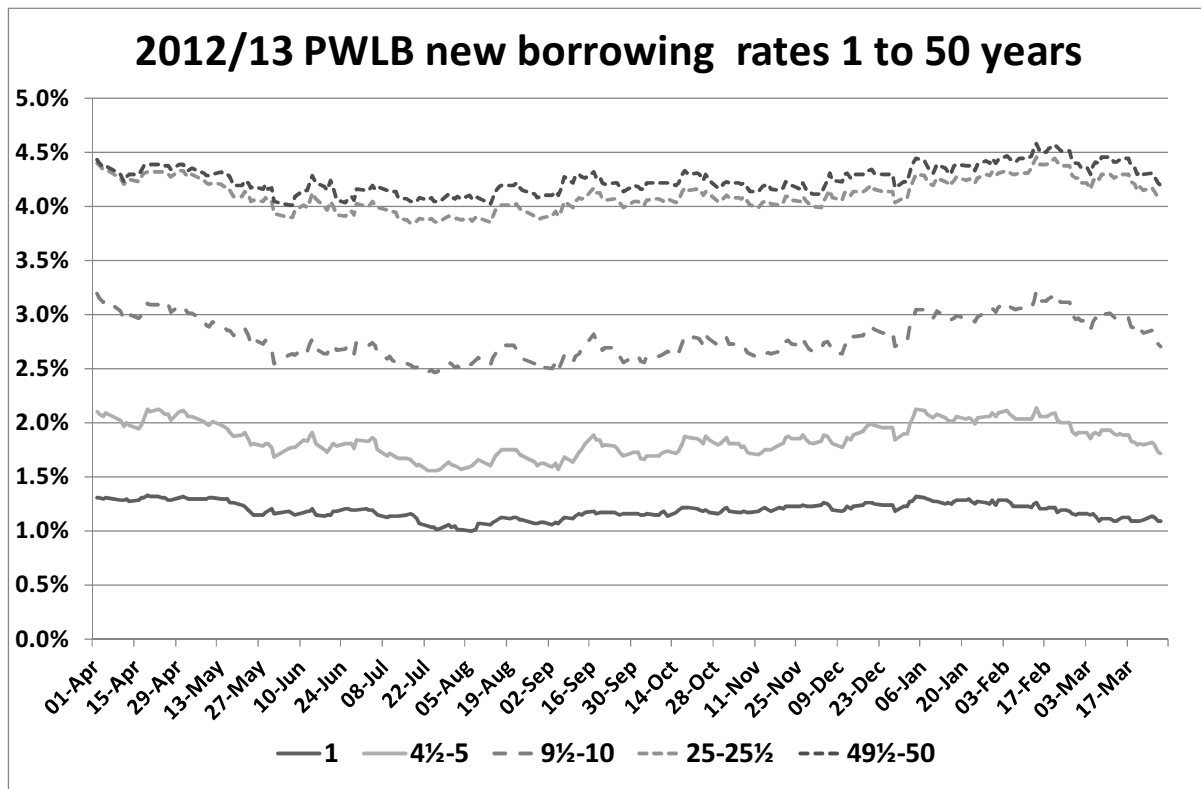
A5.3 Investment strategy was strongly influenced by market and credit risk considerations with deposits planned generally for shorter durations with a limited number of secure counterparties, particularly UK part-nationalised banks, with relatively low returns.

**A6 The Economy and Interest Rates 2012/13**

A6.1 A commentary of the economic factors prevalent in 2012/13 is given at Annex 2.

**A7. Borrowing Rates in 2012/13**

A7.1 The following graph below shows, for a selection of PWLB maturity periods, the path of rate movements during 2012/13 remaining close to historically low levels throughout the year.



A7.2 A separate tier of rates applies to early repayment of loans which is around 1% lower than new borrowing levels. Repayment rates need to be as high as possible (matching or exceeding the individual loan rate) to make debt rescheduling economic. Given the overriding aim to reduce borrowing the rate environment during the year restricted opportunities for loan repayment.

