TORBAY COUNCIL

Tuesday, 14 January 2014

AUDIT COMMITTEE

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

Wednesday, 22 January 2014

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 Tyerman (Chairman)

Councillor Addis

Councillor Bent

Councillor Brooksbank

Councillor Stocks

Councillor Stringer

Working for a healthy, prosperous and happy Bay

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

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AUDIT COMMITTEE
AGENDA

1. Apologies
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.

2. Minutes (Pages 1 - 3)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 25 September 2013.

3. 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.)

4. Urgent Items
To consider any other items that the Chairman decides are urgent.

5. Audit Committee Update (Pages 4 - 13)
To note the update from Grant Thornton.

6. The Annual Audit Letter for Torbay Council (Pages 14 - 25)
To consider a report that summarises the key findings arising from the audit of the 2012/13 accounts and an assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

7. Certification Report 2012/13 (Pages 26 - 35)
To consider a report that summarises Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process.

Minutes of the Audit Committee

25 September 2013

-: Present :-

Councillor Tyerman (Chairman)

Councillors Addis, Bent, Brooksbank, Stocks and Stringer

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13. Minutes

The Minutes of the meeting of the Audit Committee held on 26 June 2013 were confirmed as a correct record and signed by the Chairman.

14. Urgent Items

The Committee considered the items in Minutes 15, and not included on the agenda, the Chairman being of the opinion that they were urgent by reason of special circumstances i.e. the matter having arisen since the agenda was prepared and it was unreasonable to delay a decision until the next meeting.

15. Appointment of Vice-Chairman

Following a change to the membership of the Audit Committee the need had arisen to appoint a new Vice-Chairman.

Resolved:

Councillor Stringer was appointed Vice-Chairman for the remainder of the 2013/2014 Municipal Year.

16. The Audit Findings for Torbay Council

Members noted the report which highlighted the key matters arising from Grant Thornton’s (external auditors) audit of Torbay Council’s financial statements for the year ending 31 March 2013.

Members were advised that Grant Thornton anticipated they would be able to provide an unqualified opinion on the financial statements. The audit of the financial statements submitted did not identify any errors which would adjust the reported surplus for the year, however an error was identified that reduced the balance sheet.

Members were informed that the accounts were produced to a good standard, the audit had been facilitated by good supporting working papers and excellent assistance by the finance team with all requests for additional information being dealt with promptly.

17. Review of the Council's Arrangements for Securing Financial Resilience for Torbay Council

Members noted the report on Torbay Council's arrangements for securing financial resilience. Members were advised that as part of Grant Thornton's work supporting their Value for Money (VFM) conclusion, part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience. Grant Thornton reviewed the Council's financial resilience by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning ;
- Its approach to financial governance; and
- Its approach to financial control.

Having undertaken a review Grant Thornton were able to determine that the Council's current arrangements for achieving financial resilience were adequate.

18. Statement of Accounts 2012/13

The Chief Accountant advised Members that the Account and Audit Regulations 2011 required approval of the Council's Statement of Accounts for the year ending on 31 March 2013 before the 30 September 2013. Members were informed that the accounts had been available on the Council's website since the 28 June 2013 and have been available for public scrutiny for 20 working days during July and August.

Members asked questions and sought clarification on a number of points including the Council's pension liability and transfer of assets to schools.

Resolved:

i) that the Audit Committee reviewed the accounts and considered the External Auditor's report and opinion on the accounts;

ii) that following i) above the Council's Statement of Accounts for 2012/13, as set out in pages 15 to 136 of Appendix 2 to the submitted report be approved;

iii) that following approval of ii) above, the Chairman of the Audit be authorised to sign and date the accounts on behalf of the Council, to represent the completion of the Council's approval process of the Accounts, in the "Statement of Responsibilities for the Statement of Accounts" shown on page 17 of the submitted statement of accounts; and

iv) that the Letter of Representation to Grant Thornton from the Council in relation to the 2012/13 Statement of Accounts, as set out in Appendix 1 to the submitted report be approved.

19. Internal Audit Report - Follow Up Report on Areas Requiring Improvement

Members noted the Internal Audit follow up report on areas that were identified as requiring improvement. Members were informed that in order to provide assurance to management and those charged with governance that the agreed actions identified during the initial audit were being implemented; a follow up review was undertaken.

The Head of the Devon Audit Partnership was able to advise Members that, overall progress was being made against the agreed audit recommendations with the direction of travel showing an improvement in the majority of areas.

Members paid particular attention to the improvements required within Children Services and requested a further update on progress be presented to the Audit Committee on 22 January 2014.

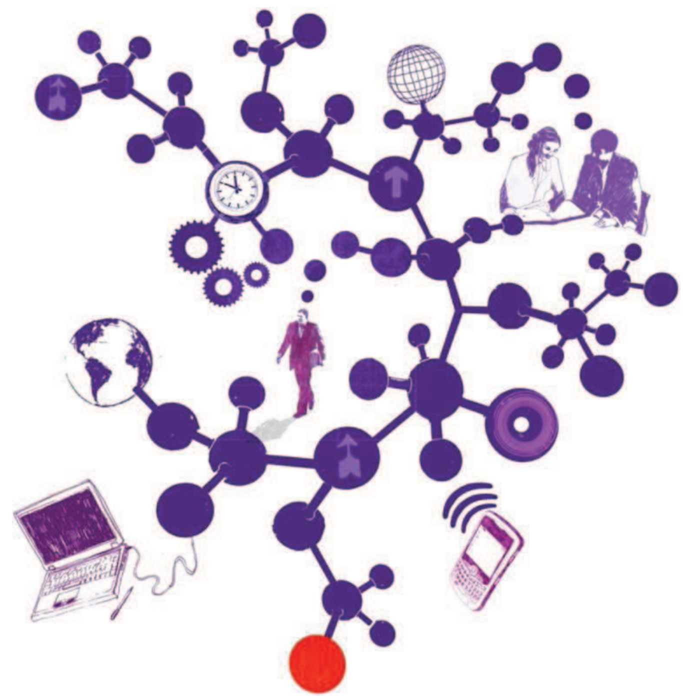
Chairman/woman

Grant Thornton

Audit Committee Update for Torbay Council

Year end 31 March 2014

22 January 2014



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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, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities.

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

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Progress at January 2014

Work	Planned date	Complete?	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	February/March 2014	N/A	Our Audit Plan is reported once we have completed our interim accounts audit.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing.	February 2014	N/A	Our interim accounts audit is planned to take place in February. Our findings along with our Audit Plan will be reported to the Audit Committee.
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion.	July - August 2014	N/A	

Progress at January 2014

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises: • securing financial resilience; and • challenging how it secures economy, efficiency and effectiveness.	Initial risk assessment – January/February 2014 Detailed assessment – March/April 2014	N/A	

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published ‘Income from charging: Using data from the VFM Profiles, September 2013’. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils’ overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no ‘one-size-fits-all’ formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils’ strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Challenge questions:

- **When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?**
- **Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council’s financial objectives and complying with legal requirements?**

Emerging issues and developments

Local government guidance

Business rate collection

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

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

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

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

Challenge questions:

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

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Challenge questions

- **Are both your Executive Head Finance and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?**
- **Has your Executive Head Finance reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your authority complies with other aspects of the Code requirements?**
- **Where your authority is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?**

Grant Thornton

An instinct for growth™

The Annual Audit Letter for Torbay Council

Year ended 31 March 2013

September 2013

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Section 1: Executive summary

01. Executive summary
02. Audit of the accounts
03. Value for Money

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Torbay Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to the audit committee in our Audit Findings Report on 25 September 2013.

Responsibilities of the external auditors and the Council

This Letter 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).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 25 April 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts confirming they give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission

Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight . The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The draft financial statements were produced in accordance with the national deadline of the 30 June. We identified an error during our audit, but this did not impact on the reported year end surplus of £0.4m

Although we issued an unqualified Value for Money (VfM) conclusion we did identify areas which the Council should consider.. Further details in respect of these can be found in Section 3.

Our audit of the Council's Whole of Government Accounts return (WGA) identified a difference in the balances between Torbay and Devon County Council in respect of pre 1998 discretionary pension payments. The Council needs to ensure that steps are taken to address this inconsistency.

Looking forward the Council faces significant challenges in that:-

- the Council faces significant financial pressures over the next 3 years and is currently developing detailed saving plans to address any shortfalls; and
- increased demand for services will put additional pressures on the Council's budget.

Acknowledgements

This Letter has been agreed with the Executive Head – Finance. and will presented to the Audit Committee on 22 January 2014.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2013

Section 2: Audit of the accounts

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 1 July 2013.

The accounts were produced to a good standard and were supported by good working papers. All requests for additional information were dealt with promptly by the finance team.

Issues arising from the audit of the accounts

Our audit of the financial statements submitted for audit did not identify any errors that adjusted the reported surplus for the year of £0.4m. We did however identify an error that reduced the balance sheet by £2.95m. This arose as the Valuers report in respect of the Council's fixed assets included a Voluntary Aided school which is not a Council asset. This resulted in an overstatement of Property Plant and Equipment (PPE) and the revaluation reserve.

An amendment was also made to disclosures in respect of related party transactions within the financial statements.

There were no non-adjusted misstatements.

Annual governance statement

The Council's Annual Governance Statement (AGS) complied with requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC) and contained the elements as prescribed in *Delivering Good Governance in Local Government: Framework*.

Whole of Government Accounts return (WGA)

Our audit of the Council's Whole of Government Accounts return (WGA) identified a difference in the balances between Torbay and Devon County Council in respect of pre 1998 discretionary pension payments. The Council needs to ensure that steps are taken to address this inconsistency.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 26 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. We consider whether the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. We consider whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Overall our work highlighted that the arrangements were adequate. However we did note the following areas which the Council should consider:-

- to ensure an effective assurance framework is in place the Council needs to ensure that the new risk management system becomes fully embedded throughout the organisation;
- use of Council reserves needs to be managed appropriately and the Council should monitor their use to ensure this is the case; and
- although the Council has identified the level of savings required over the next 2 years it is currently in the process of developing detailed plans to support these.

Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	135,000	135,000
Grant certification fee (indicative) *	18,675	18.675
Total fees	**153,675**	**153,675**

* Our grant certification work is currently on-going, we will report back to you if there is any variation to the above fee.

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	25 April 2013
Audit Findings Report	25 September 2013
Certification work plan	15 July 2013
Certification report	TBC – November 2013
VfM – Financial Resilience Report	25 September 2013
Annual Audit Letter	7 October 2013

GrantThornton

Grant Thornton

Certification report 2012/13 for Torbay Council

Year ended 31 March 2013

2nd December 2013

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Contents

Section 1: Executive summary

Executive summary

Introduction

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

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £127.9 million.

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

Approach and context to certification

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

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in June 2013.

Key messages

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

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims and returns were submitted and certified by the required deadlines.	●
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	All claim and returns submitted to the auditor were accurate and no amendments were required.	●
Supporting working papers	Working papers were provided to support all claims and returns. All requests for additional information were dealt with promptly.	●

Acknowledgements

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

Grant Thornton UK LLP
December 2013

Section 2: Results of our certification work

Results of our certification work

Key messages

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £127.9 million.

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

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	3	100	3	100	
Claims certified on time	100%	3	100	3	100	
Claims certified without amendment	100%	3	100	2	66.66	
Claims certified without qualification	100%	3	100	1	33.33	

This analysis of performance shows that:

- as per the previous year all claims/returns were submitted and certified by the required deadlines;
- no claims/returns required amending, which is a significant improvement from the previous year; and
- no claims/returns were qualified which is an improvement on the previous year.

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

Significant findings

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

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £18,675. Any significant variances to this will be discussed with the Executive Head – Finance and reported to the Audit Committee.

