

Notice of meeting of

Audit & Governance Committee

To:	Councillors B Watson (Chair), Brooks (Vice-Chair), Firth, Hyman, Scott, Vassie and Gunnell
Date:	Wednesday, 29 September 2010
Time:	5.00 pm
Venue:	The Guildhall, York

AGENDA

Note:

As agreed at previous meetings, the Chief Internal Auditor and District Auditor (Audit Commission) will be present in the meeting room from 5:00 pm to provide a private briefing for Members, if required.

This meeting will also be preceded by a training session for Members on Treasury Management at 4.30 pm.

1. Declarations of Interest

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. Exclusion of Press and Public

To consider the exclusion of the press and public from the meeting during consideration of the following:

Annex C to Agenda Item 10 (Key Corporate Risk Monitor Quarter Two 2010/11) on the grounds that it contains information relating to negotiations in connection with a labour relations matter arising between the authority and employees of the authority. This information is classed as exempt under paragraph 4 of Schedule

12A to Section 100A of the Local Government Act 1972 (as revised by The Local Government (Access to Information) (Variation) Order 2006).

3. Minutes (Pages 3 - 10)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 28 July 2010.

4. Public Participation

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 28th September 2010**.

5. Audit & Governance Committee Forward Plan to June 2011.
(Pages 11 - 16)

This paper presents the future plan of reports expected to be presented to the Committee to June 2011.

6. Annual Governance Report. (Pages 17 - 52)

The International Standard on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 requires the Audit Commission to report to those 'charged with governance', issues arising from the audit of Financial Statements. The purpose of this report is to bring to Members attention the Audit Commission's Annual Governance Report, agree the Council's response and seek approval to changes to the 2009/10 Financial Statements. A copy of the Audit Commission report is attached at Annex A. Attached at Annex B is a schedule of changes to the Pre-Audit Statement of Accounts 2009/10.

7. Audit Commission Value For Money Plan 2010/11 and CAA Update. (Pages 53 - 58)

This report presents the Value For Money Plan 2010/11 and associated fee structure of the Council's external auditor, the Audit Commission.

8. Annual Report of the Audit and Governance Committee.
(Pages 59 - 72)

This report seeks Member's views on the draft annual report of the Audit and Governance Committee for the year ended 30 September 2010, prior to its submission to Full Council. The report also presents a draft assurance statement which the Committee has been requested to provide to the Council's external Auditors, the Audit Commission.

9. Changing Executive Arrangements. (Pages 73 - 88)

This report advises the Audit & Governance Committee of the results of the public consultation on changes to the Council's executive arrangements. The report seeks a recommendation from the Audit & Governance Committee to Council in respect of the new arrangements which the Council must adopt.

10. Key Corporate Risk Monitor Two 2010/11. (Pages 89 - 114)

The purpose of this report is to present to Audit & Governance Committee the current position of the risks associated with the Key Corporate Risks as at the end of August 2010.

11. Scrutiny of Treasury Management Monitor 1 and Prudential Indicators 2010/11. (Pages 115 - 134)

The purpose of this report is for Members of the Audit & Governance to scrutinise "Treasury Management Monitor 1 and Prudential Indicators 2010/11" in line with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code").

12. International Financial Reporting Standards (IFRS) Update.
(Pages 135 - 138)

The purpose of this report is to continue the update to Members of the progress being made on implementing the statutory required changes in financial reporting from UK General Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS)

13. Follow Up of Internal Audit Agreed Actions. (Pages 139 - 142)

This report sets out the progress made by departments in implementing those actions agreed with internal audit which were due to have been implemented by 1st August 2010. It also includes a summary of follow up of external audit recommendations.

14. Audit, Counter Fraud and Information Governance Mid-Term Monitor. (Pages 143 - 160)

This report provides an update on progress made in delivering the internal audit workplan for 2010/11 and on current counter fraud and information governance activity.

15. 2010/11 National Fraud Initiative. (Pages 161 - 164)

The purpose of this report is to inform Members of the preparations which are being made to enable the Council to participate in the 2010/11 National Fraud Initiative (NFI) exercise.

16. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Laura Bootland

Contact details:

- Telephone – (01904) 552062
- E-mail – laura.bootland@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

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- ensure that what you want to say speak relates to an item of business on the agenda or an issue which the committee has power to consider (speak to the Democracy Officer for advice on this);
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Holding the Executive to Account

The majority of councillors are not appointed to the Executive (38 out of 47). Any 3 non-Executive councillors can 'call-in' an item of business from a published Executive (or Executive Member Advisory Panel (EMAP)) agenda. The Executive will still discuss the 'called in' business on the published date and will set out its views for consideration by a specially convened Scrutiny Management Committee (SMC). That SMC meeting will then make its recommendations to the next scheduled Executive meeting in the following week, where a final decision on the 'called-in' business will be made.

Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

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City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	28 JULY 2010
PRESENT	COUNCILLORS B WATSON (CHAIR), BROOKS (VICE-CHAIR), FIRTH, HYMAN, GUNNELL AND CRISP (SUBSTITUTE)
APOLOGIES	COUNCILLORS SCOTT AND VASSIE
IN ATTENDANCE	COUNCILLOR MOORE (EXECUTIVE MEMBER FOR CORPORATE SERVICES) MIKE NEWBURY (AUDIT COMMISSION) LYNN HUNT (AUDIT MANAGER, DISTRICT AUDIT) MR ALAN DIXON (INDEPENDENT MEMBER OF STANDARDS COMMITTEE)

PART A - MATTERS DEALT WITH UNDER DELEGATED POWERS**10. DECLARATIONS OF INTEREST**

Members were invited to declare at this point in the meeting any personal or prejudicial interests they might have in the business on the agenda. No interests were declared.

11. EXCLUSION OF PRESS AND PUBLIC

RESOLVED: That the press and public be excluded from the meeting during consideration of Annex C to agenda item 10 (Key Corporate Risk Monitor Quarter One 2010/11), on the grounds that it contains information relating to negotiations in connection with a labour relations matter arising between the authority and employees of the authority, which is classed as exempt under paragraph 4 of Schedule 12A to Section 100A of the Local Government Act 1972 (as amended by The Local Government (Access to Information) (Variation) Order 2006).

12. MINUTES

RESOLVED: That the minutes of the Audit & Governance Committee meeting held on 29 June 2010 be approved and signed by the Chair as a correct record.

13. PUBLIC PARTICIPATION

It was reported that there had been no registrations to speak at the meeting under the Council's Public Participation Scheme.

14. FORWARD PLAN

Members considered a report which presented a draft plan of items expected to be brought to the Committee up to April 2011.

The plan, attached as an annex to the report, included a item for the meeting in September 2010 on developments in respect of proposals to replace the CAA regime, as requested by Members at the last meeting.

RESOLVED: That the Committee's Forward Plan for the period up to April 2011 be noted.

REASON: To ensure that the Committee receives regular reports in accordance with the functions of an effective audit committee.

15. AUDIT COMMISSION AUDIT PROGRESS REPORT 2009/10

Members considered a report which presented an update from the Audit Commission on progress in delivering the 2009/10 Audit Plan.

The Audit Commission's report, attached as an annex, included details of progress in respect of:

- The District Auditor's opinion on the financial statements
- Grant claim certification
- Use of resources and VFM conclusion
- Compliance with international auditing standards.

It also promoted some of the national work undertaken by the Audit Commission, as reported over the past three months.

The Audit Manager confirmed the report's findings that in general the Council's key financial systems were operating satisfactorily. There had been an issue with bank reconciliations, which had not been undertaken regularly throughout the year, but this had now been resolved.

RESOLVED: That the content of the progress report, its findings and matters arising, be noted.

REASON: To confirm that the Committee is fully aware of the current activity of the external auditors and any issues that could affect the Council's system of internal control.

16. INSPECTION UPDATE

Members received a verbal update from Mike Newbury, of the Audit Commission, on the cancellation of the Comprehensive Area Assessment (CAA), its possible replacement, findings from inspection work carried out to date and suggested areas of future focus for the Council.

The CAA had been abolished with immediate effect and all related work had been cancelled. Replacement plans were currently unknown and subject to high level discussions around the idea of place-based budgeting. As a result of the changes, the Audit Commission had lost £13m in income and was currently undergoing a re-organisation that would involve approximately 270 redundancies and a reduction in turnover from £200m to £140m per annum over the next three years. For local authorities, this would mean less inspection in the future and a greater emphasis on authorities' own improvement work. It was suggested that this be focused upon areas where the Council had performed well in the last CAA inspection.

In response to questions from Members, Officers indicated that the Council would not know how to respond until more was known about the post CAA arrangements. However, there was clearly a need to develop a new performance management framework and to consider the role of scrutiny in this.

RESOLVED: That Mr Newbury be thanked for attending the meeting and that Officers provide an update report to the Committee in September.¹

REASON: To ensure that the Committee is kept informed of the government's plans to replace the previous inspection regime and the Council's proposed response.

Action Required

1. Prepare an update report for the A&G Committee meeting KB on 29/9/10

17. KEY CORPORATE RISK MONITOR ONE 2010/11

Members considered a report which presented details of the current position on the risks associated with the Council's Key Corporate Risks (KCRs), as at the end of June 2010.

Changes to the risks under each KCR focus area since the last monitor were highlighted in Annex A to the report. The current position on all KCRs was set out in Annex B and exempt Annex C, with further information provided in paragraph 5 of the report. Annex B included a new KCR in respect of the current government spending policy, which had replaced KCR 0012 (Effects of the Economic Downturn). An additional

new risk had been highlighted in relation to the Corporate Performance Management Framework, as detailed in paragraph 7.

Details in respect of the Climate Change KCR, as requested at the last meeting, were set out in Annex D to the report. It was suggested that detailed information on the Council's fairness and inclusion strategy be reported to the next meeting of the Committee, in November, to provide assurance that the risk of failing to deliver the strategy had been properly considered.

RESOLVED: (i) That the risks set out in Annexes A and B and in paragraph 5 of the report be noted and agreed.

REASON: To provide assurance that risks to the Council are continuously reviewed and updated.

(ii) That it be recommended that the Economic Downturn risk (LCR 0012) be replaced by the Government spending policy risk (KCR 0022) and that a new Corporate Performance risk be added to the KCRs and taken to the Executive for approval.¹

REASON: To provide assurance that key risks are being regularly reviewed and updated to reflect the constantly changing environment in which the Council operates.

(iii) That a more detailed risk report in respect of Fairness and Inclusion be brought to the Committee in September 2010.²

REASON: To provide assurance that key corporate strategy is being delivered and embedded across the organisation.

Action Required

1. Make the agreed changes to the Risk Register / Schedule DW on Forward Plan for Executive meeting
2. Ensure that those responsible for the Fairness & Inclusion DW risk are requested to bring a detailed report to the meeting on 29/9/10

18. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) UPDATE

Members considered a report which provided the fourth update on progress towards implementing the required statutory change in financial reporting, from UK General Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS).

Since the last update in April, an overview project plan had been prepared setting out a timetable for the transition to IFRS in time for the 2010/11 Statement of Accounts. This was attached at Annex A. Work was

continuing in the key transition areas of leasing, employee benefits, assets & investment properties and revenue / capital grants. Changes to the accounting for the private finance initiative collection fund and inclusion of group accounts had been completed and work had commenced on segmental reporting.

To facilitate the change to IFRS, the Council was joining the West Yorkshire Accounting Group. Regular discussions were continuing with the Audit Commission, who remained on board with the processes being undertaken.

RESOLVED: That the progress contained in the report be noted and that the continuing work being undertaken for a smooth transition to IFRS be recognised.

REASON: So that those responsible for governance arrangements are updated on a regular basis to ensure that the implementation of IFRS is proceeding in a timely manner for completion on 30 June 2011.

19. SCRUTINY OF THE TREASURY MANAGEMENT ANNUAL REPORT 2009/10 AND REVIEW OF PRUDENTIAL INDICATORS

Members considered a report which invited them to scrutinise the *Treasury Management Annual Report 2009/10 and Review of Prudential Indicators*, in accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance*.

The Annual Report, attached at Appendix A, had already been considered and noted by the Executive at their meeting on 20 July 2010. It summarised the economic environment over the 2009/10 financial year, highlighting the effects of economic conditions on the budget set in February 2009. It also reviewed treasury management performance in respect of long term borrowing, debt restructure, short term investments, investment credit criteria policy, the post Icelandic Bank collapse, the Venture Fund, the Treasury Management out-turn and the Prudential Indicators. Details of the Prudential Indicators, their estimated and actual out-turns, were provided in Annex A.

RESOLVED: (i) That the Treasury Management Annual Report 2009/10 & Review of Prudential Indicators, at Annex A to the report, be noted.

REASON: To confirm that those responsible for scrutiny and governance arrangements are updated on a regular basis, to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

(ii) That a training session on treasury management be arranged, to take place 30 minutes before the Committee's next meeting.¹

REASON: To enable Members to gain a better understanding of treasury management performance and procedures.

Action Required

1. Make arrangements for a training session to be held at LB
4:30 pm on 29/9/10

20. SUMMARY OF AUDIT COMMISSION NATIONAL REPORTS

Members considered a report which provided a brief overview of reports produced by the Audit Commission from 31 January to 30 June 2010.

Summaries were provided of the following reports:

- Under Pressure – Tackling the financial challenge for councils of an ageing population
- Evaluation of CAA (with Appendix and Case Studies)
- Establishing the Costs of CAA
- The Truth Is Out There
- Introduction to the Audit Commission
- Review of Collaborative Procurement
- National Fraud Initiative 2009/09 (and Members' Briefing on NFI 2008-09)

Members were invited to comment on any areas for further consideration by the Committee or by Officers.

RESOLVED: That the report be noted.

REASON: To ensure that the Council can benchmark, learn from and meet best practice requirements derived from external audit national activity and enhance its governance frameworks as a result.

PART B - MATTERS REFERRED TO COUNCIL

21. COUNCIL RESPONSE TO THE PETITIONS DUTY IN THE LOCAL DEMOCRACY, ECONOMIC DEVELOPMENT AND CONSTRUCTION ACT 2009

Members considered a report which outlined the Council's proposed response to the petitions duty in the Local Democracy, Economic Development & Construction Act 2009 (the Act), in particular the introduction of ePetitions and new corporate working practices regarding the handling of all petitions received by the Council.

The Act required all principal local authorities in England to establish a scheme for handling petitions, which must be approved by full Council, be published on the authority's website and meet certain minimum standards, draft statutory guidance on which had been provided by the Department of Communities & Local Government. The duty to produce a petitions scheme had come into force on 15 June 2010; requirements for ePetitions were due to come into force on 15 December.

Council had already approved, in October 2009, the recommendations made by this Committee in September 2009 to introduce a centrally administered Corporate Petitions Register, including an ePetitions facility implemented via the electronic Committee Management System. In accordance with that decision, the Act and the statutory guidance, a draft petitions scheme had been produced, and was attached as Annex A to the report for Members' consideration. The scheme envisaged giving lead petitioners the right to submit written questions up to 3 days before consideration of the petition at a public meeting. Members were invited to endorse this approach and to recommend the draft scheme to Council for approval.

- RESOLVED:
- (i) That the suggested approach to allowing lead petitioners to submit questions in writing, as detailed in paragraph 26 of the report, be endorsed.
 - (ii) That the draft scheme at Annex A be amended to:
 - a) Reduce the minimum number of signatures required to trigger a debate at Full Council from 1,000 to 750;
 - b) Reduce the minimum number of signatures required for the attendance of a senior officer at a public meeting from 750 to 500;
 - c) Remove the names of the senior officers and list their job titles only;
 - d) Increase the maximum time allowed for a debate at Full Council from 15 minutes to 30 minutes, and the time given to the petition organiser to speak from 3 minutes to 5 minutes.
 - (iii) That the Head of Civic, Democratic and Legal Services be authorised to make further amendments to the wording of the draft scheme where such amendments would improve clarity.

RECOMMENDED: That Council approve and adopt the petitions scheme at Annex A to the report, subject to the above amendments.

REASON: In order to comply properly with the legal requirement to establish a scheme for handling petitions.

22. PROPOSED CONSTITUTIONAL CHANGE TO ARTICLE 5

Members considered a report which outlined proposed changes to Article 5 of the Council's Constitution, relating to the Lord Mayoralty.

The changes had been recommended by the Mansion House & Mayoralty Advisory Group at its meeting in April 2010, and subsequently endorsed by the Executive. The current wording of Article 5 was attached at Annex A to the report, and the proposed revised wording at Annex B.

The Committee was invited to endorse the revisions and recommend them to Full Council, in accordance with its role in respect of constitutional changes.