**A8 Borrowing Outturn for 2012/13**

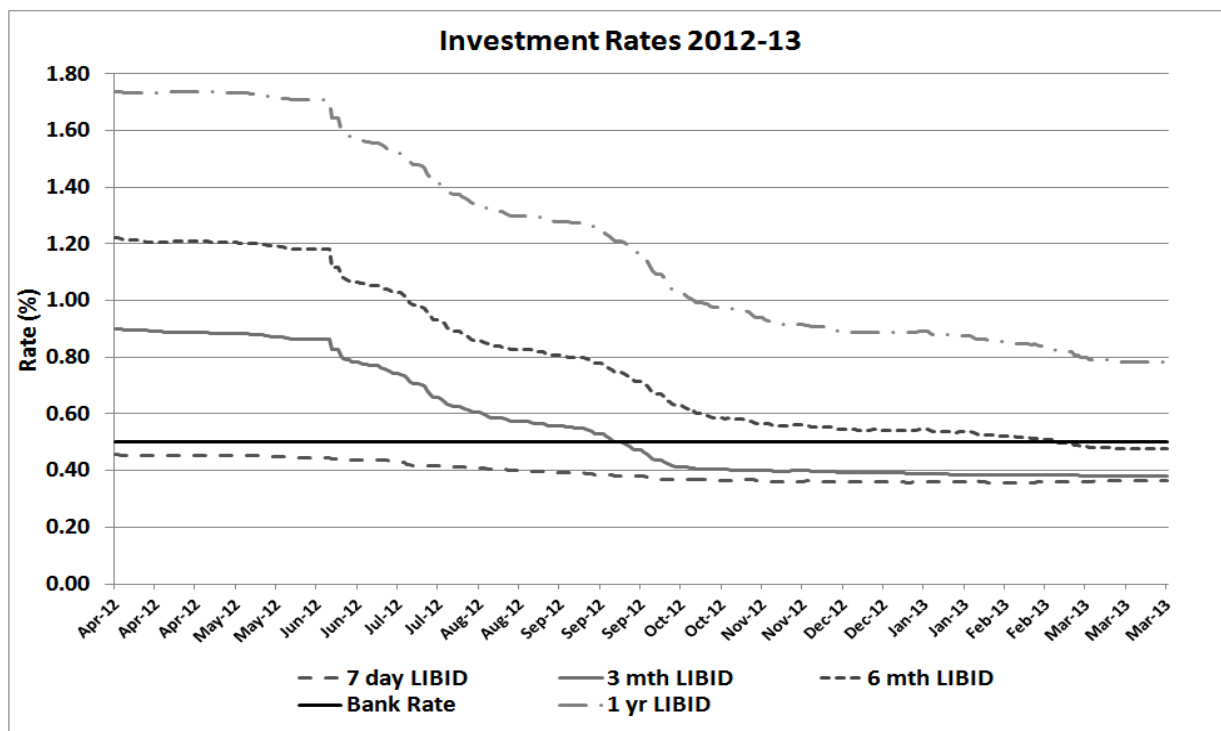
A8.1 In line with the overall strategy of reducing borrowing levels, an approach was

made by the Mayor and local MPs to central government requesting the Council be allowed to repay a significant level of PWLB loans without repayment penalty. This request was declined by the Treasury.

- A8.2 Officers continued to monitor market conditions rates for opportunities to reduce borrowing and £5.4 million of PWLB loans were prematurely repaid during the year with breakage costs of £374,816. The resultant interest savings will fund these costs over a two year payback period.
- A8.3 ***Borrowing Performance*** – Total borrowing was reduced from £153.4 million to £148.1 million during the year generating ongoing annual savings of £204k. The average rate of interest paid on loans in 2012/13 was 4.31%.

## **A9 Investment Rates in 2012/13**

- A9.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.
- A9.2 In July 2012 the Bank of England launched Funding for Lending, a scheme which allows banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years, creating an incentive for banks to increase lending to businesses and households.
- A9.3 The cheaper funding provided by the scheme meant Banks were less reliant on normal funding sources, including local authorities, with a resulting fall in market rate levels.
- A9.4 The following graph below illustrates the path of investment rate movements during 2012/13. The effect of the Funding for Lending scheme is clearly illustrated.



## A10 Investment Outturn for 2012/13

A10.1 **Investment Policy** – the Council’s investment policy is governed by DCLG guidance which emphasises 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 13<sup>th</sup> February 2012 and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data.

A10.2 In line with the Strategy investments were made within a tight counterparty selection framework with significant sums kept in liquidity accounts. As forecasts for the timing of interest rate rises were pushed back a number of one to two year deals were taken with UK part-nationalised banks to provide protection to investments returns.

A10.3 Due to the Euro zone sovereign debt crisis and its potential impact on banks the Chief Finance Officer has removed Eurozone Banks from the approved list. A further restriction reducing the maximum duration for new deposits to three months for all counterparties regardless of their individual credit quality (excluding UK part-nationalised Banks) was lifted in February 2013.

A10.4 The longer investments with UK part-nationalised Banks reflects officer’s view that these institutions continue to offer the safest domicile for Council cash with the implicit UK government guarantee overriding individual credit ratings.

A10.5 A list of those institutions with which the in-house team invested funds during the year is provided at Annex 3. No institutions with which investments were made showed any difficulty in repaying investments and interest in full during the year.

A10.6 **Externally Managed Investments** – Scottish Widows Investment Partnership (SWIP) was appointed to a proportion of the Council's cash on 21<sup>st</sup> June 2007. The CFO has set a maximum of 35% of total investments to be managed externally and the fund was reduced to £28.9M at year end to comply with this limit. The average size of the holding in 2012/13 was £34.5M

A10.7 During the year SWIP has made use of good quality credit assets to enhance returns. The supply of these assets began to dry up approaching the end of the year. SWIP also invested in a number of other instruments over a diverse range of counterparties.

A10.8 **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> | £66,133,588                  | 2.031%                         | na                           | 0.394%                   |
| <b>Externally Managed</b> | £34,464,000                  | 1.400%                         | 1.250%                       | 0.436%                   |

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.

A10.9 In interest terms, the in-house treasury function contributed an additional £1,082,000 to the General Fund over and above what would have been attained from the benchmark return. SWIP's net return achieved an additional £280,000 over their target return level of 10% above benchmark.

A10.10 Alternative forms of investment e.g. loans to Housing Associations, sovereign instruments, supplier discounts for upfront payments were considered by officers as ways to enhance returns.

