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RYEDALE DISTRICT COUNCIL

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Extension 203

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# OVERVIEW AND SCRUTINY COMMITTEE

Thursday 28 January 2016 at 6.30 pm

Council Chamber, Ryedale House, Malton

## Agenda

1 **Emergency Evacuation Procedure.**

The Chairman to inform Members of the Public of the emergency evacuation procedure.

2 **Treasury Management Training - Capita Asset Services**

3 **Apologies for absence**

4 **Minutes of the meeting held on the 5 November 2015** (Pages 3 - 4)

5 **Urgent Business**

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

6 **Declarations of Interest**

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

7 **Treasury Management Strategy Statement and Annual Investment Strategy 2016/17** (Pages 5 - 30)

8 **Certificate of Claims and Returns 2014/15 Annual Report January 2015** (Pages 31 - 40)

9 **External Audit Letter on Wentworth Street** (Pages 41 - 44)

10 **Risk Strategy Annual Review** (Pages 45 - 62)

11 **Corporate Risk Register** (Pages 63 - 80)

12 **Internal Audit Report** (Pages 81 - 88)

13 **Annual Governance Statement Action Plan** (Pages 89 - 92)

14 **Any other business that the Chairman decides is urgent.**

**Overview and Scrutiny Committee**

Held at Council Chamber, Ryedale House, Malton
on Thursday 5 November 2015

**Present**

Councillors Acomb, Joy Andrews, Cussons, Duncan, Gardiner, Jowitt, Shields (Vice-Chairman) and Wainwright (Chairman)

**In Attendance**

Audrey Adnitt, Stuart Cutts (Veritau), Peter Johnson, Rashpal Khangura (KPMG), Lynsey Marsden and Rob Walker (KPMG).

**Minutes**

44 **Apologies for absence**

Apologies were received from Councillors Evans and Sanderson.

45 **Minutes of the meeting held on the 23 September 2015**

**Decision**

That the minutes of the Overview and Scrutiny Committee held on the 23 September 2015, be approved and signed by the Chairman as a correct record.

46 **Urgent Business**

There were no items of urgent business.

47 **Declarations of Interest**

There were no declarations of interest.

48 **Treasury Management Mid Year Review**

Considered the report of the Finance Manager (s151).

**Decision**

That the report be received and the mid year performance of the in-house managed funds to date be noted.

49 **Deloitte Annual Audit Letter**

Considered the Annual Audit Letter on the 2014/15 Audit from Deloitte.

| **Decision** |
|---|
| That the report be noted. |

50 **KPMG - Introduction and Briefing Session (presentation)**

Rashpal Khangura (Director) and Rob Walker (Manager) from the KPMG Audit Team were introduced to the committee members and gave a briefing on the duties that would be undertaken by their team, following their appointment as External Auditor to the Council.

51 **KPMG - External Audit Progress Report and Technical Update**

Considered the External Audit progress report and technical update from KPMG.

| **Decision** |
|---|
| That the report be received and the contents noted. |

52 **Internal Audit Progress Report**

Considered the report of the Finance Manager (s151).

| **Decision** |
|---|
| That the results of audit and fraud work undertaken so far during 2015/16 be noted. |

53 **Any other business that the Chairman decides is urgent.**

There being no items of urgent business, the meeting closed at 7.20pm.

# OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

| | |
|---|---|
| **REPORT TO:** | **COUNCIL** |
| **DATE:** | **23 FEBRUARY 2016** |
| **REPORT OF THE:** | **FINANCE MANAGER (s151)<br>PETER JOHNSON** |
| **TITLE OF REPORT:** | **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17** |
| **WARDS AFFECTED:** | **ALL** |

## EXECUTIVE SUMMARY

### 1.0 PURPOSE OF REPORT

1.1 To consider the Treasury Management and Annual Investment Strategies, the Minimum Revenue Provision Policy and set the Prudential Indicators for 2016/17.

### 2.0 RECOMMENDATIONS

2.1 That Council is recommended to approve:

(i) Members receive this report;

(ii) The Treasury Management and Investment Strategies be noted and approved by the Council;

(iii) The Minimum Revenue Provision Policy Statement be approved by the Council and;

(iii) That the Prudential Indicators in the report be approved by the Council.

### 3.0 REASON FOR RECOMMENDATIONS

3.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities (The Code) was adopted by the Council.

3.2 The Local Government Act 2003 and supporting regulations requires the Council to have regard to specified codes of practice, namely the CIPFA publications *Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services; Code of Practice and Cross Sectoral Guidance Notes*.

## 4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment policy, these are minimised. The employment of Treasury Advisors also helps reduce the risk.

## 5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code and the relevant requirements of the Local Government Act 2003.

5.2 The Council use the services of Capita Asset Services to provide treasury management information and advice.

## REPORT

## 6.0 REPORT DETAILS

6.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

6.2 The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

6.3 CIPFA defines treasury management as: ”The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

**Reporting Requirements**

6.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

***Prudential and Treasury Indicators and Treasury Strategy*** (this report) – The first and most important report covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- An investment strategy (the parameters on how investments are to be managed).

***A Mid Year Treasury Management Report.*** This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy or whether any policies require revision.

***An Annual Treasury Report.*** This provides details of a selection of actual prudential treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Treasury Management Strategy for 2016/17**

6.5 The strategy for 2016/17 covers two main areas

***Capital Issues***

- The capital plans and prudential indicators
- The MRP strategy

***Treasury Management Issues***

- The current treasury position;
- Treasury indicators which will limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy; and
- Creditworthiness policy.

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

**THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19**

6.6 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

6.7 **Capital Expenditure.** This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. **<u>Members are asked to approve the capital expenditure forecasts</u>:**

| Capital Expenditure | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| **Capital Programme** | **1.331** | **2.206** | **1.295** | **0.749** | **0.695** |

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already included borrowing instruments.

6.8 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing):

| Capital Expenditure | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| Total | **1.331** | **2.206** | **1.295** | **0.749** | **0.695** |
| **Financed by:** | | | | | |
| Capital receipts | 0 | -0.443 | -0.030 | -0.030 | -0.030 |
| Capital grants | -0.318 | -0.200 | -0.200 | -0.200 | -0.200 |
| Revenue | -0.003 | -0.823 | -0.745 | -0.519 | -0.465 |
| **Net financing need for the year** | **1.010** | **0.740** | **0.320** | **0** | **0** |

6.9 **The Council's Borrowing Need (the Capital Financing Requirement)**
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply 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. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

6.10 Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases 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 £0.516m of such schemes within the CFR.

**The Council is asked to approve the CFR projections below**:

| | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| CFR – non Housing | 1.526 | 2.336 | 2.747 | 2.523 | 2.292 |
| **Total CFR** | **1.526** | **2.336** | **2.747** | **2.523** | **2.292** |
| **Movement in CFR** | **1.272** | **0.810** | **0.411** | **-0.224** | **-0.231** |
| **Movement in CFR represented by** | | | | | |
| Net financing need for the capital programme | 1.010 | 0.740 | 0.320 | 0 | 0 |
| Net financing need – other long term liabilities | 0.416 | 0.270 | 0.316 | 0 | 0 |
| Less MRP and other financing movements | -0.154 | -0.200 | -0.225 | -0.224 | -0.231 |
| **Movement in CFR** | **1.272** | **0.810** | **0.411** | **-0.224** | **-0.231** |

**MRP Policy Statement**

6.11 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

6.12 CLG Regulations have been issued which require the full Council to approve an MRP Policy Statement in advance of each year. A variety of options are provided to councils so long as there is a prudent provision. **The Council is recommended to approve the following MRP Statement**.

Certain expenditure reflected within the actual debt liability at 31 March 2015 will under delegated powers be subject to MRP under option 3 of the guidance; this relates to the acquisition through finance lease of refuse and recycling vehicles and will be charged over a period which is commensurate with the life of the lease, using the annuity method.

For future borrowing, estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will be divided up in cases where there are two or more major components with substantially different useful economic lives.

**The Use of the Council's Resources and the Investment Position**

6.13 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going 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** | **2014/15 Actual £m** | **2015/16 Estimate £m** | **2016/17 Estimate £m** | **2017/18 Estimate £m** | **2018/19 Estimate £m** |
|---|---|---|---|---|---|
| Fund balances / reserves | 5.055 | 4.914 | 4.555 | 4.237 | 4.011 |
| Capital receipts | 0.187 | 0.187 | 0.187 | 0.187 | 0.187 |
| Provisions | 0.556 | 0.556 | 0.556 | 0.556 | 0.556 |
| **Total core funds** | **5.798** | **5.657** | **5.298** | **4.980** | **4.754** |
| Working capital* | 3.316 | 3.453 | 3.800 | 3.770 | 3.701 |
| Under/over borrowing | 0.740 | 0 | 0 | 0 | 0 |
| **Expected Investments** | 9.854 | 9.110 | 9.098 | 8.750 | 8.455 |

*working capital balances shown are estimated year end; these may be higher mid year

**Affordability Prudential Indicators**

6.14 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:**

**Actual and estimates of the 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.

| | **2014/15 Actual** | **2015/16 Estimate** | **2016/17 Estimate** | **2017/18 Estimate** | **2018/19 Estimate** |
|---|---|---|---|---|---|
| Non HRA | 1.47% | 3.05% | 3.85% | 3.04% | 2.51% |

The estimates of financing costs include current commitments and the proposals in this budget report.

**Estimates of the incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. 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.

**Incremental impact of capital investment decisions on the band D council tax**

| | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---|---|---|
| **Council tax – band D** | £0.59 | £0.94 | £1.35 |

**TREASURY MANAGEMENT STRATEGY**

6.15 The capital expenditure plans provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

**Current Portfolio Position**

6.16 The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

| | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| **External Debt** | | | | | |
| Debt at 1 April | 0 | 1.750 | 1.715 | 2.000 | 1.959 |
| Expected change in debt | 1.750 | -0.035 | 0.285 | -0.041 | -0.042 |
| Other long term liabilities (OLTL) | 0.254 | 0.516 | 0.621 | 0.747 | 0.565 |
| Expected change in OLTL | 0.262 | 0.105 | 0.126 | -0.183 | -0.190 |
| **Actual gross debt at 31 March** | **2.266** | **2.336** | **2.747** | **2.523** | **2.292** |
| **Capital financing Requirement** | **1.526** | **2.336** | **2.747** | **2.523** | **2.292** |
| **Under / over(-) borrowing** | -0.740 | 0 | 0 | 0 | 0 |

6.17 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

6.18 The Finance Manager (s151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

**Treasury Indicators: Limits to Borrowing Activity**

6.19 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

| Operational Boundary | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|
| Debt | 5.000 | 5.000 | 5.000 | 5.000 |
| Other long term liabilities | 0.700 | 0.800 | 0.600 | 0.400 |
| Total | 5.700 | 5.800 | 5.600 | 5.400 |

6.20 **The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt 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 specified council, although this power has not been exercised.