RESOLVED: That the following minor amendments be made to the revised version of Article 5 at Annex B to the report:

- In the second sentence of paragraph 1, insert '*City of York*' before '*elected Councillor*'
- In section (ii) of paragraph 1, replace '*first citizens*' with '*First Citizen's*'
- In paragraph 3, delete '*normally*' from the first sentence and insert it after '*The Deputy Lord Mayor is*' in the second sentence.

RECOMMENDED: That, subject to the above amendments, the current Article 5 in the Constitution be replaced by the revised Article 5 set out in Annex B to the report.

REASON: To comply with constitutional requirements and to clarify the constitutional roles of the Lord Mayor and Civic Party.

B Watson, Chair

[The meeting started at 5.30 pm and finished at 8.15 pm].



Audit and Governance Committee

29 September 2010

Report of the Director of Customer & Business Support Services

Audit & Governance Committee Forward Plan to June 2011

Summary

1. This paper presents the future plan of reports expected to be presented to the Committee to June 2011.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to June 2011. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.

Consultation

3. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

4. Not relevant for the purpose of the report.

Analysis

5. Not relevant for the purpose of the report.

Corporate Priorities

6. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

7.
 - (a) **Financial** - There are no implications
 - (b) **Human Resources (HR)** - There are no implications
 - (c) **Equalities** - There are no implications

(d) **Legal** - There are no implications

(e) **Crime and Disorder** - There are no implications

(f) **Information Technology (IT)** - There are no implications

(g) **Property** - There are no implications

Risk Management

8. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

9. (a) The Committee's Forward Plan for the period up to June 2011 be noted.

Reason

To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

Author:

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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Business Support Services
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Report Approved



Date 15.9.10

Specialist Implications Officers

Head of Civic, Democratic & Legal Services

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to June 2011

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Audit & Governance Committee Draft Forward Plan to June 2011

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 6 December 2010**

Annual Audit Letter – Audit Commission (if published)

Data Quality Progress Report

IFRS Update

Key Risk Update

Treasury Management Qtr 2 Monitor (and half-year update)

Internal Audit & Fraud Plan Progress Report

Audit Commission national reports summary

Audit Commission reports as per agreed Audit Plan

Changes to the Constitution (if any)

- **Committee 14 February 2011**

Update of Counter Fraud Policies

Internal Audit Plan Consultation

Audit & Fraud Risk Assessment

Risk Management Quarterly Report

Treasury Management Qtr 3 Monitor

Treasury Management Strategy

Audit Commission reports as per agreed Audit Plan

Changes to the Constitution (if any)

- **Committee 4 April 2011**

Review of Effectiveness of Internal Audit

Follow up of Internal and External Audit Recommendations

IFRS Update

Draft Annual Governance Statement

Internal Audit & Fraud Plan Progress Report

Approval of Internal Audit Plan

Audit Commission reports as per agreed Audit Plan

Audit Commission national reports (if any)

Changes to the Constitution (if any)

- **Committee June 2011**

Annual Internal Audit Report 20010/11

Annual Governance Statement 2010/11

Draft Statement of Accounts 2010/11

Audit Commission reports as per agreed Audit Plan



Audit and Governance Committee

29 September 2010

Report of the Director of Customer & Business Support Services

Annual Governance Report – Audit Commission**Summary**

1. The International Standard on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 requires the Audit Commission to report to those 'charged with governance', issues arising from the audit of Financial Statements. The purpose of this report is to bring to Members attention the Audit Commission's Annual Governance Report, agree the Council's response and seek approval to changes to the 2009/10 Financial Statements. A copy of the Audit Commission report is attached at Annex A.

Background

2. In 2006 the Audit Commission introduced revised reporting arrangements that included the requirement for an Annual Governance Report to be presented to those 'charged with governance' at the council. The report must be considered by the council before a statutory deadline of the 30 September each year. This report is made in addition to the Annual Audit Letter which will be published in December 2010.
3. International Standard on Auditing (ISA) 260 also requires the Audit Commission to give an opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). An unqualified Audit Opinion on the Council's arrangements is anticipated by the 30th September 2010.
4. The Pre-Audit Statement of Accounts 2009/10 were approved by Audit and Governance Committee on 29th June 2010 in accordance with the planned timetable and statutory deadline. The main changes to the accounts were outlined in the covering report presented to the Committee and included the changes in the accounting treatment of the Private Finance Initiative (PFI), the revised accounting treatment for the collection fund - the accounting for council tax / National Non-Domestic Rate (NNDR) accrual, provide greater transparency in disclosure of Senior Officer Remuneration and produce group accounts for the first time in 2009/10. The Audit Commission found that in all these instances that they were satisfied that the new requirements had been met and produced in line with current accounting guidance.
5. The 2009/10 audit is now substantially complete. The audit of the accounts will formally continue until the statutory deadline of the 30th September 2010,

however it is not expected that the position will change significantly from this report. During the course of the audit to date, a number of material misstatements have been identified which the Council proposes to amend, paragraphs 10 to 12 of the Audit Commissions Annual Governance Report attached at Annex A details these "Errors in the financial statements". Paragraph 13 of the Annual Governance Statement provides information of a misstatement to the accounts which the Council proposes not to amend and not reflect in the accounts.

6. A Letter of Representation (as required by International Auditing Standards) has been prepared for signature by the Chair of this Committee following Members consideration of this item. The Council's S151 Officer will also be required to sign this letter. The Letter of Representation will include information to show that the accounts show a true and fair view of the financial position and financial performance of the Council and also explain that management believes the uncorrected misstatements to be immaterial, both individually and in aggregate, to the financial statements as a whole. The letter has been drafted in accordance with the template provided by the Audit Commission.
7. In addition to the Annual Governance Report, a detailed schedule of amendments to the accounts has been provided at Annex B. A revised Statement of Accounts reflecting all the agreed changes will be available on the day of the meeting to be re-approved by Audit and Governance Committee and signed by the Chair of the meeting.
8. The Audit Commissions Annual Governance Report at paragraph 16 acknowledges that on the whole for the key areas of judgment and audit risk that (i) new accounting treatment for the PFI under IFRIC 12 have been met, (ii) group accounts produced for the first time in 2009/10 are in line with current accounting guidance and (iii) the SORP changes and additional disclosure requirements have been fully and accurately complied with. The Audit Commission did acknowledge that the fixed asset register has improved but errors were identified again in 2009/10. The fixed asset register along with the significant changes required under International Financial Reporting Standards (IFRS) for the production of the 2010/11 will remain the focus for the remainder of this 2010/11 year.
9. The production of the Statement of Accounts is the subject of continuous review and further improvements will be sought in 2010/11. This year will be demanding in light of the preparation required towards the implementation of International Financial Reporting Standards (IFRS), a topic which is the subject of a further report on this agenda.

Consultation

10. The report of the External Auditor has been discussed with the relevant responsible officers and has been approved in draft by the S151 Officer. It is reported here for due consultation with those members charged with governance at the council.

Options

12. Not relevant for the purpose of the report.

Analysis

13. Not relevant for the purpose of the report.

Corporate Priorities

14. This report contributes to the overall effectiveness of the council's governance and assurance arrangements. It directly contributes to the corporate priority of 'An effective Organisation' in enhancing financial use of resources within the council.

Implications

15. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

16. The council will fail to comply with legislative and best practice requirements to provide for the proper audit of the authority if it does not consider this report or approve and sign off the letter of representation now required by International Auditing Standards.
17. By not responding effectively to the matters contained in this report, the council will fail to properly comply with legislative and best practice requirements.

Recommendations

18. Members are asked to:
 - (a) Note and discuss the matters set out in the Annual Governance Report presented for discussion by the External Auditor;

Reason

To ensure the proper consideration of the opinion and conclusions of the External Auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

- (b) Consider the items identified as material misstatements in paragraphs 10 to 12 of the Annual Governance Report at Annex A and agree to amend the 2009/10 Statement of Accounts for those items.
- (c) Consider the item identified in paragraph 13 of the Annual Governance Report at Annex A and agree not to amend the 2009/10 Statement of Accounts for that item.
- (d) Approve the amended Statement of Accounts 2009/10

- (e) Approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council

Reason

To ensure compliance with International Auditing Standards and relevant legislative requirements.

- (f) Note the anticipated receipt of an unqualified Audit Opinion to both the Statement of Accounts 2009/10 and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Reason

To ensure Members of the Audit and Governance Committee are aware of any matters arising from the annual audit of the Statement of Accounts.

Contact Details

Author:

Keith Best
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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Business Support Services
Telephone: 01904 551100

Report Approved

Date 21/09/10

Specialist Implications Officers

Not applicable

Wards Affected:

All

For further information please contact the author of the report

Background Papers:

Audit and Governance Committee 29th June 2010 – Statement of Accounts 2009/10

Annex

Annex A - Annual Governance Report; City of York Council; Audit 2009/10
Annex B – Schedule of Changes to the Pre-Audit Statement of Accounts 2009/10

Annual Governance Report

City of York Council

Audit 2009/10

Date **September 2010**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report ;
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend, or approve management's reasons for not amending these errors; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2).

Yours faithfully

Steve Nicklin
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	9

Audit opinion

- 1 The 2009/10 audit is now substantially complete and I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 The Council has been faced with complex changes to local government accounting requirements in 2009-10. Overall officers have coped well with these changes and the quality of the financial statements and working papers has improved since last year. Some further action is still required, however, to improve fixed asset records.
- 3 Officers have agreed to make a number of amendments as a result of our audit work, which are set out below.

Value for money

- 4 As shown in Appendix 3, all of the relevant criteria specified by the Audit Commission for 2009/10 have been met. The Council has improved its financial planning and performance management processes this year, whilst at the same time continuing to deliver services that represent good value for money for the public.
- 5 I therefore intend to issue an unqualified value for money conclusion as part of my audit opinion for 2009-10.

Key messages

Audit fees

6 No changes have been made to the audit fees agreed with you on 15 February 2010.

Independence

7 I can confirm that there were no relationships between my audit team and City of York Council members or staff giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

8 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report ;
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend, or approve management's reasons for not amending these errors; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 9 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 10 The following issues were identified during the course of our audit work, and officers have agreed to make the necessary amendments to the accounts:
- Capital expenditure on voluntary aided schools had been included in fixed assets but should be treated as "revenue expenditure funded by capital under statute" because such schools are not within the Council's control. This also affects the Government Grants and Capital Adjustment accounts;
 - The value of the Energise centre (£6.5m) has been double counted in fixed assets;
 - The depreciation charge for the year has been incorrectly calculated; and
 - The value of impairments has been overstated by £10.3m due to a calculation error.
- 11 Officers have also agreed to make a number of presentational and disclosure changes to the accounts. These include:
- an additional post balance sheet events disclosure in relation to recent changes to the Local Government Pension Fund, which will reduce pension liabilities going forward;
 - quantifying the potential financial impact of the joint waste strategy with North Yorkshire County Council; and
 - updating the position on Derwentthorpe development (note 60).
- 12 The draft accounts included equal and opposite entries in the balance sheet of £18.3m which relate to voluntary additional debt repayments following local government reorganisation in 1996. We have agreed that these balances can be written out of the accounts to reflect current accounting practice.

Financial reporting

13 Audit Commission guidance states that PFI contracts brought on balance sheet in 2009-10 should be included in Financial Instruments disclosures (note 34). The Council has not done so, but we are satisfied that this additional disclosure would not have a material impact on the accounts.

Weaknesses in internal control

14 I am required to bring to your attention any identified weaknesses in internal control. In my 2009-10 audit progress report (July 2010) we highlighted that bank reconciliations had not been carried out on a regular basis during the year. I am pleased to report that this issue has now been resolved, with a full bank reconciliation prepared at 31 March 2010.

15 I have two further matters to report to you:

- Senior accounting staff and finance managers have the ability to create and authorise their own journal entries on the general ledger. This raises the risk of financial misreporting through error if material journals are not independently checked
- Back pay calculations are prepared manually and not independently checked. Our sample testing identified an error of £100.

Key areas of judgement and audit risk

16 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Risk area	Audit response
The Council is required to comply with IFRIC12 in its financial statements for 2009/10. This required you to reassess the accounting treatment of the existing PFI schemes, and may require you to include the assets and associated liabilities in your financial statements this year.	We reviewed the accounting treatment of PFI schemes in light of IFRIC12 and other guidance in the SORP 2009. On the basis of our testing we are satisfied that these new requirements have been met.
The Council has additional interests in companies that required them to produce group accounts for the first time in 2009/10.	We reviewed the rationale for produce group accounts, and undertook audit work to confirm that they had been produced line with current accounting guidance.

Financial statements

Risk area	Audit response
<p>The audit of the 2008/09 financial statements identified a number of large errors in fixed asset accounting and related entries. There was a risk that similar errors would recur in 2009/10.</p>	<p>We reviewed the Council's asset register and associated working papers supporting the financial statements, in light of the requirements in the SORP and related FRSs. Whilst we acknowledge that fixed asset records have improved, a number of material errors were identified again in 2009-10.</p>
<p>The SORP 2009 implemented changes to reporting and disclosure requirements in 2009/10, particularly with respect to officer emolument disclosures and agency accounting. There was a risk that the Council would not fully and accurately implement these changes.</p>	<p>We have reviewed the financial statements to ensure that the SORP changes and additional disclosure requirements have been fully and accurately complied with.</p>

Letter of representation

- 17** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 2 contains a suggested format for the letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 18** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I am satisfied that in 2009/10 these criteria has been met and I have shown my conclusions on each of the areas in Appendix 3.
- 19** The Council has maintained the strengths we identified last year in relation to:
- risk management;
 - displaying a strong anti-fraud culture; and
 - delivering services that represent good value for money for the public.
- 20** We have also noted a number of improvements since 2008/09. In particular:
- Medium term financial planning has been improved through a combination of detailed risk assessment, analysis of demographic trends, financial modelling, and extensive consultation. To tackle its medium term funding gap the Council has developed "More for York", an ambitious, 3 year strategic efficiency programme which delivered all key year 1 targets in 2009-10;
 - The Council has made significant progress in implementing data quality policies, and in developing comprehensive performance reports in a format that focuses on priorities and supports decision making at strategic and operational levels by integrating financial and performance information;
 - There have also been noticeable improvements this year in respect of performance management arrangements – piloting Challenge and Innovation Panels, more use of benchmarking and more challenging target setting as a result of comparison with others.
- 21** Good procedures are in place for procurement and asset management, and the Veritau shared service arrangement has received national recognition. Plans are in place to explore more innovative delivery models as part of More for York.
- 22** Workforce planning and management have traditionally been managed on a departmental basis and were assessed against value for money criteria for the first time in 2009-10. The Council can demonstrate very effective arrangements in some departments, but a more corporate approach is needed to bring all service areas up to the standard of the best. Our work also highlighted that the Council's workforce is not fully representative of the community it services, with comparatively few BME and disabled employees and only 19% of staff considering equality to be relevant to their job.

Value for money

23 The Council recognises that it will face significant financial pressures in the future which may demand difficult choices and changes to the established patterns of service provision. This is reflected in the medium term financial plan. Our future work will also focus on:

- financial resilience
- delivery of identified efficiency savings; and
- improvements to value for money.

Glossary

Annual governance statement

- 24** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 25** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 26** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

- 27** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 28** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.

Qualified

- 29** The auditor has some reservations or concerns.

Unqualified

- 30** The auditor does not have any reservations.

Glossary

Value for money conclusion

- 31** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor's report to Members of City of York Council

Opinion on the accounting statements

I have audited the Authority and Group accounting statements and related notes of City of York Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Customer and Business Support Services and auditor

The Director of Customer and Business Support Services' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

Appendix 1 – Independent auditor’s report to members of City of York Council

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended

Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009], and the supporting guidance, I am satisfied that, in all significant respects, City of York Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 1 – Independent auditor’s report to members of City of York Council

Steve Nicklin
Officer of the Audit Commission

Nickalls House, MetroCentre, Gateshead NE11 9NH

September 2010

Appendix 2 – Draft letter of representation

To: Steve Nicklin
Appointed Auditor
Nickalls House
MetroCentre
Gateshead NE11 9NH

City of York Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers at City of York Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover both the Council's accounts and the Group Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the "Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice" which give a true and fair view of the financial position and financial performance of the Council, and for making accurate representations to you.

Uncorrected misstatements

During the course of the audit it has been brought to my attention that:

- some back pay calculations may be incorrect
- financial instrument disclosure notes do not include PFI schemes brought on balance sheet as a result of IFRIC 12.

I am satisfied that these items are not material in the overall context of the Council's accounts. Therefore no adjustment has been made.