## **A11 Revenue Budget Performance**

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

|   | Revised Budget 2012/13 | Actual 2012/13 | Variation    |
|---|------------------------|----------------|--------------|
|   | £M                     | £M             | £M           |
| Investment Income                       | (1.0)                  | (1.8)          | (0.8)        |
| Interest Paid on Borrowing              | 6.6                    | 6.6            | 0.0          |
| Premium on early repayment of Borrowing | 0.1                    | 0.3            | 0.2          |
| <b>Net Position (Interest)</b>          | <b>5.7</b>             | <b>5.1</b>     | <b>(0.6)</b> |
| Minimum Revenue Provision               | 4.4                    | 4.7            | 0.3          |
| PFI Grant re: MRP                       | (0.4)                  | (0.4)          | 0.0          |
| <b>Net Position (Other)</b>             | <b>4.0</b>             | <b>4.3</b>     | <b>0.3</b>   |
| <b>Net Position Overall</b>             | <b>9.7</b>             | <b>9.4</b>     | <b>(0.3)</b> |

A11.2 The Revenue Grant settlement 2012/13 formula includes notional funding of £8.4m for interest payments and MRP related to supported borrowing within the above figures.

A11.3 The changing position was regularly reported to OSB and Council 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 2012/13 were as follows:

- Weekly monitoring report to Executive Lead for Finance 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 2012/13 CIPFA Benchmarking Club, show that the treasury management team achieved interest rate performance in the top 30% of participating Authorities for borrowing and the top 10% for investments.



**Prudential and Treasury Indicators 2012/13**

**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 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2012/13. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

| CFR (£m)  | 31 March<br>2012<br>Actual | 31 March<br>2013<br>Revised Q3<br>Indicator | 31 March<br>2013<br>Actual |
|---|----------------------------|---|----------------------------|
| Opening balance                                   | 137.6                      | 137.1                                       | 137.1                      |
| Capital expenditure in year funded from borrowing | 3.4                        | 6.4   | 3.6                        |
| Minimum Revenue Position                          | (3.9)                      | (4.6)                                       | (4.6)                      |
| Repayment of Deferred Liabilities                 | 0                          | 0   | 0                          |
| <b>CFR at Year End</b>                            | <b>137.1</b>               | <b>138.9</b>                                | <b>136.1</b>               |
| <b>Net borrowing position</b>                     | <b>60.1</b>                | <b>73.1</b>                                 | <b>75.5</b>                |

**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 2012/13 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. Borrowing levels were maintained well below the operational boundary throughout the year.

|                                  | 2012/13 |
|----------------------------------|---------|
| Authorised limit                 | £192m   |
| Maximum gross borrowing position | £154m   |
| Operational boundary             | £173m   |
| Average gross borrowing position | £152m   |

**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.

|  | 2012/13      |
|--|--------------|
| <b>Total Financing Costs</b>                           | <b>£9.4m</b> |
| Net Revenue Stream                                     | £123.7m      |
| Ratio – Including direct financing from Revenue        | 8.84%        |
| <b>Ratio - Excluding direct financing from Revenue</b> | <b>7.62%</b> |

#### Treasury Indicators:

**Maturity Structure of the fixed rate borrowing portfolio** - This indicator assists Authorities avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.

|                                | 31 March<br>2013<br>Actual | 31 March<br>2013<br>Proportion | 2012/13<br>Original Limits<br>Upper-Lower |
|--------------------------------|----------------------------|--------------------------------|---|
| Under 12 months                | £0                         | 0%                             | 7% - 0%                                   |
| 12 months and within 24 months | £0                         | 0%                             | 7% - 0%                                   |
| 24 months and within 5 years   | £0                         | 0%                             | 7% - 0%                                   |
| 5 years and within 10 years    | £19M                       | 13%                            | 19% - 6%                                  |
| 10 years and within 25 years   | £38M                       | 26%                            | 32% - 12%                                 |
| 25 years to 40 years           | £55M                       | 37%                            | 45% - 12%                                 |
| Over 40 years                  | £36M                       | 24%                            | 35% - 10%                                 |

**Principal sums invested for over 364 days** - The purpose of this indicator is to contain the Council's exposure to the possibility of losses that might arise as a result of it having to seek early repayment or redemption of principal sums invested. The 2012/13 Actual applies to a £5m 2-year in-house deal and funds administered by the external Fund Manager.

|                                | 2011/12<br>Actual | 2012/13<br>Limit | 2012/13<br>Actual |
|--------------------------------|-------------------|------------------|-------------------|
| Investments of 1 year and over | £12m              | £68m             | £19m              |

**Exposure to Fixed and Variable Rates** - The Prudential Code requires the Council to set upper limits on its exposure to the effects of changes on interest rates.

The fixed rate limit set allows for the Council's entire borrowing to be locked out at affordable levels. The variable limit reflects the use of Liquidity Accounts for investing cash. (The negative Actual net values reflects the extensive use of these variable rate instruments due to attractive rates and counterparty concerns), netted against a zero level of variable debt.)

|  | 31 March<br>2012<br>Actual | 2012/13<br>Upper Limits | 31 March<br>2013<br>Actual |
|--|----------------------------|-------------------------|----------------------------|
| Net principal re fixed rate borrowing / investments    | £101m                      | £150m                   | £144m                      |
| Net principal re variable rate borrowing / investments | -£51m                      | £41m                    | -£38m                      |
| <i>Limits on fixed interest rates:</i>                 |                            |                         |                            |
| • <i>Debt only</i>                                     | 153                        | 163                     | 148                        |
| • <i>Investments only</i>                              | 52                         | 85                      | 44                         |
| <i>Limits on variable interest rates</i>               |                            |                         |                            |
| • <i>Debt only</i>                                     | 0                          | 41                      | 0                          |
| • <i>Investments only</i>                              | 51                         | 70                      | 38                         |

## **The Economy and Interest Rates 2012/13**

*By Sector Treasury Services 29<sup>th</sup> April 2013*

Sovereign debt crisis. The EU sovereign debt crisis was an ongoing saga during the year. However, the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September. During the summer, a €100bn package of support was given to Spanish banks. The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December was then followed by a second major crisis, this time over Cyprus, towards the end of the year. In addition, the Italian general election in February resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally ‘unsatisfactory’ result! This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody’s followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.