**The Council is asked to approve the following Authorised Limit:**

| Authorised Limit | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|
| Debt | 10.000 | 10.000 | 10.000 | 10.000 |
| Other long term liabilities | 1.000 | 1.000 | 1.000 | 1.000 |
| Total | 21.000 | 21.000 | 21.000 | 21.000 |

**Prospects for Interest Rates**

6.21 The Council has appointed Capita as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex G 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

| | Bank Rate | PWLB Borrowing Rates | | |
|---|---|---|---|---|
| | | 5 Year | 25 Year | 50 Year |
| March 2016 | 0.50 | 2.40 | 3.70 | 3.60 |
| June 2016 | 0.75 | 2.60 | 3.80 | 3.70 |
| Sept 2016 | 0.75 | 2.70 | 3.90 | 3.80 |
| Dec 2016 | 1.00 | 2.80 | 4.00 | 3.90 |
| March 2017 | 1.00 | 2.80 | 4.10 | 4.00 |
| June 2017 | 1.25 | 2.90 | 4.10 | 4.00 |
| Sept 2017 | 1.50 | 3.00 | 4.20 | 4.10 |
| Dec 2017 | 1.50 | 3.20 | 4.30 | 4.20 |
| March 2018 | 1.75 | 3.30 | 4.30 | 4.20 |
| June 2018 | 1.75 | 3.40 | 4.40 | 4.30 |
| Sept 2018 | 2.00 | 3.50 | 4.40 | 4.30 |

6.22 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

6.23 This challenging and uncertain economic outlook has several key treasury management implications:

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

**Borrowing Strategy**

6.24 The Council has resolved to borrow £2.07m as funding towards the 4 year capital programme, specifically as funding towards the A64 Brambling Fields upgrade, the Council delayed borrowing until internal capital funds reached the point where they were insufficient to meet capital expenditure. Following advice from Treasury Advisors and having regard to an overall forecast for increases in long term borrowing rates in the medium term, the Council has undertaken £1.75m of its total borrowing requirement.

The Chief Financial Officer will monitor interest rates in conjunction with Treasury

Advisors and seek to borrow the remaining £320k at the most advantageous point in time. Any decisions will be reported to the Policy and Resources Committee.

**Treasury Management Limits on Activity**

6.25 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;
- 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.

**<u>The Council is asked to approve the following treasury indicators and limits:</u>**

| % | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Interest Rates Exposure** | **Upper** | **Upper** | **Upper** |
| **Borrowing:** | | | |
| Limits on fixed interest rates | 100% | 100% | 100% |
| Limits on variable interest rates | 5% | 5% | 5% |
| **Investments:** | | | |
| Limits on fixed interest rates | 100% | 100% | 100% |
| Limits on variable interest rates | 50% | 50% | 50% |
| | | | |
| **Maturity Structure of fixed interest rate borrowing 2016/17** | | **Lower** | **Upper** |
| 15 years to 20 years | | 36% | 52% |
| 45 years to 50 years | | 48% | 64% |

**Policy on Borrowing in Advance of Need**

6.26 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

**ANNUAL INVESTMENT STRATEGY**

**Investment Policy**

6.27 The Council's investment policy has regard to the CLGs Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") The Council's investment priorities will be security first, liquidity second, and then return.

6.28 In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service banks ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

6.29 Further the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour coding which show the varying degrees of creditworthiness.

6.30 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

6.31 Investment securities identified for use in the financial year are listed in Annex B under the Specified and Non-Specified Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – schedules. The Council's bankers are excluded from these limits.

**Creditworthiness Policy**

6.32 This Council applies the creditworthiness service provided by Capita Asset Services (Sector). This service employs a sophisticated modelling approach utilising credit ratings from all three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

6.33 This modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments. The Council will therefore use the counterparties within the following durational bands:

- Yellow 5 years *
- Dark Pink 5 years for enhanced money market funds with a credit score of 1.25
- Light Pink 5 years for enhanced money market funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

- No colour  not to be used

* This category has been added for AAA rated Government debt or its equivalent.

6.34 The Capita Asset Services 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 ratings.

6.35 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1 , Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these, instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

6.36 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- 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 with drawn immediately;
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap 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 lending list.

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

**Country Limits**

6.38 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

**Investment Strategy to be followed with cash flow derived balances**

6.39 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates i.e. rates for investments up to 12 months.

6.40 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/2017  1.00%
- 2017/2018  1.75%
- 2018/2019  2.00%

There are down side risks to these forecasts (i.e. start of increases in bank rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

6.41 **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 Council is asked to approve the treasury indicator and limit:**

| Maximum principal sums invested > 364 days | | | |
|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** |
| Principal sums invested > 364 days | £1.0m | £1.0m | £1.0m |

6.42 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 60 and 95 days notice accounts, money market funds and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

**End of Year Investment Report**

6.43 At the end of the financial year the Council will report on its investment activity as part of the Annual Treasury Report.

**Policy on the use of external service providers**

6.44 The Council uses Capita as its external treasury management advisors.

6.45 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

6.46 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council 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.

**Scheme of Delegation**

6.47 Please see Annex D.

**Role of the section 151 officer**

6.48 Please see Annex E.

## 7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial
The results of the investment strategy affect the funding of the Capital Programme.

b) Legal
There are no legal implications regarding this report.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no legal implications regarding this report.

**Peter Johnson**
**Finance Manager (s151)**

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**Background Papers:**
None

**Background Papers are available for inspection at:**
None

# TREASURY MANAGEMENT STATEMENT AND INVESTMENT STRATEGY REPORT- RISK MATRIX – ANNEX A

| Issue/Risk | Consequences if allowed to happen | Likeli-hood | Impact | Mitigation | Mitigated Likelihood | Mitigated Impact |
|---|---|---|---|---|---|---|
| Credit risk - associated with investing with financial institutions that do not meet the credit rating criteria. | Could mean loss of principal sum and interest accrued. | **2** | **D** | Although the economic climate is improving, counterparty risk is still a big issue. As a result the Council have adopted a stringent credit rating methodology. | **1** | **D** |
| Market risk - Selection of wrong type of investment for higher return. | The poor performance of the chosen investment. | **2** | **B** | The number of investment options is kept to a minimum. Investments are normally restricted to short term fixed rate deposits or instant access accounts. | **2** | **B** |
| Liquidity risk - Use of fixed term deposits and / or instruments / investments with low marketability may mean a lack of liquidity | Unable to take advantage of better investment options. Funds are unavailable to cover capital spend. | **1** | **B** | This Strategy specifies the type of instrument the authority is prepared to invest in and maximum term for those investments | **1** | **B** |

| Score | Likelihood | Score | Impact |
|---|---|---|---|
| 1 | Very Low | A | Low |
| 2 | Not Likely | B | Minor |
| 3 | Likely | C | Medium |
| 4 | Very Likely | D | Major |
| 5 | Almost Certain | E | Disaster |

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**ANNEX B**

## SPECIFIED AND NON-SPECIFIED INVESTMENTS

### SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. These are considered low risk assets where the possibility of loss of principal or investment income is small.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| Investment | Minimum Credit Criteria / Colour Band | £ limit per institution | Max maturity period |
|---|---|---|---|
| Debt Management Agency Deposit Facility | N/A | £3.0m | 6 months |
| Term deposits – local authorities | N/A | £3.0m | 1 year |
| Term deposits - UK part nationalised banks | Blue ** | £3.0m | 1 year |
| Term deposits – banks and building societies | Orange<br>Red<br>Green<br>No colour | £3.0m | Up to 1 year<br>Up to 6 months<br>Up to 100 days<br>Not for use |
| Money Market Funds | AAA | £3.0m | Liquid |

**only applies to nationalised or semi nationalised UK Banks

**NON-SPECIFIED INVESTMENTS**

A maximum of £1.0m will be held in aggregate in non-specified investment

**1. Maturities of ANY period**

| Investment | Minimum Credit Criteria / Colour Band | Maximum Investment | Maximum maturity period |
|---|---|---|---|
| Certificates of deposits issued by banks and building societies | Green | £1.0m | Up to 2 years |
| UK Government Gilts | Sovereign rating | £1.0m | Up to 2 years |
| Bonds issued by multilateral development banks | AAA | £1.0m | Up to 2 years |
| Bonds issued by a financial institution which is explicitly guaranteed by the UK government | Sovereign rating | £1.0m | Up to 2 years |
| Fixed term deposits with variable rate and variable maturities: | | | |
| Structured deposits | Green | £1.0m | Up to 2 years |
| Commercial paper issuance by UK banks covered by UK Government guarantee | Green | £1.0m | Up to 2 years |
| Other debt issuance by UK banks covered by UK Government guarantee | Green | £1.0m | Up to 2 years |

.This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.
.

**2. Maturities in excess of 1 year**

| Investment | Minimum Credit Criteria | Maximum Investment | Maximum maturity period |
|---|---|---|---|
| Term deposits – local authorities | N/A | £1.0m | Up to 2 Years |
| Term deposits – banks and building societies | Purple | £1.0m | Up to 2 Years |

**ANNEX C**

## APPROVED COUNTRIES FOR INVESTMENT

*Based on lowest available rating*

**AAA Rating**

- Australia
- Canada
- Denmark
- Germany
- Singapore
- Sweden
- Switzerland

**AA+ Rating**

- Finland
- Netherlands
- U.K.
- U.S.A.

**AA Rating**

- Abu Dhabi (UAE)
- France
- Qatar

**AA- Rating**

- Belgium

## TREASURY MANAGEMENT SCHEME OF DELEGATION

**1. Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

**2. Policy and Resources Committee**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.

**3. Overview and Scrutiny Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

**The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

**UK.** UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.3%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1% in the second half of 2016. Indeed, the increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. Nevertheless, despite average weekly earnings ticking up to 3.0% y/y in the three months ending in September, this is unlikely to provide ammunition for the MPC to take action to raise Bank Rate in the near future as labour productivity growth has meant that net labour unit costs appear to be rising by about only 1% y/y. Having said that, at the start of October, data came out that indicated annual labour cost growth had jumped sharply in quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

There is, therefore, considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, therefore, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

**USA.** GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) before dipping again in Q3 to 2.1%.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. may start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided since August, has now firmly opened up the possibility of a first rate rise in December.