Appendices

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

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing and council tax benefit scheme	£87,475,806	No	N/A	No	None
National non-domestic rates return	£35,612,479	No	N/A	No	None
Teachers' pensions return	£4,844,623	No	N/A	No	None

Grant Thornton

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devon audit partnership

Internal Audit Report
2013/14
Six Month Monitoring Report
Torbay Council

October 2013

Not Protectively Marked

Auditing for achievement

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards (PSIAS) and other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

1 Introduction

This report provides a summary of performance in the first six months against the internal audit plan for the 2013/14 financial year, highlighting the key areas of work undertaken and summarising our main findings and audit opinions.

The key objectives of the Devon Audit Partnership (DAP) are to provide assurance to the Commissioners, the Chief Executive and Audit Committee on the adequacy and security of the systems and controls operating within the Council.

The level of risk associated with each of the areas in Appendix A has been determined either from the Local Authorities Strategic / Operational Risk Register (LARR), or the Audit Needs Assessment (ANA). Where the audit was undertaken at the request of client, it has not been risk assessed. Assurance and recommendations should be considered in light of these risk levels and the impact this has on achievement of corporate / service goals.

2 Opinion

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

Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks. Where management actions have been agreed and as appropriate, we shall undertake follow up work to ensure that the identified risks have been mitigated.

3 Performance against the Plan

Overall, we have made adequate progress in the first six months of 2013/14, with 64% of the planned audits commenced (against expected rate of 50%) and 45% of audit fieldwork completed (against expected rate of 45%). A more detailed breakdown of performance against the plan is shown at appendix B.

It is pleasing to see that our "customer satisfaction" remains high, and hopefully provides independent assurance that our service is providing good value to the Council (please see appendix C).

Due to the fluidity of audit delivery some audits relating to the previous year (2012/13) have been brought to conclusion in 2013/14.

At this stage we remain confident that we will be able to deliver the internal audit plan as expected.

A summary of progress made against the plan, including various performance indicators for Internal Audit, is attached at Appendix B

4 Executive Summary

Overall, management continue to remain aware of strategic risks and have established mitigating controls, as demonstrated through the progress in developing and embedding the revised strategic risk management methodology. Despite reductions in resources and pressures from operational delivery and system changes, commitment remains good to ensure services are delivered and operational risks mitigated.

Previous audit follow up activity has shown positive engagement and commitment from management to improving the control environment. Further follow up work will be undertaken to confirm that this impetus is being maintained.

Based on work performed during 2013/14 to date, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The audit plan is progressing in line with expectations and management continue to be receptive and responsive to our work. Appendix A details the assurance opinions for individual audits so far completed in 2013/14. The definitions of the assurance opinion ratings are given in Appendix D.

Individual Executive Summaries follow to provide specific detail on directorates and identify where we have concerns that are impacting the current control environment.

Operations & Finance - we are able to report that material systems controls have been either been maintained, or improvements are being made to address previously identified weaknesses. Whilst a number of weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action to address them.

A 'watching brief' has been maintained on a number of on-going projects including the new payroll system which has been subject to a recent delay.

The nature of ICT continues to be a constantly changing environment with continued emerging technologies and threats. The ICT team provide a good level of service in maintaining the ICT infrastructure within the resources available to them but risks to the service remain high. A key strategic risk in relation to ICT remains the ability to maintain the infrastructure going forward particularly in light of the continued budget pressures.

The Corporate Procurement Team provides the Council's service teams with a framework of guidance, advice, systems and templates to enable those departments to procure appropriately. However, there was evidence in 2012/13 that not all departments are making effective use of these and may be breaching statutory and Council rules. Management responses to these findings have yet to be provided, and these issues will be audited in further detail during 2013/14.

Place - based on audits previously completed and on indications from the follow up activity that we reported in August 2013, we have found that the majority of areas audited within Place are demonstrating an improvement in the control environment. Whilst a number of weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action to address them.

In addition to these key areas, audits were undertaken of specific functions / elements and also a 'watching brief' was maintained, or direct advice provided, for a number of on-going projects including the SW Devon Waste Partnership PFI project.

Public Health - based on audits completed to date, we are yet to be able to report that there are adequate controls in this Directorate. However, a 'fundamental weaknesses' opinion has been given in the area of Food Safety, Health & Welfare, Licensing, and Trading Standards. This is primarily due to food safety inspection levels. Action will be taken in April to address these concerns.

Children's Services - our audit of Fostering arrangements has highlighted issues with regard to the timely completion and processing of documentation in respect of in-house foster care placements ending. Payments had continued to be made to foster carers due to the instruction to cease payment not being promptly provided. The situation has been further exacerbated by lack of recovery action to reclaim such overpayments which in certain individual cases relate to significant amounts of money.

The review of the financial and administrative processes and procedures in place at Parkfield identified significant shortcomings in a number of areas; income collection and reconciliation, inventory management and control along with issues around contracting and the compliance with and following of the requirements of financial regulations and contract standing orders.

Schools - We have made progress in the delivery of our audit plan to schools although the larger proportion of the work will, as planned, be in the second half of the year. Schools have again been very appreciative of the quality of our service. The requirements to meet the challenges through change to the SFVS are significant. We are focusing all of our effort to achieve the targets and support schools to the fullest of our ability.

Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. However, there are risks exposed in key areas which reduce overall assurance.

The key matters arising from the audits are the:

- understanding of financial management by governors and skills assessment as evidenced by the requirements of the Standard;
- demonstrable financing of plans for raising standards and attainment; and,
- absence of financial benchmarking.

Analysis of the results of audit and SFVS can be found at appendix A1.

5 Irregularities

There have been a number of issues reported to us for investigation and resolution. Some of the key issues reviewed are as follows

Operations & Finance we have assisted in two new irregularity investigations. These related to a concern from management that there may be abuse of internet access during working hours within one department, and assistance provided to the Corporate Debt team in pursuing (via the police) a debtor who had attempted to pervert the recovery of debt via perjury.

Place - we reviewed two issues; one related to suspected internet abuse by staff at one of the libraries, and another being alleged abuse of a Blue Badge. Both cases have now been reported to management, investigated and now closed.

Public Health - we are pleased to report that there have been no significant irregularities brought to our attention for the 2013/14 year so far.

Children's Services - we have been involved in two irregularity investigations. These related to; incorrect payments to school escorts and invoice payments not appropriately authorised.

All of the cases have now been closed, with either no evidence to support further action, or otherwise reported to management for appropriate action.

Schools - There have been no notable irregularities to report upon although we received a whistleblowing allegation at a primary school which was not founded.

NFI - As part of the 2012/13 NFI Data Matching Exercise, data matching reports were provided to relevant Council departments for further investigation. These include data from housing benefits, creditor payments, salaries, insurance, blue badges, care homes and various licences administrated by the Authority.

Torbay Council has received a total of 5,392 matches, of which 1,824 are recommended for review. The exercise, which is run every two years by the Audit Commission, requires all councils to provide data for cross-matching with information supplied by other organisations, such as the Department for Works and Pensions and the NHS, to identify potential cases of fraud and error. Progress through 2013/14 has been monitored by Internal Audit in addition to its own review and investigation work on payroll and creditor payment matches, with completion of the exercise to be managed by January 2014, in accordance with Audit Commission timescales. To date 932 matches have been reviewed - 51% of those recommended, and £23,868 identified in savings from detected errors / frauds. Work will continue until January 2014 towards completion of the exercise.

6 Customer Satisfaction

During the period we issued client survey forms with our final reports. The results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services, see appendix C. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

7 Inherent Limitations

The opinions contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

8 Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of the audits in the first six months of 2013/14.

Robert Hutchins
Head of Audit Partnership

Assurance Opinion and extract Executive Summaries - First Six Months of 2013-14

Risk Assessment Key

LARR – Local Authority Risk Register score Impact x Likelihood = Total and Level
ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
Client Request – additional audit at request of Client Senior Management; no risk assessment information available

Directorate: Operations and Finance			
Material Systems			
Audit Area	Status	Assurance Opinion	Executive Summary
Creditors *(ANA – Medium)*	Final	Improvements Required	The processing procedures and practices are robust and a high degree of accuracy continues to be achieved leading to data quality, correct payments and the achievement of performance targets. Weaknesses exist in the control environment in relation to the operation of payment authorisation controls. Whilst the associated risks have previously been accepted by management, it is acknowledged that progress has been made in the project to automate manual processing that combines effective authorisation controls.
Treasury Management *(ANA – Low)*	Final	Good Standard	As in the previous three years the fiscal climate remains challenging. Interest rates are still at historically low levels and lending opportunities restricted. Whilst the banking system, at least in the UK, is deemed more stable, a prudent approach to counterparty activity is taken. As in previous years, high operational standards continue to be maintained, with only a small number of issues being identified.
Debtors *(ANA – Medium)*	Final	Good Standard	Since the establishment of the dedicated Debtors Administration role, there has been on-going improvement in the operation of the Debtors function. The system is well managed centrally and users are effectively supported by comprehensive procedural and training provision. The need for increased reporting and monitoring at senior management / member level in the current economic climate continues to be reported and is highlighted in the findings.

Bank Reconciliation *(ANA – Medium)*	Final	Good Standard	Bank reconciliation processes for Torbay accounts are robust and effective; only minor issues have been identified in relation to timeliness and evidencing of their independent review, and recording of statement receipt date for performance monitoring purposes. Reconciliation practices are supported by effective system controls and comprehensive procedure documents. Risks remain in relation to the lack of segregation of duties within the FIMS Sys Admin team, but these have previously been acknowledged and accepted by management as unavoidable, due to the operational need and small size of the team. A continuing issue was identified in relation to the reconciliation of school bank account information in SIMS to FIMS GL.
General Ledger *(ANA – Medium)*	Final	Good Standard	A well established and robust control framework for the maintenance of the Main Accounting System ensures that budgetary and transactional data is accurately recorded. This enables reporting of accurate financial information for the majority of service areas. The standard of data quality would be further improved through periodic review of virements and journals by senior managers.
Benefits *(ANA – Medium)*	Final	Good Standard	The benefits department is generally performing effectively, and the majority of performance indicators show that the department is performing well, with the only main area of concern being levels and recovery of overpayments. We understand that measures have been put in place to improve performance in this area, however there could be transferable good practice in place at other authorities that the Council is not currently identifying.
POP *(ANA – Medium)*	Final	Good Standard	The ordering functionality within POP is effective and provides the majority of the expected controls of an electronic ordering system including robust authorisation controls. It provides for accurate recording of all the key information and the automated transfer (and reversal) of commitment data to the general ledger. Weaknesses continue to exist in the goods receipting functionality, however steps have been taken and continue to be developed to establish mitigating processes and the residual associated risks continue to be accepted by management.

Asset Register *(ANA – Medium)*	Final	Good Standard	The Council's non-current assets are managed in accordance with legislation, policies and procedures and related financial data is accurately recorded in the General Ledger. New assets are identified and classified correctly and accurately recorded on the Asset register, and existence of assets could be substantiated. Revaluations are timely, are undertaken in line with the rolling asset revaluation programme, and are accurately reflected in TOAD. It was noted that updating TOAD with revaluation data was delayed due to a system issue. Asset disposals were found to be authorised in line with Financial Regulations, correctly accounted for and promptly removed from the asset register. The Asset register functionality is substantially compliant with IFRS and its reporting requirements. To ensure full on-going compliance with IFRS requirements, the Council is currently engaged in a project to replace the current TOAD valuation module. Some previously reported issues remain unresolved, but will be addressed through the ongoing project or the related financial risk is trivial and therefore accepted by management.
Risk Management & Risk Register *(ANA – High)*	Draft	Improvements required	The Risk Management (RM) process has been subject to considerable change over the past months. As the new Risk Management process is in its infancy we are unable to provide an audit opinion of a fully established process; our opinion is therefore based upon theoretical practices and initial operation. The assurance opinion reflects the current status and it is evident that there is still work being done to ensure that the Council is operating a fully robust Risk Management methodology. Our initial review suggests that this could be a more integrated dynamic approach to Risk Management. The strategic risk management process appears to follow a robust methodology, but issues have been identified with the effectiveness of the initial identification of risks, and a lack of integration throughout the organisation in terms of linkage between operational risks, strategic risks, business continuity and disaster recovery.