UK growth. 2012/13 started the first quarter with negative growth of -0.4%. This was followed by an Olympics boosted +0.9% in the next quarter, then by a return to negative growth of -0.3% in the third quarter and finally a positive figure of +0.3% in the last quarter. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £50bn in July to a total of £375bn on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. In the March 2013 Budget, the Office of Budget Responsibility yet again slashed its previously over optimistic growth forecasts, for both calendar years 2013 and 2014, to 0.6% and 1.8% respectively.

UK CPI inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March; however, it is forecast to fall to 2% in three years time. The MPC has continued its stance of looking through temporary spikes in inflation by placing more importance on the need to promote economic growth.

Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.

Bank Rate was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to quarter 1 2015 at the earliest.

Deposit rates. The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

**Counterparties with which funds were deposited (April 2012 – March 2013)**

**Banks and Building Societies**

Bank of Scotland  
Lloyds TSB  
Nationwide Building Society  
Royal Bank of Scotland/National Westminster  
Santander UK  
Svenska Handelsbanken

**Local Authorities**

City of Newcastle upon Tyne

**Other Approved Institutions**

Public Sector Deposit Fund  
Royal Bank of Scotland Money Market Fund  
Scottish Widows Investment Partnership

# Agenda Item 12



Title: **Strategic Risk Management 2012/13**

Wards Affected: **All Wards**

To: **Audit Committee**

On: **26 June 2013**

Key Decision: **No**

Change to Budget: **No**

Change to Policy Framework: **No**

Contact Officer: **Mark Bennett**

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## 1. Key points and Summary

- 1.1 The Council has developed a new approach to risk management as reported to the Audit Committee in March 2013. This report outlines the council's position at the end of 2012/13
- 1.2 Five Key Strategic Risks have been identified for the Council during 2012/13. A lead (sponsoring) director/executive head has been identified for each risk.
- 1.3 The risk register will be monitored by directors on a monthly basis through exception reporting to enable them to;
  - Review Performance
  - Agree new relevant actions
  - Identify emerging strategic risks
- 1.4 Quarterly reports will be made to the Senior Leadership Team and this Committee.
- 1.5 A training programme for staff will be developed using the established I-learn intranet training system.
- 1.6 The existing operational risk management processes of the council will be aligned with the revised strategic approach.

## Supporting Information

### A1. Introduction and history

A1 Five Key Strategic Risks have been identified for the Council during 2012/13; A lead (sponsoring) director/executive head has been identified for each risk:

Fair decision making – Mark Bennett  
Demand management – Caroline Taylor  
Welfare reforms – Charles Uzzell  
Finance – Paul Looby  
Safeguarding - Richard Williams

### B2 Position at end of 2013/14

B1 Mitigation measures have been identified for all strategic risks. Current effectiveness has been assessed against a four point scale:

|  |   |
|--|---|
| Will achieve desired outcomes              | A |
| Minor improvement actions - monitor        | B |
| Improvement actions - monitor with concern | C |
| Won't achieve desired outcomes             | D |

B2 The majority of mitigation measures have been assessed as A or B with no risks identified with category D

B3 Performance overview:

#### 1 Fair Decision making

- Actions have been identified to minimise the possibility of a successful legal challenge against the council's decision to reconfigure services.
  - During the year the council has not incurred costs or delays in reconfiguring its services through legal challenge. Key elements in achieving this has been;
    - A clear timetable and process for decision making for the 2013/14 budget
    - Effective consultation and scrutiny
    - Undertaking equalities impact assessments
    - Providing members with sufficient information prior to decisions being made
- The council constantly reviews developing court cases from other areas to ensure that its processes remain fit for purpose with regular reports to the Senior leadership Team

#### 2 Demand management

- Actions have been identified to enable the Council to understand and plan for changes in demand for through demographic change and changes in government policy
  - Although work has been undertaken in this area this will require further development during 2013/14 to enable robust predictions to be built into our plans for the future.



### **3 Welfare reforms**

- Actions have been identified to enable the Council to understand and develop actions to mitigate the impact of benefit reforms being introduced during 2013/14
  - Key element have been successfully addressed however, as with the introduction of any new policy careful monitoring will be required, especially to understand and address secondary impacts for example homelessness

### **4 Finance**

- Actions have been identified to enable the Council to deliver a balanced budget with an agreed level of reserves
  - This risk has been successfully managed during 2012/13 at a time when Torbay along with all council's has been required to address the impact of a reduction in grants from central government
  - Managing this risk will be a continuing challenge in future years

### **5 Safeguarding**

- Children's Safeguarding has been a particular focus for the council in recent years with effective measures in place at an operational at strategic level to address this issue
  - The recent Ofsted inspection has recognised these improvements
  - For 2013/14 this will be a continued area for focus to ensure agreed actions continue to be delivered and to address developments in adult social care, in particular safeguarding of individuals who are privately funded

## **C1 Conclusion**

The development of a new approach has enabled the council to take a more strategic approach to risk management during 2012 /13. For 2014/15 the focus will be to further develop this approach to embed it within the organisation.