Eurozone. **The ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in Q1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in Q2 and +0.3% in Q3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.**

**Greece**. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

**China and Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.7% after a short burst of strong growth of 1.0% during Q1. Growth in Q3 was -0.8% so Japan is now back into recession for the fourth time in five years. It has been hit hard by the downturn in China during 2015. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

**Emerging countries.** There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

This change in investors' strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

**CAPITA ASSET SERVICES FORWARD VIEW**
Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.

- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

**ANNEX G**

## INTEREST RATE FORECAST

| Capita Asset Services Interest Rate View | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
| Bank Rate View | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 2.00% | 2.00% | 2.00% |
| 3 Month LIBID | 0.60% | 0.70% | 0.80% | 0.90% | 1.10% | 1.30% | 1.40% | 1.50% | 1.80% | 1.90% | 1.90% | 2.00% | 2.00% | 2.10% |
| 6 Month LIBID | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.50% | 1.60% | 1.70% | 2.00% | 2.10% | 2.10% | 2.20% | 2.20% | 2.30% |
| 12 Month LIBID | 1.10% | 1.20% | 1.30% | 1.40% | 1.60% | 1.80% | 1.90% | 2.00% | 2.30% | 2.40% | 2.40% | 2.50% | 2.50% | 2.70% |
| 5yr PWLB Rate | 2.30% | 2.40% | 2.60% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% | 3.40% | 3.50% | 3.50% | 3.60% |
| 10yr PWLB Rate | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% |
| 25yr PWLB Rate | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.30% | 4.40% | 4.40% | 4.40% | 4.50% |
| 50yr PWLB Rate | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.20% | 4.20% | 4.30% | 4.30% | 4.30% | 4.40% |
| **Bank Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 2.00% | 2.00% | 2.00% |
| Capital Economics | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 2.30% | 2.40% | 2.60% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% | 3.40% | 3.50% | 3.50% | 3.60% |
| Capital Economics | 2.40% | 2.60% | 2.70% | 2.80% | 3.00% | 3.10% | 3.20% | 3.30% | 3.50% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% |
| Capital Economics | 3.35% | 3.35% | 3.45% | 3.45% | 3.55% | 3.65% | 3.75% | 3.85% | 3.95% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.30% | 4.40% | 4.40% | 4.40% | 4.50% |
| Capital Economics | 3.35% | 3.35% | 3.45% | 3.45% | 3.55% | 3.65% | 3.75% | 3.85% | 3.95% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.20% | 4.20% | 4.30% | 4.30% | 4.30% | 4.40% |
| Capital Economics | 3.40% | 3.40% | 3.50% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | - | - | - | - | - |

Ryedale District Council

# Certification of claims and returns 2014/15

## Annual Report

January 2016

# Contents

# Executive summary

We have pleasure in setting out in this document our report to the Overview and Scrutiny Committee of Ryedale District Council ("the Council") on our certification work for the year ended 31 March 2015. This report summarises the principal matters that have arisen from our work. It is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention.

This year only one item has required certification, being the housing benefit subsidy claim.

Our testing revealed a number of minor errors of both underpayment and overpayment of benefit, across both types of benefit. The individual errors ranged from £113 to £2,546. Overall the claim adjustments increased the amount of subsidy claimed by £59. A qualification letter was submitted to the Department for Work and Pensions ("DWP") setting out the various errors found.

Given the nature of the benefits system, with a high volume of low value transactions, there will always be an element of human error. None of the errors found highlight any significant control weaknesses.

There is a risk that the errors noted in the qualification letter could be used by DWP to reclaim an element of subsidy so it is important to understand and address the errors found.

More detail on our testing and the errors noted can be found in section 3 and our specific recommendations can be found in section 4.

# 1. Grant claims and returns certified for 2014/15

The following claim has been certified and delivered to the appropriate authority within the relevant deadline:

| Claim | Value of Claim | Date received | Date certified | Certification deadline | Adjustments required | Qualification letter issued |
|---|---|---|---|---|---|---|
| Housing benefit subsidy | £12m | 28/07/15 | 26/11/15 | 30/11/15 | Yes | Yes |

## Notes

- Section 2 provides details of adjustments and qualifications required.
- An analysis of certification fees is shown in Appendix 1 to this letter.

# 2. Adjustments and qualification letter issued

The following adjustments have been made prior to certification by the auditor and a qualification letter has been issued.

### Adjustments

The housing benefit subsidy claim required some minor adjustments which gave rise to an increase of £59 in benefit subsidy claimed - see section 3 for commentary.

### Qualification letter issued

A letter was issued in respect of the housing benefit subsidy claim. Four different categories of error were reported in this year's letter to the Department for Work and Pensions (2013/14: four categories). No errors were extrapolated as all of the errors found resulted in underpayment of benefit or had no impact on the amount of benefit paid.

# 3. Commentary on housing benefit subsidy claim

**Certification approach**

- Certification instruction BEN01, issued by the Audit Commission, was followed and using the HBCOUNT 2015 instructions, a Modular Approach was used to certify the claim. A planning meeting was held with key Council benefits staff in April 2015.

- The "system parameters" specified by the National Audit Office (ie this year's benefit rates and allowances) were agreed to those in use at the Council.

- Electronic workbooks supplied by the Audit Commission were used to test a sample of cases for each of the two relevant benefit types (non-HRA rent rebates and rent allowances) for the Council. A sample of 20 was used for rent allowances and 15 for non-HRA rent rebates as a result of the small population for this type of benefit.

- Where errors are found in our initial testing, the certification instructions require extended testing of a further 40 cases (for populations over 100 cases) or 100% of cases (for populations under 100 cases) in the specific area of the error. Extended testing is performed in each instance where an initial error is found, and where prior year errors were found. This year seven sets of extended testing were performed (2013/14: eight sets).

- A review of the Northgate software controls was also performed.

- Our initial testing noted one error on Non HRA Rent Rebates. No errors were noted in the Rent Allowance initial testing. (2013/14: 35 cases - two errors).

- As a result of the error found in our initial testing, extended testing was required and one further error was noted (2013/14: 9 errors).

- All of the errors found resulted in either an underpayment of benefit or no impact on the amount of benefit paid. The underpayments ranged from £113 to £2,536. Both of these errors were as a result of the incorrect eligible rent being recorded on Northgate.

# 4. Observations and recommendations arising from our certification work

**Housing benefit subsidy claim**

- Prior to completion of the 2015/16 claim, the Authority should seek to deliver training to all benefits staff to emphasise the importance of the issues raised in Section 3 above in order to reduce the potential for error; and

- The Authority should continue to further enhance its control environment to ensure that errors of a similar nature to those identified in the current claim and set out in Section 3 above, are minimised going forward.

# 5. Closing remarks

This report has been discussed and agreed with the Corporate Director of the Council. A copy of the report will be presented at the next Overview and Scrutiny Committee meeting.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the certification work.

Deloitte LLP

**Deloitte LLP**
Chartered Accountants

8th January 2016

*The matters raised in this report are only those that came to our attention during our certification work and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the certification methodologies as they are derived solely from the Audit Commission.*

*This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.*

# Appendix 1: Analysis of certification fees

| Claim or return | 2015/16 £'000 | 2014/15 £'000 |
|---|---|---|
| Housing benefit subsidy claim | 16.2 | 16.2 |
| **Total** | **16.2** | **16.2** |

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KPMG

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Janet Waggott
Chief Executive
Ryedale District Council
Ryedale House
Malton
YO17 7HH

Our ref RK/RW

13 January 2016

Dear Janet

**Wentworth Street Car Park**

Further to our e-mail communication of 13th November 2015, I can now update you on the impact of the revised VFM guidance received from the NAO in relation to the Wentworth Street Car Park planning issues.

As I indicated in my e-mail communication, our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 ('the Act') and the National Audit Office's Code of Audit Practice ('the Code'). You will be aware our audit has two key objectives, requiring us to audit/review and report on your:

- financial statements (including the Annual Governance Statement): providing an opinion on your accounts; and

- use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

**VFM Responsibilities**

The VFM conclusion asks us to conclude whether in "*all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people*". Our approach asks us to consider whether the Wentworth Street Car parking issue would constitute a significant risk which is defined as "*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*"

In our view this did constitute a risk to our VFM opinion and in particular whether the Council:

- acts in the public interest, through demonstrating and applying the principles and values of sound governance; and

- understands and uses appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.

**Wider Responsibilities**

We also have wider statutory powers and responsibilities under the Act. These are set out on the PSAA's website in a document entitled "*Statement of responsibilities of auditors and audited bodies, Local Authorities, NHS bodies and Small authorities*". In summary auditors appointed by the PSAA:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (Schedule 7 of the Act);

- give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 26 and 27 of the Act);

- consider whether the audited body should consider formally, and respond to in public, recommendations made in an audit report (Schedule 7 of the Act);

- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 28 and 29 of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and

- apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 31 of the Act).

**Work Carried out**

We have reviewed:

- Justice Dove's judgement dated 9th July 2015;

- Report by Anthony Winship the Council Solicitor to the Planning Committee dated 18 August 2015;

- 24th April 2014 report to the Planning Committee and related papers;

- Planning inspectors report dated 29 October 2012;
- Justice Gilbart's judgement dated 17 December 2014;
- RDC constitution; and
- Advice received by the Council from David Manley QC dated 23 October 2014 and 2 April 2015.

We have also received copies of various e-mails confirming the advice the Council followed and this was supported with detailed discussions with Anthony Winship and Jill Thompson.

**Conclusion**

On the basis of the work conducted above in respect of the Wentworth Car Park to date:

- We have not found any evidence that VFM arrangements for Informed Decision Making at the Council would require a qualification of the VFM opinion; and
- We do not propose exercising any of our powers or responsibilities under the Act.

Although we do not fetter our discretion to reconsider this matter if further evidence comes to our attention. In respect of our VFM conclusion we formally sign off at the end of the audit in September 2016 and we will continue to review and assess your overall arrangements during the year. Our audit plan due to be issued later this month will describe in more detail our VFM conclusion approach.

Work considering these responsibilities is outside the standard scale fee and subject to additional charge so we have to be very clear that there is justification for any additional audit procedures. The work carried out to-date is outside the scale fee and will be subject to additional fee which we will clarify when the PSAA confirm the appropriate charge rate for such work.

Yours sincerely

R.K.K

Rashpal Khangura
Director

RYEDALE
DISTRICT
COUNCIL

| | |
|---|---|
| **REPORT TO:** | **OVERVIEW AND SCRUTINY COMMITTEE** |
| **DATE:** | **28 JANUARY 2016** |
| **REPORT OF THE:** | **HEAD OF COPRPORATE SERVICES<br>CLARE SLATER** |
| **TITLE OF REPORT:** | **RISK STRATEGY ANNUAL REVIEW** |
| **WARDS AFFECTED:** | **ALL** |

**EXECUTIVE SUMMARY**

**1.0 PURPOSE OF REPORT**

1.1 To present the annual review of the Risk Management Strategy to Members for consideration.

**2.0 RECOMMENDATION**

2.1 It is recommended that Members note the content of the annual review of the Risk Management Strategy.

**3.0 REASON FOR RECOMMENDATION**

3.1 Risk identification and management is an integral element of organisational management to secure the achievement of the Council's corporate objectives. Risk Management should also form a key part of any budget making decisions, other decisions made by Committee and the management of service delivery, projects and partnerships.

**4.0 SIGNIFICANT RISKS**

4.1 The strategy defines both the process behind risk management and the appetite of the Council to risk.

**REPORT**

**5.0 BACKGROUND AND INTRODUCTION**

5.1 The Risk Management Strategy is agreed by Members annually and is attached at Annex A.

5.2 The primary objectives of the strategy are to:-

- Further develop risk management and raise its profile across the Council.

- Integrate risk management further into the organisational culture of service planning and managing performance.
- Further embed risk management through the ownership and management of risk as part of all decision-making processes, both at officer and member level.
- Manage risk in accordance with best practice.
- Create effective processes that will allow the council to produce risk management assurance statements annually.

**6.0 POLICY CONTEXT**

6.1 Risk management is essential to ensuring the delivery of the Council Business Plan and also maintaining effective governance arrangements. The arrangements for external audit are risk based.