All other errors brought to my attention have been corrected and I am not aware of any other mis-statements in the accounts.

Appendix 2 – Draft letter of representation

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For tangible fixed asset valuations, I confirm:

- that the fixed register is accurate and up to date;
- the appropriateness of the measurement method used;
- that reasonable steps have been taken to estimate depreciation and the length of assets' useful lives; and

- that subsequent events do not require any further adjustment to the fair value measurement.

Group entities

I confirm that adequate steps have been taken to identify and document all of the Council's interests in partnerships, companies and other entities and to prepare group accounts in the correct format.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no lines of credit arrangements other than those already disclosed in the accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation or legal claims, other than those already disclosed in the financial statements;
- all severance payments agreed but not paid at 31 March have been provided for;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no additional financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by those charged with governance, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Appendix 2 – Draft letter of representation

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Segmental Reporting

I have complied with the Best Value Accounting Code of Practice in relation to the presentation and allocation of revenue transactions within the Income and Expenditure Account.

Pensions obligations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

I confirm that the this letter has been discussed and agreed by those charged with governance on 29 September 2010

Signed on behalf of City of York Council

Signed

Name

Position

Date

Appendix 3 – Value for money criteria

Specified criteria for 2009-10	Met
<p>Planning for financial health</p> <p>The Council has improved financial planning this year. A reviewed and updated medium term financial plan clearly sets out:</p> <ul style="list-style-type: none"> • the expected budget position for 2010 to 2016 • the underlying assumptions and financial pressures • links to other strategies, local and national priorities • the general financial context the Council operates in. <p>The new MTFP has been built up using a detailed risk assessment, analysis of demographic trends, and financial modelling, coupled with extensive consultation. The Council has identified a medium term funding gap of c£15m over the next 3 years but has developed a strategic approach to tackle this through "More for York", an ambitious efficiency programme which identifies potential savings of almost £30m. Outcomes to date include reduction of the senior management team from 7 to 5, centralising finance and HR functions and externalising cash collection.</p> <p>Despite this focus on reducing costs and improving efficiencies, the Council has also managed to invest in services to respond to demographic trends and priorities identified by local people. In the 2010/11 budget there has been additional funding of £1m in highways, waste management and looked after children, and £2m for adult social care.</p>	Yes
<p>Understanding costs and achieving efficiencies</p> <p>The Council has a clear understanding of costs and the main factors influencing them. This has been developed during 2009-10 through delivery of the "More for York" programme and participation in benchmarking clubs. Demographic changes and cost drivers are taken into account when prioritising resources, for example the rising population of looked after children, and the impact of an aging population.</p> <p>Cost per head of population is lower than most neighbouring and comparator authorities. Council Tax levels (and increases in recent years) are also comparatively low. The Council has a good track record of delivering efficiency savings and is focussed on continuing this through "More for York". Despite this, services are not low quality. Most PIs compare well with neighbouring authorities and show steady improvement year on year. Education provision (especially GCSE outcomes) and cultural provision are particularly good.</p>	Yes

Appendix 3 – Value for money criteria...

Specified criteria for 2009-10	Met
<p>Financial reporting</p> <p>Budget monitoring and forecasting information is produced on a timely basis and is reliable, relevant and understandable. Three monitoring reports are submitted to Executive through the year which summarise financial and non-financial information, a commentary to explain the underlying position and links to LSP and corporate priorities.</p> <p>The Council takes prompt action to manage potential overspends, and potential overspends in 2009-10 were identified early, successfully managed contained within the level of available contingency funds. More central control has been imposed on departmental budget holders to ensure consistency of approach and a clearer focus on achieving corporate objectives. A new FM IT system has improved access to up to date financial information for budget holders but implementation difficulties caused delays in completing back reconciliations during the year.</p> <p>Processes for managing year end closedown and the audit process have improved over the past two years, and the Council has put adequate arrangements in place for the move to IFRS compliant accounts and IFRIC 12 requirements under the 2009 SORP.</p>	Yes
<p>Commissioning and procurement</p> <p>The Council has an up to date commissioning strategy, with social and environmental factors taken into account when making procurement decisions. There is a good track record of engaging local people in shaping the commissioning and delivery of services eg on home care provision, the libraries service, and plans for new office accommodation. Most operational procurement decisions require competitive tendering and Internal Audit coverage ensures that this is done.</p> <p>The Council is taking steps to improve engagement with suppliers to ensure that it understands and when necessary can influence the market - it has hosted "meet the buyer events" and plans to undertake soft market testing in relation to facilities management for the new office accommodation. The Veritau shared service arrangement has received national recognition and the More for York efficiency programme has identified a number of areas where better use of new technology or procurement could reduce costs.</p>	Yes
<p>Use of information</p> <p>The Council has made significant progress in implementing data quality policies, using a risk based assessment to review and improve data quality. There have also been noticeable improvements this year in respect of performance management arrangements – piloting Challenge and Innovation Panels, more use of benchmarking and more challenging target setting as a result of comparison with others. The Council's scrutiny function has also developed its role in reviewing and challenging performance.</p>	Yes

Specified criteria for 2009-10	Met
<p>Comprehensive performance reports have been developed in a format that focuses on priorities and supports decision making at strategic and operational levels by integrating financial and performance information and routinely including comparative and benchmarking data to ensure that decisions are evidence based.</p> <p>Appropriate policies are in place to ensure the security of data and to restrict unauthorised access. Business continuity and disaster recovery plans are in place and elements of the plans have been tested.</p>	
<p>Good governance</p> <p>The Council's leadership has a clear vision of what it wants to achieve for local communities and during 2009/10 CYC has developed a stronger customer focus and better communication with residents. York has active ward committees in each area, with a delegated budget and decision making powers. This promotes openness and makes councillors visible in their community.</p> <p>Governance arrangements are regularly reviewed and kept up to date. The Council has introduced a local code of corporate governance during 2009/10, financial regulations have also been updated and revised this year. The Council website clearly outlines the complaints process, and the standards committee monitors compliance with the code of conduct, reviews gifts/hospitality registers and considers wider ethical issues, as well as complaints. There are no significant issues in respect of the level or type of complaints being referred to the committee or to the Ombudsman.</p> <p>The Council has identified its key partnerships and ensured that they have good corporate guidance in place. The strategic partnership team provides effective support to the LSP which has resulted in changes to governance arrangements and improved outcomes for local people. It is less clear however about all the non-key partnerships officers and members are involved with, and monitoring of compliance with corporate guidance in this area needs to be developed and improved.</p>	Yes
<p>Risk management and internal control</p> <p>Risk management arrangements are good, with well established systems in place for identifying departmental risks and where necessary escalating those to the corporate register. Members monitor key corporate risks on a quarterly basis, and call in officers as necessary to explore risks in more detail. Partnership governance questionnaires include a specific section on risk management arrangements.</p> <p>The Council continues to have good arrangements in relation to counter fraud and corruption, and demonstrates a clear commitment to seek recovery through prosecution. Internal audit is adequately resourced and effective This year's "red card" campaign attracted local press and media coverage, an on-line training resource has been purchased to help increase understanding of fraud issues across the council, and whistleblowing arrangements have been reviewed and updated.</p>	Yes

Appendix 3 – Value for money critic...

Specified criteria for 2009-10	Met
<p>Strategic asset management</p> <p>A strategic approach to asset management is demonstrated through the Corporate Asset Management Strategy and Corporate Asset Management Group, although deployment of this strategy varies across the Council. Performance targets for asset management have been set and action is being taken to address weaknesses in asset management information, identified last year eg through agreement to merge Property Services and Education data bases.</p> <p>Plans to strengthen the Council's approach to asset management have been incorporated into the More For York programme - five projects which include actions to develop strategic management and strengthen the role of property management in managing wider change across the Council. The More For York programme has raised the profile of asset management issues across the Council, and key projects such as the new office accommodation and the Barbican Centre continue to make progress along with plans to increase community use of assets, for example through plans for a new sports stadium. There are also some examples of the Council working with community groups and partners to make more effective use of assets, some shared asset use with partners and examples of transferring the management of assets to community groups where appropriate.</p>	Yes
<p>Workforce planning and management</p> <p>Workforce planning and management processes have traditionally been managed on a departmental basis. The Council can demonstrate very effective workforce planning in some areas, particularly children's services, and a more corporate approach is being introduced for 2010/11 to bring all service areas up to the standard of the best. A strategic workforce plan has been developed based on analysis of current and future needs in the context of strategic objectives relating to change, efficiency, customer focus, diversity and partnerships.</p> <p>There have been good examples of staff engagement in service improvement, during 2009/10 eg in income and recovery resulting in improved local tax recovery rates. Policies are in place to support staff through organisational change as it delivers More for York. The Council is actively promoting apprenticeships and employment training opportunities, and has a corporate Effective Manager Programme informed by 360 degree assessment</p> <p>The Council has made good progress in improving workforce productivity and skills, with sustained reductions in sickness levels supported by effective occupational health arrangements. There is a framework in place to manage equalities issues, with actions prioritised so that the Council can achieve 'Developing' level of LGEF. But BME and people with disabilities are significantly under-represented in the workforce and only</p>	Yes

Specified criteria for 2009-10	Met
19% of staff consider equality to be relevant to their job.	

The Audit Commission

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

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

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

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Annex B

Schedule of Changes to the Pre-Audit Statement of Accounts 2009/10

The following misstatements have been identified during the audit (paragraphs 10 to 12) - the Annual Governance Report, Appendix 2) and the financial statements are to be adjusted accordingly.

Description of Mis-statement	Core Statement Effected	Page No.	Pre-Audit St. of Accts	Variation	Revised St. of Accts
Capital expenditure on voluntary aided schools should be 'revenue expenditure funded by capital under statute' and not within fixed assets	Balance Sheet, Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of total Recognised Gains and Losses and Disclosure Notes 13, 18, 20, 21, 28, 33 and 62. Foreword - section 3. Group Income and Expenditure Account, Reconciliation of CYC Deficit to Group Deficit, Statement of Total Recognised Gains and Losses, Balance Sheet and Note 14	30, 32, 33, 34, 47, 49, 50-54, 55, 59, 61 and, 83 viii-x 101, 102, 103 and 106	£17.6m	-£17.6m	
The value of the Energise Centre has been double counted in fixed assets	Balance Sheet, Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of total Recognised Gains and Losses and Disclosure Notes 18, 20, 21, 28, 33 and 62. Foreword - section 3. Group Income and Expenditure Account, Reconciliation of CYC Deficit to Group Deficit, Statement of Total Recognised Gains and Losses, Balance Sheet and Note 14	30, 32, 33, 34, 49, 50-54, 61 and 83 viii-x 101, 102, 103 and 106	£6.5m	-£6.5m	

Description of Mis-statement	Core Statement Effected	Page No.	Pre-Audit St. of Accts	Variation	Revised St. of Accts
The depreciation charge for the year for impaired and revalued assets has been incorrectly reflected in the Balance Sheet	Balance Sheet, Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of total Recognised Gains and Losses and Disclosure Notes 13, 18, 20, 21, 28, 33 and 62. Housing Revenue Account Income and Expenditure, Statement of Movement on the Housing Revenue Account Balance and Disclosure Notes 9 and 13 Foreword - section 3. Group Income and Expenditure Account, Reconciliation of CYC Deficit to Group Deficit, Statement of Total Recognised Gains and Losses, Balance Sheet and Note 14	30, 32, 33, 34, 47, 49, 50-54, 55, 59, 61 and, 83 85, 86, 90 and 92-93 viii-x 101, 102, 103 and 106	£11.3m	-£11.3m	
The value of impairments has been overstated	Balance Sheet, Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses and Disclosure Notes 18, 20, 21, 32, 33 and 62. Foreword - section 3. Group Income and Expenditure Account, Reconciliation of CYC Deficit to Group Deficit, Statement of Total Recognised Gains and Losses, Balance Sheet and Note 14	30, 32, 33, 34, 49, 50-54, 55, 61 and, 83 viii-x 101, 102, 103 and 106	£10.3m	-£10.3m	
Note 60 - the Derwenthorpe scheme no longer needs to be shown as a contingent liability	Disclosure Note 60	82	"As part of the Derwenthorpe"		No paragraph
Note 64 - two new post balance sheet events added - for the future impact of the change in pensions calculations announced in the June budget and for the waste strategy	Disclosure Note 64	84			

Description of Mis-statement	Core Statement Effected	Page No.	Pre-Audit St. of Accts	Variation	Revised St. of Accts
Removal of equal and opposite entries in the balance sheet relating to voluntary additional debt repayments following LGR 1996, together with in-year transactions.	Balance Sheet, Statement of Movement on the General Fund Balance and Disclosure Notes 16, 18, 21, 23, 24, 29, 33 and 37 Group Balance Sheet	32, 34, 48, 49, 55, 56, 57, 60, 61, 68, 103			
Long-term Debtors			£20.721m	-£17.134m	£3.587m
Debtors			£28.212m	-£1.223m	£26.989m
Deferred Liabilities			(£25.271m)	+£18.357m	(£6.914m)

A schedule of the trivial amendments will be available at the meeting.

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Audit and Governance Committee

29 September 2010

Report of the Director of Customer & Business Support Services

Audit Commission Value For Money Plan 2010/11 and CAA Update

Summary

1. This report presents the Value For Money Plan 2010/11 and associated fee structure of the council's external auditor, the Audit Commission.

Background

2. The VFM audit plan set out the work to be conducted post-CAA (Comprehensive Area Assessment) as follows:

Although there will no longer be a requirement for a scored assessment on VFM, the statutory responsibility for Auditors to give a conclusion on whether audited bodies have proper arrangements for securing VFM will remain. Auditors will base their opinion on VFM arrangements on two criteria specified by the Audit Commission:-

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

A detailed programme of VFM audit work will be developed, based on a local audit risk assessment. The VFM conclusion and key messages from the work, including areas for improvement will be reported to Audit and Governance Committee, and in a clear and accessible annual audit letter.

3. The Committee received an update on the future of national performance frameworks from the Audit Commission's CAA Lead at its meeting in July 2010. The current position is that the future of the National Indicator set and Local Area Agreements will be announced/confirmed as part of the Comprehensive Spending Review in October 2010. In the mean time officers are working on a report which will put forward a proposal as to how a Performance Management Framework for the city and the council could be developed and implemented.

Consultation

4. The Plan has been consulted on with the relevant responsible officers prior to them being reported to those members charged with governance at the council.

Options

4. Not relevant for the purpose of the report.

Analysis

5. Analysis of fee structures are contained in the attached letter.

Corporate Priorities

6. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

7.
 - (a) **Financial** – The fees can be contained within the 2010/11 budget for external audit fees.
 - (b) **Human Resources (HR)** - There are no implications.
 - (c) **Equalities** - There are no implications.
 - (d) **Legal** - There are no implications.
 - (e) **Crime and Disorder** - There are no implications.
 - (f) **Information Technology (IT)** - There are no implications.
 - (g) **Property** - There are no implications.

Risk Management

8. The council will fail to properly comply with legislative and best practice requirements to provide for the proper audit of the authority. Any failure to do so would be unlawful, and its reputation could be adversely affected.

Recommendations

9. Members are asked to:
 - a) consider the matters set out in the Audit Plan presented by the District Auditor;

Reason

To ensure the effective deployment of scarce external audit resources to best effect.

b) agree the Plan having first considered whether they sufficiently reflect the audit needs and interests of the council.

Reason

To ensure that the external audit and inspection process contributes effectively to the council's system of internal control.

Contact Details

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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Business Support Services
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Report Approved



Date 15.9.10

Specialist Implications Officers

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

Annual VFM Plan 2010/11 (Annex A)

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9 August 2010

Change in approach to auditors' local value for money work

I wrote to you on 28 May to let you know that work on Comprehensive Area Assessment (CAA), including the use of resources assessment, was stopping immediately following a decision by the new government. I am writing now to update you on the new arrangements for auditors' work on value for money (VFM) relating to the 2010/11 accounts and future years.

New approach to local value for money audit work

The Commission will not be replacing the use of resources assessment. We are reducing auditors' VFM work and removing any requirement for a scored assessment. Auditors still have a continuing statutory responsibility, as set out in the Code of Audit Practice 2010, to give a conclusion on whether audited bodies have proper arrangements for securing VFM. Our aim is to focus this work on the auditor's core responsibilities and on local audit issues. We will also recognise the scale of the financial pressures for public bodies in the current economic climate.

We will introduce these changes for the 2010/11 accounts at single tier, county and district councils, and fire and rescue authorities. Auditors will give their statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

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

Auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages from their work, including suggested areas for improvement, to the body's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.