Income Collection *(ANA – Medium)*	In progress		The audit work is complete and it is anticipated that the report will be issued and agreed in the third quarter of 2013/14.
UK PMS System *(ANA – Medium)*	In progress		We understand from the client that the toolkit used to produce the related figures was updated during the course of the audit, rendering a significant amount of our findings obsolete. We will liaise with the client to determine an appropriate way forward.
Payroll System Procurement and Implementation *(ANA – Critical)*	In progress	Assurance opinions have been provided throughout the project and have been dependent on project progress and stage.	A QA consultancy and advice role has been provided to this project, including advice and guidance on expected system controls and where necessary data migration / testing activity. We have attended project team and board meetings, and provided advice on areas such as system controls and testing expectations. This will not only provide the organisation with the relevant assurances regarding the project, but also allow the 'critical friend' role to be undertaken to ultimately support the project in achieving its intended outcomes. Our involvement will also provide some assurance to external audit in relation to the implementation. To date we have provided advice on various aspects of the project. We have raised concerns to the Project Team and Project Board where areas require consideration / action to support the project. We have been advised that the client has valued our input and we have ensured that DAP resource is available to continue to support the project as required throughout.
Treasury Management - compliance *(ANA – Low)*	In progress		The audit work is substantially complete and it is anticipated that the report will be issued and agreed in the third quarter of 2013/14.
FIMS System Administration *(ANA – Medium)*	In progress		The audit work is substantially complete and it is anticipated that the report will be issued and agreed in the third quarter of 2013/14.

Council Tax Support Scheme *(ANA – High)*	In progress		The audit work is substantially complete and it is anticipated that the report will be issued and agreed in the third quarter of 2013/14.
Discretionary Social Fund (Crisis Support) *(ANA – High)*	In progress		Work in this area has been commenced and will be concluded in quarter 4. Management have been kept informed of progress.
Corporate Debt Team *(ANA – High)*	In progress		Work in this area has been commenced and will be concluded in quarter 4. Management have been kept informed of progress.
IBS Open System Administration *(ANA – High)*	In progress		Work in this area has been commenced and will be concluded in quarter 4. Management have been kept informed of progress.
Main Accounting System - compliance *(ANA – Medium)*	In progress		Work in this area has been commenced and will be concluded in quarter 4. Management have been kept informed of progress.

The following audits will be commenced in the second half of 13/14:

- Purchase Ordering Processing (POP) - compliance - *(ANA – Medium)*
- Payroll - *(ANA – Critical)*
- Business Change (Disposal of assets) - *(ANA – High)*
- Performance & Partnerships (Fair Decision Making process) - *(ANA – High)*
- Income Collection - compliance - *(ANA – Medium)*
- Benefits Compliance - *(ANA – Medium)*
- Council Tax and Non Domestic Rates - *(ANA – Medium)*
- Creditors - compliance - (*ANA – High)*

• Debtors - compliance - *(ANA – Medium)* • Bank Reconciliation - compliance - *(ANA – Medium)* • Asset Register - compliance - *(ANA – Medium)* • Secure Data Transfer Project - *(Client request)*			
IT Audit			
Data Security, BCP, Disaster Recovery *(ANA – High)*	Final	Improvements Required	Business Continuity Planning (BCP) can often be seen as a predominantly ICT issue. However, it should be recognised that a single event can result in numerous after effects that have consequences across the organisational infrastructure, not just within ICT. ICT Continuity fits within and has clear linkages to the overall Business Continuity. A project is currently in progress to update and/or implement both departmental and overall organisational Business Continuity Plans (BCPs). This is being co-ordinated by the Business Continuity function within Community Safety. Critically, neither ICT BCPs nor Disaster Recovery Plans have been subject to any testing either at department or organisational level. In order to ensure that the plans would provide an effective control and provide sufficient business resilience, it is critical that these are fully tested periodically.
Information Governance, Data Protection, Records Management & Security (ANA – Critical)	Final	Good Standard	A good level of overall control is in place across all the areas we examined in respect of the corporate framework for data protection. We also found strong controls over the security of personal data and in the procedures for handling subject access requests. We make recommendations to improve the overall governance framework for data protection to ensure that the development of new business processes considers data protection issues adequately. We also suggest a number of steps that could be taken to improve records management and the sharing of data outside of the European Economic Area (EEA).

Hosted Services (ANA – Critical)	Draft	Good Standard	The evidence obtained during the course of this review confirms that the arrangements in place for acquiring new ICT applications, including externally hosted services, are generally sound and well governed.
IT Asset Management *(ANA – Critical)*	Draft	Good Standard	Control over the end to end IT asset management process is the responsibility of a number of different agencies including IT, HR, and line management who play a key part in the authorisation for starters, and IT equipment retrieval process for changes of function and leavers. The system for controlling the return of IT equipment is under the control of local direct line managers, and as a result the accuracy and completeness of this process depends directly upon the personal application and diligence of the manager concerned. Consequently, we have made recommendations to ensure that this part of the leaver process is further strengthened by reinforcing manager awareness of the importance of thorough and timely completion of this task.
Internet & Email Software *(Client request)*	On-going as required	Not Applicable	This has reduced in 2013/14 since passing the management of the Internet and Email software over to IG in conjunction with ICT support, and as a result of changes to the Surfcontrol licence. Where required, we continue to provide support in monitoring the rule base and producing activity reports for customers as requested / required depending on organisational need. In some instances these may lead to further formal investigations.
Security Policy Review *(Client request)*	On-going	Not Applicable	Support continues to be provided in the form of attendance and active participation in the Information Security Group. This has primarily involved monthly meetings, and initial activity has been supporting the significant project of developing and launching the DISP policy framework. Work continues at the request of the client in terms of meeting attendance, and of late, specifically includes support directly to the Exec Head of ICT and IG officer in relation to development and launch of an End User Computing policy. It is expected support will continue as required by the client.

PCI Compliance Project (ANA – High)	On-going	Improvements Required	On-going monitoring work has continued on this project. As a result of a delay in finalising contractual details with Civica to outsource card processing, the Council remains at present non-compliant with the requirements of the PCI data security standard, although best endeavours are in place to remediate outstanding issues.

The following audits will be commenced in the second half of 13/14:

- File Storage - *(ANA – Critical)*
- Mobile Device Management - *(ANA – Critical)*
- Partnership Working - *(ANA – High)*
- Service Strategy - *(ANA – High)*
- Thin Client Planning & Roll out - *(ANA – High)*
- N3 Health Transfer - *(ANA – High)*
- Telephony & Voice - *(ANA – Medium)*
- Website Content Management - *(ANA – Low)*
- Social Networking & Media - *(ANA – Low)*
- ITRA (IT Risk Assessment) - *(ANA – Client Request)*

Other			
Legal Services (Litigation & Licensing) *(ANA – High)*	Final	Good Standard	Practices and processes are clearly documented and effectively operated and were found to be generally robust although improvement opportunity would be identified through implementing performance monitoring. A legal Service Quality Manual has been written in accordance with Lexcel standards with a view to seeking Lexcel standard accreditation but requires review. A Licensing & Litigation works areas directory and risk profile has been established, however a Business Plan / Strategy remains outstanding, along with the roll out of SLA's to all client departments. Operational changes have occurred within the service and there are a number of cases that now need to be passed to the Corporate Debt Team for recovery.

Democratic Representation and Management (ANA – Medium)	In progress		The audit work is substantially complete and it is anticipated that the report will be issued and agreed in the fourth quarter of 2013/14.
Procurement (Contract Compliance) *(ANA – High)*	Not yet started		
TCT New SCCR database implementation (ANA – Critical)	Deferred	Not applicable	It is understood that this project has been put 'on hold' by the TCT, so no further audit input has been allocated at this point to this area..
Elections *(ANA – Medium)*	Deferred	Not applicable	Deferred to 2014/15 at the request of the client.

Directorate: Place			
Area	Status	Assurance Opinion	Executive Summary
TOR2 Contract Monitoring *(ANA risk – High)*	Final	Improvements Required	The overall audit opinion states 'Improvements Required' – as last year, however, the direction of travel has been one of 'improvements made'. Corporate Governance represents the over-riding audit concern. A few on-going issues regarding IT interfacing also affect the assurance levels, but on the whole, contract monitoring arrangements at the operational level can be considered to have reached a 'Good Standard', and if the direction of travel is maintained this should hope to be achieved by the next audit review – notwithstanding any new / emerging risks coming to light.

			Going forward the relationship between TOR2 and Torbay Council management / Members is evolving, and Audit will be seeking assurance in 2013/14 that this continues to be appropriate to client / provider needs, and compliant with the contracts. The acquisition of May Gurney by the Kier Group adds further uncertainty.
English Riviera Tourism Company (ANA risk – High)	Final	Good Standard	In our opinion, the Company's accounting procedures and administration remain of a high standard, with budgetary variances being closely monitored, and reported to the Finance Sub-Committee of the Board. The main Board of Directors the Company also remains well constituted, including senior representatives from the local business community. We have not made any specific recommendations arising from our review.
Grant 1 - Bus Operators Grant (Client request)	Completed	Not applicable	Records were found to be of a good standard and the claim was approved without amendment by the deadline.
Climate Change (CRC Scheme) (ANA risk – Medium)	Completed	Not applicable	Records were found to be of a good standard and the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme certificate was issued by the deadline of 31st July.
Business Improvement Districts (ANA – Medium)	Draft	Improvements Required	The Business Improvement Districts (England) Regulations 2004 sets out the requirements for the application and administration of each BID area. The audit has identified instances of non-compliance with the regulations in terms of both parties (i.e. the authority and the Torbay Town Centre Company). The levy is accurately calculated and recorded within the systems of the authority and fully paid over to the Torbay Town Centres Company. Recommendations have been made to enhance the mainly reliable procedures in relation to administration of the levy. The lack of agreement between the authority and the Torbay Town Centre Company in relation to the later stages of debt recovery needs to be addressed.

TOR2 Contract Monitoring – Follow Up & Future State Mapping Project *(ANA risk – High)*	In progress		Work in this area has been commenced and will be concluded in quarter 4. Management have been kept informed of progress.
Parking Services *(ANA risk – High)*	In progress		The audit work is complete and it is anticipated that the report will be issued and agreed in the third quarter of 2013/14.
Torbay Harbour Authority *(ANA risk – Medium)*	In progress		The audit work is on-going, and it is anticipated that the report will be issued and agreed in the fourth quarter of 2013/14.
Transport - Strategic and Operational *(ANA risk – High)*	In progress		The audit work is on-going, and it is anticipated that the report will be issued and agreed in the fourth quarter of 2013/14.
English Riviera Tourism Company (ANA risk – Medium)	In progress		On-going work following announcement of Budget Cuts
South Devon Link Road (ANA risk – Critical)	In progress		Watching brief being maintained as the project continues through its construction phase.
The following audits will be commenced in the second half of 13/14: • Section 106 - *(ANA risk – Medium)* • Economic Development Company - *(ANA risk – High)*			

Directorate: Public Health

Audit Area	Status	Assurance Opinion	Executive Summary
Housing Standards (incl. disabled facilities and grants) *risk – High)*	Draft	Good Standard	The setting up and review of licensed Houses in Multiple Occupation (HMO) was found to be of a good standard. Thorough inspections of properties were undertaken and regular reviews carried out. There was also good evidence of proactive liaison with other Authorities such as the Fire Service. This ensures that visits to HMO's cover all aspects of current legislation. Torbay can improve customer focus within the service by publishing and monitoring service specific standards and having a robust method to capture customer feedback. Issues have arisen over the definition of the Performance Indicator (PI) for response time for complaints. Since July 2013 all calls are received through the Call Centre and the response times are now clearly defined. Generally there was good documentation and details found on each case tested. However improvements could be made in ensuring that all relevant documents are scanned into Comino. Departmental procedures have been put in place since July 2013 to ensure that all cases are reviewed within 4 months and appropriate action taken on closure. A method of prioritising cases has been in place since June 2012. There should also be a clear distinction between high and low risk service requests. Since July 2013 these questions have been mandatory for the Call Centre to ask and a process map put in place to ensure that EHO's and Technical Officers consider risk as wells as vulnerability. A review of workloads is considered by the Performance Board. This showed that there were at date of audit 170 Housing disrepair and HMO complaints outstanding from 2008/09 to 2011/12. Steps have been taken since July 2013 to ensure that backlogs are dealt with promptly. The Housing Standards web page could be improved by allowing online complaint forms to be used. This has been instigated July 2013. Checks on whether a landlord is a "fit and proper" person will be improved by having an annual process in place to ensure all relevant documentation is received.