**7.0 CONSULTATION**

7.1 The Risk Management Strategy is developed and managed by the Council's Management Team. All service areas are therefore involved in its development through the Corporate Planning Framework.

**8.0 REPORT DETAILS**

8.1 The risk management arrangements for the Council were reviewed by Veritau in 2015/16. The purpose of this review was to test the soundness of the systems associated with Risk Management and included a review of the Risk Management Strategy.

8.2 The opinion of the audit of risk management processes was that of substantial assurance. The audit included a number of recommendations which have been actioned as follows:

- Maintaining information on Covalent - review completed
- Publishing the Risk strategy on the intranet and public website - completed
- Training for staff and members in risk management - Completed for managers, training needs programming for the members
- Including a timetable for monitoring and reporting risks in the Risk Strategy - completed see annex A

8.3 Actions taken to further develop the corporate approach to risk management include training for all managers on risk management and covalent and revision of all risk plans and service delivery plans.

**9.0 IMPLICATIONS**

9.1 The following implications have been identified:

a) Financial
The role of supporting Risk Management within the Council is now being undertaken by members of the Business Improvement Team within the Business Support Hub.

b) Legal
None.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime &

Disorder)
None.

**Clare Slater**
**Head of Corporate Services**

**Author:** Clare Slater, Head of Corporate Services
Telephone No: 01653 600666 ext 347
E-Mail Address: clare.slater@ryedale.gov.uk

**Background Papers:**
Council Plan 20014-17
Annual Governance Statement
Risk Registers:

- Corporate Risk Register
- Service Risk Registers
- Significant Partnerships Risk Register

Internal Audit of Risk Management Arrangements – August 2012
Internal Audit of Partnerships - 2013

**Background Papers are available for inspection at:**
Covalent
www.ryedale.gov.uk

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RYEDALE
DISTRICT
COUNCIL

# RISK MANAGEMENT STRATEGY

**2015-20**

**Revised December 2015**

## CONTENTS

## 1. Introduction

This document sets out a strategy for implementing and embedding risk management within Ryedale District Council.

To ensure that the strategy remains focused and in keeping with the overall aims and objectives of the Council there is a need to review it on an annual basis. As such this document has been reviewed in December 2014.

Sound risk management, if embedded, will achieve many benefits for the Council. These include assisting in setting priorities (focusing on key risks), service planning and demonstrating to stakeholders that the Council is continuously improving by managing areas of key concern, both at corporate and service-based levels. It should also be employed in the management of partnerships and projects.

The challenge is to implement risk management without significantly increasing workloads. This is achieved by making risk management part of existing processes rather than treating it as a separate function.

The objectives of the strategy are to:-

- Further develop risk management and raise its profile across the Council;
- Integrate risk management further into the organisational culture, service planning and performance aspects of the organisation;
- Embed risk management through the ownership and management of risk as part of <u>all</u> decision-making processes, both at officer and member level.
- Manage risk in accordance with best practice;
- Create effective processes that will allow the council to produce risk management assurance statements annually.

This strategy demonstrates how Ryedale District Council is meeting its responsibility to manage risks using a structured and focused approach.

## 2. Risk Management Philosophy

The Risk Management Philosophy of the Council is to adopt processes which will identify measures and either eliminates or controls risks that the Council is exposed to.

It is acknowledged that not all risks will be identified nor eliminated, particularly those of a minor nature. However, all employees should understand the nature of principal risks in their business area.

## 3. What is Risk Management?

Risk Management can be defined as:

“Risk is the threat that an event or action will adversely affect an organisation’s ability to achieve its objectives and to successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled"

Risk management is a strategic tool and is an essential part of effective and efficient management and planning. As a strategic tool, risk management identifies those issues that will act as a barrier to Ryedale District Council achieving its objectives. Appendix 1 to this document sets out the main areas of risk for Local Authorities.

The Council's approach is to be **risk aware** rather than **risk averse** and to manage risk rather than to seek to eliminate it in all cases.

There are two types of risks:-

- **direct threats** (damaging events) which could lead to a failure to achieve objectives.
- **opportunities** (constructive events) which if exploited could offer an improved way of achieving objectives, but which are surrounded by threats.

The Strategy has critical links to the following areas:-

- Our Strategic Objectives.
- Our Corporate Governance Arrangements.
- Our Community Focus.
- Our Organisational Structures and Processes.
- Our Standards of Conduct.
- Our Service delivery arrangements.
- Our Medium Term Financial Strategy.
- Our Annual Governance Statement (AGS).

## 4. Why do we need a Risk Management Strategy?

There are three main reasons why risk management is undertaken and a strategy is put in place to ensure that it is embedded within the Council's decision-making framework:-

- Risk management is about identifying those issues that will prevent Ryedale District Council from being successful in achieving its corporate and service-based objectives, as well as successful involvement in partnerships and projects. If these issues are successfully managed then Ryedale District Council is more likely to achieve its objectives.
- Risk Management is good management and should be incorporated in all decision-making of the Authority. Risk management is also about identifying risk-based opportunities.
- Risk management is also an essential part of the Annual Governance Statement (AGS), which the Council has to produce annually. The AGS comments on the Council's position in relation to risk management, corporate governance and internal control. The strategy underpins the approach to risk management at Ryedale.

**5. What are the benefits of risk management?**

- Increases likelihood of achieving objectives by identifying the barriers to achievement - improved strategic management.
- Become less risk averse in innovation (because you understand) and hence more innovative.
- Improve business planning through a risk based decision making process.
- Improved operational management.
- Improved financial management.
- Improved customer service.
- Enhance performance - feeds into performance management framework.
- Focus on doing what matters to make a difference. Demonstrable improvement.
- Better governance - and demonstration of it to stakeholders

## 6. What is the Risk Management Process?

Implementing the strategy involves identifying, analysing, managing and monitoring risks. Risk management is a **continuous** process, which involves continual **identification, assessment and management** of the risks faced by the Council. Appendix 2 to this document details the process.

**The Risk Management Process**


The information resulting from the risk management process acts as one of eight key pieces of information that feed into the priorities of the Council.

## 7. Risk Management linking into Corporate Planning

The information resulting from the risk management process acts as one of eight key pieces of information that feed into the priorities of the Council.


## 8. Risk Strategy for Ryedale District Council

The success of risk management depends on how well it links into existing processes.
This strategy recognises the three main types of risk management undertaken within local government, namely:

- Corporate Risk Management: those items that have major consequences for the Council in achieving its overall goals.
- Service-Based Risk Management: those risks which impact on delivery of services including welfare issues, health and safety, asset management issues etc.
- Partnership and Project-Based Risk Management: those risks that impact on the delivery of partnerships, projects and major items of change management.

**The Councils Risk Management Objectives**
The Risk Management objectives of the Council are;-

- To integrate risk management into the day to day activities of the Council;
- To identify and measure risks associated with business decisions;
- To eliminated or control risks associated with business decisions;
- To review risks in response to changes in the internal and external environment of the Council;
- To raise awareness of risk management within the organisation.

**The objectives will be achieved by:-**

| Action Ref | Action | Lead |
|---|---|---|
| CSR 01 | Maintaining an up to date Risk Strategy | Corporate Services |
| CSR 02 | Providing practical guidance to staff and Members | Corporate Services |
| CSR 03 | Including risk management issues within Service Delivery Plans | Heads of Service |
| CSR 04 | Including risk management assessments in Committee reports; | Heads of Service |
| CSR 05 | Including risk management within financial procedure rules; | Financial Services Manager |
| CSR 06 | Allocating specific responsibilities for risk to officers throughout the organisation | Financial Services Manager |
| CSR 09 | Review of risk management arrangements as part of the review of internal controls | Veritau |
| CSR11 | Maintaining contingency plans in areas where there is potential for risk to the Council's business capability | Heads of Service |
| CSR12 | Providing risk management awareness training for members and officers | Corporate services |
| CSR13 | Statement on risk management to be included in the Annual Governance Statement which forms part of the Statement of Accounts of the Council | Veritau |
| CSR14 | Challenging the status of risks within the Corporate Risk Register | O and S |
| CSR15 | Maintaining the Corporate Risk Register | Management Team |

A number of issues have been borne in mind when setting this strategy:-

- The relative size of the authority.
- The current planning process/performance frameworks that have already been adopted.
- The need to ensure integration between service-based risk management and corporate risk management.

## 8. Partnership Working

The Council recognises both the benefits and the risks of partnership/joint working. It seeks to manage these risks through agreeing partnership objectives, procurement arrangements, contracts and other agreements that identify and allocate risks to the relevant partners. To minimise the likelihood and impact of a significant failure in its partnerships, the Council encourages its partners to demonstrate that they have effective risk management arrangements in place and to disclose those arrangements when entering into partnership.

## 9. Annual review of Risk Management Strategy

Management Team will annually review the Council's Risk Management Strategy in light of changing legislation, government initiatives, best practice and experience gained within the Council in adopting the strategy. Any amendments will be recommended by Management Team for approval by Members.

**Appendix 1**

**Risk Management Methodology**

Implementing the strategy involves identifying, analysing, managing and monitoring risks

**Stage 1 – Identification, analysis, profiling and prioritisation of risks**

**Identifying the risks**

There are different methods to identify risks. Workshops should be held by *SMT* and within service units encouraging officers to share their concerns, problems and potential risks that they foresee.

It is also recommended that a review of published information such as service plans, strategies, financial accounts, media mentions, inspectorate and audit reports are a useful source of information.

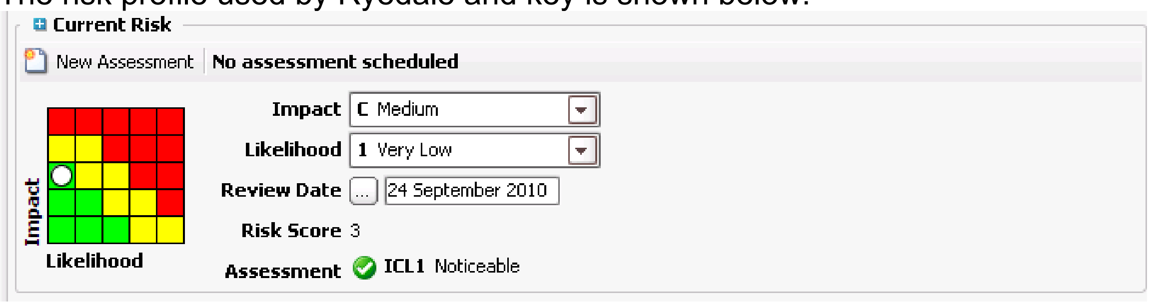
When identifying risks it is suggested that the following categories of possible risk areas be used. They will act as a prompt and as a trigger for officers involved in the process. They will ensure that a holistic approach to risk identification is taken and that the risk process does not just concentrate on operational, financial or legal risks. Examples of risks from each category can be found in Appendix 1.