## **Appendices**

- Strategic Risk Register 2013/14

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**Key to strength:**

|  |   |
|--|---|
| Will achieve desired outcomes              | A |
| Minor improvement actions - monitor        | B |
| Improvement actions - monitor with concern | C |
| Won't achieve desired outcomes             | D |

*Clicking on all headings will take you through to the appropriate worksheet...*

**Fair Decision Making:**

| Measure   | Current Strength |
|---|------------------|
| Clear timetable and process for decision making   | B                |
| Effective Consultation  | A                |
| Equality Impact Assessments undertaken  | A                |
| Effective Scrutiny 1 - Improve focus and quality of scrutiny recommendations            | A                |
| Effective Scrutiny 2 - Agree protocol - Mayor/Scrutiny                                  | C                |
| Impact assessments and consultation results available to members when decision are made | A                |

**Demand Management:**

| Measure   | Current Strength |
|---|------------------|
| Effective early intervention  | B                |
| Analyse impact of government policy changes                                 | A                |
| Introduction of demand modelling within JSNA                                | C                |
| Effective long term modelling of demand and analysis of costs (Census 2011) | C                |
| Improved planning for demand within budget development                      | C                |
| Improved planning for demand in medium term financial plan                  | C                |
| Improved planning for demand within services (£ + people)                   | C                |
| Building demand indicators into performance reports                         | C                |

**Welfare Reforms:**

| Measure  | Current Strength |
|--|------------------|
| Follow Fair Funding mitigation measures  | A                |
| Assess potential for non payment and secondary impacts and build into 2013/14 budget           | B                |
| Assess potential for non payment and secondary impacts and build into MTFP                     | B                |
| Timely & effective advice - Clear guidance given to Connections staff                          | B                |
| Timely & effective advice - Voluntary sector briefed and SLA's modified                        | B                |
| Provide emergency funding - hardship and social fund   | B                |
| Monitor impact of reforms including secondary impacts e.g. homelessness and adjust predictions | C                |
| Monitor impact of reforms including secondary impacts e.g. homelessness and build into MTFP    | C                |
| Monitor impact of reforms and consider changes to council tax benefit scheme/hardship fund     | C                |

**Finance:**

| Measure  | Current Strength |
|--|------------------|
| Probability of delivery assessed in budget process                         | B                |
| Track delivery of agreed savings   | B                |
| Quarterly budget outturn reports   | B                |
| Effective recovery planning  | B                |
| Review future requirements for service delivery - complete service reviews | B                |
| Review future requirements for service delivery - develop action plans     | C                |

**Safeguarding vulnerable adults and children:**

| Measure   | Current Strength |
|---|------------------|
| Continuation of Improvement Programme   | A                |
| Local Safeguarding Board - Widen membership to reflect changing role of partner agencies by 18 July 2013      | B                |
| Local Safeguarding Board - Develop a focused programme of scrutiny following publication of Ofsted inspection | B                |
| Local Safeguarding Board - Establish role of new CEO in relation to board                                     | B                |
| Effective performance mgmt - Continue to report Key Performance Indicators to SLT and Directors               | C                |
| Ensure new corporate performance management framework effectively covers safeguarding issues                  | C                |

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Macros must be "on"

**Fair Decision Making:**

| Measure  | Current Strength | Improvement Actions             | Progress |
|--|------------------|---------------------------------|----------|
| Effective Scrutiny 2 - Agree protocol - Mayor/Scrutiny | C                | Agree protocol - Mayor/Scrutiny | #N/A     |

**Demand Management:**

| Measure   | Current Strength | Improvement Actions  | Progress                  |
|---|------------------|--|---------------------------|
| Introduction of demand modelling within JSNA                                | C                | Introduction of demand modelling within JSNA               | On going                  |
| Effective long term modelling of demand and analysis of costs (Census 2011) | C                | Analysis of 2011 Census                                    | On going                  |
| Improved planning for demand within budget development                      | C                | Improved planning for demand within budget development     | On going                  |
| Improved planning for demand in medium term financial plan                  | C                | Improved planning for demand in medium term financial plan | On going                  |
| Improved planning for demand within services (£ + people)                   | C                | Improved planning for demand within services (£ + people)  | On going                  |
| Building demand indicators into performance reports                         | C                | Develop measures with SLT                                  | Draft proposals developed |

**Welfare Reforms:**

| Measure  | Current Strength | Improvement Actions                   | Progress |
|--|------------------|---------------------------------------|----------|
| Monitor impact of reforms including secondary impacts e.g. homelessness and adjust predictions | C                | Monitor impact and adjust predictions | On going |

|   |          |  |          |
|---|----------|--|----------|
| Monitor impact of reforms including secondary impacts e.g. homelessness and build into MTFP | <b>C</b> | Build into medium term financial plan                        | On going |
| Monitor impact of reforms and consider changes to council tax benefit scheme/hardship fund  | <b>C</b> | Consider changes to council tax benefit scheme/hardship fund | On going |