For 2010/11, auditors of smaller bodies (such as larger town councils and national parks authorities) will continue to apply the current lighter touch approach to their VFM conclusion work.

Impact on audit fees

The new approach will mean a reduction in audit fees from 2011/12.

For 2010/11, the Commission has already given a 6 per cent rebate this year to mitigate the increases in audit fees arising from the transition to IFRS. In May local authorities, and fire and rescue authorities received a cheque or credit note from the Commission. The rebates varied but the average was £7,000 for district councils, £16,500 for county councils and £25,000 for London borough councils. Fire and rescue authorities received £4,600. The total returned for local government bodies including fire and rescue authorities was almost £5 million.

We have a duty to ensure that the Commission has sufficient income in 2010/11 to meet its costs. There are uncertainties around some aspects of our 2010/11 costs, including the significant in-year transitional costs arising from the cessation of CAA. We therefore cannot commit to a rebate of 2010/11 audit fees at this time. The Commission Board will consider a rebate in September when considering audit fees for 2011/12.

Next steps

We will write to you again in September in the context of consulting on the 2011/12 work programme and scales of fees.

Yours sincerely

Gareth Davies
Managing Director, Local Government, Housing and Community Safety



Audit and Governance Committee

29 September 2010

Report of the Chair of the Audit Committee

Annual Report of the Audit and Governance Committee

Summary

- 1 This report seeks Members' views on the draft annual report of the Audit and Governance Committee for the year ended 30 September 2010, prior to its submission to Full Council. The report also presents a draft assurance statement which the Committee has been requested to provide to the council's external auditors, the Audit Commission.

Background

- 2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.
- 3 At the last meeting of this Committee the Audit Commission presented an update on the progress made in completing the 2009/10 Audit Plan. The report also set out the requirement on the external auditor to obtain specific assurances from the organisation's management and 'those charged with governance' in order to comply with International Standards for Auditing. In terms of the Audit and Governance Committee this assurance relates to the organisation's arrangements for preventing and detecting fraud and for ensuring compliance with existing laws and regulations. The external auditor must gain an understanding of:
 - (a) How management exercise key governance processes in relation to:
 - Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - Identifying and responding to risks of fraud in the organisation;
 - Communication to employees of views on business practice and ethical behaviour; and
 - Communication to those charged with governance the processes for identifying and responding to fraud.

- (b) How those charged with governance oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control.
 - (c) Whether management or those charged with governance have knowledge of any actual, suspected or alleged frauds.
 - (d) How management, and those charged with governance, obtain assurance that all relevant laws and regulations have been complied with.
 - (e) How management has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.
- 4 The Audit Commission has requested written assurances from those 'charged with governance' on these matters in addition to the formal letter of representation in relation to the assertions in the financial statements, which is obtained from management each year.

Annual Report of the Audit and Governance Committee

- 5 A copy of the draft annual report of the Committee is attached at Appendix 1. A copy of the Committee's terms of reference as set out in Section 8, Part 3C of the Constitution is also attached to the report at Appendix A, for information.

Written Assurance from those 'Charged with Governance'

- 6 A copy of the draft statement from the Audit and Governance Committee to the external auditor is attached at Appendix 2. The statement is intended to provide assurance in respect of the matters set out in paragraph 3 above.

Options

- 7 This report sets out the proposed wording of the Committee's Annual Report and the statement of assurance to the external auditor. Members are asked to suggest alternative wording if necessary.

Analysis

- 8 Not relevant for the purpose of the report.

Corporate Priorities

- 9 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an Effective Organisation.

Implications

- 10 The implications are:

- **Financial** – the external auditors may have difficulty in providing an unqualified opinion on the Statement of Accounts if they fail to obtain the necessary assurance from ‘those charged with governance’.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** – there are no equalities implications to this report.
- **Legal** – there are no legal implications to this report.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – there are no IT implications to this report.
- **Property** – there are no property implications to this report.

Risk Management

- 11 Assurance in respect of the council’s arrangements for managing risk, the maintenance of effective controls including those designed to prevent and detect fraud, and compliance with relevant legislation, may not be provided if the Audit and Governance Committee does not produce an annual report and/or provide a written statement to the external auditors.

Recommendations

- 12 Members are asked to:
- Consider and comment on the Annual Report of the Audit and Governance Committee prior to its submission to Full Council.
 - Approve the wording of the assurance statement to the external auditor from ‘those charged with governance’ and confirm that the statement can be signed on behalf of the Audit and Governance Committee by the Chair.

Reason

To enable the Committee to fulfil its role in providing assurance about the adequacy of the council’s internal control environment and arrangements for managing risk and for reporting on financial and other performance.

Contact Details

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Chief Officer Responsible for the report:

Pauline Stuchfield
Assistant Director
Telephone: 01904 551706

**Report
Approved**



Date 15/9/10

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

- CIPFA 'A Toolkit for Local Authority Audit Committees'
- International Standard for Auditing 240 Fraud
- International Standard for Auditing 250 Laws and Regulations

REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE FOR THE YEAR TO 30 SEPTEMBER 2010

PURPOSE OF THE REPORT

To provide Members of the council with details of the work of the Audit and Governance Committee covering the year to 30 September 2010. The report also details how the Audit and Governance Committee has fulfilled its terms of reference.

BACKGROUND

The Audit and Governance Committee is responsible for overseeing the council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The functions of the Audit and Governance Committee are set out in Section 8, Part 3C of the Constitution. A copy of the list of the Committee's responsibilities is attached at **Appendix A** for information.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees are operating effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

WORK UNDERTAKEN

The Audit and Governance Committee has met on seven occasions in the year to 30 September 2010. During this period, the Committee has assessed the adequacy and effectiveness of the council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, internal audit and the external auditors, the Audit Commission. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by auditors or inspectors during this period. The Committee has also sought to ensure effective relationships exist between internal and external auditors, inspection agencies and other relevant bodies.

The specific work undertaken by the Committee is set out below. The Committee has:

- 1 Received and considered the results of the Audit Commission's Comprehensive Area Assessment (CAA) inspection for 2009. The Committee requested additional information on the definitions used for some of the indicators. Concerns were also raised about the format of the CAA report which was to be published on the 'One Place' website. Members requested a further update before the CAA refresh in Summer 2010.
- 2 Received and considered the Audit Commission's plan for the audit of the 2009/10 financial statements, the Use of Resources and Value for Money opinion, the certification of grant claims and the council's participation in the

National Fraud Initiative, together with the associated fee for undertaking this work.

- 3 Received and considered a number of reports issued by the Audit Commission on control and value for money issues. The Committee has also monitored the progress made by management to address any identified control weaknesses. An example of this was the review of the council's asset management arrangements which considered the strategic approach to asset management, whether assets are managed to deliver value for money and partnership and community involvement in asset management. The Committee considered officers' response to the Audit Commission's review as well as the recommendations contained in the Audit Commission's national report '*Room for Improvement*' (issued in June 2008).
- 4 Considered the progress made by management to improve data quality and to implement a Data Quality Policy following recommendations made by both the Audit Commission and internal audit. The Committee noted the improvements which had been made to the systems for collecting and reporting local and national performance indicators.
- 5 Considered the outcome of the Audit Commission's review of the council's arrangements for internal audit. The Committee noted that no significant areas of concern had been identified and no recommendations for improvement made.
- 6 Considered the outcome of the Audit Commission's review of the council's grant claim arrangements for the 2008/09 financial year. The Committee noted that there had been an improvement in the number of claims submitted by the relevant deadline and a reduction in the delay where claims had not been submitted in time.
- 7 Received and considered the results of internal audit work completed during the period and monitored the progress made by management to address identified control weaknesses. The Committee considered breaches of the council's Financial Regulations and Contract Procedure Rules identified during audit work and requested assurance that management would meet the submission deadline of the Sure Start grant claim for 2009/10.
- 8 Received, considered and approved the Internal Audit and Counter Fraud Plan for 2010/11.
- 9 Received and considered the outcome of counter fraud work, including details of the investigation of suspected benefit and housing tenancy related fraud and the results of a fraud awareness survey of council managers. The Committee also considered the outcomes of the self assessment exercise undertaken in response to the Audit Commission's national report '*Protecting the Public Purse – Local Government Fighting Fraud*' (issued in September 2009) and the work being undertaken in respect of the Audit Commission's National Fraud Initiative (NFI).
- 10 Received and considered the results of the annual review of the effectiveness of the system of internal audit for 2009/10. The outcome of this review informed the preparation of the Annual Governance Statement 2009/10.

- 11 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the council's control environment. The Head of Internal Audit confirmed that the council's internal controls provided substantial assurance although the Committee's attention was drawn to a number of significant control weaknesses. Again this informed the conclusions reported within the Annual Governance Statement 2009/10.
- 12 Considered and approved the Statement of Accounts for 2009/10. The Committee however requested that consideration should be given to making the amount spent on consultants more visible in the published accounts and to including information on energy related expenditure and savings in future Statements of Accounts.
- 13 Considered and approved the Annual Governance Statement for 2009/10 subject to an amendment to section 5 regarding the Committee's important role in respect of proposed changes to the council's Constitution.
- 14 Scrutinised the council's treasury management strategy and policies as a new role for the Committee. The Committee received and considered the Treasury Management Annual Report and review of Prudential Indicators for 2009/10 which compared actual performance against the budget and treasury management strategy for the year.
- 15 Received and considered draft revised Contract Procedure Rules prior to referral to the Executive and approval by Full Council. The Committee accepted a number of amendments which were tabled by officers at the meeting to correct typographical errors and to reflect the results of further consultation. The Committee then agreed a number of further amendments to the draft Rules.
- 16 Received and considered the council's new Corporate Debt Policy prior to referral to the Executive and approval by Full Council. The Committee emphasised the need for clear and consistent communication with customers but with a need for tact and discretion when dealing with the relatives of the deceased. The Committee agreed the new Policy subject to a small number of amendments.
- 17 Assessed the adequacy and effectiveness of the council's risk management arrangements through consideration of the progress made by officers to address the Key Corporate Risks (KCRs). Details of the KCR's were reported to the Committee on a quarterly basis. The Committee requested further information on a number of high risk areas in order to gain assurance that these risks were being appropriately managed.
- 18 Considered and agreed changes to the Committee's terms of reference prior to referral to Full Council for approval.
- 19 Considered a proposed change to Article 5 of the Constitution. The change was considered necessary in order to bring the Constitution up to date with respect to how the Lord Mayor operates and to reflect an increased profile for future Lord Mayors and Civic Parties.

- 20 Approved changes to the Internal Audit Terms of Reference following the transfer of audit and counter fraud services to Veritau Limited.
- 21 Approved the new Internal Audit Strategy to reflect the operational changes following the transfer of services to Veritau and to comply with best practice.
- 22 Received and considered the draft Information Governance Policy and Strategy prior to referral to the Executive for approval.
- 23 Received and considered minor changes to the Counter Fraud and Corruption and the Fraud and Corruption Prosecution policies prior to referral to the Executive Member for Corporate Services for approval.
- 24 Received and considered a report setting out how the council intends to respond to the petitions duty in the Local Democracy, Economic Development & Construction Act 2009. The committee was asked to provide its views on the proposed scheme prior to its submission to Full Council for approval.
- 25 Received regular updates on the progress being made to prepare for the change in financial reporting from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS).
- 26 Received and considered the annual scrutiny report which detailed the work undertaken by the council's overview and scrutiny committees during 2009/10.
- 27 Received regular updates on national reports produced by the Audit Commission.
- 28 At each meeting the Committee has maintained a Forward Plan for a number of meetings ahead to ensure that its responsibilities are discharged in full and appropriate reports are brought by officers on a timely basis.

Cllr Brian Watson
Chair of the Audit & Governance Committee

AUDIT AND GOVERNANCE COMMITTEE TERMS OF REFERENCE

Part 3 C of the Constitution (Council Committees and Other Bodies)

8.1 The functions of the Audit & Governance Committee are:

No.	Delegated authority	Conditions
	Audit	
1	To consider the annual report and opinion of the Assistant Director (Customer Service & Governance) including a summary of internal and external audit activity (actual and proposed in the relevant accounting period) and the level of assurance that can be given over the corporate governance arrangements at the Council and to advise the Executive accordingly.	
2	To consider summaries of specific internal audits reports as scheduled in the forward plan for the Committee or otherwise requested by Members.	
3	To consider reports dealing with the management and performance of the Internal and External Audit functions.	
4	To consider reports from Internal Audit on agreed recommendations not implemented within agreed timescales.	
5	To consider the action plan arising from the Annual Letter of the External Auditor.	With respect to the Annual Letter being first considered and accepted by the Executive.
6	To consider all other relevant reports from the District Auditor as scheduled in the forward plan for the Committee as agreed with the External Auditor or otherwise requested by Members.	
7	To comment on the scope and depth of External Audit work and ensure it provides value for money.	
8	To liaise with the Audit Commission over the appointment of the Council's External Audit body.	
9	To approve the Annual Plans of the Internal Audit Service and the External Auditor.	
10	To commission work from the Internal Audit Service and External Audit with regard to the resources available and the existing scope and breadth of their respective work programmes and the forward plan for the Committee.	Subject to budgetary provision.

No.	Delegated authority	Conditions
11	To provide advice to the Council on issues arising out of a fraud investigation and report any action which has or ought to be taken by the Council.	
Governance & Regulatory		
12	To keep under review the Council's contract procedure rules, financial regulations, working protocols and codes of conduct and behaviour (not otherwise reserved to the Standards Committee).	
13	To review any relevant issue referred to it by the Chief Executive, S151 Officer, the Assistant Director (Customer Service & Governance), the Monitoring Officer or any other Council body.	
14	To consider any reports of the Assistant Director (Customer Service & Governance) referred to the Committee for consideration further to Article 13 of this Constitution.	
15	To monitor the effective development and operation of risk management and corporate governance across the Council.	
16	To monitor Council policies on 'whistle blowing', the Anti-Fraud & Corruption Strategy and consider any issues referred to it in accordance with the Council's whistle blowing policy and procedures as set out in Part 5 of this Constitution.	
17	To consider the Council's arrangements for corporate governance and make recommendations about all actions necessary for compliance with best practice to Full Council.	
18	To consider the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.	
19	To bring to Full Council all proposals for amendment to this Constitution submitted by Members in accordance with this Constitution.	Subject to the advice of the Head of Civic, Democratic and Legal Services.
Annual Governance Statement and Accounts		
20	To approve the Statement of Accounts and the Annual Governance Statement.	
21	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.	

DRAFT STATEMENT FROM THOSE CHARGED WITH GOVERNANCE

Responsibility for preventing and detecting fraud is identified by the International Standard for Auditing (UK and Ireland) 240 as resting with the management and 'those charged with governance', i.e. the Audit and Governance Committee. A similar standard (ISA 250) requires the organisation to ensure its operations are conducted in accordance with existing laws and regulations and also assigns responsibility for the prevention and detection of non compliance. This statement covers the role of the Audit and Governance Committee in discharging its responsibilities.

ISA 240 Fraud

- 1 The International Standards for Auditing views fraud as either:
 - (a) the intentional misappropriation of assets (cash, property, etc), or,
 - (b) the intentional manipulation or misstatement of the financial statements.
- 2 Management discharges its responsibilities via systems of internal control, including Financial Regulations, Contract Procedure Rules and the Employee Code of Conduct, and via disciplinary procedures where fraud is highlighted as a dismissible event. The organisation also has in place Counter Fraud and Corruption and Fraud and Corruption Prosecution policies which clearly outline to staff the commitment to the elimination of fraud and the steps that they should take in the event of fraud being suspected.
- 3 The organisation commissions local counter fraud specialists from the council's shared service provider, Veritau Limited, to undertake an annual counter fraud plan of work on its behalf. The Assistant Director of Customer & Business Support Services (Customer Service & Governance) meets on a regular basis with the Head of Internal Audit (Veritau) and relevant counter fraud specialists to discuss progress.
- 4 The council's Counter Fraud and Corruption Policy and the annual counter fraud plan cover the following main areas:
 - (a) the creation of an anti-fraud culture
 - (b) deterrence
 - (c) prevention
 - (d) detection
 - (e) investigation
 - (f) sanction
 - (g) redress
- 5 All reported cases of suspected fraud are investigated by Veritau. Details of the counter fraud work undertaken by Veritau during 2009/10 and the outcome of investigations into suspected fraud were reported to this committee on 26 April 2010.