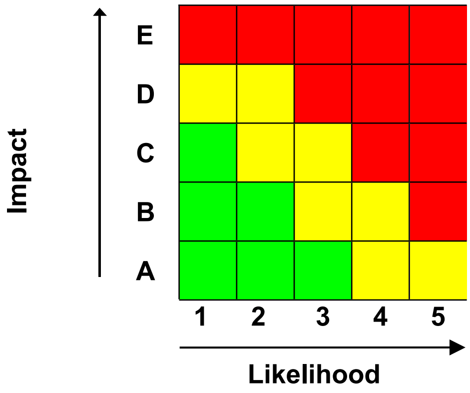
**Analysis, Risk Profiling and prioritisation**

Following identification, the risks need to be entered into the Risk Register on Covalent and evaluated. Management will look at the risks identified and decide their ranking according to the likelihood of the risk occurring and its impact, if it did occur. A matrix is used to plot the risks and once completed this risk profile clearly illustrates the priority of each scenario.

Although the risk profile produces a priority for addressing each risk determining the group's appetite for risk can enhance this. All risks above the appetite cannot be tolerated and must be managed down, transferred or avoided. The appetite for risk will be determined by management.

The risk profile used by Ryedale and key is shown below:-






| Score | Likelihood | Score | Impact |
|---|---|---|---|
| 1 | Very Low | A | Low |
| 2 | Not Likely | B | Minor |
| 3 | Likely | C | Medium |
| 4 | Very Likely | D | Major |
| 5 | Almost Certain | E | Disaster |

Using Covalent to manage and monitor risk allows the risks to be linked to projects, service delivery plan actions and performance indicators.

Risks are categorised as:

High Medium Low

Risks falling within the medium and high categories require mitigating action. If these are existing service delivery plan actions they should be linked to the risk on Covalent. Alternatively, a new action should be set up in the service delivery plan and linked to the risk. The progress in delivering these actions can then be monitored using Covalent.
Covalent has an on-line help resource which can be viewed at this location:

http://support.covalentcpm.com/webhelp/index.html?riskcentral.htm

When prioritising risks, those located in the top, right hand side box are the first priority or the most important risks to be managed. The risk scores can then guide the next level of priorities.

**Stage 2 - Action Planning**

The potential for controlling the risks identified will be addressed through the management action plans. Most risks are capable of being managed – either through mitigation planning (managing down the likelihood), contingency planning (managing the impact) or a mixture of both. Relatively few risks have to be avoided or transferred, although there will be a greater tendency to transfer (insure) risks that have a high impact, but a low likelihood. Action plans will also identify the resources required to deliver the improvements, key dates and deadlines and critical success factors/KPIs.

These actions should not be seen as a separate initiative but should be incorporated into the business planning process and included and linked to service delivery plans on Covalent.

**Stage 3 Management of risks**

Reports are generated from Covalent to present to Members. Covalent can also be accessed on-line by senior management, members and auditors.

**Timetable for Risk Reporting**

| Lead | Reporting to | Item | Frequency | Date |
|---|---|---|---|---|
| Head of Corporate Services | Audit Committee | Significant Partnerships Risk Register | Annually | February |
| Head of Corporate Services | Audit Committee | Corporate Risk Register | Twice a year | February and November |
| VERITAU | Audit Committee | Risk Management Statement in Annual Governance Statement | Annually | June |
| Head of Corporate Services | Audit Committee | Annual review of the Risk Management Strategy | Annually | January |
| All Heads of Service | Management Team | Service Risk Register | Twice a year | April and October |
| Head of Corporate Services | Management Team | Corporate Risk Register | Twice a year | January and October |
| | | | | |

**Forward Plan for O and S Committee**

| Lead | Item | Date |
|---|---|---|
| Corporate Services | Significant Partnerships Risk Register | February 2015 |
| Corporate Services | Corporate Risk Register and six monthly review of actions | February 2015 November 2015 |
| VERITAU | Risk Management Statement in Annual Governance Statement | June 2015 |
| Corporate Services | Annual review of the Risk Management Strategy | January 2016 |

**Categories of Risk** **Appendix 2**

| Risk | Definition | Examples |
|---|---|---|
| Political | Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment | New political arrangements, Political personalities, Political make-up |
| Economic | Affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions | Cost of living, changes in interest rates, inflation, poverty indicators |
| Social | Relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to meet its objectives | Staff levels from available workforce, ageing population, health statistics |
| Technological | Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures. | E-Gov. agenda, IT infrastructure, Staff/client needs, security standards |
| Legislative | Associated with current or potential changes in national or European law | Human rights, TUPE regulations etc |
| Environmental | Relating to the environmental consequences of progressing the council's strategic objectives | Land use, recycling, pollution |
| Professional Managerial | Associated with the particular nature of each profession, internal protocols and managerial abilities | Staff restructure, key personalities, internal capacity |
| Financial | Associated with financial planning and control | Budgeting, level of council tax & reserves |
| Legal | Related to possible breaches of legislation | Client brings legal challenge |
| Physical | Related to fire, security, accident prevention and health and safety | Office issues, stress, equipment use etc |
| Partnership Contractual | Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification | Contractor fails to deliver, partnership agencies do not have common goals |
| Competitive | Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value | Position in league tables, accreditation |
| Customer Citizen | Associated with failure to meet the current and changing needs and expectations of customers and citizens | Managing expectations, extent of consultation |

## Roles and Responsibilities
## Appendix 3

**Elected Members**
Members have the role of overseeing the effective management of risk by officers. In effect this means that they will agree the Strategy, framework and process put forward by officers – as well as the priorities for action. They will also review the effectiveness of risk management.

They may also be involved in providing reports to stakeholders on the effectiveness of the risk management framework, Strategy and process.

Members are ultimately responsible for risk management because the risks threaten the achievement of policy objectives.

**Management Team**
Management Team are pivotal to the Risk Management process as they set the risk appetite for the organization through the projects, initiatives and cross cutting activities that they endorse and champion.

**Officer Risk Champion/Internal Audit**
The Officer Risk Champion is responsible for the implementation of the integrated framework, Strategy and process on behalf of the Council and its Management Team. The champion is essentially fulfilling a controlling and facilitation role – to ensure the processes are implemented and to offer guidance and advice.

**Corporate Services Team**
The Corporate Services Team will support the development of risk management within the Council, developing the risk management process and integration through Covalent, and working with officers and members to monitor actions against identified risks.
The team will also lead on the development and management of the Corporate Risk Register, Significant Partnerships Register, Risk associated with Projects and will prepare the Annual Report of Risk Management and revision of the Risk Strategy.

**Supporting Services**
Other support functions, e.g. finance, human resources, health and safety, legal, IT, will also have a role in providing support and advice.

**Heads of Service**
Heads of Service are responsible for managing their Service Risks, Partnership Risks (when they are the lead officer for the partnership) and Project Risk and ensuring that risk activity and targets are achieved and updated on a timely basis.

**Partners**
Ryedale District Council works with a wide range of partners in delivering its services. It is important that those partners are brought into the risk

management framework. At times it will be appropriate for partnerships / shared services to be undertaken, however, it is essential that accountabilities are adequately determined and that Ryedale District Council does not overlook any risks that may fall on it arising from its part in a joint venture. Even where there is transfer of operational risks, for example under a PFI, there will undoubtedly be some residual risks falling on the authority. It is **not** possible to outsource the risk management process.

**Internal Audit (VERITAU)**
Veritau provides independent assurance on the effectiveness of controls within the Council. In order to do this, the annual audit plan is designed to review key risks, as identified within the corporate risk register.
As part of the production and presentation of the annual Head of Internal Audit Opinion to the Overview and Scrutiny committee, Internal Audit comments on the appropriateness of the risk management process within the Council; as well as identifying areas of low assurance and associated actions required.

**The Importance of an Integrated Approach**
In essence, the framework detailed above should provide a consistent, integrated top-down meets bottom-up approach to risk management – embedding it into Strategy and operations Risk Management must continue to be integrated and play a key role in the decision making process in the future

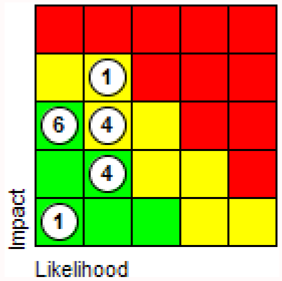
# Corporate Risk Register 2014-18

**Generated on:** 08 January 2016

RYEDALE DISTRICT COUNCIL

## Corporate Risk Register 2015-2018

### Current Risk Heat Map



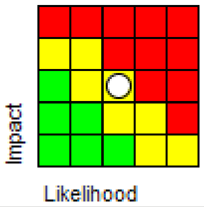

### Summary

| Status | Code | Title | Status | Code | Title |
|---|---|---|---|---|---|
| | CRR 01 | Significant Partnerships | | CRR 11 | Council Assets |
| | CRR 02 | Capital Programme | | CRR 12 | Customer Expectations |
| | CRR 03 | Staff Management | | CRR 13 | Fraud and Corruption |
| | CRR 04 | External Funding | | CRR 14 | Data Quality |
| | CRR 05 | Affordable Housing | | CRR 15 | Delivering Efficiencies |
| | CRR 06 | Procurement | | CRR 16 | Data Protection |
| | CRR 07 | Health and Safety | | CRR 17 | Regulation and Investigatory Powers Act |
| | CRR 08 | Emergency Planning and Business Continuity Planning | | CRR 18 | Member Training |

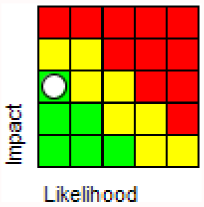
## CRR 01 Significant Partnerships

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 01 | Significant Partnerships | That the Council fails to manage its partnerships effectively | |

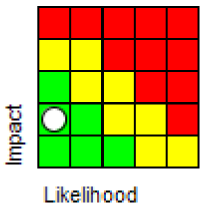
| | |
|---|---|
| **Consequences** | Financial cost to the Council through partnership failure, breach of legislation by partnership with consequences for Council and its reputation, levels of service satisfaction and quality fall below acceptable levels. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | C<br>Medium | **Original Likelihood** | 3<br>Likely |



| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 1<br>Very Low |



| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | B<br>Minor | **Target Likelihood** | 1<br>Very Low |

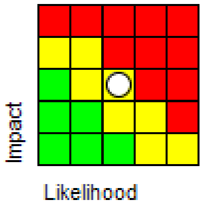


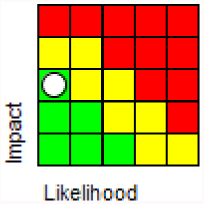
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 18-Jan-2016 While the Audit of Partnerships concluded with an outcome of high assurance, it did raise a query about the governance arrangements for the LEP. This has proved to be largely without foundation due to the LEP's constitution. However, governance issues are a key element in current discussions about devolution arrangements and a combined authority that includes Ryedale District. | 12-Jan-2016 | Clare Slater |

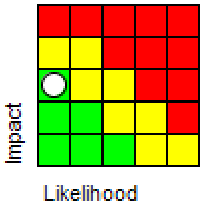
## CRR 02 Capital Programme

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 02 | Capital Programme | Failure to deliver Council priorities, due to poor management of the capital programme. | |

| **Consequences** | Failure to deliver the Council priorities |
|---|---|

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | C<br>Medium | **Original Likelihood** | 3<br>Likely |

| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 1<br>Very Low |

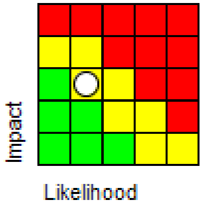
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | C<br>Medium | **Target Likelihood** | 1<br>Very Low |