**Finance:**

| Measure  | Current Strength | Improvement Actions  | Progress |
|--|------------------|----------------------|----------|
| Review future requirements for service delivery - develop action plans | <b>C</b>         | Develop action plans | #N/A     |

**Safeguarding vulnerable adults and children:**

| Measure   | Current Strength | Improvement Actions   | Progress   |
|---|------------------|---|--|
| Effective performance mgmt - Continue to report Key Performance Indicators to SLT and Directors | <b>C</b>         | Continue to report Key Performance Indicators to SLT and Directors  | #N/A   |
| Ensure new corporate performance management framework effectively covers safeguarding issues    | <b>C</b>         | Ensure new corporate performance management framework effectively covers safeguarding issues                  | #N/A   |
| Review and implementation of new corporate parenting role (lead member - Cllr Pritchard)        | <b>C</b>         | Review and implementation of new corporate parenting role (lead member - Cllr Pritchard) ** To be approved ** | The review of past year performance is underway and proposals for the future are forthcoming |

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Macros must be "on"

**Fair Decision Making:**

| Measure   | Current Strength | Improvement Actions   | Progress   |
|---|------------------|---|--|
| Clear timetable and process for decision making   | B                | Mayors budget 2013 published November 2012 to increase time for consultation. | Although published earlier than previous years November target not met.  |
| Effective Consultation  | A                | None  | 2013/14 budget consultation carried out effectively, however greater clarity regarding individual proposals will be required for 2014/15 consultation.                             |
| Equality Impact Assessments undertaken  | A                | None  | Impact assessments successfully carried out for budget proposals, improvements may be required for 2014/15 depending on analysis of legal cases involving other local authorities. |
| Effective Scrutiny 1 - Improve focus and quality of scrutiny recommendations            | A                | Improve focus and quality of scrutiny recommendations                         | A more focused approach to scrutiny achieved during 2013/14 budget consultation  |
| Effective Scrutiny 2 - Agree protocol - Mayor/Scrutiny                                  | C                | Agree protocol - Mayor/Scrutiny   | #N/A   |
| Impact assessments and consultation results available to members when decision are made | A                | None  | Achieved   |

**Demand Management:**

| Measure                                      | Current Strength | Improvement Actions                                  | Progress                    |
|--|------------------|--|-----------------------------|
| Effective early intervention                 | B                | Clear business case linked to performance management | On going                    |
| Analyse impact of government policy changes  | A                | None   | Reported fortnightly to SLT |
| Introduction of demand modelling within JSNA | C                | Introduction of demand modelling within JSNA         | On going                    |

|   |          |  |                           |
|---|----------|--|---------------------------|
| Effective long term modelling of demand and analysis of costs (Census 2011) | <b>C</b> | Analysis of 2011 Census                                    | On going                  |
| Improved planning for demand within budget development                      | <b>C</b> | Improved planning for demand within budget development     | On going                  |
| Improved planning for demand in medium term financial plan                  | <b>C</b> | Improved planning for demand in medium term financial plan | On going                  |
| Improved planning for demand within services (£ + people)                   | <b>C</b> | Improved planning for demand within services (£ + people)  | On going                  |
| Building demand indicators into performance reports                         | <b>C</b> | Develop measures with SLT                                  | Draft proposals developed |

**Welfare Reforms:**

| Measure  | Current Strength | Improvement Actions                               | Progress   |
|--|------------------|---|--|
| Follow Fair Funding mitigation measures  | <b>A</b>         | None  | Followed in development of Council Tax Benefits scheme |
| Assess potential for non payment and secondary impacts and build into 2013/14 budget | <b>B</b>         | Build assumptions into 2013/14 budget             | On going   |
| Assess potential for non payment and secondary impacts and build into MTFP           | <b>B</b>         | Build assumptions into medium term financial plan | On going   |
| Timely & effective advice - Clear guidance given to Connections staff                | <b>B</b>         | Clear guidance given to Connections staff         | #N/A   |
| Timely & effective advice - Voluntary sector briefed and SLA's modified              | <b>B</b>         | Voluntary sector briefed and SLA's modified       | #N/A   |
| Provide emergency funding - hardship and social fund                                 | <b>B</b>         | Funding in place and publicised                   | #N/A   |

|  |          |  |          |
|--|----------|--|----------|
| Monitor impact of reforms including secondary impacts e.g. homelessness and adjust predictions | <b>C</b> | Monitor impact and adjust predictions                        | On going |
| Monitor impact of reforms including secondary impacts e.g. homelessness and build into MTFP    | <b>C</b> | Build into medium term financial plan                        | On going |
| Monitor impact of reforms and consider changes to council tax benefit scheme/hardship fund     | <b>C</b> | Consider changes to council tax benefit scheme/hardship fund | On going |

**Finance:**

| Measure  | Current Strength | Improvement Actions  | Progress |
|--|------------------|--|----------|
| Probability of delivery assessed in budget process                         | <b>B</b>         | Included in 2013/14 budget development                             | #N/A     |
| Track delivery of agreed savings   | <b>B</b>         | Reported to SLT  | #N/A     |
| Quarterly budget outturn reports   | <b>B</b>         | Report to SLT with focus on children's, adults, car parking income | #N/A     |
| Effective recovery planning  | <b>B</b>         | To be agreed and reported through SLT                              | #N/A     |
| Review future requirements for service delivery - complete service reviews | <b>B</b>         | Complete service reviews   | #N/A     |
| Review future requirements for service delivery - develop action plans     | <b>C</b>         | Develop action plans   | #N/A     |