Food Safety, Health & Welfare, Licensing, & Trading Standards *(ANA risk – Medium)*	Draft	Fundamental Weaknesses	The department is required to comply with the FSA code of practice which details the nature and frequency of premises visits i.e. the need for full inspections; interventions etc. (Category A premises require visits every 6 months; category B require annual visits; and category C, require visits every 18 months). Based upon resource and what is realistic for the department whilst attempting to minimise public health risk, internal targets are set which are currently set at 100% inspections for risk categories A and B, and 50% for risk category C. For the purposes of this review IA has focussed on these categories as they are the highest risk premises. We understand that the FSA code can be applied differently in that interventions can be undertaken rather than full inspections on Category C premises as the risk is reduced compared to A's and B's. However, as category C FSA inspection levels have not been and will not be achieved, they are unable to apply the intervention option, and full inspections are required. It is understood that categories will be dropping down within the rating scheme; in addition the Code of Practice will be subject to a revision as of July 2014 – this is understood to potentially aid the department in terms of properties dropping down to lower risk levels and therefore the nature of frequency of inspections reducing accordingly. An additional Full Time EHO permanent post has yet to be filled. A second member of staff is currently on Maternity leave and is being covered by an EHO internally. In conclusion, despite some additional resource which will be provided shortly, the department is unable to achieve the FSA inspection frequencies for properties of category C and below thus still posing a risk to public health. Management continue to be aware of the rating and are in agreement with this. It is anticipated that the opinion will remain until April 2014 when the new post is anticipated to be filled.

Transfer of Public Health service *(ANA risk – Critical)*	Draft	Good standard	Our review provided sufficient evidence that the Public Health Transition Project was well managed and delivered against the required milestones. Members of the Torbay Public Health Transition Steering Group successfully delivered their part of the project with no identifiable impact on the day to day running of the public health service or to the respective services within the Council. Robust governance arrangements were in place with a detailed project plan and risk register that was monitored and updated regularly by the Steering Group. Communication and engagement was planned and delivered throughout the project ensuring that key stakeholders and the public were sufficiently informed of the process. Good collaborative working between Devon, Torbay and Plymouth was demonstrated within the Information Management and Intelligence work stream ensuring business continuity during the transition and post transfer. Concerns around the areas of possible non-compliance regarding information governance were considered during the transition stage and we recommend that this risk be reviewed post transfer as part of a Council wide review of Information governance arrangements, taking into account any findings from Devon Audit Partnership's recent review on Information Governance.
Health & Safety (internal) *(ANA risk – Low)*	Draft report	Improvements required	The provision of H&S policy and guidance and the training opportunities were found to be comprehensive with the services offered corporately sufficient to enable the responsible Managers to effectively identify and manage H&S risks. Greater organisational direction would be achieved through establishing and disseminating a strategy document. The Audit Opinion of 'Improvements Required' reflects the lack of enforcement and monitoring in relation to departmental compliance with the H&S policy generally and completion of training courses.
Safer Communities (ANA risk – High)	In progress		The audit work is on-going, and it is anticipated that the report will be issued and agreed in the fourth quarter of 2013/14. Completion of the audit was delayed at the client's request.

Health & Well Being Board *(ANA risk – High)*	In progress		The audit work is complete and it is anticipated that the report will be issued and agreed in the fourth quarter of 2013/14.
The following audit will be commenced in the second half of 13/14: • Bereavement Services - *(ANA risk – Low)*			

Directorate: Children's Services			
Audit Area	**Status**	**Assurance Opinion**	**Executive Summary**
Parkfield (My Place) (ANA - High Risk)	Final	Fundamental Weakness	Parkfield has seen a number of changes since it opened in October 2011 with several reorganisations of staff which have led to redundancies. Staffing reductions have led to pressures in a number of areas, in particular in the area of finance and income which is covered by the Business Support Officer. Concerns over income collection were identified:- • On occasions cash has been collected and stored over Parkfield's safe limit of £1,000; • Poor recording methods of bookings taken and paid showed that activities could be completed without payment; Parkfield has a large amount of portable equipment. An inventory review showed very poor control over these items and non-compliance with Torbay's Financial Regulations with regard to inventories. Parkfield use a Chip & PIN machine to take card payments; however no PCI DSS Compliance Certificate is held for this machine. The lack of such a certificate ensuring customer data is protected is serious and could result in penalties or the card machine facility being withdrawn.

Fostering	Final	Improvements Required	The costs of the Fostering Service for 2012/13 were budgeted to be £4.48m however against an actual costs outturned at £6.010m; an overspend on budget of £1.527m. This was due to an increase in numbers of looked after children and increased Independent Service Providers (ISP) costs. Torbay has taken steps to encourage more in house foster carers. This includes consideration of lump sum payments which should give some savings in administration costs. In addition a Permanency Panel has been set up to investigate Foster Care Placements greater than 16 weeks and to consider alternative solutions to fostering. There is a backlog of reviews at the present.

The following audits will be commenced in the second half of 13/14:

- Business Systems & Processes - (ANA – High Risk)
- Children's Centres – Contracts - (ANA - Medium Risk)
- Delegated Powers & Responsibilities - (ANA - Low Risk)
- Section 17 Payments - (ANA - Medium Risk)
- 3 - 5 Budget Strategy - (ANA - High Risk)
- Markets - Internal & External - (ANA - High Risk)
- Local Integrated Service Trust (LIST) - (ANA – High Risk)

Appendix A1

Torbay Council - Schools Financial Value Standard Position at : Jul-2013

DfE No	School Name	SFVS Expectations Met	LLC	Met: Confirmed Assessment	Met: Unconfirmed Self-assessment	In Part: Expectations met - In Part: Overall	In Part: of which "n" are under 85% complete	Not Met: Expectations not Met (from Self-Assessment & or Audit): Overall	Not Met: of which "n" are under 65% complete	No SFVS Return received
3615	All Saints, Babbacombe Church of England Primary School	In Part	Torquay			Y				
3103	Brixham Church of England Primary School and Nursery	Yes	Brixham	Y						
3619	Collaton St Mary Church of England (Aided) Primary School	In Part	Paignton			Y				
2407	Furzeham Primary and Nursery School	Yes	Brixham	Y						
3600	Galmpton Church of England Primary School	In Part	Brixham			Y				
2455	Homelands Primary School	Yes	Torquay	Y						
2438	Oldway Primary School	In Part	Paignton			Y				
2464	Preston Primary School	Yes	Paignton	Y						
3617	Priory Roman Catholic Primary School	Yes	Torquay	Y						
3614	Queensway Catholic Primary School	In Part	Torquay			Y				
2473	Roselands Primary School	Yes	Paignton	Y						
3613	Sacred Heart Catholic Primary School	In Part	Paignton			Y				
2469	Sherwell Valley Primary School	Yes	Torquay	Y						
3601	St Margaret Clitherow Catholic Primary School	In Part	Brixham			Y				
3616	St Marychurch Church of England Voluntary Aided Primary & Nu	In Part	Torquay			Y				
3120	Upton St James Church of England Primary School	Yes	Torquay	Y						
3121	Warberry Church of England Primary School	Yes	Torquay	Y						
2460	Watcombe Primary School	Yes	Torquay	Y						
2439	White Rock Primary School	In Part	Paignton			Y				
	Primary			10	0	9	0	0	0	0
	19			53%	0%	47%	0%	0%	0%	0%
				10		9		0		
4601	St Cuthbert Mayne Joint Catholic and Church of England School	Yes	Torquay	Y						
	Westlands					Y				
	Secondary			1	0	1	0	0	0	0
	2			50%	0%	50%	0%	0%	0%	0%
				1		1		0		
7042		Yes	Torquay	Y						
7046	Mayfield School	In Part	Paignton			Y				
	Torbay School			1	0	1	0	0	0	0
	Special			50%	0%	50%	0%	0%	0%	0%
	2			1		1		0		
	Grand Total All Schools			12		11		0		

Appendix B

Torbay Council - Internal Audit Plan 2013-14 and Progress to date as at 30th September 2013

Area	Number of Audit Entities	Planned days	Actual days	Status: Audit started	Audit fieldwork completed	Draft report issued	Responses Rec'd	Final Report issued	Draft report issued in target days	Final report issued in target days
CHILDRENS SERVICES AND PUBLIC HEA	26	175	97.66	17	14	10	3	3	10	3
ADULT SERVICES AND RESOURCES	25	120	50.26	13	10	9	5	5	9	5
PLACE AND RESOURCES	50	508	210.71	37	25	19	12	11	19	11
SCHOOLS	17	49	12.59	3	3	3	3	3	3	3
ANTI-FRAUD AND IRREGULARITIES	15	125	53.44	15	10	10	10	10	10	10
PROCUREMENT / CONTRACT AUDIT	0	20	0.00	0	0	0	0	0	0	0
CORPORATE INITIATIVES	1	20	2.83	1	1	1	1	1	1	1
GRANT CLAIMS	1	10	1.39	1	1	1	1	1	1	1
OTHER CHARGEABLE ACTIVITIES	0	145	47.80	0	0	0	0	0	0	0
ADVICE / CONSULTANCY	7	55	16.19	4	0	0	0	0	0	0
Follow up for Audit Committee	0	25	13.20	0	0	0	0	0	0	0
Carry forward	0	50	0.00	0	0	0	0	0	0	0
TOTAL	**142**	**1302**	**506.07**	**91**	**64**	**53**	**35**	**34**	**53**	**34**
Contingency		68								
Cancelled Audits		0								
Total Requested by Customer during 2013/14		**1370**								

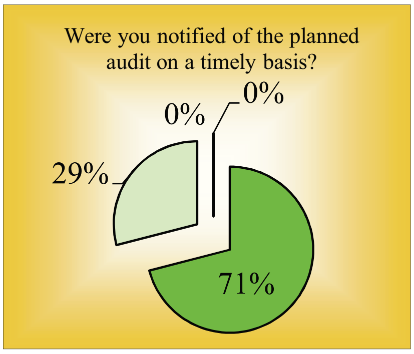
Performance stats for Torbay (exc. Scho	Annual Target	Quarter 1 Target	Quarter 1 Actual	Quarter 2 Target	Quarter 2 Actual	Quarter 3 Target	Quarter 3 Actual	Quarter 4 Target	Quarter 4 Actual
Percentage of audit plan started	100	25%	56.78%	50	70.40%	75		100	
Percentage of audit plan completed (field wo	93	18%	38.98%	45	48.80%	71		93	
Percentage of planned days delivered	95	24%	18.85%	48	37.36%	72		95	
Draft reports issued in target days	90	90%	90.91%	90	100.00%	90		90	
Final reports issued in targets days	90	90%	100.00%	90	100.00%	90		90	
Customer satisfaction.	90	90%	100.00%	90	100.00%	90		90	