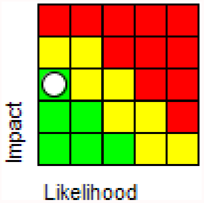
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 19-Jan-2016 Anticipated significant reduction in New Homes Bonus funding has potential consequences on the current level of delivery of capital projects. To be discussed at RWP on 21st January. | 12-Jan-2016 | Peter Johnson |

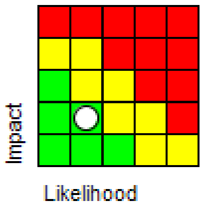
## CRR 03 Staff Management

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 03 | Staff Management | Failure to effectively manage and develop our workforce assets | ✔ |

| | |
|---|---|
| **Consequences** | Decline in employee performance and delivery |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|   | **Original Impact** | C<br>Medium | **Original Likelihood** | 2<br>Not Likely |

| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|   | **Current Impact** | C<br>Medium | **Current Likelihood** | 1<br>Very Low |

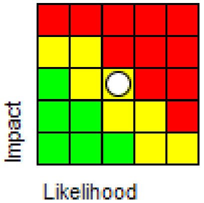
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|   | **Target Impact** | B<br>Minor | **Target Likelihood** | 2<br>Not Likely |

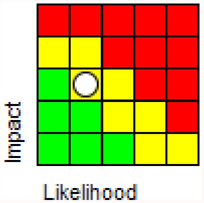
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Absence management is ongoing with performance reported monthly to Management Team and Quarterly to Members in the Council Business Plan report. Service redesign to achieve efficiencies is a key element of the Towards 2020 transformation programme. | 12-Jan-2016 | Clare Slater |

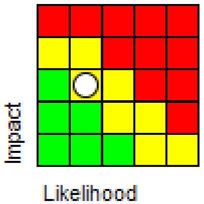
## CRR 04 External Funding

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 04 | External Funding | Failure to attract external funding to support the priorities of the Council | |

| | |
|---|---|
| **Consequences** | Failure to deliver Council priorities requiring major financial investment. Increased costs to RDC. Failure to regenerate the local economy. Uncompetitive service delivery. Withdrawal or failure of a service. Inability to deliver new services |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | C<br>Medium | **Original Likelihood** | 3<br>Likely |

| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 2<br>Not Likely |

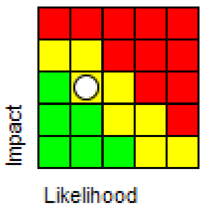
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | C<br>Medium | **Target Likelihood** | 2<br>Not Likely |

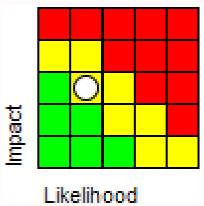
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 19-Jan-2016 Strategic approach to new funding opportunities being developed in response to legislation and Community Infrastructure Levy (CIL). Linked to the development of the Local Development Framework and LEP 5 year Growth Strategy. Increasingly Local Government is to be resourced through Business Rates retention and Council Tax with less emphasis on Revenue Support Grant and New Homes Bonus. As a result of this variables such as any successful Business Rate Appeals will have an impact on the Councils finances, however, contingency has been made for appeals in the Budget. | 12-Jan-2016 | Peter Johnson |

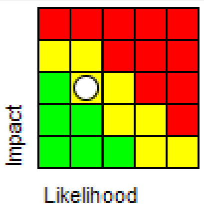
## CRR 05 Affordable Housing

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 05 | Affordable Housing | Failure to meet identified housing need in Ryedale | |

| | |
|---|---|
| **Consequences** | Homelessness increases with resultant service costs. Unbalanced housing market. Negative impact on the local economy. Lack of key workers to support the needs of the community. Local people forced to move away from Ryedale. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | C<br>Medium | **Original Likelihood** | 2<br>Not Likely |

| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 2<br>Not Likely |

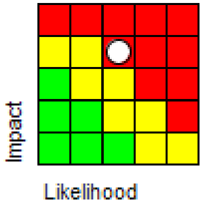
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | C<br>Medium | **Target Likelihood** | 2<br>Not Likely |

| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 18-Jan-2016 The implications of the changes to the definitions of affordable housing as set out in the Planning and Housing Bill and consultation changes to the NPPF could be significant. The introduction of starter homes as an affordable product (not in perpetuity) could have an adverse impact on delivery figures and result in a product which locally is un affordable -therefore not meeting local housing need. the full implications of policy changes will be likely to be known in Spring 2016 along with the Bill being enacted around the same time. the matter will need to be reviewed at that time in order to more clearly assess the likely impacts on delivery. | 12-Jan-2016 | Gary Housden |

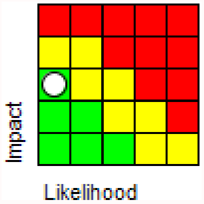
## CRR 06 Procurement

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 06 | Procurement | Failure to procure in line with legislation and in line with best value principles | |

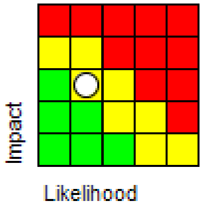
| | |
|---|---|
| **Consequences** | Failure to make efficiency savings. Priority projects not delivered to budget. Adverse external inspection. Breach of legislation e.g. equalities or health and safety. Damage to RDC reputation. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | D<br>Major | **Original Likelihood** | 3<br>Likely |



| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 1<br>Very Low |



| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | C<br>Medium | **Target Likelihood** | 2<br>Not Likely |

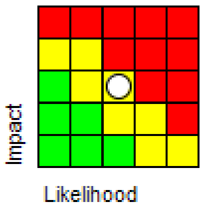


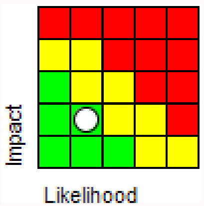
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Procurement Partnership established and the service received by the Council is working well with savings being achieved contributing to efficiency targets. | 12-Jan-2016 | Phil Long |

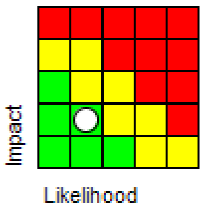
## CRR 07 Health and Safety

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 07 | Health and Safety | Failure to ensure appropriate systems are in place to manage Health and safety | ✔ |

| | |
|---|---|
| **Consequences** | Failure to meet legislative requirements, prosecution and financial penalties incurred as a result of incident. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | C<br>Medium | **Original Likelihood** | 3<br>Likely |

| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | B<br>Minor | **Current Likelihood** | 2<br>Not Likely |

| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | B<br>Minor | **Target Likelihood** | 2<br>Not Likely |

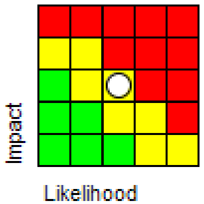
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Member and officer training undertaken. Health and Safety policy framework in place. Ownership across the organisation, roles and responsibilities clarified at all levels of management. All working effectively. | 12-Jan-2016 | Beckie Bennett |

## CRR 08 Emergency Planning and Business Continuity Planning

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 08 | Emergency Planning and Business Continuity Planning | Failure to produce effective, comprehensive and tested plan. | |

| | |
|---|---|
| **Consequences** | Failure in continuity of service delivery. Negative impact on the most vulnerable on our communities. Damage to RDC reputation. Financial penalties and litigation |

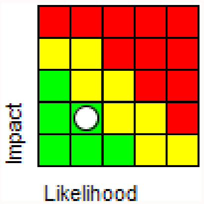
**Original Matrix**




**Original Rating Description**

| | | | |
|---|---|---|---|
| **Original Impact** | C<br>Medium | **Original Likelihood** | 3<br>Likely |

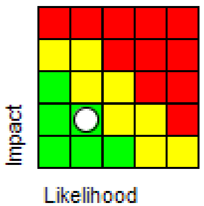
**Current Risk Matrix**




**Current Rating Description**

| | | | |
|---|---|---|---|
| **Current Impact** | B<br>Minor | **Current Likelihood** | 2<br>Not Likely |

**Target Risk Matrix**




**Target Rating Description**

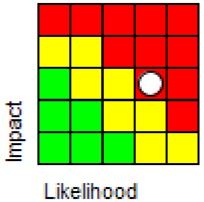
| | | | |
|---|---|---|---|
| **Target Impact** | B<br>Minor | **Target Likelihood** | 2<br>Not Likely |

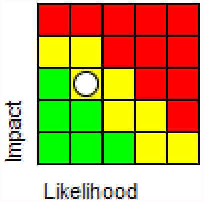
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Emergency planning arrangements in place and tested. Training undertaken for all staff. Comprehensive Business Continuity Planning in place and fully tested. Lessons learned from the recent flooding incidents will be included in any planning for future incidents | 12-Jan-2016 | Phil Long |

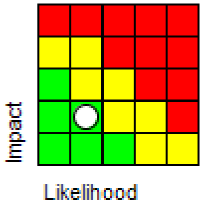
## CRR 11 Council Assets

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 11 | Council Assets | Ensure the Council has proper plan to ensure maintenance and fitness for purpose of the Council assets | |

**Consequences**

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | C<br>Medium | **Original Likelihood** | 4<br>Very Likely |

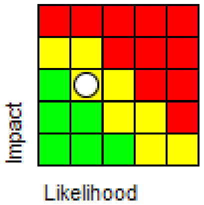
| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 2<br>Not Likely |

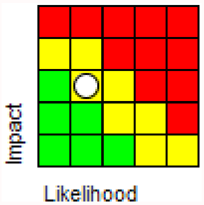
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | B<br>Minor | **Target Likelihood** | 2<br>Not Likely |

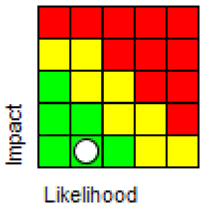
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 The supporting service is to be redesigned to make efficiencies in the way the service is delivered. Currently interim arrangements are in place. Effective asset management arrangements are a key strand of the Towards 2020 programme. Asset Management is the topic selected by members of O and S for the next scrutiny review | 12-Jan-2016 | Beckie Bennett |

## CRR 12 Customer Expectations

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 12 | Customer Expectations | Failure to meet customer service standards and meet customer expectations. | |
| **Consequences** | | Include CR02 | |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
| <br> | **Original Impact** | C<br>Medium | **Original Likelihood** | 2<br>Not Likely |

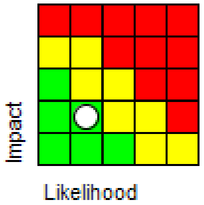
| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
| <br> | **Current Impact** | C<br>Medium | **Current Likelihood** | 2<br>Not Likely |

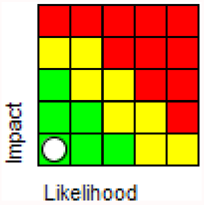
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
| <br> | **Target Impact** | A<br>Low | **Target Likelihood** | 2<br>Not Likely |