- 6 Management commissions internal audit services from Veritau. The company is required to report on the council's systems for financial accounting and financial management as part of its annual internal audit plan. This includes reporting potential errors or control weaknesses which may result in financial misstatement. The assurance gained contributes to the preparation of the Annual Governance Statement.
- 7 The Audit and Governance Committee receives assurance from management through:
 - (a) receipt and approval of the annual internal audit and counter fraud plan
 - (b) receipt of regular update reports from the Head of Internal Audit detailing the results of internal audit and counter fraud work, including the audit of the financial accounting and financial management systems of the organisation
 - (c) receipt of the annual Report of the Head of Internal Audit which provides an overall opinion on the council's control environment, including the arrangements to prevent and detect fraud.

ISA 250 (Laws and Regulations)

- 1 The organisation has developed and implemented a system of assurances based on:
 - (a) Objective setting - whereby the council's strategic objectives are identified and assigned to individual directors or assistant directors.
 - (b) Risk Assessment - whereby each director or assistant director identifies and prioritises the risks related to achieving those strategic objectives.
 - (c) A Local Code of Corporate Governance - which is consistent with the principles of the CIPFA/SOLACE 'Delivering Good Governance in Local Government framework' and the council's Business Model.
 - (d) Annual Governance Statement (AGS) – which sets out the council's governance framework. The key elements of the governance framework consist of strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements. A review of the governance framework is undertaken as part of the process to prepare the AGS. All significant governance issues are highlighted in the published AGS.
- 2 The council's Executive is responsible for decision making within the policy and budget framework set by full Council. The Corporate Management Team (CMT) has responsibility for implementing council policies and decisions, providing advice to members and for coordinating the use of resources and the work of the council's directorates. The Executive and CMT monitor and review council activity to ensure corporate compliance with governance, legal and financial requirements.


- 3 Specific policies, regulations and written guidance exist to support the council's corporate governance arrangements. The Officer Governance Group is responsible for monitoring the effectiveness of these arrangements and for the maintenance of appropriate systems of assurance. Assurance is obtained from the work of internal and external audit, inspection agencies and other relevant bodies
- 4 The Audit and Governance Committee acts as the responsible body charged with governance on behalf of the council. In doing so, the committee provides independent assurance on the adequacy of the risk management framework and the associated control environment, and independent scrutiny of the council's financial and non-financial performance to the extent that it affects the council's exposure to risk. It also oversees the council's financial reporting process and approves the Statement of Accounts.
- 5 The Audit and Governance Committee's terms of reference include the requirement to monitor the effective development and operation of risk management and corporate governance as well as to consider the council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice. The Committee is also responsible for keeping under review the council's Financial Regulations, Contract Procedure Rules, working protocols and codes of conduct and behaviour.

Conclusion

Having reviewed the work of internal and external audit, the management processes and the governance arrangements throughout the year, we are not aware of any events, and nothing has come to our attention, which would require additional adjustment or disclosure in the 2009/10 Financial Statements. We are also aware of the assurances provided by management which support the conclusion we have made.

Signed on behalf of the Audit and Governance Committee
29 September 2010

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AUDIT & GOVERNANCE COMMITTEE	29th September 2010
Report of the Head of Civic, Democratic and Legal Services	

Changing Executive Arrangements

Summary

- 1.1 This report advises the Audit & Governance Committee of the results of the public consultation on changes to the Council's executive arrangements. The report seeks a recommendation from the Audit & Governance Committee to Council in respect of the new arrangements which the Council must adopt.

Background

- 2.1 At its meeting on 6th July 2010 the Executive received a report on the new executive arrangements introduced by the Local Government and Public Involvement in Health Act 2007. The report advised that the Act required the Council to resolve by 31 December 2010 to change to one of two model forms of executive, namely:

- an elected mayor and cabinet
- a "new-style" leader and cabinet

Under the new style of Leader and Cabinet:

- The leader is appointed for his current term of office as a Councillor rather than appointed annually. It is though possible to make provision in the Constitution for the Council to be able to remove the leader earlier;
- The leader rather than the Council determines the size of the executive;
- The leader rather than the Council appoints the members of the executive and can remove them at any time;
- The leader must appoint one member of the executive to be deputy Leader who will act as leader if the Leader is unable to act. The deputy leader's term of office will be co-terminus with that of the leader (provided that the deputy leader remains a councillor). However, the leader can remove the deputy leader from office;
- The leader and not the Council will determine the arrangements for the delegation of executive functions.

With one important difference the powers of the leader and those of an elected mayor are the same.

- 2.2 The key difference in terms of powers is that under the leader and cabinet model, the executive recommends the budget and strategic policies to the Council which may approve, amend or overturn them by a simple majority. Under the mayor and cabinet model, the executive submits the budget and strategic policies to the Council. Council can only amend or overturn the proposals by a two-thirds majority.
- 2.3 The other significant difference is that an elected mayor (unlike the leader) is not a councillor and would be directly elected by the whole city electorate rather than having his/her own ward.
- 2.4 Shortly before the Executive considered the July report it became apparent that the Government intended to change the law to enable Councils to return to a Committee system if they so wished. The Government has also indicated an intention to abolish the requirement to elect a Leader for four years.
- 2.5 Unfortunately the requirement to adopt new arrangements is set out in primary legislation and without those provisions being repealed the process must be followed through even though within a year or so alternative arrangements may be available.

The Consultation Exercise

- 3.1 By law “**Before** drawing up its proposals” for change to the form of the Executive, the Council “must take reasonable steps to consult the local government electors for, and other interested persons in” the Council’s area.
- 3.2 There is though no specific form or period of public consultation prescribed by law. In addition the Department for Communities and Local Government had previously decided not to issue any Guidance on the subject.
- 3.3 Following the Government’s announcement of their legislative intentions though, the Minister for Housing and Local Government wrote to Councils indicating that the Government’s expectation, in light of the circumstances, was for consultation at minimal cost. Specifically the Minister suggested that: “no more than a small newspaper article/advert or press release on your website may be proportionate and right in these circumstances”.
- 3.4 In fact the Council’s consultation has gone further than the minimal level suggested by the Minister (although still at minimal cost). It has included:

- An online consultation which ran from 16th July to 1st September 2010
- An informative at Ward Committee meetings
- A notice in the Central Library
- Detailed articles in the York Press on the 31st July and 28th August
- An article in the staff newsletter – News and Jobs
- Consultation with WOW Board Members
- Briefings to Councillors

3.5 The consultation resulted in 52 online responses and one letter. To put that in context when North Yorkshire County Council undertook their consultation exercise (counties having implemented the new arrangements in 2009) they received sixteen responses. Low response levels to these consultations (in some cases in single figures) have been the pattern in most areas where new arrangements have already been implemented.

3.6 In summary the results of the consultation were that 33 respondents supported a Leader and Cabinet Executive, 18 an elected Mayor and Cabinet and two made comment but did not formally express a preference (although in one case the comments may be interpreted as support for the elected Mayor option). Where comments were made these have been included in Annex one to the report which also includes an extract from the one letter received.

Time-table and transitional arrangements

4.1 There is a two stage decision making process. The Council must first agree and publish draft proposals. These must include:

- A time-table with respect to implementation of the proposals and
- Details of any transitional arrangements that are necessary for the implementation of the proposals.

4.2 The Council must then formally resolve at a special meeting to change its governance arrangements. It is proposed that the Council meets to make this decision on the 9th December 2010, the date of the scheduled Council meeting.

4.3 The Council must stop operating its current form of Executive and start operating the new form of Executive 3 days after the elections due to be held in May 2011.

- 4.4 There will therefore be a change-over period before a leader is formally elected at the annual meeting. In terms of transitional provisions the proposals could replicate the position which would otherwise have existed and provide for the leader in office at the time of the elections (if still a Councillor) to remain in place until the annual meeting in 2011.
- 4.5 If the Council were to decide to move to an elected Mayor and Cabinet form of Executive, the Mayor would take office immediately. Given the more significant change in form, further consideration would need to be given to transitional arrangements if the Council were minded to move to this form of Executive.
- 4.6 The draft proposals at appendix 2 provide a suggested time-table and includes the transitional arrangements described above for a Leader and Cabinet form of Executive.

Referendum

- 5.1 The Council may decide that its proposals should provide for the change in form of the Executive to be submitted to approval in a referendum. The results of any referendum would be binding on the Council.

Arrangements to remove the Leader

- 6.1 If the Council is minded to adopt the Leader and Cabinet form of Executive, the Council may also include provisions in its Constitution whereby the Council may remove the Leader from office at any time.

Options

- 7.1 The Committee may recommend to Council that the Council adopt proposals for either of the two forms of Executive described in the report. The Committee may also make recommendations as to whether there ought to be a referendum and whether or not to make constitutional provision for early removal of the Leader.

Analysis

- 8.1 In reaching a decision as to which form of Executive the Council should adopt the Council will be required to consider the results of the consultation exercise. The small sample indicates a preference for a Leader and Cabinet Executive. Perhaps the strongest message though to be gained from the consultations is that the Council's form of governance is not something which particularly troubles York Residents.

8.2 The Council is also legally required to:

...consider the extent to which the proposals, if implemented, would be likely to assist in securing continuous improvement in the way in which the local authority's functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

8.3 The leadership of the Council is of crucial importance in securing continuous improvement in the exercise of the Council's functions. The City of York is an area with high levels of citizen satisfaction. There is no clear evidence that one model or the other results in better levels of service.

8.4 In considering whether or not to have a referendum the Council should have regard to the following:

- The results of the public consultation carried out by the Council.
- If the Council decides to adopt the Leader and Cabinet form of Executive, this does not prejudice the ability of York residents to make a petition calling for a referendum on whether or not to have an elected Mayor.
- Significant additional costs would arise if the Council chose to hold a referendum. Although difficult to assess accurately, it seems reasonable to assume that the costs for a stand alone referendum would be equivalent to a General election, so in the region of £225,000 to £250,000.

8.5 It is unfortunate that the Council is bound to make this change despite knowing that the law is about to change. Preserving the status quo pending that change in the law is not an option but the "new style" Leader and Cabinet Executive comes closest to it.

8.6 It would seem appropriate for the Council to reserve the option of removing a Leader during his or her term of office.

Corporate Priorities

9.1 The Council's leadership and governance arrangements are central to achieving the objectives within the corporate strategy.

Implications

10.1

- **Financial** – reference is made to the report of the significant financial implications if a referendum were held. No budgetary provision currently exists.

- **(Human Resources (HR))** – no implications.
- **Equalities** – no specific implications.
- **Legal** – implications are set out in the report .
- **Crime and Disorder** – no implications.
- **Information Technology (IT)** - no implications).
- **Property** - no implications.
- **Other** – none.

Risk Management

11.1 No specific issues arise.

Recommendations

The Committee is recommended:

- To make a proposal to Council as to the form of Executive which the Council should adopt.
- To propose that the timetable should be as set out in annex two.
- To propose that the Council should not instigate a referendum.
- That if the Committee is minded to support the Leader and Cabinet form of Executive, to recommend that Council make provision in the Constitution for removal of the Leader during his or her term of office and adopt the transitional arrangements set out in annex 2.

Reason: The Council is obliged by law to prepare a proposal as described within this report.

Contact Details

Author:		Chief Officer Responsible for the report:										
Andy Docherty <i>Head of Civic, Legal and Democratic Services</i> CBSS <i>Telephone: 01904 55 1004</i>		Andy Docherty <i>Head of Civic, Legal and Democratic Services</i>										
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Specialist Implications Officer(s) <i>List information for all</i> <table border="0" style="width:100%"> <tr> <td style="width:50%"><i>Implication ie Financial</i></td> <td style="width:50%"><i>Implication ie Legal</i></td> </tr> <tr> <td><i>Name</i></td> <td><i>Name</i></td> </tr> <tr> <td><i>Title</i></td> <td><i>Title</i></td> </tr> <tr> <td><i>Tel No.</i></td> <td><i>Tel No.</i></td> </tr> </table>					<i>Implication ie Financial</i>	<i>Implication ie Legal</i>	<i>Name</i>	<i>Name</i>	<i>Title</i>	<i>Title</i>	<i>Tel No.</i>	<i>Tel No.</i>
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<i>Tel No.</i>	<i>Tel No.</i>											
Wards Affected: <i>List wards or tick box to indicate all</i>				All								

For further information please contact the author of the report	

Background Papers

None

Annexes

Annex One – Consultations responses

Annex Two – Draft proposals for change to Executive Arrangements

Annex One

Consultations responses

Which of the following options do you support? Please explain the reasons for your chosen option.

A leader and Cabinet Executive

To limit the power of an elected mayor

An elected Mayor and Cabinet Executive

Currently we have no idea at election time who is likely to be leader or who the cabinet will be and what their policies might be. This way we can vote directly for the Mayor and his/her policies.

I do not like either suggestions as both diminish the individual powers and responsibilities of the elected representatives. What is needed are City Councillors who are elected because of their knowledge, intelligence and wisdom; not their party political allegiance.

A leader and Cabinet Executive

I do not believe that a single individual can successfully represent the diversity of views and interests in the city and a period of four years is too long if things do not go well. Leaders are primus inter pares and tend to operate in a different way to those who are directly elected whether or not in a silly costume.

An elected Mayor and Cabinet Executive

I think there is no real connection between voters and the "management" side of the city council under present arrangements, and relatively few people bother to vote for councillors in any case. If a mayor stood on a manifesto for direct election, he would then be directly answerable as to how he delivered (or not) and there would be a much greater incentive to turn out and vote in an election for such a mayor.

A leader and Cabinet Executive

The Council is already a body chosen by election. Let them get on with what they are elected to do.

A leader and Cabinet Executive	I elect my members of the council to represent my interests but work with others who understand the subtleties of policy and details of budget to work on my behalf - which includes the ability to decide leader and cabinet and replace them if they choose. A directly elected mayor may not be replaced by the councillors and is more likely in my opinion to be populist than competent at policy.
A leader and Cabinet Executive	I worry about populist and possibly incompetent mayor being elected. As was the case with Doncaster and Hartlepool
An elected Mayor and Cabinet Executive	This is the more democratic option and it gives more power to the citizens of York as we will have a choice of who are council leader is. By having a Mayoral election, like the one they have in London the council will have to answer to the people more and we will have a choice on how our city is run and who is running it.
An elected Mayor and Cabinet Executive	We can remove an elected mayor from office
An elected Mayor and Cabinet Executive	Direct election is better than the behind closed doors dodgy dealing we see now
An elected Mayor and Cabinet Executive	Power should always be in the hand of the people at elections
A leader and Cabinet Executive	The leader of the council must be answerable to the electorate. An elected mayor who cannot be removed for four years does not satisfy this fundamental requirement. A leader who can be removed (albeit by full council vote) provides a flexible scenario and satisfies the above requirement. An elected mayor will confuse the public of York. We already have a mayor in the Lord Mayor who performs an entirely different role. An elected mayor system provides for cumbersome budget review if ever needed - with 2/3 vote required to overturn. This is not what we need - we need to be as nimble as we can be in these uncertain times.

An elected Mayor and Cabinet Executive	I have a strong preference for an elected Mayor, based on my desire for greater accountability for local government decisions and a more transparent decision making process. The present situation is unsatisfactory, as key decision makers such as [a Councillor] are accountable to the Ward of the City which elected them, and then only for decisions affecting voters of that Ward. For example, Councilor [] is not held to account by voters in other Wards of the City who were adversely affected by his decisions and their implementation (and there have been several of these).
A leader and Cabinet Executive	this option seems to have more flexibility, but I don't want the Lord Mayor status to be lost in York as this is so good for the tourist population, and once lost it will be gone for ever.
A leader and Cabinet Executive	Avoids any clashes between the mayor and the Council
An elected Mayor and Cabinet Executive	so people of York can have a say in who leads the Council
A leader and Cabinet Executive	The Lord Mayor of York is an honorary position given to a deserving Councillor. It should not depend on politics.
A leader and Cabinet Executive	I feel that the current system works well and holding additional elections would be an unnecessary expense.
A leader and Cabinet Executive	I don't like the idea of an elected mayor being unaccountable to elected members for 4 years and I don't like the idea of a mayor being separately voted on.
An elected Mayor and Cabinet Executive	We need a CEO who is not affiliated to any party or subject to the ruling group's whims.
A leader and Cabinet Executive	Neither is particularly democratic but leader and cabinet is more accountable
A leader and Cabinet Executive	To maintain the Status Quo which works very well. A figure head of a lord mayor elected from the councillors, with an executive leader and an executive committee

A leader and Cabinet Executive	All members should be elected and not handpicked - it would just be one more layer of government at a time we are trying to cut back public spending
A leader and Cabinet Executive	Option 2 is essentially what we have now. A Mayor would have to be a populist possibly without the support of any Councillors
An elected Mayor and Cabinet Executive	The opportunity to bring someone in from outside party politics
An elected Mayor and Cabinet Executive	Having lived in London, I can see the value and opportunity an elected executive can bring. This should help make decision-making more democratic and accountable. The general trend is towards elected Mayors as citizens generally demand a say in the way their city is run.
A leader and Cabinet Executive	Saves money and costs of yet one more badly supported election
A leader and Cabinet Executive	The idea of a directly-elected mayor is an outrage. What is the point of having 47 representative Councillors if there is a separate Mayor with extensive powers, especially over the budget ? And what happens if some maverick wins on the basis of a populist campaign ? One particular danger would be an attack on sensible Council projects coupled with cuts in Council Tax, leading to the sort of mess that California is now experiencing.
An elected Mayor and Cabinet Executive	Too much bureaucracy at present and an elected Mayor would have the power to approve things a lot quicker, as well as being accountable for his/her actions.
An elected Mayor and Cabinet Executive	I think a mayor should be voted by local people
A leader and Cabinet Executive	I am not very happy with either choice, but a leader and cabinet executive seems the least of the evils, and nearest to the present reasonable arrangements. A mayor elected by the whole community presupposes that the electorate knows the candidates well enough, and an election campaign that could easily not reveal the best person for the job. I am very concerned that most people in York have no idea about this consultation, and it seems those without computers are disenfranchised

An elected Mayor and Cabinet Executive

An elected Mayor is more democratic than having a leader 'selected' by councillors. Would also present opportunity to scrap current ceremonial post which is waste of taxpayers money.