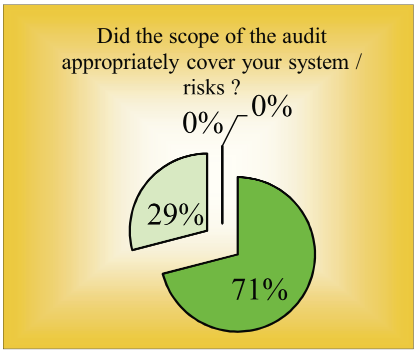
Performance stats for Torbay (Inc Schoo	Annual Target	Quarter 1 Target	Quarter 1 Actual	Quarter 2 Target	Quarter 2 Actual	Quarter 3 Target	Quarter 3 Actual	Quarter 4 Target	Quarter 4 Actual
Percentage of audit plan started	100	25%	50.75%	50	64.08%	75		100	
Percentage of audit plan completed (field wo	93	18%	35.07%	45	45.07%	71		93	
Percentage of planned days delivered	95	24%	18.49%	48	36.94%	72		95	
Draft reports issued in target days	90	90%	91.18%	90	100.00%	90		90	
Final reports issued in targets days	90	90%	100.00%	90	100.00%	90		90	
Customer satisfaction.	90	90%	100.00%	90	100.00%	90		90	

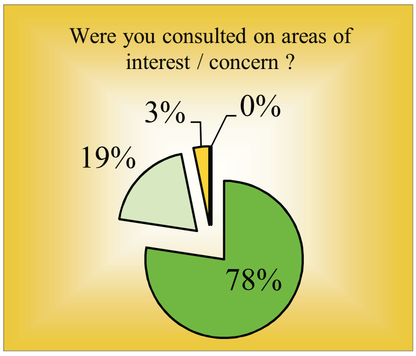
Appendix C

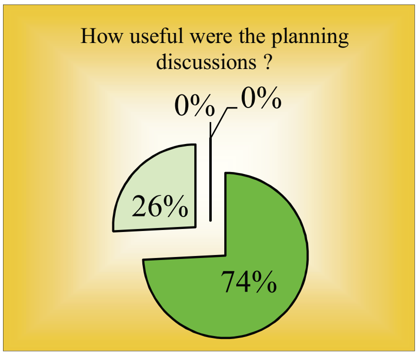
Customer Survey Results April 2013 - Sept 2013

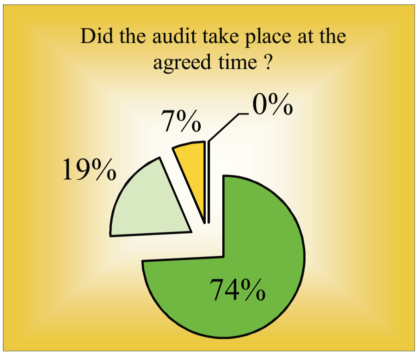
The charts below show a summary of 31 responses received.

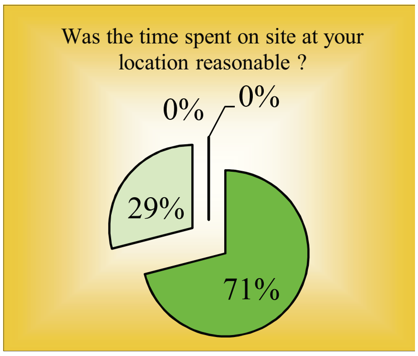


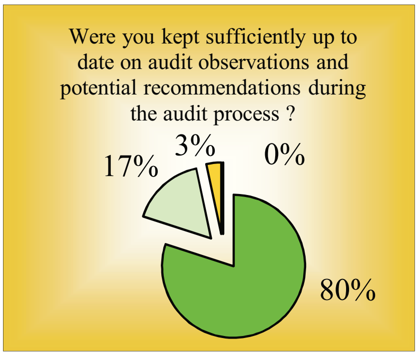


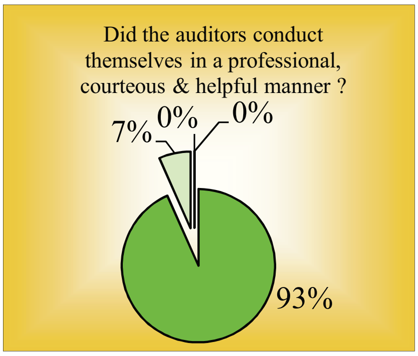


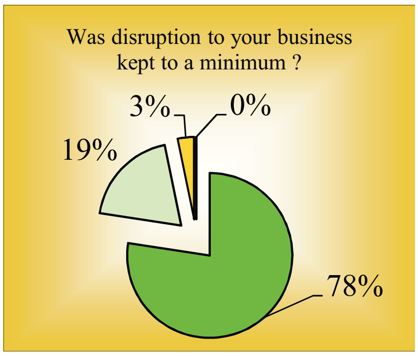


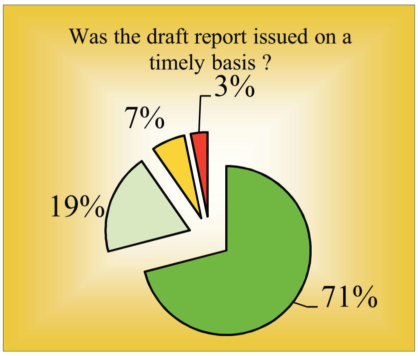


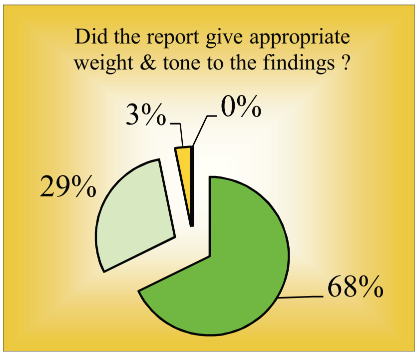


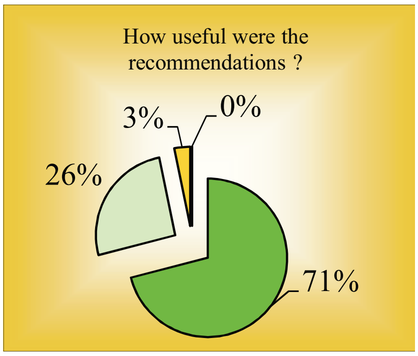


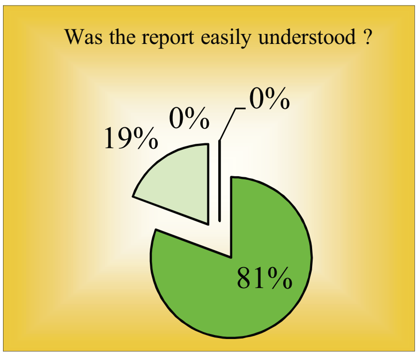


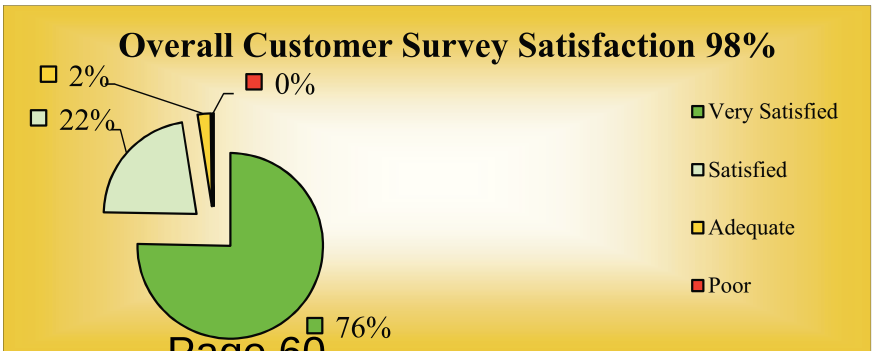












Appendix D

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Protect	Any material that may cause distress to individuals, breach proper undertakings to maintain the confidence of information provided by third parties, breach statutory restrictions on the disclosure of information, cause financial loss or loss of earning potential, or to facilitate improper gain, give unfair advantage for individuals or companies, prejudice the investigation or facilitate the commission of crime, disadvantage government in commercial or policy negotiations with others should be marked PROTECT.
Restricted	Information or data or documents that should only be shared between a specific group of work staff who have to demonstrate a need to know, because of the sensitive content, then the document must be marked RESTRICTED.
Confidential	Material that is so sensitive that only specific named staff should have access. Special handling rules apply and so CONFIDENTIAL must only be applied to highly sensitive data.
Secret and Top Secret	Information with this sensitivity is unlikely to be available to the Partnership and the Chief Executive of the relevant organisation must make the decision to apply either of these protective markings. These markings are only to be used with information that can only be shared on a strict must know basis, with each party having signed a specific confidentiality agreement.

Meeting: Audit Committee | Date: 22nd January 2014
Council | 6th February 2014

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2014/15 (incorporating the Annual Investment Strategy 2014/15 and the Minimum Revenue Provision Policy 2014/15)

Executive Lead Contact Details: Mayor, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

1. Purpose and Introduction

1.1 The Strategy outlined in this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2014/15 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

1.2 The overall objectives of the Treasury Management Strategy are:

- To ensure sufficient funding is available for day-to-day activities and capital projects through effective cash flow management
- To seek to reduce the impact on the revenue account of net interest costs through optimal levels of borrowing and investment
- To prioritise control of risks in investing cash and to then achieve maximum returns from those investments commensurate with proper levels of security and liquidity.

2. Proposed Decisions

Audit Committee

2.1 It is recommended that Audit Committee endorse the Treasury Management Strategy for 2014/15.

Council

2.2 The Council is recommended to approve the Treasury Management Strategy for 2014/15 (incorporating the Annual Investment Strategy 2014/15) set out at Appendix 1 to this Report;

2.3 The Council is recommended to approve the Prudential and Treasury Indicators 2014/15 laid out in Annex 1 of this report;

2.4 The Council is recommended in line with the Council's Constitution and Financial Regulations to approve:

(i) that the Chief Finance Officer be authorised to take any decisions on borrowing and investments. (Delegations to the Section 151 Officer, paragraph 3.1(a)); and

(ii) that the Chief Finance Officer be authorised to invest temporarily or utilise surplus monies of the Council; (Financial Regulations, paragraph 14.5);

2.5 The Council is recommended to approve the Annual Minimum Revenue Provision Policy Statement for 2014/15 as shown in Annex 2 to this report.

3. Reason for Decisions

3.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25th March 2010.

3.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

3.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.4 Under CLG regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

Supporting Information

4. Position

4.1 The Council defines its treasury management activities 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 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This report, together with the rolling Capital Investment Plan, forms an integrated strategy to ensure the affordability of capital projects.

4.3 The provisional 2014/15 budget for interest payments has therefore been set at a level which will cover the Council's borrowing requirements in the Capital Investment Plan together with cash flow costs arising from capital projects.

4.4 The interest receipts budget for 2014/15, which is directly linked to the Council's borrowing position, is based on an average investment balance of £67 million and an average investment rate of 0.84% (the estimate for 2013/14 was 1.45%). This includes monies held by the Council's external Fund Manager and exceeds the benchmark rate forecast to remain at around 0.50%

4.5 The budget for payment of interest on debt for 2014/15 is based on an overall borrowing rate of 4.39% which (the estimate for 2013/14 was 4.31%).

4.6 The core balances for which cash backing is required reflects the level of Council reserves, provisions, unapplied grants and contributions and working capital. This links to the Capital Investment Plan and Medium Term Resource Plan which form the basis of the Council's longer term strategic cash flow forecasts.

4.7 The proposed strategy for 2014/15 is set out in full at Appendix A to this report and covers the following:

- Prudential and Treasury Indicators;
- Capital expenditure and the Capital Financing Requirement
- the minimum revenue provision (MRP) policy
- prospects for interest rates;
- economic conditions and scenario planning;
- the borrowing strategy;
- the Annual Investment Strategy;
- policy on use of external service providers;
- reporting arrangements and management evaluation;
- other matters

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

4.8 The key points of the proposed strategy are:

* **Little or no increase in interest rates forecasts in 2014/15 but contingency plans to act if rates do move;**
* **A steady but slow increase in the level of the Capital Financing Requirement primarily linked to the South Devon Link Road**
* **MRP generates £4.5million per year for repayment of borrowing**
* **The Council will seek to early repay up to £10million of borrowing over the next four years on sufficiently favourable movement in rates**

* **Opportunity to repay will not be assumed within the budget and investment strategy will be based on current projected cash levels;**
* **The number of suitable investment counterparties is very limited**
* **Enhanced Investment rates available to local authorities are falling as a result of the Government's Funding for Lending scheme.**
* **An element of core cash levels will, where possible, be exposed to deposits of around one year duration predominantly in the UK part-nationalised Banks.**
* **The possibility of a rise in investment rates will be mitigated by use of short-term variable rate instruments.**

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 The main risks to Treasury Management activities will arise from interest rate levels and volatility, liquidity and cash flow requirements and creditworthiness of investment counterparties.