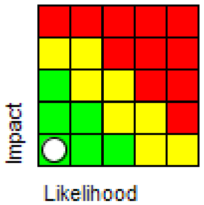
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Customers are the focus of the Towards 2020 programme and services will be redesigned to meet customer need. A new customer access strategy is being prepared including plans for shifting the channels through which customers access Council services. | 12-Jan-2016 | Clare Slater |

## CRR 13 Fraud and Corruption

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 13 | Fraud and Corruption | Failure to ensure Council has proper procedures and policies for the prevention and detection of fraud. | |
| **Consequences** | | Financial loss to the Council, damage to our reputation and credibility | |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | B<br>Minor | **Original Likelihood** | 2<br>Not Likely |

| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | A<br>Low | **Current Likelihood** | 1<br>Very Low |

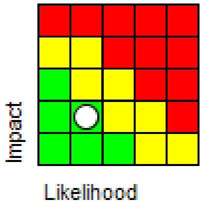
| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | A<br>Low | **Target Likelihood** | 1<br>Very Low |

| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 All Housing Benefit related fraud work will move from LA's to the DWP Single Fraud Investigation Service (SFIS) in April 2016. Arrangements in place with Veritau for them to support the Councils corporate approach to managing risk and identifying fraud. | 12-Jan-2016 | Peter Johnson |

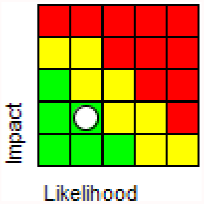
## CRR 14 Data Quality

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 14 | Data Quality | The Council recognises the importance of data quality as we need reliable, accurate and timely performance information with which to manage services, inform users and account for our performance | ✔ |

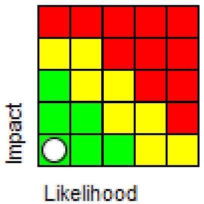
| **Consequences** | |
|---|---|
| | |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | B<br>Minor | **Original Likelihood** | 2<br>Not Likely |



| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | B<br>Minor | **Current Likelihood** | 2<br>Not Likely |



| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | A<br>Low | **Target Likelihood** | 1<br>Very Low |

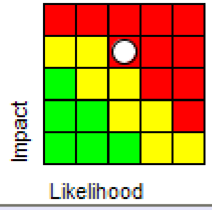


| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Data Quality Strategy in place and publicised to all staff. Audit of Data Quality undertaken with positive outcome. | 12-Jan-2016 | Clare Slater |

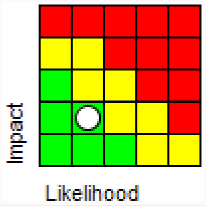
## CRR 15 Delivering Efficiencies

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 15 | Delivering Efficiencies | Council fails to meet efficiency targets which necessitates cuts to other services | |

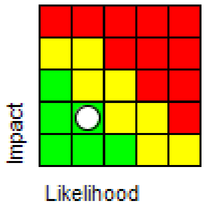
| | |
|---|---|
| **Consequences** | Cuts to frontline services, reputational damage to the Council, possible poor outcome of external inspection. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | D<br>Major | **Original Likelihood** | 3<br>Likely |



| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | B<br>Minor | **Current Likelihood** | 2<br>Not Likely |



| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | B<br>Minor | **Target Likelihood** | 2<br>Not Likely |

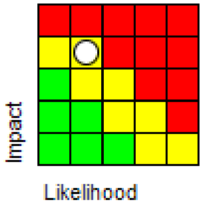


| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 The Council is required to make savings over the period of the latest spending review - to 2019/20. The Towards 2020 programme is being developed to incorporate the latest requirements with an anticipated target saving requirement of between £1.2 and £1.7 million over the next 3 years. | 12-Jan-2016 | Peter Johnson |

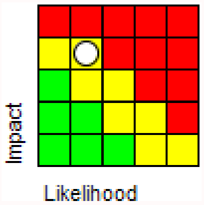
## CRR 16 Data Protection

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 16 | Data Protection | To ensure the Council meets all of its statutory obligations relating to the protection of personal and confidential data. | |

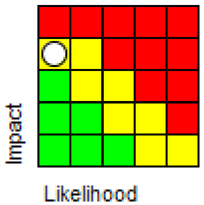
| | |
|---|---|
| **Consequences** | Legal action resulting in large fines (£100k-£500k).<br>Reputational damage and adverse publicity. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|  | **Original Impact** | D<br>Major | **Original Likelihood** | 2<br>Not Likely |



| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|  | **Current Impact** | D<br>Major | **Current Likelihood** | 2<br>Not Likely |



| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|  | **Target Impact** | D<br>Major | **Target Likelihood** | 1<br>Very Low |

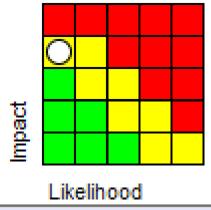


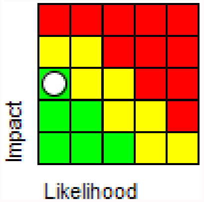
| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 A range of data protection policies are available to all staff on the intranet, in addition to regular updates based on current cases. **http://intranet.ryedale.gov.uk/Default.aspx?page=6859** | 12-Jan-2016 | Phil Long |

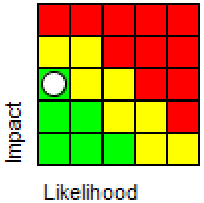
## CRR 17 Regulation and Investigatory Powers Act

| Risk Code | Risk Title | Description | Status |
|---|---|---|---|
| CRR 17 | Regulation and Investigatory Powers Act | That the Council does not meet the requirements of legislation including the RIPA 2000 and the Protection of Freedoms Act 2012 | |

| | |
|---|---|
| **Consequences** | That the Council is found to be in breach of the legislation. |

| Original Matrix | Original Rating Description | | | |
|---|---|---|---|---|
|   | **Original Impact** | D<br>Major | **Original Likelihood** | 1<br>Very Low |

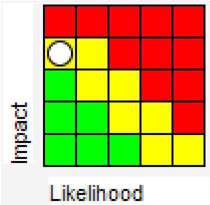
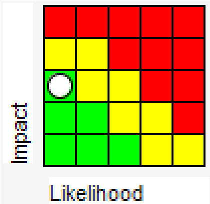
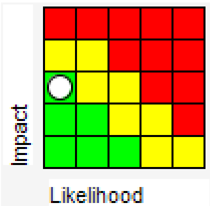
| Current Risk Matrix | Current Rating Description | | | |
|---|---|---|---|---|
|   | **Current Impact** | C<br>Medium | **Current Likelihood** | 1<br>Very Low |

| Target Risk Matrix | Target Rating Description | | | |
|---|---|---|---|---|
|   | **Target Impact** | C<br>Medium | **Target Likelihood** | 1<br>Very Low |

| Latest Progress | Last Review Date | SMT Lead |
|---|---|---|
| 12-Jan-2016 Key responsibilities allocated to members of Management team and training undertaken. Policies and guidance are up to date on the Council Website.<br>An inspection was carried out in June 2015, the Council has implemented the recommendations made in the final report. | 12-Jan-2016 | Phil Long |

## CRR 18 Member Development

| Risk Code | Risk Title | Description | Status |
| --- | --- | --- | --- |
| CRR 18 | Member Development | That members of the council do not have the opportunity to develop the skills and competencies to ensure they participate in robust decision making | |
| **Consequences** | | That the Council is found to be in breach of the legislation or a decision is found to be unsound, the council is unable to deliver its priorities. | |

| Original Matrix | Original Rating Description | | | |
| --- | --- | --- | --- | --- |
|  | **Original Impact** | D<br>Major | **Original Likelihood** | 1<br>Very Low |
| **Current Risk Matrix** | **Current Rating Description** | | | |
|  | **Current Impact** | C<br>Medium | **Current Likelihood** | 1<br>Very Low |
| **Target Risk Matrix** | **Target Rating Description** | | | |
|  | **Target Impact** | C<br>Medium | **Target Likelihood** | 1<br>Very Low |

| Latest Progress | Last Review Date | SMT Lead |
| --- | --- | --- |
| 12-Jan-2016 Member development programme in place and managed effectively by member working party. Competency framework in place with programme in place to reflect the skills and knowledge required and help to ensure that Members have access to relevant training. Induction programme delivered to ensure that any new members elected in May 2015 have effective and relevant induction and any statutory training required to enable participation in decision making and to ensure this is robust. | 12-Jan-2016 | Janet Waggott |

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| **REPORT TO:** | **OVERVIEW AND SCRUTINY COMMITTEE** |
| **DATE:** | **28 JANUARY 2016** |
| **REPORT OF THE:** | **FINANCE MANAGER (s151)**<br>**PETER JOHNSON** |
| **TITLE OF REPORT:** | **INTERNAL AUDIT – PROGRESS REPORT** |
| **WARDS AFFECTED:** | **ALL** |

## EXECUTIVE SUMMARY

### 1.0 PURPOSE OF REPORT

1.1 The report summarises the outcome of internal audit work undertaken between 1 April 2015 and 8 January 2016, inclusive.

### 2.0 RECOMMENDATION(S)

2.1 It is recommended that the Committee note the results of audit and fraud work undertaken so far during 2015/16.

### 3.0 REASON FOR RECOMMENDATION(S)

3.1 To enable the Committee to fulfil its responsibility for considering the outcome of internal audit work.

### 4.0 SIGNIFICANT RISKS

4.1 The Council will fail to comply with proper practice requirements for internal audit if the results of audit work are not considered by an appropriate Committee.

### 5.0 POLICY CONTEXT AND CONSULTATION

5.1 This report supports the Council's Corporate Strategic Objective of providing strong Community Leadership, by demonstrating a commitment to local democracy and accountability.

### 6.0 REPORT DETAILS

6.1 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS) and CIPFA guidance on the application of those standards in Local Government. In accordance with the standards, the Head of Internal Audit is required to report on the results of audit work undertaken, to this Committee

6.2 Within the report there is a summary of progress made against the plan and a summary of the audit opinions for the individual audits completed thus far.

6.3 In the period between 1 April 2015 and 8 January 2016 we have fully completed 5 out of 20 internal audit reviews. One draft report has been issued and that work will be finalised shortly. A further five audits are in progress and for four audits planning is underway. A timetable for the completion of all remaining work has been agreed with service managers and for those audits not yet started the attached report provides an estimated start date.

6.4 It is important that agreed actions are formally followed-up to ensure that they have been implemented by managers. The internal audit team carries out follow-up work throughout the year and escalates any issues that have not been addressed, with senior managers. Where necessary, the issues will also be brought to the attention of this committee. There are currently no matters to bring to the attention of Members.