A leader and Cabinet Executive

Having an election will only mean another expense

A leader and Cabinet Executive

Neither appear very democratic. Preferable of the two.

An elected Mayor and Cabinet Executive

worked fine for years

The present system with a leader elected by a majority of councilors has a democratic deficit. The policies and decisions of the leader and executive can be decided without consultation with the elected councilors. Such consultation may or may not take place since it depends on whether the political parties have a protocol and enforce it. The requirement for the leader to consult elected councilors on policy and decisions should be written into the empowering act, not left to the whim of the political parties. The current system where the leader can act behind a political caucus deprives the electorate of the power to influence policy through the councilors which they have elected. An elected mayor is directly responsible to his electorate, for any departure from or doubtful interpretation of the policies which he presented as the platform for his election

A leader and Cabinet Executive

I am concerned about the possible additional costs of holding an election for a Mayor and think the current approach is adequate. I prefer that the position of Mayor continues to be an honorary role, with benefits for the city in terms of tourism and raising the profile of the city's charities. Some elected mayors have not served their communities well and I wouldn't want York's image to be tarnished in a similar way

A leader and Cabinet Executive

I do not want to lose the current status that York has with a Lord Mayor who performs his/her role admirably. An elected mayor is bound to have a negative effect on this post.

A leader and Cabinet Executive

Important that leader is elected annually. Leader should have clear understanding of all York's policies - not be some single-issue obsessive!

A leader and Cabinet Executive

Putting a large amount of executive power into the hands of an elected mayor, who is not held in check by an elected council of which (s)he is a member, leads to arbitrary and irresponsible decision-making which can adversely affect the lives of residents without providing them with any early opportunity to seek redress via their local councillor. The personal qualities of the sort of people who seek this relatively unaccountable position of power can also be very questionable. Locally, here in York we have a historic post of Lord Mayor which would be sidelined and probably jeopardised by the appointment of an elected mayor.

An elected Mayor and Cabinet Executive

The introduction of a directly elected mayor would (if coupled with the necessary executive powers to enable the mayor to drive forward their manifesto commitments) potentially lead to greater accountability of the executive to the people of York. Unlike the present arrangements, there would have to be a clear election platform on which a successful candidate could then be judged and subsequently voted out if found wanting. A successful candidate would need to appeal to the wider York electorate and therefore have a vision for the city as a whole rather than simply be returned for a particular ward. There is also a general apathy towards local government, which is reflected in low turnout at local elections. The introduction of direct democracy has the potential to change this and invigorate local authorities. The expenditure of the council already covers payment for executive functions and a cabinet. Accordingly, whilst there would inevitably be additional costs associated with holding a mayoral election (which themselves could be minimised if held simultaneously with council ward elections) in assessing the overall net increase in costs of having a directly elected mayor it would be necessary to deduct the substantial amount of money that is already being spend under the current system on executive functions (which should either be transferred across to the mayor's office or abolished to avoid unnecessary duplication). In addition, it is likely that with the increased accountability of a directly elected mayor there would be increased political pressure to reduce council tax/business rates bill and therefore there would be an added impetus to further reduce administrative costs and find new efficiency savings. The existence of a directly elected mayor need not be mutually exclusive to the continuance of the traditional ceremonial role of the Lord Mayor.

A leader and Cabinet Executive

Personally I prefer our present system with a separation between the ceremonial and host aspects of the city's life, a person chosen as now, on a party rotation system, and the very responsible and demanding task of the Chief Executive, selected after careful advertising and interviewing as the person most likely to be able to fulfil this role. In other words please do not risk York being represented by a Borsari Johnson! Or even his predecessor.

Annex2**Draft Proposals for change to Executive Arrangements**

1. The Executive form of the City of York Council should be “new style” Leader and Cabinet Executive (England)
2. The Council should have the power to remove the Leader by way of resolution by a simple majority.
3. No referendum should be held.

Transitional Arrangements

4. The Leader of the City of York Council who is in office at the time of the local elections on 5th May 2011, should remain in office until the Annual Meeting of the Council following the election.
5. The Scheme of responsibility for the Council’s Executive and local choice functions in the Council’s Constitution at the time of the Local Elections on the 5th May 2011 should remain in force until such time as they are amended by the Council’s new administration.

Time-table

6. The time-table for the implementation of the City of York Council’s proposals is set out below:-

Report on outcome of public consultation to Executive	21 st September 2010
Report on outcome of public consultation to Audit and Governance Committee	29 th September 2010
Report to Council and approval of draft proposals	7 th October 2010
Publication of Draft proposals	October/November 2010
Special Council meeting to agree new governance arrangements	9 th December 2010
Publicise new arrangements	Mid December 2009
New form of Executive comes into operation (and constitutional amendments implemented).	3 days after local elections 6 May 2010
Leader elected (if Council decides to accept Leader and Cabinet form).	First Annual meeting of Council after elections

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Audit & Governance Committee

29 September 2010

Report of the Assistant Director CBSS (Customer Service & Governance)

Key Corporate Risk Monitor Two 2010/11

Summary

1. The purpose of this paper is to present to Audit & Governance Committee (A&G) the current position of the risks associated with the Key Corporate Risks (KCRs) as at the end of August 2010.

Background

2. The KCRs are reported to both the A&G and Corporate Management Team (CMT) on a quarterly basis as part of the council's overall governance arrangements. The KCRs are regularly reviewed at Corporate Leadership Group (approximately every two years) and on an ongoing basis as part of the quarterly monitoring sessions at A&G and CMT.
3. A&G recommended to Executive that two new KCRs be added to the monitor at its meeting on 28 July 2010. These were 'Financial Pressures' as a result of the Governments spending policy and 'Corporate Performance Management Framework' to replace the CAA and UoR risk. These new KCRs were approved by Executive on 7 September as part of the quarter 1 performance report. The risks associated with the Financial Pressures KCR are set out at Annex B and the risks associated with the new performance risk will be available at monitor three.

Monitor Two

4. Annex A provides a summary sheet, which highlights the movement in the risks reported under each of the KCR focus areas since the last monitor. The risks for each directorate are reviewed where possible at DMTs in line with the Risk Management Strategy, for monitor two these were carried out in July and August by all directorates. The position of the KCRs as at the end of August 2010 is set out at Annex B of this report. The monitor is complete in terms of accurately reflecting the information recorded in the council's risk register (Magique) however, there is an on-going requirement for risk owners to ensure their risks are accurate, complete and up-to-date.

5. It is worth highlighting that the critical risk in relation to the Administrative Accommodation project 'Failure to achieve planning permission' has been removed as both planning permission and listed building consent have now been granted. Whilst A&G can review the monitor (Annex B and confidential Annex C) in its entirety the four Critical risks are set out below with the risk owners' up to date views on the situation:

KCR 0003 Waste Management Strategy Partnership

Termination of the project

"The City of York Council and North Yorkshire County Council will be presenting a report to Members later in the year which will provide Members with the opportunity to award a contract to build a facility that can deal with the authorities waste over the next 25 years. At this point it will be possible to review the status of this particular risk."

KCR 0016 Capital Programme

Failure to deliver York Sports Village

"The York Sports Village project has now been approved by the both the University and the Council's Executive. The Council has agreed to allocate the additional £1m of capital to the project required in order to complete the funding package. It is intended that the project starts on site in March 2011. Principal risks remaining are associated with i) obtaining planning approval, and ii) meeting the external funding body's criteria in order that the £1m of external funding allocated to the project in principle can be released."

Failure to obtain funding for Access York Phase 1

'The delivery risk for the Access York Phase 1 project has been elevated to critical because of the suspension of the government's transport major scheme procedure. The other key risks such as planning consent and land purchase have all been resolved satisfactorily but the availability of the principal funding source, confirmed by the previous administration in March, is now more uncertain. Approximately 90% of the funding (£22.9m) was expected to be provided by the Department for Transport. Their budgets are expected to be reduced and the distribution of the remaining funding focussed onto coalition priorities. It is not expected that the situation will become clearer until after the Comprehensive Spending Review in October and the publication of the new major scheme guidance which may be even later in the year. As the Park & Ride project is relatively low cost, excellent value for money with low deliverability risk and good sustainability credentials it is anticipated that the scheme will still be a priority when the government's review is complete. Alternative funding

sources for the project are being investigated but are unlikely to provide funds at the same low (10%) CYC match funding rate as the DfT Major Scheme Bid.'

KCR 0019 Safeguarding

Safeguarding

"In common with every other local authority this risk remains a constant. The controls in place are regularly reviewed and updated in line with emerging national guidance. Measures to review and strengthen the controls in place to manage this risk in the next quarter include, participation in an IDEA Peer Review of our Local Safeguarding arrangements, implementation of our local action plan following the recent unannounced inspection of our contact, referral and assessment service, implementation of a new supervision policy for all children's social care workers involved in child protection activity and improved case file auditing arrangements."

6. More detailed information can be provided by the appropriate risk owner from the relevant directorate, if it is required, in relation to any of the above risks or any others contained within the monitor.
7. The above comments from the risk owners help provide context around the critical risks contained with the monitor (Annex B) however risk owners often provide comments around some of their other risks that whilst not critical they feel need bringing to A&G's attention. As part of monitor two the observation below has been raised in relation to the administrative accommodation project. The 'action' in relation to this will take place after publication of this report so will appear out of date in the monitor. This also applies to one of the 'actions' in relation to the Cultural Resistance Risk (1795) in the More for York Programme.

Risk - Failure of the organisation to implement the corporate transformational change agenda

'This is a risk that if realised, will impact on the project. However it is not one that the project can control and therefore is unable to take meaningful ownership of. Ideally it should be re-classified as a corporate risk under the ownership of the More for York programme. This will be an agenda item on the next accommodation project board meeting.(September).'

8. A further key change to note in monitor 2 is that two of the risks associated with the Safeguarding KCR (Retaining practitioners & Safety in schools) have been removed. This has been made possible by creating a more flexible workforce as part of the Social Care Restructure which has significantly reduced the risk of losing practitioners and has strengthened the council's profile as a social care employer of choice. In addition to this a Safeguarding Advisor for

schools has been successfully recruited and along with the excellent partnership arrangements with schools provides confidence that safeguarding is held as a key priority across all York schools.

Fairness & Inclusion

9. At its meeting on 28 July A&G asked for a more detailed report around the recently launched three year strategy aimed at ensuring 'fairness and inclusion in treating people according to their needs to achieve fair results across the full range of services and employment opportunities offered by the council, its partners, outside organisations that work for it, and organisations that the council gives grants to'. It has been agreed by the Chair of A&G that this report will now be deferred to Monitor 3 in December.

Directorate High & Critical Risks

10. In terms of high and critical directorate risks there are none requiring escalation to A&G for this monitor.

Options

11. Not applicable.

Corporate Strategy

12. The effective consideration and management of risk within all of the council's business processes will contribute to achieving an 'Effective Organisation' and aid the successful delivery of each theme within the Corporate Strategy. CMT requested that a review of corporate risks be undertaken which included risks associated with achieving the Corporate Strategy, this will take place in October 2010.

Implications

- (a) **Financial** - There are no implications
- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** - There are no implications
- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

Risk Management

13. In compliance with the council's Risk Management Strategy, there are no risks directly associated with the recommendations of this report. The activity resulting from this report will contribute to improving the council's internal control environment.

Recommendations

14. A&G are asked to :
- a. consider, comment and agree on the risks set out at Annex B, confidential Annex C and paragraph 5 of this report:

Reason

To provide assurance that risks to the council are continuously reviewed and updated.

Contact Details

Author:

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Risk Management Officer
Phone No. 01904 551156

Chief Officer Responsible for the report:

Pauline Stuchfield
Assistant Director of Customer Service &
Governance

Report Approved Date

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

For further information please contact the author of the report

Background Papers

Key Corporate Risk Monitor one 2010/11.

Annexes

Annex A – KCR summary page

Annex B – Key Corporate Risk Monitor

Annex C - Key Corporate Risk Monitor (Confidential risks)

	New (first time reported)		Increased		Stayed the same		Decreased		Removed (no longer reported)		Total
KCR 0003 Waste PFI	★ 0	↑ 0	= 5	↓ 0	×	0	5				
KCR 0010 Emergency Planning & BC	★ 0	↑ 0	= 2	↓ 0	×	0	2				
KCR 0014 Equal Pay	★ 0	↑ 0	= 1	↓ 0	×	0	1				
KCR 0015 Fairness & Inclusion	★ 0	↑ 0	= 4	↓ 0	×	0	4				
KCR 0016 Capital Programme	★ 1	↑ 0	= 6	↓ 0	×	1	7				
KCR 0017 More for York	★ 0	↑ 1	= 5	↓ 0	×	0	6				
KCR 0018 Ageing Population	★ 0	↑ 0	= 2	↓ 0	×	0	2				
KCR 0019 Safeguarding	★ 0	↑ 0	= 1	↓ 0	×	2	1				
KCR 0020 Climate Change	★ N/a	↑ N/a	= N/a	↓ N/a	×	N/a	N/a				
KCR 0021 Performance Framework	★ N/a	↑ N/a	= N/a	↓ N/a	×	N/a	N/a				
KCR 0022 Financial Pressures	★ 0	↑ 0	= 6	↓ 0	×	0	6				

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KCR 0003 Waste management strategy partnership

Corporate Lead Bill Woolley

Financial penalties of failing to manage satisfactory partnership solution to waste agenda. Partnership solution with NYCC introduces risks to the programme from CYC perspective (control, breakdown of effective working, governance etc). Project risks of the partnership have been identified and are being managed by NYCC as the lead body

City Strategy**Waste Management Strategy Partnership****Project terminated**

Risk Owner: Bill Woolley

Risk Ref: 1007**Critical****22**

Cause *The project could be deemed unacceptable by Council Executives.*

Consequence *This would leave the Council exposed to increasing landfill costs, including landfill tax and trading scheme penalties. If only one council rejects the other may be liable for procurement costs.*

Controls

Communication Strategy

Owner

Bill Woolley

Actions

Communications prepared to state case for solution – explain that doing nothing is not an option

Target Date

30/06/2010

Revised Date

30/09/2010

Project delays

Risk Owner: Bill Woolley

Risk Ref: 1005**High****20**

Cause *Failure to communicate to stakeholders regarding the benefits and requirement for a treatment site.
Failure to secure and/or demonstrate adequate consultation.
Stakeholder issues arise to do with planning and design, due to negative perception of treatment plants and technologies.*

Consequence *This could result in judicial review, objections of planning permission, protests, public enquiry and significant delays to the project and increase costs.*

Controls

Communication Strategy

Public Consultation

Communication Plan

Work with bidders and NYCC planners

Project programme includes time for planning debate

Work to ensure the site is deliverable

Early feasibility study to be carried out to identify possible areas of concern

Owner

Bill Woolley

Bill Woolley

Bill Woolley

Bill Woolley

Bill Woolley

Bill Woolley

Bill Woolley

Actions

Work with planning department

Target Date

31/08/2010

Revised Date

31/12/2010

Consultation to be completed as statutory consultation on planning

31/08/2010

31/12/2010

Failure to secure planning consent

Risk Owner: Bill Woolley

Risk Ref: 1010

High

19

Cause Failure to secure planning consent on any of the selected sites. If there is not enough preparation to ensure the site is the most appropriate and all the required testing has been complete. Environmental Impact assessments etc.