**Safeguarding vulnerable adults and children:**

| Measure | Current Strength | Improvement Actions | Progress |
|---------|------------------|---------------------|----------|
|         |                  |                     |          |



## Strategic Risk Register - Exception Reporting

13/06/2013

|   |          |   |  |
|---|----------|---|--|
| Continuation of Improvement Programme   | <b>A</b> | Continue to report progress to Local Safeguarding Board, SLT and Scrutiny                                     | On going   |
| Local Safeguarding Board - Widen membership to reflect changing role of partner agencies by 18 July 2013      | <b>B</b> | Focus membership to reflect changing role of partner agencies by 18 July 2013                                 | #N/A   |
| Local Safeguarding Board - Develop a focused programme of scrutiny following publication of Ofsted inspection | <b>B</b> | Develop a focused programme of scrutiny following publication of Ofsted inspection                            | #N/A   |
| Local Safeguarding Board - Establish role of new CEO in relation to board                                     | <b>B</b> | Establish role of new CEO in relation to board  | #N/A   |
| Effective performance mgmt - Continue to report Key Performance Indicators to SLT and Directors               | <b>C</b> | Continue to report Key Performance Indicators to SLT and Directors  | #N/A   |
| Ensure new corporate performance management framework effectively covers safeguarding issues                  | <b>C</b> | Ensure new corporate performance management framework effectively covers safeguarding issues                  | #N/A   |
| Review and implementation of new corporate parenting role (lead member - Cllr Pritchard)                      | <b>C</b> | Review and implementation of new corporate parenting role (lead member - Cllr Pritchard) ** To be approved ** | The review of past year performance is underway and proposals for the future are forthcoming |

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| Measure   | Owner                | Current Strength | EOY | Q1 | Q2 | Q3 | Q4 | Improvement Actions   | Progress   |
|---|----------------------|------------------|-----|----|----|----|----|---|--|
| <a href="#">Clear timetable and process for decision making</a>   | PPR Manager          | B                | B   |    |    |    |    | Mayors budget 2013 published November 2012 to increase time for consultation. | Although published earlier than previous years November target not met.  |
| <a href="#">Effective Consultation</a>  | PPR Manager          | A                | A   |    |    |    |    | None  | 2013/14 budget consultation carried out effectively, however greater clarity regarding individual proposals will be required for 2014/15 consultation.                             |
| <a href="#">Equality Impact Assessments undertaken</a>  | PPR Manager          | A                | A   |    |    |    |    | None  | Impact assessments successfully carried out for budget proposals, improvements may be required for 2014/15 depending on analysis of legal cases involving other local authorities. |
| <a href="#">Effective Scrutiny 1 - Improve focus and quality of scrutiny recommendations</a>            | Scrutiny Manager     | A                | A   |    |    |    |    | Improve focus and quality of scrutiny recommendations                         | A more focused approach to scrutiny achieved during 2013/14 budget consultation  |
| <a href="#">Effective Scrutiny 2 - Agree protocol - Mayor/Scrutiny</a>                                  | Scrutiny Manager     | C                | C   |    |    |    |    | Agree protocol - Mayor/Scrutiny   | #N/A   |
| <a href="#">Impact assessments and consultation results available to members when decision are made</a> | Dem Services Manager | A                | A   |    |    |    |    | None  | Achieved   |

# Agenda Item 12

## Appendix 5

Risk Owner: Caroline Taylor

Demand Management - Mitigation

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| Measure   | Owner                        | Current Strength | EOY | Q1 | Q2 | Q3 | Q4 | Improvement Actions  | Progress                    |
|---|------------------------------|------------------|-----|----|----|----|----|--|-----------------------------|
| <a href="#">Effective early intervention</a>  | DAAS/Dir Children's Services | B                | B   |    |    |    |    | Clear business case linked to performance management       | On going                    |
| <a href="#">Analyse impact of government policy changes</a>                                 | Exec Head Business Services  | A                | A   |    |    |    |    | None   | Reported fortnightly to SLT |
| <a href="#">Introduction of demand modelling within JSNA</a>                                | Exec Head Business Services  | C                | C   |    |    |    |    | Introduction of demand modelling within JSNA               | On going                    |
| <a href="#">Effective long term modelling of demand and analysis of costs (Census 2011)</a> | Exec Head Business Services  | C                | C   |    |    |    |    | None   | Reported fortnightly to SLT |
| <a href="#">Improved planning for demand within budget development</a>                      | Exec Head Finance            | C                | C   |    |    |    |    | Improved planning for demand within budget development     | On going                    |
| <a href="#">Improved planning for demand in medium term financial plan</a>                  | Exec Head Finance            | C                | C   |    |    |    |    | Improved planning for demand in medium term financial plan | On going                    |
| <a href="#">Improved planning for demand within services (£ + people)</a>                   | Exec Head Finance            | C                | C   |    |    |    |    | Improved planning for demand within services (£ + people)  | On going                    |
| <a href="#">Building demand indicators into performance reports</a>                         | Exec Head Business Services  | C                | C   |    |    |    |    | Develop measures with SLT                                  | Draft proposals developed   |