9.2 The management of specific risks is outlined in the Treasury Management Practices as required by the CIPFA Code of Practice approved by Council on 25th March 2010. Detailed controls are set by the Chief Financial Officer within the Schedules to the Treasury Management Practices and these are reviewed annually.

9.3 Other sections of this report below deal further with risk management and mitigation of particular elements of the 2014/15 Strategy.

Appendices

Appendix A	Treasury Management Strategy 2014/15
Annex 1	Prudential and Treasury Management Indicators
Annex 2	Policy on Minimum Revenue Provision for 2014/15
Annex 3	Interest Rate Forecasts 2014 – 2017
Annex 4	Economic Background
Annex 5	Creditworthiness Policy
Annex 6	Specified and Non-specified Investments

Treasury Management Strategy 2014/15

This Appendix sets out full details for all aspects of the Treasury Management Strategy for 2014/15.

A1 Prudential Indicators and Treasury Indicators

Local Authorities are required to set indicators to demonstrate they have fulfilled the objectives of the Prudential Code and CIPFA Code of Practice on Treasury Management. The indicators for 2014/15 and future years are set out at Annex1

A2 Capital Expenditure and the Capital Financing Requirement

A2.1 Capital expenditure plans are a key element of treasury management activity and form the first of the Prudential Indicators at Annex 1. Figures are as per the Capital Investment Plan Quarter 2 2013/14 report and are summarised below.

Capital expenditure £M	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total	**23.6**	**24.6**	**23.3**	**10.2**	**5.0**	**0**

A2.2 The figures include a borrowing requirement of £32M over the medium term of which up to £8.6M is temporary awaiting confirmation of capital income.

A2.3 These plans feed into the overall Capital Financing Requirement (CFR) which is explained at Annex 1 and summarised below.

CFR £M	**2012/13 Actual**	**2013/14 Revised Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Total	**136**	**142**	**146**	**150**	**150**	**145**

A3 Minimum Revenue Provision (MRP) policy statement

A3.1 The Council is required to set aside an amount for the repayment of borrowing used for capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). It is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

A3.2 CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

A3.3 The MRP Policy for 2014/15 is set out at Annex 2 to this report.

A4 Core funds and expected investment balances

A4.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £M	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Reserves	36	27	21	19	18	18
Provisions	0	1	1	1	1	1
Other Balances	11	6	9	7	5	3
Total core funds	**47**	**34**	**37**	**27**	**24**	**22**
Working capital	16	15	15	15	15	15
Total Cash Requirement	**63**	**59**	**52**	**42**	**39**	**37**
Excess LTL>CFR	21	5	1	(4)	(4)	(4)
Expected Investments	**84**	**64**	**53**	**46**	**43**	**41**

A5 Prospects for Interest Rates

A5.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
March 2014	0.50	2.50	4.40	4.40
March 2015	0.50	2.80	4.60	4.70
March 2016	0.50	3.10	5.00	5.10
March 2017	1.25	3.40	5.10	5.20

A5.2 These levels are artificially low in the short term due to Bank of England policies, market conditions and the impact of quantitative easing.

A5.3 **Sensitivity of Forecasts.** The projections within this report are based on officers "central" view of market rates applicable in 2014/15. These are subject to variation from interest rate changes and cash flow changes. An illustration of the potential impact of these changes is shown in the following table:

Variation	Central Case	Change +/-	£ Variation*
Change in Investment rates (new investments)	0.84%	1%	£0.67 million
Change in Borrowing Rates (change in penalty cost on early repayment of an indicative £5 million)**	n/a	1%	-£0.6million/ +£0.5 million
Change in Average cash flow (assume increased investments)	£67 million	£10 million	£0.05 million

** Based on current levels of borrowing and investment*

***The strategy provides for no additional borrowing in 2014/15 for capital funding and all existing borrowing is at fixed rate so any change in Borrowing Rates will have no effect on interest payable*

A5.4 The above gives rise to difficult conditions for implementing the proposed strategy and the need for Treasury Management officers to remain agile and react to any changes in Bank of England policy or market sentiment.

A6 Economic Conditions and Scenario Planning

A6.1 A commentary on the economic background to this strategy, issued by Capita, is provided at Annex 4.

A6.2 The uncertainty of economic conditions within the UK, Eurozone and USA will continue to have a significant impact on the Council's Treasury Management function.

A6.3 The Council is still facing a situation where Bank Rate and therefore investment returns are at record lows, well below the level payable on borrowings.

A6.4 The Council has linked its medium term financial planning to the continuing uncertain conditions. The impact of these conditions on the Councils investment budget has been identified and has formed part of the budget planning process for future years.

A6.5 The current economic conditions are still very unpredictable and as a result there are a range and potential speed of market movements that could occur over the next few years which will provide a challenge to officers. The current strategy and budgets reflect that uncertainty and are based on prudent views of market movements and counterparty limits are set to minimise the Council's exposure to risk.

A6.6 The latent crisis in the Eurozone and the potential effect on markets will continue to be monitored by Officers for threats to treasury activities. The Council currently has a blanket duration limit of three months on all deposits (except to UK part-nationalised banks) to mitigate potential risks arising from the problems in Greece and other countries.

A6.7 Varying the Council's counterparty limits could increase or decrease investment yield with a corresponding change in the level of security (risk) over the counterparty. In the current market conditions any extension of counterparty limits and maximum length of investments could increase investment yield. However this would need to be considered against the higher risk of impairment.

A6.8 The government has sold off 6% of its share in Lloyds Banking Group and indicated it will continue to reduce its stakeholding. The CFO will monitor the level of government support in the part-nationalised Banks and will adjust the exposure limits as appropriate.

A6.9 The charge from the Minimum Revenue Provision policy (see section A3 and Annex2) generates £4.5 million (excluding PFI) per year for repayment of borrowing or postponement of new borrowing. Current credit and interest risk environments give rise to a preferred repayment strategy to reduce cost and cash levels.

A7 Borrowing Strategy

A7.1 The following table provides an analysis of current borrowing levels against the Capital Financing Requirement (CFR) derived from the approved Capital Investment Plan. This also forms one of the Prudential Indicators at Annex 1.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt at 31 March						
External Borrowing	148	138	138	138	138	134
Other long-term liabilities (OLTL)*	9	9	9	8	8	7
Total Borrowing and Other Long Term Liabilities	**157**	**147**	**147**	**146**	**146**	**141**
The Capital Financing Requirement	**136**	**142**	**146**	**150**	**150**	**145**

* *Assumes Energy from Waste costs are off –balance sheet. If the PFI scheme is required to be shown on-balance sheet the Council's long-term liabilities would increase by approximately £50million from 2014/15*

A7.2 In previous years, based on approved capital schemes and with uncertainty over market and regulatory risks, the Council adopted a strategy to take full funding of its capital borrowing in advance prior to predicted rate increases. Following changes to the Capital Investment Plan in terms of timing of both expenditure and funding, an element of borrowing has been surplus to capital financing requirements over the medium term.

A7.3 Recent annual strategies have recommended seeking opportunities to repay borrowing to realign funding levels between the revised Capital Investment Plan and projected Capital Financing Requirement. £24million has been repaid over the last two years with the over-borrowing position expected to reverse from 2015/16.

A7.4 The repayment policy was adjusted in 2013/14 in light of potential new Capital schemes increasing the CFR with a shift in emphasis for any repayment to be made on significant rises in PWLB rates providing advantageous rescheduling opportunities.

A7.5 The trigger for any repayment option will be considered when the payback period of the repayment penalty falls to two years in terms of net interest.

A7.6 The Capital Investment Plan remains fluid and the CFR in A7.1 includes £8.6million of temporary borrowing which may be replaced by other funding thereby reducing the CFR further.

A7.7 As a result of these factors and the continuing risks and costs in holding cash (section A8) the focus of the strategy switches back to early repaying borrowing to a target level of £10million over the next four years.

A7.8 The benefits of the strategy will be weighed against any resultant need for the Council to internally borrow cash resources to fund capital spending. At some point in the future the Council would have to re-borrow when these internal resources fell below operational cash flow requirements or borrowing reaches maturity, with potential exposure to higher rates.

A7.9 The current market conditions make repayment less attractive due to high penalty costs and these conditions are now forecast to continue further into 2015/16 (see section A5). Budget forecasts for 2014/15 have therefore not assumed the strategy aim to repay borrowing. However, the volatile conditions in the economic climate make predicting rate movements extremely difficult and Officers will act on this strategy at any point the rate environment moves to a favourable position.

A7.10 Based on current PWLB repayment terms, gilt yields need to rise by around 0.08% - 0.10% on the levels as at December 2013 for any repayment to be affordable and by 0.75% to reach the level at which the Council would ideally begin to make repayments.

A7.11 Any repayment of borrowing will only be applied following a thorough assessment of:

- any change to the level of the borrowing requirement
- additional capital projects funded from borrowing
- assessment of working capital and other Council cash backed resources such as Reserves, Provisions and capital grants
- prevailing market conditions
- anticipated cash flow and any temporary borrowing requirements
- future market expectations
- the need to re-borrow in the medium to longer term as loans reach maturity

A7.12 Rescheduling of existing debt will also be considered if opportunities arise, to supplement the primary aim of repaying loans.

A7.13 No new borrowing is envisaged for 2014/15. However, if in future years capital plans significantly change and there is a borrowing need based on internal cash levels, the Council may seek to secure new funding prior to the anticipated rise in borrowing rates in future years.

A7.14 The majority of the Council's cost of interest and associated Revenue Provision relate to historic borrowing "supported" by central government and other debt transferred from Devon County Council on Local Government Reorganisation in 1998. (Borrowing is no longer fully supported due to reductions in Council grant) This supported borrowing along with prudential borrowing for capital resources which leads in most cases to an increase in the value of the Council's own assets on its Balance Sheet.

A7.15 Borrowing from PWLB or other sources is only one option the Council has to finance its expenditure on capital projects e.g. the Council could use finance leases or provide financing via PFI agreements such as the Energy from Waste Plant.

A7.16 As a matter of policy approved borrowing sources are from the Public Works Loan Board and market instruments from counterparties listed by the Financial Services Authority. Local Authority Bonds will also be considered going forward but in the short term is unlikely to be progressed as the Council does not have a borrowing need.

A8 ANNUAL INVESTMENT STRATEGY

Investment Policy

A8.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice.

A8.2 The Council's investment priorities, in line with CLG Guidance, are: -

the security of capital
the liquidity of its investments.

A8.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

A8.4 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

A8.5 Annex 5 to this report details the policy for selection of counterparties and management of investments to achieve the objectives of the Investment Policy.

A8.6 Investment instruments identified for use in the financial year are listed at Annex 6 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

A8.7 In view of the difficult market conditions officers will continue to review alternative investment instruments for core cash. The Council is no longer considering loans to housing associations but the Mayor has asked officers to actively consider alternative options for loans or investments within Torbay.

A8.8 The Investment Strategy is based on current projected cash levels. If any significant changes occur to cash levels, e.g. strategy implementation of early repayment of PWLB borrowing, then the Investment Strategy will need to be reviewed.

A8.9 Any approved loan e.g. in local businesses driven by regeneration purposes will not form part of the Treasury Management strategy.

A8.10 If the Council wishes to invest in property for future rental streams this also will be dealt with outside of the Treasury management strategy, as a separate report to Council.

A8.11 The Council does not adopt a specific Ethical Investments policy but officers will have regard to any questionable activity on the part of a counterparty or sovereign government before depositing funds.