Consequence This could result in non-delivery of project.

Controls

Identification of suitable alternative sites
 Environment Impact Assessment
 Participants working closely with planning department re design and site plan
 Council engagement with statutory consultees
 Engagement with Government Office
 Requirement of bidders to demonstrate how they plan to ensure planning success
 Post preferred bidder to work closely with participant through planning - communication process

Owner

Bill Woolley
 Bill Woolley
 Bill Woolley
 Bill Woolley
 Bill Woolley
 Bill Woolley
 Bill Woolley

Actions

Support provided to NYCC in terms of peer review of planning process

Target Date

31/12/2010

Revised Date**Solution is unaffordable**

Risk Owner: Bill Woolley

Risk Ref: 1019

High

19

Cause The Government have imposed penalties designed to reduce the amount of BMW going to landfill and these penalties are prohibitive and the Council cannot achieve the reduction in BMW to landfill without a disposal facility. Inability to obtain agreement with Treasury/DEFRA resulting in failure to get Final Business Case approval.

Consequence The cost of this facility highly significant but lower than the penalties. The Government has contributed £65m through PFI credits towards these costs, however, the likely net impact is still highly significant to the Council. Should the Council fail to set the monies aside to deal with it. The potential loss of PFI credits means additional cost to the council.

Controls

Highlighted as a budget requirement as part of the MTFS.
 The Council has signed up to closing the affordability gap

Owner

Bill Woolley
 Bill Woolley

Potential challenge of the procurement process

Risk Owner: Bill Woolley

Risk Ref: 1030

Medium

13

Cause If the losing bidder deems the evaluation has been inappropriate

Consequence The Council could be sued and incur costs and therefore may not be able to award the contract.

Controls

Auditable trails of documentation

Owner

Bill Woolley

KCR 0010 Emergency Planning & Business Continuity

Corporate Lead Bill Woolley

Business Continuity: The Council has a statutory duty to have plans in place to ensure the delivery of its critical services continues throughout any disruption to itself or the community. Emergency Planning: The Council, as a Category 1 responder to critical incidents, has a duty to maintain both generic and specific plans to respond to the major risks facing its community.

City Strategy

Inability to respond to and assist in the recovery of city of York after a major incident

Risk Owner: Richard Wood

Risk Ref: 1718

High

18

Cause Under the Civil Contingencies Act, as a local authority, it is the role of City of York Council to support the emergency services in the case of a major emergency and to provide aid and assistance and advice to the general public.

Consequence Emergency services may not be completely supported which could hinder the promptness of their response, the speed of recovery of the city, and vulnerable people within the city may be put at risk.

Controls

Emergency Plans for the city
Emergency manuals
Exercising of the plans
Officers on-call
Plans and manuals updated quarterly (particularly contacts)
CYC Emergency Handbook

Owner

Richard Wood
Richard Wood
Richard Wood
Richard Wood
Richard Wood
John Wray

Inability to continue to deliver services following a business disruption event

Risk Owner: Richard Wood

Risk Ref: 0623

High

16

Cause If group and directorate plans are not developed, adopted and embedded at both levels this could result in an inability to continue to deliver services following a business disruption event. the result could be further risk to customers and the community and resultant criticism.

Consequence Reputational and potentially litigation and breach of statutory duty leading to censure of Council.

Controls

BC working group
Progress reports to CMT
Timetable for driving forward BC in the Council

Owner

John Wray
John Wray
John Wray

KCR 0015 Fairness & Inclusion

Corporate Lead Sally Burns

The refreshed corporate Fairness and Inclusion Strategy and Single Equality Scheme were approved by the Executive in December 2009. This updates council fairness and inclusion commitment and action. It also ensures that we meet current statutory duties arising from equality legislation and provides the framework for the development of fair and inclusive service delivery and employment practice in the council.

Communities & Neighbourhoods**Councillor's vision and expectations of a fair inclusive and customer-focused organisation will not be realised**

Risk Owner: Sally Burns

Risk Ref: 1796**High****20**

Cause *The action plan in the corporate Single Equality Scheme is not implemented because of lack of prioritisation, adequate resources and understanding of the issues.*

Consequence *Customers receive poor quality unfair, and possibly discriminatory, services and staff satisfaction declines due to poor quality employment practices. The council's reputation as a service deliverer and employer declines. We do not meet recognised standards of excellence in services and employment.*

Actions**Target Date****Revised Date**

Ensure staff & member training in equality and Human Rights takes place

31/03/2011

Officers understand and follow the corporate equality system and standards

31/03/2011

Implementation of directorate equality schemes and monitoring by Directorate Management Teams every quarter

31/03/2011

Equality Impact Assessments are undertaken and resulting actions are implemented and monitored

31/03/2011

Vulnerable people cannot access our services and employment opportunities

Risk Owner: Sally Burns

Risk Ref: 1797**High****20**

Cause *Lack of understanding of the needs of vulnerable people and the barriers they face when they try to access our services and employment opportunities.*

Consequence *Vulnerable customers are excluded from council services and employment opportunities we provide. We can face legal challenges.*

Actions**Target Date****Revised Date**

Complete Equality Impact Assessments of access to services and employment and implement resulting action plans

31/03/2011

We do not provide fair and inclusive customer-focused services

Risk Owner: Sally Burns

Risk Ref: 1798**High****20**

Cause *Lack of understanding of the needs of vulnerable customers resulting in lack of remedial action to meet their needs.*

Consequence *Vulnerable customers are excluded from services we provide. Our reputation as a quality service provider is reduced. We can face legal challenges.*

Actions**Target Date****Revised Date**

Complete and implement service Equality Impact Assessments and monitor remedial actions

31/03/2011

Vulnerable staff are bullied, harassed and feel excluded

Risk Owner: Sally Burns

Risk Ref: 1799

High

20

Cause *Lack of understanding of the needs of vulnerable staff resulting in lack of remedial action to meet their needs.*

Consequence *Staff survey results are poor. Vulnerable staff's health is affected negatively or/and they leave. Our reputation as a good employer is reduced. We can face legal challenges.*

Actions

Implementation of Workforce Plan

Target Date

Revised Date

31/03/2011

Monitoring through service planning and PDRs

31/03/2011

Equalities Impact Assessments undertaken for all Human Resources practices

31/03/2011

Consultation with Staff Equalities Reference Group (SERG)

31/03/2011

KCR 0016 Capital Programme

Corporate Lead Bill Woolley & Pete Dwyer

The Capital Programme delivers a number of capital schemes that directly contribute to the achievement of the Corporate Strategy. All capital schemes are included into the Capital Programme via the annual capital budget process which allocates resources to the projects that facilitate with service delivery and contribute toward the Corporate Strategy. Currently the Capital Programme contains 85 projects over a 5 year period with a budget of over £206m.

City Strategy

City Development and Transport

Transport Capital Programme

Failure to obtain funding for Access York Phase 1

Risk Owner: Tony Clarke

Risk Ref: 1319

Critical

23

Cause *If the DfT or CYC funding was not available*

Consequence *Project would not proceed*

Controls

Regional Funding Allocation confirmed available.

Follow DfT procedures to obtain main funding.

Follow CYC CRAM procedures for local contribution.

Owner

Tony Clarke

Tony Clarke

Tony Clarke

Actions

Confirm CYC funding through CRAM process

Target Date

31/03/2009

Revised Date

31/03/2011

Progress scheme once new guidance and results of spending review published in Autumn 2010

31/03/2011

Communities & Neighbourhoods

Failure to deliver York Sports Village by 2011

Risk Owner: Charlie Croft

Risk Ref: 0670

Critical

21

Cause *The University has not yet set a start date for the construction of the pool.*

Consequence *Delivery of the University Pool is dependent on York University obtaining planning permission & completing the process of applying for external funding.*

Controls

Supporting the University in the development scheme

Supporting the University in their approach for external funding

Owner

Charlie Croft

Charlie Croft

Actions

Work with the University to develop the scheme.

Target Date

31/03/2011

Revised Date

Support the University to complete their funding application.

31/03/2011

ACE - Children

Failure to deliver ACE school modernisation strategy

Risk Owner: Kevin Hall

Risk Ref: 0363**Medium****13**

Cause Late delivery or failure of significant capital projects include: New Manor School (creative and media extension to 2010), Joseph Rowntree (remaining demolition of old building), Rawcliffe and Clifton Primary schools and English Martyrs and Our Lady's primary school merger, and Knavesmire Children's Centre (completed), Further projects subject to DCSF funding.

Consequence Late delivery of large scale capital projects may lead to reputational damage, financial loss and difficulties with school admissions and accommodating children.

Controls

Extensive project management

Regular reporting to Members

Owner

Maggie Tansley

Kevin Hall

City Strategy**Administration & Accommodation Review****Failure to discharge planning conditions**

Risk Owner: Ian Asher

Risk Ref: 1821**High****17**

Cause The developer delays or is unable to comply with the planning conditions

Consequence Completion of the construction work and the subsequent handover of the building to the council could be delayed. The council may not be entitled to occupy and/or use the building if planning conditions are not discharged.

Controls

Planning policy

Conditional Sale and Development agreement

Staged design development meetings

Owner

Ian Asher

Ian Asher

Ian Asher

Actions

Monitor discharge of CSDA pre-conditions including developer's discharging of the planning conditions.

Target Date

30/09/2010

Revised Date

Failure of the organisation to implement the corporate transformational change agenda reflected in the new HQ design brief

Risk Owner: Maria Wood

Risk Ref: 0351

Medium

14

Cause The organisation does not effectively coordinate and implement the transformational change agenda.

Consequence The Council will fail to achieve the operational efficiencies and improvements in customer service provision, anticipated in the business case. The project will deliver a new head quarters building that the organisation is unable to use to its maximum potential.

Controls

Integration with the More for York Programme

Owner

Maria Wood

Actions

Ensure agendas and reports for M4Y project boards are available to the accommodation project.

Target Date

27/08/2010

Revised Date

30/09/2010

Status of this risk to be reviewed by the accommodation project board

24/09/2010

Preparation of toolkit to aid understanding of new ways of working

29/10/2010

City Strategy

Community Stadium

Capital Funding Gap

Risk Owner: Tim Atkins

Risk Ref: 1759

High

19

Cause Partner contributions, potential for enabling development disposal values, land values and external funding contributions are variables that are not possible to clearly define at this stage in the project. The impact this has on the viability of the project is significant. The role of external funding agencies is also important. Due to the changing nature of the funds and their timescales, there is always a significant risk that criteria will change and funds levels reduce

Consequence There may not be the capital available to build the stadium development

Controls

External Funding Assessments

Owner

Sarah Milton

Assessment of the potential for enabling development

Tim Atkins

Flexible Cost Model and business case

Tim Atkins

Timescales: Planning Application called in

Risk Owner: Tim Atkins

Risk Ref: 1764

High

19

Cause The Planning Application is called in

Consequence Project is delayed by up to 16 months

Controls

Undertaking discussions with Government Office

Owner

Tim Atkins

KCR 0017 More for York

Corporate Lead Tracey Carter

The efficiency programme contains a number of projects that, if delivered successfully, will produce millions of pounds of cashable efficiency savings which will support the council's budget, keep council taxes low, improve the quality of services and make them more efficient. The council has set aside an invest to save fund and is also going to work with private sector partner to drive through the change required to deliver these projects. Not delivering this programme of efficiencies will lead to further

Office of the Chief Executive**More for York****HR - Shortfall in Resourcing Strategy Savings**

Risk Owner: Angela Wilkinson

Risk Ref: 1820**High****20**

Cause *The Resourcing Strategy savings are in jeopardy due to delay in the work to implement changes and reduce spend.*

Consequence *Shortfall in overall workstream savings.*

Controls

Reconfirm potential savings and reprioritisation of work.

Owner

Angela Wilkinson

Actions

Ensure £40k savings in CANS is taken

Target Date

01/09/2010

Revised Date

04/10/2010

Programme - Lack of required in-house skills and knowledge

Risk Owner: Stewart Halliday

Risk Ref: 1769**High****19**

Cause *The programme may not have the required in house skills and knowledge at the relevant time as a result of inadequate resource planning.*

Consequence *A lack of in-house skills and knowledge may result in possible reductions in benefits and/or effective implementation of changes.*

Controls

Ongoing review of resource management
Monthly workstream review meetings

Programme resources supplemented by external expertise where necessary

Owner

Stewart Halliday
Stewart Halliday and Phil Davidson
Stewart Halliday

Actions

Initiate internal training courses in lean methodology for CYC staff.

Target Date

01/09/2010

Revised Date

01/10/2010

BA training course planned for October

22/10/2010

Programme - Non-achievement of identified savings

Risk Owner: Ian Floyd

Risk Ref: 1771**High****19**

Cause Risk that identified savings may not be achieved as a result of ineffective or inadequate programme management, benefits realisation and monitoring.

Consequence Not achieving target efficiencies could result in an adverse effect on operational budgets.

Controls

Constant monitoring of workstream progress

Early capture of risks and issues

Escalation of issues to programme management

Budget realisation monitoring

Clear escalation route for savings issues

Clear savings sign-off process

Owner

Programme Office and Ross Brown

Chris May

Phil Davidson

Ross Brown

Ross Brown

Ross Brown

Actions

Next update review of at risk savings to identify solutions and mitigations

Updated savings profile

New work to identify further stretch savings and efficiencies

Target Date**Revised Date**

15/10/2010

15/10/2010

01/11/2010

Programme - Cultural resistance to changes proposed by the programme

Risk Owner: Stewart Halliday

Risk Ref: 1795**High****19**

Cause The programme may encounter cultural resistance to change in business areas.

Consequence This may impact the effectiveness of the programme - delaying changes and impacting the realisation of identified benefits.

Controls

Programme of organisational culture change initiated throughout CYC

Yoreka - staff suggestion scheme

Engagement strategy incorporating leadership teams, members and staff

Owner

Charlotte Jennings

Charlotte Jennings

Charlotte Jennings

Actions

More for York newsletter to be distributed to all staff

Staff event planned for 22nd Sept

Planning for staff events

Yoreka boards to be placed in service areas.

Target Date**Revised Date**

06/09/2010 18/10/2010

22/09/2010

30/09/2010 29/10/2010

01/11/2010

Neighbourhood Services - ineffective communication of Waste Round changes

Risk Owner: Dave Atkinson / NS DMT

Risk Ref: 1774**High****18**

Cause Risk that changes to waste rounds are not handled or communicated in an appropriate way due to inadequate communications planning and monitoring.

Consequence Inappropriate handling and communication of changes could minimise effectiveness of implementation.

Controls

Ensure sensitivity in the communication of the changes in rounds.
Clear communications with customers
Weekly meetings with refuse crews

Owner

Dave Atkinson
Dave Atkinson
Waste Services Manager

Actions

Targeted communications campaign
Quality assurance user groups

Target Date**Revised Date**

30/09/2010
30/09/2010

Programme - Ineffective communications with staff

Risk Owner: Stewart Halliday

Risk Ref: 1735**Medium****14**

Cause Failure to communicate effectively to staff impacted by the programme due to limited or ineffective communications plans, procedures and monitoring.

Consequence Ineffective communications may cause an adverse effect on staff morale and thereby reduce the programme's ability to achieve the identified savings and efficiency targets.

Controls

Workstream communication plans
Regular weekly or fortnightly staff updates

Programme Communications Group
Regular Comms updates to CMT
Ongoing union engagement at programme level
Ongoing close union involvement at Directorate level

Owner

Charlotte Jennings
More for York workstream leads
Charlotte Jennings
Charlotte Jennings
Stewart Halliday
More for York workstream leads

Actions

Re-draft of the programme communications plan
More for York newsletter to be distributed to all staff

Target Date**Revised Date**

06/08/2010 01/10/2010
31/08/2010 18/10/2010

KCR 0018 Impact of an Ageing Population

Corporate Lead Pete Dwyer

This is a long term piece of work which has been initiated by a scoping report to CMT. The next stage is to set up agreed actions for 10/11 and beyond following a workshop with senior managers across the council and an appraisal of the key issues.