| Measure   | Owner                           | 2012/13          |     | 2013/14 |    |    |    | Improvement Actions  | Progress |
|---|---------------------------------|------------------|-----|---------|----|----|----|--|----------|
|   |                                 | Current Strength | EOY | Q1      | Q2 | Q3 | Q4 |  |          |
| <a href="#">Continuation of Improvement Programme</a>   | Director of Children's Services | A                | A   |         |    |    |    | Continue to report progress to Local Safeguarding Board, SLT and Scrutiny                    | On going |
| <a href="#">Local Safeguarding Board - Widen membership to reflect changing role of partner agencies by 18 July 2013</a>      | Director of Children's Services | B                | B   |         |    |    |    | Focus membership to reflect changing role of partner agencies by 18 July 2013                | #N/A     |
| <a href="#">Local Safeguarding Board - Develop a focused programme of scrutiny following publication of Ofsted inspection</a> | Director of Children's Services | B                | B   |         |    |    |    | Develop a focused programme of scrutiny following publication of Ofsted inspection           | #N/A     |
| <a href="#">Local Safeguarding Board - Establish role of new CEO in relation to board</a>                                     | Director of Children's Services | B                | B   |         |    |    |    | Establish role of new CEO in relation to board   | #N/A     |
| <a href="#">Effective performance mgmt - Continue to report Key Performance Indicators Services to SLT and Directors</a>      | Director of Children's Services | C                | C   |         |    |    |    | Continue to report Key Performance Indicators to SLT and Directors                           | #N/A     |
| <a href="#">Ensure new corporate performance management framework effectively covers safeguarding issues</a>                  | Director of Children's Services | C                | C   |         |    |    |    | Ensure new corporate performance management framework effectively covers safeguarding issues | #N/A     |

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## Appendix 7

| Measure  | Owner             | Current Strength | 2012/13 |    |    |    | 2013/14 |   |          |  | Progress |
|--|-------------------|------------------|---------|----|----|----|---------|---|----------|--|----------|
|  |                   |                  | EOY     | Q1 | Q2 | Q3 | Q4      | Improvement Actions                               |          |  |          |
| <a href="#">Follow Fair Funding mitigation measures</a>  | Exec Head Finance | A                | A       |    |    |    |         | None  |          | Followed in development of Council Tax Benefits scheme |          |
| <a href="#">Assess potential for non payment and secondary impacts and build into 2013/14 budget</a>           | Exec Head Finance | B                | B       |    |    |    |         | Build assumptions into 2013/14 budget             | On going |  |          |
| <a href="#">Assess potential for non payment and secondary impacts and build into MTFP</a>                     | Exec Head Finance | B                | B       |    |    |    |         | Build assumptions into medium term financial plan | On going |  |          |
| <a href="#">Timely &amp; effective advice - Clear guidance given to Connections staff</a>                      | Exec Head Finance | B                | B       |    |    |    |         | Clear guidance given to Connections staff         |          | #N/A   |          |
| <a href="#">Timely &amp; effective advice - Voluntary sector briefed and SLA's modified</a>                    | Exec Head Finance | B                | B       |    |    |    |         | Voluntary sector briefed and SLA's modified       |          | #N/A   |          |
| <a href="#">Provide emergency funding - hardship and social fund</a>   | Exec Head Finance | B                | B       |    |    |    |         | Funding in place and publicised                   |          | #N/A   |          |
| <a href="#">Monitor impact of reforms including secondary impacts e.g. homelessness and adjust predictions</a> | Exec Head Finance | C                | C       |    |    |    |         | Monitor impact and adjust predictions             | On going |  |          |

|  |                   |   |  |          |
|--|-------------------|---|--|----------|
| <u>Monitor impact of reforms including secondary impacts e.g. homelessness and build into MTFP</u> | Exec Head Finance | C | Build into medium term financial plan                        | On going |
| <u>Monitor impact of reforms and consider changes to council tax benefit scheme/hardship fund</u>  | Exec Head Finance | C | Consider changes to council tax benefit scheme/hardship fund | On going |

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## Appendix 8

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### Finance - Mitigation

Risk Owner: Paul Looby

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| Measure  | Owner                                 | Current Strength | EOY | Q1 | Q2 | Q3 | Q4 | Improvement Actions  | Progress |
|--|---------------------------------------|------------------|-----|----|----|----|----|--|----------|
| <a href="#">Probability of delivery assessed in budget process</a>                         | Exec Head Business Services / Finance | B                | B   |    |    |    |    | Included in 2013/14 budget development                             | #N/A     |
| <a href="#">Track delivery of agreed savings</a>   | Exec Head Business Services           | B                | B   |    |    |    |    | Reported to SLT  | #N/A     |
| <a href="#">Quarterly budget outturn reports</a>   | Exec Head Business Services / Finance | B                | B   |    |    |    |    | Report to SLT with focus on children's, adults, car parking income | #N/A     |
| <a href="#">Effective recovery planning</a>  | Exec Heads                            | B                | B   |    |    |    |    | To be agreed and reported through SLT                              | #N/A     |
| <a href="#">Review future requirements for service delivery - complete service reviews</a> | Exec Head Business Services           | B                | B   |    |    |    |    | Complete service reviews   | #N/A     |
| <a href="#">Review future requirements for service delivery - develop action plans</a>     | Exec Head Business Services           | C                | C   |    |    |    |    | Develop action plans   | #N/A     |