Investment Strategy

A8.12 The investment strategy for 2014/15 is strongly influenced by the market and credit risks outlined above but needs to be balanced with the need to maximise revenue within these risks.

A8.13 Expected investment levels at A4.1 subject to increasing risk. Suitable counterparties complying with the Council's selection policy are decreasing and enhanced rates previously available to Local Authorities have been scaled back or withdrawn completely in 2013/14 as a result of cheaper cash available through the Government's Funding for Lending scheme.

A8.14 Gives rise to strategy driver of using investment cash to repay borrowing (A7.6) to reduce exposure to the interest rate, market and credit risks.

A8.15 Given the forecast for static interest rates there is value in exposing an element of core cash levels to longer dated deposits to maximise returns in the short term subject to the creditworthiness policy.

A8.16 These will predominently be made with UK part-nationalised banks where the implicit government guarantee continues to offer the safest haven for Council cash. Duration will focus on one year deposits with these institutions to provide a maturity structure that allows officers to respond to reducing cash levels or significant changes in government stakeholding.

A8.17 Officers will also monitor the market for lending to other Local Authorities which is likely to offer better risk/return opportuinities for remaining core cash over the limited Bank counterparties available.

A8.18 A proportion of funds will be held in business reserve and notice accounts to ensure appropriate liquidity is maintained for normal cash flow purposes and strategy transactions (eg repayment of borrowing at short notice if PWLB rates move to a favourable position).

A8.19 The Fund Manager's strategy and performance will be subject to continuous monitoring and the CFO will vary the size of the holding in line with the aims of the overall strategy.

A9 Policy on the use of external advisors

A9.1 The Council currently appoints Capita Asset Services – Treasury Solutions (brand name changed from Sector Treasury Services in 2013) as its external treasury management advisor. The position is to be reviewed in 2014.

A9.2 The Council recognises the value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

A9.3 The Council acknowledges that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external advisors.

A10 Reporting Arrangements and Management Evaluation

A10.1 The Council will receive the following reports for 2014/15 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy report (this report)
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

A10.2 The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing/repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

A10.3 The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit. Any such change will be reported to the next meeting of the Council.

A10.4 The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

A10.5 The Council's management and evaluation arrangements for Treasury Management are as follows:

- Monthly monitoring report to the Chief Finance Officer, Executive Lead for Finance, Director of Place & Resources and majority opposition Group
- Monthly meeting of the Treasury Manager/Chief Accountant to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Annual meetings with the Council's appointed Fund Managers
- Membership and participation in the CIPFA Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

A11 Other Matters

A11.1 **Loans to linked organisations**. The Chief Finance Officer, in conjunction with the Executive Lead for Finance, is authorised to agree loans to lend to “linked” organisations (such as Academy schools, housing associations, Council associate and subsidiary companies and NHS partners). As approved by Council in September 2012.

A11.2 **Advancing cash**. If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

A11.3 **Investing cash for Local Payment Scheme (LPS) Schools.** If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

A11.4 **Soft Loans.** New Financial Instruments require the recognition of soft loans i.e. where a loan is made at a lower than ‘competitive’ rate the cost implicit in achieving the lower rate must be reflected in the Council’s accounts.

A11.5 **Anti-Money Laundering.** The Council will comply with all relevant regulations.

A11.6 **Intranet**. The Council’s treasury management procedures and other relevant documents can be accessed on the Council’s intranet site within the financial services pages.

Prudential & Treasury Management Indicators 2014/15 – 2017/18

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans (per the Capital Investment Plan Q2 2013/14 report).

Capital expenditure £M	*2012/13 Actual*	*2013/14 Estimate*	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total	***23.6***	***24.6***	**23.3**	**10.2**	**5.0**	**0**

Capital Financing Requirement (CFR)

The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need Based on historic expenditure. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely. The minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £10M of such schemes within the CFR which could rise in 2014/15 if the Councils 17% share of the Energy from Waste liability is accounted for as an "on balance sheet" PFI scheme.

£m	2012/13 Actual	2013/14 Revised Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement						
Total CFR	**136**	**142**	**146**	**150**	**150**	**145**
Movement in CFR	**(1)**	**6**	**4**	**4**	**0**	**(5)**
Movement in CFR represented by						
Net financing need for the year - capital	5	11	9	9	5	0
Less MRP/VRP and other financing movements	(6)	(5)	(5)	(5)	(5)	(5)
Movement in CFR	**(1)**	**6**	**4**	**4**	**0**	**(5)**

Temporary borrowing of up to £8.6million is included in the above CFR. Capital resources to this amount are expected and once confirmed will reduce the CFR by £8.6million.

Gross Borrowing & Long term Liabilities and the Capital Financing Requirement

In order to ensure that borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not, except in the short term, exceed the total CFR.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt at 31 March						
External Borrowing	148	138	138	138	138	134
Other long-term liabilities (OLTL)	9	9	9	8	8	7
Total Borrowing and Other Long Term Liabilities	**157**	**147**	**147**	**146**	**146**	**141**
The Capital Financing Requirement	**136**	**142**	**146**	**150**	**150**	**145**
Excess of LTL>CFR	**(21)**	**(5)**	**(1)**	**4**	**4**	**4**

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

The ratio rises from 2014/15 due to expected substantial reductions in the Net Revenue Budget requirement measured against fixed costs of borrowing.

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Ratio	7.62	7.04	8.47	9.20	9.77	9.72

Incremental impact of capital investment decisions on council tax.

This indicator identifies the revenue costs associated with capital decisions as part of the next year's budget process. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	0.00	0.00	0.00	0.00

The Council approved a 4- year Capital Investment Plan in 2013/14. There are no new schemes being presented for approval for 2014/15 and central government has removed supported borrowing. Therefore, there will be no new incremental increases to Council Tax.

However, if £8.6 million of temporary borrowing becomes permanent (expected capital receipts and grants are not confirmed) there will then be an incremental impact of £14 on the Torbay element of a Band D Council Tax.

Limits on Borrowing and Long-Term Liabilities

The Operational Boundary. This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2013/14 Current	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	163	152	152	152	157
Long term liabilities	10	9	9	8	8
Total	173	161	161	160	165

The Authorised Limit for external borrowing and long-term liabilities. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2013/14 Current	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	182	172	176	177	182
Other long term liabilities	10	59	59	58	58
Total	192	231	235	235	240

Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits

Interest rate Exposures				
	2014/15 **Upper %**	**2015/16** **Upper %**	**2016/17** **Upper %**	**2017/18** **Upper %**
Limits on fixed interest rates:				
• Debt	100	100	100	100
• Investments	80	80	80	80
Limits on variable interest rates				
• Debt	20	20	30	30
• Investments	60	60	70	70

Maturity Structure of fixed interest rate borrowing 2014/15		
	Lower	**Upper**
Under 12 months	0%	5%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	50%
10 years to 25 years	10%	100%
25 years to 40 years	10%	100%
Over 40 years	5%	80%

Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The limits below allow for the external Fund Manager holding along with 50% of the in-house total to be fixed longer term.

Maximum principal sums invested for over 364 days					
£m	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	66	45	35	30	28

Policy on Minimum Revenue Provision for 2014/15

1. The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing. The 2014/15 budget is £4.7 million.

2. The calculation of the provision is prescribed by legislation, which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their full Council.

3. One of the aims of this legislation is to ensure that the repayment of principal owed for capital expenditure funded from unsupported borrowing is charged on a prudent basis which closely links to the asset’s life. The provision for all assets, irrespective of asset life, for expenditure funded from supported borrowing and prudential borrowing prior to 2007/08 will continue to be charged at a minimum 4% per annum which is in line with central government’s “support” for these costs within the Council’s formula grant.

4. Torbay Council’s Annual Minimum Revenue Provision Policy Statement states that the calculation of the MRP is as follows which has 2 stages:

   i) The Council will budget as a minimum for a provision of 4% of its capital financing requirement calculated as at 31st March of the preceding financial year. The capital financing requirement (CFR) is a calculation of a Council’s “need to borrow” which is, in summary, the total of expenditure funded from borrowing less any repayments or similar previously made.

   To calculate the 4% provision the Council will use the “regulatory method” as identified in the Department of Communities and Local Government‘s (DCLG) Informal Commentary on the legislation.

   This calculation allows for the adjustments of the following items:

   - Deducting any expenditure and revenue provision made in relation to unsupported borrowing after 2007/08. The charge for unsupported borrowing after 2007/08 is calculated separately as described in paragraph ii below.
   - “Adjustment A” which relates to a previous calculation change in 2004
   - Adjustment of MRP to ensure no disadvantage results to Councils from the regulations compared to previous MRP regulations
   - Adjustment of MRP to ensure no disadvantage results to Councils from the requirements for accounting for Private Finance Initiative schemes

ii) For capital expenditure funded from unsupported or prudential borrowing less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset.

The Council will use the “asset life method” for the calculation, the MRP for each asset will be calculated using an annuity calculation based on the Council’s estimated pooled borrowing interest rate for the relevant year as detailed in the Treasury Management Strategy for that year. This will be adjusted for:-

- An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes operational.

5) Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.

6) The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) and an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

7) In exceptional circumstances a Service may be allowed to extend the repayment period beyond the prudent asset life but this may be limited to the interest element. The increased revenue cost over the longer term will be a Service issue.

8) Where assets prior to 2007/08 have been purchased by unsupported borrowing (before the current legislation applied) and a MRP at 4% is provided for, the Council will aim, over the long term, to balance the annual costs of the MRP on these assets with the repayments made by services. This may result in a Voluntary Revenue Provision (VRP) or reserve transfer being made.

9) The Council will not change its existing “Adjustment A” calculation.

10) To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

11) In relation to borrowing transferred to the Council from Devon County Council for the Council’s share of the Devon County Council debt for local government reorganisation, the Council will budget to make a VRP over 40 years to ensure cash resources for the repayment of the debt is available on maturity.

Annex 3

Interest Rate Forecasts 2014 – 2017 (as at December 2013)

Capita Asset Services Interest Rate View	Now	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
3 Month LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.00%
6 Month LIBID	0.47%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.75%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%
5yr PWLB Rate	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB Rate	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB Rate	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB Rate	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
Bank Rate															
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Capita Asset Services	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
UBS	2.38%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.38%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
10yr PWLB Rate															
Capita Asset Services	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
UBS	3.52%	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.52%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
25yr PWLB Rate															
Capita Asset Services	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
UBS	4.29%	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.29%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.35%	-	-	-	-	-
50yr PWLB Rate															
Capita Asset Services	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
UBS	4.33%	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.33%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

Economic Background (provided by Capita on 2nd December 2013)

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks. It looks increasingly likely that Slovenia will be the next country to need a bailout.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

USA. The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y and 2.8% in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its $85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down early in 2014. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehman's crisis.

Japan. The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth stongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

> *In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

Forward guidance. The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate currently stands at 2.5 million i.e. 7.6 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed at supporting the purchase of second hand properties, which is now due to start in earnest in January 2014. While there have been concerns that these schemes are creating a bubble in the housing market, the house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.2% in October. It is expected to fall back to reach the 2% target level within the MPC's two year time horizon.

AAA rating. The loss of the UK's AAA rating from Fitch (April 2013) and Moody's (February 2013) has caused little market reaction.

Capita Asset Services forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets await the long expected start of tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, at the time of writing, the political deadlock and infighting between Democrats and Republicans over the budget, and the raising of the debt limit, has only been kicked down the road, rather than resolved. Resolving these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

Creditworthiness Policy

1. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings are supplemented by with the following overlays:

    - Credit watches and credit outlooks from the credit rating agencies
    - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
    - Sovereign ratings to select counterparties from only the most creditworthy countries

2. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.

3. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

4. All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service and the CFO will vary the approved lending list as appropriate to these changes.

    - if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
    - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+.The list of countries that qualify using this credit criteria as at the date of this report are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Luxembourg	Hong Kong
Canada	Norway	Netherlands
Denmark	Singapore	United Kingdom
Finland	Sweden	USA
Germany	Switzerland	

6. Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on government support for banks and the credit ratings of that government support.