**7.0 IMPLICATIONS**

7.1 The following implications have been identified:

a) Financial
None

b) Legal
None

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

**Peter Johnson**
**Finance Manager (s151)**


**Author:** Stuart Cutts Audit Manager.
Veritau Limited
Telephone No: 01653 600666
E-Mail Address: stuart.cutts@veritau.co.uk


**Background Papers:**
2015/16 Internal Audit Plan

# Ryedale District Council

# Internal Audit Progress Report 2015/16

# Period to 8 January 2016

| | |
|---|---|
| **Audit Manager:** | Stuart Cutts |
| **Head of Internal Audit:** | Max Thomas |
| **Circulation List:** | Members of the Overview and Scrutiny Committee<br>Chief Executive<br>Finance Manager (S151 Officer) |
| **Date:** | 8 January 2016 |

Veritau
Assurance Services for the Public Sector

## Background

1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan and to identify any emerging issues which need to be brought to the attention of the Committee.

2 Members of this Committee approved the 2015/16 Internal Audit Plan at their meeting on the 23 April 2015. The total number of planned audit days for 2015/16 was 225. This report summarises the progress made in delivering the agreed plan.

3 This is the second Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2015/16. This report updates therefore the Committee on the work completed between 1 April 2015 and 8 January 2016.

## Internal Audit work completed in 2015/16

4 In the period between 1 April 2015 and 8 January 2015 we have completed 5 out of 20 planned internal audit reviews. We have issued one draft report. A further five audits are in progress and detailed planning work has commenced for a further four audits.

5 We have agreed timings with management for all 2015/16 audits. For those audits we have yet to start then for information we have provided proposed start dates in this report. We are on target to deliver the agreed Audit Plan by the end of April 2016.

6 Further information on the progress of the audits from the agreed 2015/16 audit plan is included in Appendix A.

7 Further information on the findings from each of the completed audits since the last Overview and Scrutiny Committee on 5th November 2015 is included in Appendix B.

## Audit Opinions

8 For the majority of our reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the opinion and priority ranking are included in Appendix C.

## Wider Internal Audit work

9 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:

- **Support to the Overview and Scrutiny Committee**; this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice, guidance and training to Members as required.

- **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide ‘real time’ feedback on areas of importance to the Council.

- **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally ‘followed up’. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. In 2015/16, we have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of follow up work.

**Appendix A**

**Table of 2015/16 audit assignments to 8 January 2016**

| Audit | Status | Assurance Level (if Completed) / Planned Start date (if Not Started) | Audit Committee |
|---|---|---|---|
| **Strategic Risk Register** | | | |
| Business Continuity | Planning | | |
| Disaster Recovery | Planning | | |
| Fraud and Corruption | In progress | | |
| Performance Management arrangements and Data Quality | Not started | March 2016 | |
| **Fundamental/Material Systems** | | | |
| Housing Benefits | In progress | | |
| Payroll | Planning | | |
| Council Tax / NNDR | **Completed** | **High Assurance** | **January 2016** |
| Sundry Debtors | Draft Report | | |
| Creditors | Not started | February 2016 | |
| General Ledger | Not started | March 2016 | |
| Budgetary Management | Not started | February 2016 | |
| **Regularity Audits** | | | |
| Risk Management | In Progress | | |
| Contract Management | Planning | | |
| Human Resources | In Progress | | |
| ***Technical/Project Audits*** | | | |
| Projects - Payroll budget monitoring development | **Completed** | **No opinion given** | **November 2015** |
| Projects - Cash Payments Ryedale House | **Completed** | **No opinion given** | **November 2015** |
| Server Rooms security | **Completed** | **Limited Assurance** | **January 2016** |
| Data Protection and security | **Completed** | **Limited Assurance** | **November 2015** |
| Payment Card Industry Data Security Standard | Not started | February 2016 | |
| **Follow-Ups** | In Progress | | |

**Summary of Key Issues from audits completed to 8 January 2016; not previously reported to Committee** **Appendix B**

| System/Area | Opinion | Area Reviewed | Date Issued | Comments | Management Actions Agreed |
|---|---|---|---|---|---|
| Council Tax / NNDR | High Assurance | The audit examined the controls and processes in place to ensure:<br>• The taxation database is up to date and accurate<br>• Bills and demands for Council Tax and NNDR are calculated and issued correctly, applying only legitimate discounts, exemptions and other allowances<br>• All monies collected were posted promptly to the correct account<br>• Appropriate performance monitoring arrangements of both systems was in place | December 2015 | **Strengths**<br>We found procedures in place that have ensured the number and value of taxable properties match the records held by the Valuation Office. Procedures also regularly review all discounts, exemptions and reliefs which help to ensure these are correctly applied to taxpayers' accounts and are discontinued when entitlement lapses.<br><br>Performance is monitored monthly for the percentage of tax collected against the debit for both Council Tax and NNDR. Staff workload is also monitored for transactions processed and the number and length of telephone calls. These procedures help assist management in effectively managing the Revenues Service. The latest information shows the collections rates achieved for Council Tax and NNDR have increased since 2014/15 and are above average when compared to other billing & collection authorities in England.<br><br>**Weaknesses**<br>No weaknesses were noted. | |
| Server Rooms Security | Limited Assurance | It is important to protect servers and other network infrastructure from fire, flood, power outages and other environmental hazards, and also potential damage, theft or sabotage. Weak physical security arrangements could also lead to unauthorised access to sensitive information. We reviewed the server room at Ryedale House and the Malton depot. | January 2016 | **Strengths**<br>The Council has agreed with the findings from the audit and are looking to address both the immediate and more strategic considerations.<br><br>**Weaknesses**<br>The council's servers at Ryedale House and the Malton depot are exposed to the risks of unauthorised access and potential disruption to, or loss of, data, services or operational activities due to important controls not being in place. | Management are currently considering the strategic and operational matters in respect of the management of the Server Rooms. |

Appendix C

## Audit Opinions and Priorities for Actions

| Audit Opinions | |
|---|---|
| Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.<br>Our overall audit opinion is based on 5 grades of opinion, as set out below. | |
| **Opinion** | **Assessment of internal control** |
| High Assurance | Overall, very good management of risk. An effective control environment appears to be in operation. |
| Substantial Assurance | Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified. |
| Reasonable Assurance | Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. |
| Limited Assurance | Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. |
| No Assurance | Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse. |

| Priorities for Actions | |
|---|---|
| Priority 1 | A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management |
| Priority 2 | A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management. |
| Priority 3 | The system objectives are not exposed to significant risk, but the issue merits attention by management. |

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| **REPORT TO:** | **OVERVIEW AND SCRUTINY COMMITTEE** |
| **DATE:** | **28 JANUARY 2016** |
| **REPORT OF THE:** | **FINANCE MANAGER (s151)<br>PETER JOHNSON** |
| **TITLE OF REPORT:** | **ANNUAL GOVERNANCE STATEMENT ACTION PLAN** |
| **WARDS AFFECTED:** | **ALL** |

**EXECUTIVE SUMMARY**

**1.0 PURPOSE OF REPORT**

1.1 The report informs Members of the progress made to address the actions identified in the 2014-15 Annual Governance Statement (AGS) action plan.

**2.0 RECOMMENDATION**

2.1 It is recommended that Members note the progress made to address identified actions in the 2014-15 AGS action plan.

**3.0 REASON FOR RECOMMENDATION**

3.1 Monitoring progress with identified actions in the AGS is good practice and it helps to demonstrate to the external auditors that the audit committee is properly exercising its role.

**4.0 SIGNIFICANT RISKS**

4.1 There are no significant risks.

**5.0 POLICY CONTEXT AND CONSULTATION**

5.1 There is no impact upon specific policies, although the AGS is an important corporate document demonstrating the Council's commitment to an open and transparent philosophy in all its activities.

**6.0 REPORT DETAILS**

6.1 Good governance is important to all involved in local government; however, it is a key responsibility of the Leader of the Council and of the Chief Executive.

6.2 The preparation and publication of an Annual Governance Statement in accordance with the Cipfa/SOLACE Framework is necessary to meet the statutory requirements set out in Regulation 4(2) of the Accounts and Audit Regulations 2011 which require each authority to "conduct a review at least once in a year of the effectiveness of its system of internal control" and to prepare a statement on internal control "in accordance with proper practices".

6.3 To meet the requirement to review the AGS an Action Plan has been agreed and is subject to review by the Council's Audit Committee.

6.4 This report presents a review of the implementation of actions proposed in the Action Plan associated with the 2014-15 AGS.

6.5 The Action Plan detailed in Appendix A, sets out the current position with comments on the actions proposed in the plan.

6.6 The AGS Action Plan is a document that should be reviewed periodically during the year. A final review will be completed when the AGS for 2015-16 is being drafted and any current items which remain outstanding will then be brought forward into the new AGS.

## 7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial
None

b) Legal
None

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

**Peter Johnson**
**Finance Manager (s151)**

**Author:** Peter Johnson, Finance Manager (s151)
Telephone No: 01653 600666 ext 385
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**Background Papers:**
None

**APPENDIX A**

## ANNUAL GOVERNANCE STATEMENT 2014/15

### Action Plan for Implementation in 2015/16

| STATUS | CONTROL ISSUE | ACTION PROPOSED | RESPONSIBILITY | TARGET DATE | CURRENT POSITION & COMMENTS |
|---|---|---|---|---|---|
| Brought Forward | Risk of compromise and weaknesses in operational systems as a consequence of continuing reductions in staffing as Government funding cuts made. | Where changes in staffing occur, that changes in operating arrangements are reviewed prior to reducing the controls.<br>Internal audit will be included in working groups reviewing operating systems and arrangements, including commissioning, partnership arrangements etc. | Finance Manager (s151 Officer). | Ongoing | This will be a continuing issue in 2015/16 and beyond<br>Internal Audit advice given on cash handling procedures in the current financial year. |
| Brought Forward | In year Internal Audits offering limited assurance/ Specific Control weaknesses highlighted through Internal Audits.. | Management to specifically monitor the progress on agreed actions from these Internal Audit Reports. | Heads of Service and Finance Manager. | In line with the dates for completion for agreed actions from the audit reports | Monitoring through Management Team ongoing No significant issues to report at this time |
| 2014/15 | Weaknesses in Internal Controls relating to cash payments | Cease taking cash payments at Ryedale House. | Head of Corporate Services and Finance Manager | April 2016 | Cash payments no longer taken at Ryedale House. Alternative arrangements made using All-pay via local shops and post offices. |
| 2014/15 | Monitoring of the effectiveness of Internal Controls relating to Officer delegated authorisation limits. | Monthly reports to be produced to monitor delegated officer spend limits | Finance Manager | September 2015 | Monthly reporting now taking place and monitored by the Finance Manager. |
| 2014/15 | Provision of the Property and Facilities Management Service | Management to review alternative delivery of this function including options for delivering valuation services in line with best practice. | Head of Environment, Streetscene & Facilities. | April 2016 | Interim arrangements with NYCC continuing. |
| 2014/15 | In giving his judgement in respect of | External Auditors (KPMG) to | Chief Executive | November 2015 | KPMG letter reported to 26th |

| | | | | | |
|---|---|---|---|---|---|
| | the Judicial Review case of the Queen on the application of Milton (Peterborough) Estates Company trading as Fitzwilliam (Malton) Estate v Ryedale District Council, Mr Justice Dove made a finding that the Officer report to the Planning Committee seriously misled the Planning Committee. | review the outcome of the Judicial Review in line with their role under the Audit & Accountability Act. | | | January 2016 Audit Committee. |