7. The Council uses an external fund manager to manage a proportion of the investment portfolio available to offset the borrowing requirement. The use of an external fund manager allows the Council to spread its treasury risk in relation to type of investment, investment counterparties and manager opinion.

8. The external fund manager will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines and duration and other limits in order to contain and control risk.

9. The fund manager mandate allows for additional amounts to be placed and the CFO will exercise this option if this is deemed to be in the best interests of the Council up to a limit of 35% of the total portfolio. As Council's cash investment reduce it is likely the Fund Manager holding will be correspondingly decreased. The Council retains the right to withdraw all or part of the fund at seven days notice.

Specified and Non-Specified Investments

Investments types recorded in bold type are the instruments most commonly used by the in-house team.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	**In-house**
Term deposits – local authorities and other public sector bodies	--	**In-house**
Term deposits – banks and building societies	**Creditworthiness system colour band "Green"**	**In-house and Fund Manager**
UK nationalised/part-nationalised banks	--	**In-house and Fund Manager**
Banks part-nationalised by high credit rated (sovereign rating) countries – non UK	**Sovereign rating AA+**	**In-house and Fund Manager**
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): - 1. **Government Liquidity Funds** 2. **Money Market Funds**	**AAA**	**In-house and Fund Manager**

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The maturity limits recomended will not be exceeded. Under the delegated powers the Chief Finance Officer can set limits that are lower based on the latest economic conditions and credit ratings.

Investment Type	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	**Sovereign rating AA+**	**In-house and Fund Manager**	**50%**	**3 years**
Term deposits (over one year) – local authorities and other public sector bodies	**--**	**In-house**	**50%**	**5 years**
Term deposits (over one year) – banks and building societies	**Creditworthiness system colour band "Purple"**	**In-house and Fund Manager**	**75%**	**2 years**
Collateralised deposit	See note 1	In-house	20%	5 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band "Green"	In-house and Fund Manager	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band "Purple"	In-house and Fund Manager	50%	1 year
UK Government Gilts/Treasury Bills	Sovereign rating AA+	In-house and Fund Manager	100%	5 years

Investment Type	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period***
Bonds issued by multilateral development banks	AA+	In-house and Fund Manager	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	In-house and Fund Manager	50%	5 years
Structured Deposits	**Creditworthiness system colour band "Orange" <1 year "Purple" >1 year**	**In-House**	**25%**	**2 years**
Term deposits with unrated counterparties with unconditional guarantee from HMG or credit-rated parent institution. Specific counterparty to be approved by CFO	Sovereign rating (guarantor) Sovereign AA+ or Creditworthiness system colour band "Red"	In-house and Fund Manager	20%	1 year
Commercial paper issuance by UK banks covered by UK Government guarantee	Sovereign rating AA+	Fund Manager	35%	5 years
Commercial paper other	Creditworthiness system colour band "Red"	Fund Manager	35%	5 years
Floating Rate Notes	Long-term AA	In-house and Fund Manager	35%	5 years
Property Fund: *the use of these investments would constitute capital expenditure*	--	In-house and Fund Manager	35%	5 years

Investment Type	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period*
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1.Bond Funds 2.Gilt Funds	AAA	Fund Manager	35%	5 years
Corporate Bonds	AA	In-house and Fund Manager	35%	5 years
Other debt issuance by UK Banks covered by UK Government guarantee	Sovereign rating AA+	In-house and Fund Manager	35%	5 years

*Of which in any class of investment:

- 10% maximum 3 years (or over)
- 25% maximum 2 to 3 years

Notes

1. As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.

Title:	**Strategic Risk Management Quarter 2 2013/14**		
Wards Affected:	**All Wards**		
To:	**Audit Committee**	On:	**22 January 2014**
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. 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 Quarter 2.

1.2 Five Key Strategic Risks have been identified for the Council during 2013/14; A lead (sponsoring) director/executive head has be identified for each risk:

1.3 The new approach has proved to be effective at a strategic level. Further work will be required to fully embed the new approach within the organisation and to align the management of operational risk with the new approach

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

Mark Bennett
Head of Business Services

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 be 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 Quarter 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: (To be read in conjunction with Appendix 1)

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 2014/15 budget with an effective programme of consultation currently underway. This still leaves the Council with tight timetable to meet.
        - Draft Equalities impact assessments are in place these will be updated during the consultation process and be available to members in February 2014 for each proposal classified as a major community interest. Providing members with sufficient information prior to decisions being made

        - There is potential to improve the focus of Overview and Scrutiny through closer working with the mayor to identify areas for the board to review
- 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
- The change in risk rating from B to C in some areas reflects the changing national picture and need to make greater saving with increased community impact.

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 2014/15 in particular the impact of early intervention, demand modelling in the JSNA, and performance reporting
    - Analysis of government policy changes continue to be reported to SLT with an improved identification of actions require, together with reports to members at IEG meetings

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
    - Take up of the hardship fund has been less than expected the need for further work with partners to raise awareness has been identified

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 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. Budget proposals for 2014 and 2015 are currently being development with consultation underway
    - A need for more effective recovery planning has been identified

- 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

Conclusion

The development of a new approach has enabled the council to take a more strategic approach to risk management during 2013 /14. Future focus will be to further develop this approach and embed it within the organisation

Appendices

Appendix 1 Strategic Risk Register Summary

Appendix 1- Strategic Risk Register Summary

Strategic Risk Register - Exception Reporting

09/01/2014

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Macros must be "on"

Fair Decision Making:

Measure	Current Strength	Improvement Actions	Progress
Clear timetable and process for decision making	C	Timetable for the release of the Mayor's budget and the associated consultation process including the development of EIAs.	Timetable for release of the Mayor's draft budget / consultation process /development of EIAs has been developed and agreed with senior members and officers.
Effective Consultation	C	Robust consultation plans are in place for each proposal with classified as a major community interest issue.	EIAs & consultation plans are being drafted to ensure consultation can commence on release of draft budget (scheduled for w/c 18th Nov) any delay will impact on the Council's ability to undertake effective consultation.
Equality Impact Assessments undertaken	B	Draft EIAs are in place for each proposal with classified as a major community interest issue and where appropriate those classified as a minor.	As proposals have been developed, EIAs and have been drafted to assess the potential impact of proposals. These will be updated throughout the consultation process and presented to members at their meetings in February 2014
Effective Overview & Scrutiny	C	Identification of appropriate (major community / political interest) areas of activity which Overview and Scrutiny can review to assist the budget setting process.	On release of draft Mayor's Budget, O&S need to determine which specific proposals to review. Sufficient information will be needed in order that the O&S Board
Impact assessments and consultation results available to members when decision are made	A	None	Achieved for 2013/14 budget

Demand Management:

Measure	Current Strength	Improvement Actions	Progress
Effective early intervention	C	Effective partnership working	Budget proposals for 2014/15 could impact on the local authorities (on its own) ability to carry out effective early intervention.
Analyse impact of government policy changes	A	None	Continues to be circulated to SLT on a fortnightly basis. Revised format identifies actions and responsibilities. In addition also reported to members at IEG meetings.

Introduction of demand modelling within JSNA	C	Introduction of demand modelling within JSNA	Format of next JSNA currently under consideration, due Sept 2014.
Effective long term modelling of demand and analysis of costs (Census 2011)	C	Analysis of 2011 Census	Limited analysis completed to date, including overall Torbay analysis.
Improved planning for demand within budget development	C	Improved planning for demand within budget development	Continue to develop in large budget areas, for example Children's Services Cost Reduction Plan to understand future demand and projections - a new fostering strategy in place. Work also continuing in Adults. Risk to be re-assessed at conclusion of budget round.
Improved planning for demand in medium term financial plan	B	Improved planning for demand in medium term financial plan	Updated Medium Term Financial Plan to be published Nov 2013.
Building demand indicators into performance reports	C	Build measures into key budget areas - e.g. Adults Social Care as part of demand management project.	Early scoping undertaken

Welfare Reforms:

Measure	Current Strength	Improvement Actions	Progress
Follow Fair Funding mitigation measures	B	Following the Local Gov't settlement for 14-16 & prep for universal credit, consider intrdocution simplified scheme based on banded discounts: streamlined and transparent. If agreed requires Impact Assessments and Consultation.	Communication with Members to commence in the New Year - needs to start March 2014
Assess potential for non payment and secondary impacts and build into 2013/14 budget	B	Development of 2014/15 budget	The impact of non payment of Council Tax has already been built into 14/15 assumptions within the collection funds.
Assess potential for non payment and secondary impacts and build into MTFP	B	To review on-going basis criteria of hardship fund	The review of hardship and other support funds for claimants, and any increase to housing referrals and abandoned calls to customer contact centre is on-going

Strategic Risk Register - Exception Reporting

09/01/2014

Timely & effective advice	B	Voluntary sector briefed and SLA's modified	Identify ways for the R&Bs dept to work with JobCentre to mitigate the impact; and how we engage with customers & stakeholders to identify ways we can help the process of moving back into work and minimise any disruption to other benefits.
Provide emergency funding - hardship and social fund	B	Continued review of hardship fund to ensure that people that need financial assistance are aware and able to get it. Ensure 3rd sector fully aware.	Take up of hardship fund has been less than expected, amendments have been made to scheme.
Monitor impact of reforms including secondary impacts e.g. homelessness and adjust predictions	C	Continue to monitor impact and report to Members. Further engagement with 3rd sector, social and private landlords to investigate secondary impacts	The impact of reforms has been reported to PDG in Nov. Score remains C as the full impact of the year is yet to be determined.

Finance:

Measure	Current Strength	Improvement Actions	Progress
Probability of delivery assessed in budget process	B	Included in 2013/14 budget development	Budget proposals are still being developed for 14/15 and 15/16.
Track delivery of agreed savings	B	More focused budget tracking process under development for 2014/15 service changes. Future improvement actions may include successful implementation of agreed service changes.	First draft to go to Exec Head w/c 28/10
Quarterly budget outturn reports	B	Report progress in acordance with agreed timetable	Continued reporting provides high level of information to officers and members, to assist decision making.
Effective recovery planning	C	To be agreed and reported through SLT	Mixed progress with most areas having achieved, one area has not achieved the savings required.
Review future requirements for service delivery	A	Develop action plans	These have been fed into the development of the budget proposals for 2014-16 and any future actions will be dealt with elsewhere.

Safeguarding vulnerable adults and children:

Measure	Current Strength	Improvement Actions	Progress

Strategic Risk Register - Exception Reporting

09/01/2014

Continuation of Improvement Programme	A	Continue to report progress to Local Safeguarding Board, SLT and Scrutiny	Awaiting final letter from DfE, regarding intervention status (Dec 5th)
Local Safeguarding Board - Widen membership to reflect changing role of partner agencies by 18 July 2013	A	Focus membership to reflect changing role of partner agencies by 18 July 2013	New executive have been meeting for past 4 months and new chair appointed.
Local Safeguarding Board - Develop a focused programme of scrutiny following publication of Ofsted inspection	A	Develop a focused programme of scrutiny following publication of Ofsted inspection	Quality Assurance Manager to be rectuited to, along with a principal social worker. Report to Children's Partnership Executive 13 Nov on full QA process and was approved. To go HWB on 3 Dec.
Local Safeguarding Board - Establish role of new CEO in relation to board	A	Establish role of new Executive Director of Finance and Operations in relation to board	Chair now appointed and monitored by Executive Director of Finance
Effective performance mgmt - Continue to report Key Performance Indicators to SLT and Directors	B	Continue to report Key Performance Indicators to SLT and Directors	Fortnightly report to Directors meeting
Ensure new corporate performance management framework effectively covers safeguarding issues	B	Ensure new corporate performance management framework effectively covers safeguarding issues	Key performance indicators agreed for inclusion in 6 monthly performance report.
Review and implementation of new corporate parenting role (lead member - Cllr Pritchard)	C	Review and implementation of new corporate parenting role	Corporate Parenting Officers Group and Members Group now estbalised and both groups have met.