ACE - Adults

Increasing social care support costs

Risk Owner: Graham Terry

Risk Ref: 1715

High

20

Cause *If we do not involve older people in the design and delivery of services such as health, social care, housing and other services and deliver the changes required to manage demand and create efficiencies/savings.*

Consequence *The rising demographic for social care support projections show that the costs could increase by £12m by 2020. This would happen if the council does not respond and change the way it delivers its services. We will lose the opportunity to have an inclusive design that supports older people's quality of life in the city.*

Actions

Older Peoples Accomodation review

Target Date

Revised Date

30/06/2011

Inability to understand and respond to the demands of an Ageing Population

Risk Owner: Graham Terry

Risk Ref: 1714

High

18

Cause *If the Ageing Population Review fails to be given the necessary priority corporately, including required resources for it to be carried out during 2010.*

Consequence *We may not understand the extent and scale of the changes required to be made to our services to meet the ageing populations changing demands. This could lead to reputational damage and affect our CAA rating, especially if older people become disengaged with the council and broader social issues.*

Controls

Prioritisation of work following CLG and support from the Chief Executive
Continue to engage stakeholders in key actions to deliver these.

Owner

Graham Terry
Graham Terry

Actions

Finalise key actions and embed within Service Plans.

Target Date

Revised Date

31/10/2010

KCR 0019 Safeguarding

Corporate Lead Pete Dwyer

Ensuring that our children and young people in the city are safe and protected has to be a key priority for any authority. This involves not simply ensuring effective interventions into family life but the creation of protective arenas of safety which for example include safe recruitment practice. The individual, organisational and reputational implications of ineffective safeguarding practice are acute

ACE - Children**Serious injury or death occurs where there is or should have been some safeguarding involvement**

Risk Owner: Eoin Rush

Risk Ref: 1707**Critical****22**

Cause Evidence that multi agency procedures were not properly implemented

Consequence

Serious case review which would put into the public domain the short comings of any services that were involved

Controls

Monitoring of referral arrangements
Safeguarding Children Board Professional Practice Monitoring Group established
Review of local Authority referral assessment arrangements
Implementation of comprehensive safeguarding children training programme
Routine Case File Auditing

Owner

Eoin Rush
Eoin Rush
Eoin Rush
Eoin Rush
Eoin Rush

KCR 0022 Financial Pressures

Corporate Lead Ian Floyd

Reductions of approximately 25% in government department budgets are expected over the next 4 years. The Council needs a structured and strategic approach to deliver savings through the more for york programme to ensure that any change to service provision is aligned to the Council's key priorities.

Customer & Business Support Services

Inability to achieve funding reduction savings for 2010/11

Risk Owner: Keith Best

Risk Ref: 1805

High

19

Cause 2010/11 in year budget reductions totaling £3.16m announced in June may not be achievable at such short notice because some spend is already committed or budgets relate to statutory services

Consequence This could result in a 2010/11 overspend.

Controls

Identify budget reductions at the earliest opportunity

Owner

Keith Best

Regular monitoring of the financial position through in year monitoring

Keith Best

Requirement to reduce budgets by approximately 25% over the next 4 years

Risk Owner: Keith Best

Risk Ref: 1806

High

19

Cause Reductions of approximately 25% in government department budgets are expected over the next 4 years

Consequence The council may have to reduce or stop service provision for non statutory services or increase eligibility criteria for statutory services

Controls

Long term financial planning to identify funding gaps

Owner

Keith Best

Identify savings required

Keith Best

Initiate targeted service reviews delivered through the More for York programme

Keith Best

Promote a challenge system amongst officers to identify savings or areas for review

Keith Best

Insufficient time to take action to reduce budgets in a strategic and targeted method

Risk Owner: Keith Best

Risk Ref: 1807

High

19

Cause A funding reduction in excess of the current forecast could result in insufficient time to take action to reduce budgets in a strategic and targeted method

Consequence This could result in an additional untargeted blanket % cut across all services if not properly planned as well as service provision which is not aligned to corporate priorities

Controls

Long term financial planning to identify funding gaps

Owner

Keith Best

Identify potential savings in excess of current target

Keith Best

Medium term planning based on modeling and sensitivity analysis updated on a regular basis

Keith Best

Savings identified beyond 2011/12 are not achieved

Risk Owner: Keith Best

Risk Ref: 1812**High****19**

Cause Some service specific savings proposals may be politically sensitive and alternative savings may need to be identified or the savings are not achieved according to More for York programme timetable

Consequence This could result in an additional untargeted blanket % cut across all services if not properly planned as well as service provision which is not aligned to corporate priorities

Controls

Regular communication and consultation
Regular monitoring of progress by More for York programme
Identify potential savings in excess of current target
Structured and planned approach to budget planning

Owner

Keith Best
Keith Best
Keith Best
Keith Best

Customer & Business Support Services**Corporate Finance****Increase in the value of employer's contribution to LGPS due to effects of economic downturn**

Risk Owner: Louise Dixon

Risk Ref: 1687**Medium****13**

Cause A fall in investment returns due to the volatility of the market due to the credit crunch. This could take effect from 1st April 2011.

Consequence At a rough estimate, a 1% increase in the contribution rate is upwards of £700k p.a. so there could be some substantial costs to meet at a time when government funding and council tax income are both under pressure. The Fund's actuary has estimated that an increase of 1-2% per annum may be required over the 3 year period from 2011/12, although the government may "relax" current valuation methodology to lessen the impact.

Controls

Increase in employer contributions built in to 2010-11 Medium Term Financial Plan.

Owner

Louise Dixon

City Strategy**City Development and Transport**

Reduced levels of economic development due to less investment of national & regional transport infrastructure

Risk Owner: Richard Wood

Risk Ref: 1720**High****19**

Cause *The financial impact of the economic downturn will almost certainly result in a reduction in investment in regional and national air services, rail network and long distance buses.*

Consequence *This could mean that there is less investment available for supporting infrastructure affecting the future economic prosperity of the city.*

Controls

Lobbying for sustainable levels of investment and funding
 Review policy setting
 Access York Phase 1 Dft Funding through RTB
 A19 Roundabout Extension, funding from RTB Top-up
 Cycling City DfT funding through Cycle England
 Access York Phase 2 DaST Connectivity Study with Leeds City Region
 LTP 3 Consultation

Owner

Richard Wood
 Richard Wood
 Richard Wood
 Richard Wood
 Richard Wood
 Richard Wood
 Richard Wood

By virtue of paragraph(s) 4 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Audit & Governance**29 September 2010**

Report of the Director of Customer & Business Support Services

Scrutiny of Treasury Management Monitor 1 and Prudential Indicators 2010/11**Summary**

1. The purpose of this report is for members of A&G to scrutinise “Treasury Management Monitor 1 and Prudential Indicators 10/11” in accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”).
2. The revised Code was published in November 2009 and adopted by the council on 26 February 2010. From 2010/11, Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
3. Attached at Appendix A is the Treasury Management Monitor 1 and Prudential Indicators 10/11 report.

Background

4. A training session has been organised for 29 September 2010 at the request of Members to assist them in the understanding of Treasury Management in a Local Authority and to equip them with the necessary skills to scrutinise Treasury Management on an ongoing basis.
5. The “Treasury Management Monitor 1 and Prudential Indicators 10/11” report provides Members with a review of the first four months of 2010/11. It gives the economic background and an analysis of the interest rate environment in which treasury management operates, followed by the position of short term investments and long term borrowing. It provides information on the venture fund – the Council’s earmarked reserve which generally provides short term funding for revenue and capital schemes of an invest to save nature – and also monitors the position of the treasury management budget. Finally the prudential indicators attached at annex A to the report at Appendix A, show that the Council continues to manage its capital investments and treasury management activities on an affordable, sustainable and prudent basis.
6. Short term investments returned 1.24% on an average investment portfolio of £42.9m compared to the average 7 day London Inter-Bank Deposit rate (LIBID) of 0.42% and 0.74% higher than the average base rate for the period of 0.50%. The long term borrowing portfolio stands at £133.1m with all borrowing taken in 2010/11 being well below the target

of 4.5%. The borrowing portfolio increase is due to the increasing funding requirements of the capital programme.

7. The information provided in paragraphs 5 and 6 above are a brief summary of the "Treasury Management Monitor 1 and Prudential Indicators 10/11" report for scrutiny by Audit & Governance Committee Members.

Consultation

8. Not applicable.

Options

9. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice "the Code". The revised "code" was approved at full Council on 26 February 2010. The Council also approved the Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15 which stated that "The Treasury Management Reporting arrangements set out in paragraph 16, table 1, as described by "the Code" and the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports." No alternative options are available.

Corporate Priorities

10. Treasury management is an integral part of the council's finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Corporate Strategy. It therefore underpins all of the council's aims.

Implications

11. The implications are
 - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property –there are no property implications to this report.
 - Other - the revised code may have implications for the requirements placed on officers and members for the scrutiny and management of the treasury function.

Risk Management

12. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice 2009 (the code) are all adhered to as required.

Recommendations

13. That Audit & Governance Committee note the Treasury Management Monitor 1 and Prudential Indicators 10/11 at Appendix A.

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Contact Details

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 Director of Customer & Business Support
 Services

Report approved Date

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All**

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments
 CIPFA Prudential Code
 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral
 Guidance ("the Code")
 Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15

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Executive**7 September 2010**

Report of the Director of Customer and Business Support Services

Treasury Management Monitor 1 and Prudential Indicators 09/10**Summary**

1. This report updates the Executive on the Treasury Management performance for the period 1 April 10 to 31 July 2010 compared against the budget presented to Council on 25 February 2010.
2. The report highlights the economic environment for the first four months of since the 2010/11 financial year and in relation to this reviews the council's treasury management performance covering:
 - Short-term investments,
 - Long-term borrowing,
 - Venture fund,
 - Treasury management budget.

Background

3. The Council's treasury management function is responsible for the effective management of the Council's cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
4. The Council approved the Treasury Management Strategy, budget and Prudential Indicators on 25 February 2010. This report monitors the Treasury Management activity for the first four months of 2010/11 and shows the change in the Treasury Management budget to 31 July 2010 and the forecast outturn position for the year.

Economic Background and Analysis

5. The Council's short term investment and long term borrowing decisions have been affected by the following economic conditions:
 - a. The first quarter of 2010/11 saw:
 - i. the new coalition government enact a fiscal squeeze set to be the most severe since the end of the 1930's, through its Emergency Budget on the 22nd June;

- ii. activity indicators suggest that the recovery picked up a little pace in the first quarter;
 - iii. high street spending recovered after a weak start to the year;
 - iv. the labour market showed some tentative signs of improvement;
 - v. the UK's trade position deteriorated, despite the weak pound;
 - vi. CPI inflation remained above target, however the measure of underlying inflation fell;
 - vii. the Monetary Policy Committee maintained Quantitative Easing and kept Bank Rate on hold at 0.5%;
 - viii. the equity rally went into reverse over concerns about the shape of the global recovery;
 - ix. the recovery in the US remains fairly strong, but remains weak in the euro-zone.
- b. The key development of the first quarter was the Emergency Budget delivered on the 22nd June, which unveiled plans by the new Chancellor to severely tighten fiscal policy. The Budget directed the bulk of the fiscal tightening at households and the public sector instead of private companies. Key measures within the Budget included a rise in the standard rate of VAT from 17.5% to 20%, to take effect in January 2011. Plans for social security payments were scaled back however, the burden on lower income households was partly offset by an increase in the personal income tax allowance by £1,000 to £7,475 from April 2011. (High earners will not benefit.)
- c. During the first quarter of 2010/11, activity surveys suggested that the recovery has gathered pace after the economy's 0.3% expansion. Encouragingly, the labour market has shown some tentative signs of improvement. The number of people claiming unemployment benefit fell by 32,000 in April and 31,000 in May, leaving the total at 1.48m. Employment also rose by 5,000 in the three months to April. However, the workforce increased at a faster rate, so that the total number of unemployed still rose by 23,000 in the three months to April.
- d. The UK's trade position continued to deteriorate, despite the support provided by the lower pound.
- e. Inflationary pressures have finally begun to ease. CPI inflation rose from 3.4% to a recent peak of 3.7% in April before falling back to 3.4% in May and 3.1% in August. Temporary factors, such as the rise in the rate of VAT to 17.5% in January and the rise in oil prices last year, continued to support above-target inflation. However, the forthcoming increase in the standard rate of VAT to 20% will also add to inflation throughout 2011.
- f. According to the August inflation report, the economy will only be growing 3% in the second half of 2011 compared to the May inflation report at 3.5%. Mervyn King, the Bank's governor of the Bank of England, said Britain was facing a "choppy recovery". The overall outlook is weaker than that presented in the May Report, reflecting the

softening in confidence, the persistence of tight credit conditions and the faster fiscal consolidation.

- g. The Monetary Policy Committee (MPC) continued to keep Bank Rate on hold at 0.5% and to maintain its stock of asset purchases. The Bank of England’s quarterly Inflation Report in August also projected inflation to be below the 2% target at the two year horizon, suggesting that rates will remain on hold (0.5%) for a considerable period; throughout the rest of this year into 2011.
- h. Figure 1 shows the actual and projection of the base rate, which remains at historically low levels through much of 2010. The Council’s treasury management advisers – Sector – forecast the position of the base rate in February 2010 and this is compared to their forecast along with other economists in July 2010. The base rate will slowly start to rise at the beginning of 2011/12 and continue gradually out to 2013. UBS forecast a rise in the base rate earlier than Sector, where as Capital Economics remain pessimistic about economic recovery to the end of 2011 and they forecast the base rate to remain at 0.5% for the near future.

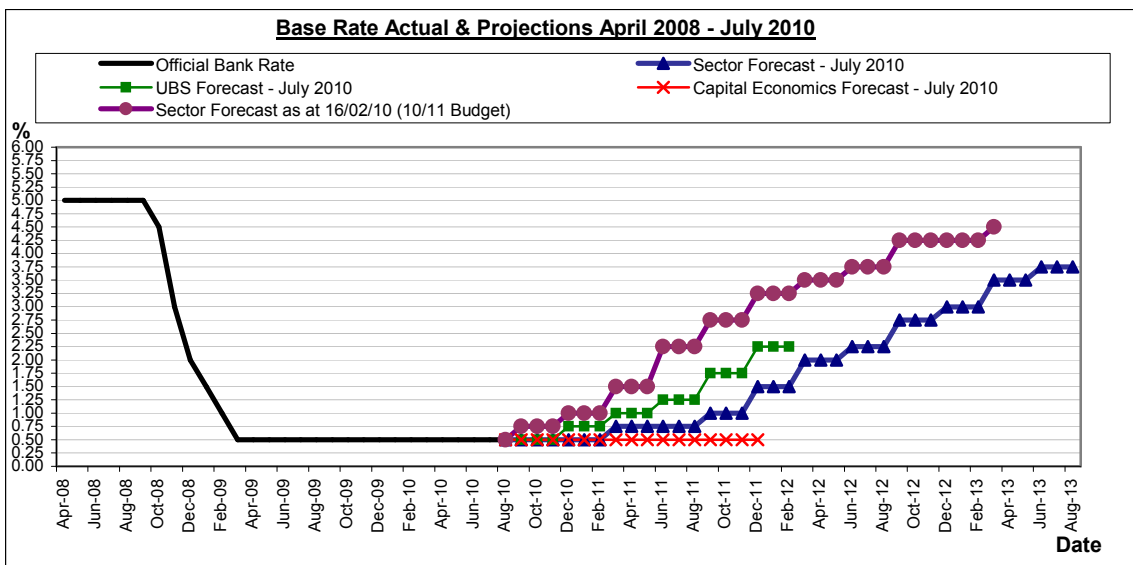


Figure 1: Base Rate 2008 to 2013 - latest forecast July 2010

- i. Table 1 provides the Council’s Treasury Advisers, Sector, forecast of the base rate and Public Works Loan Board (PWLB) rates as at 15 July 2010:

	Now	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.50%	2.00%	2.25%	2.75%	3.00%	3.50%
5yr PWLB rate	2.29%	2.50%	2.60%	2.80%	2.95%	3.20%	3.45%	3.80%	4.15%	4.40%	4.50%	4.65%
10yr PWLB rate	3.58%	3.80%	3.85%	4.00%	4.20%	4.40%	4.50%	4.70%	4.75%	4.90%	4.90%	5.05%
25yr PWLB rate	4.31%	4.45%	4.50%	4.55%	4.70%	4.80%	4.90%	5.05%	5.15%	5.20%	5.25%	5.25%
50yr PWLB rate	4.29%	4.45%	4.55%	4.60%	4.75%	4.85%	4.95%	5.05%	5.25%	5.25%	5.30%	5.30%

Table 1 – Sector’s forecast interest rates as at 15 July 2010

- j. With regard to long term borrowing, the Public Works Loan Board (PWLB) rates across all ranges are forecast to steadily increase, as seen in table 1. This is due to high gilt issuance, reversal of QE and investor concerns over inflation.
- k. It should be noted that Sector have confirmed that there is a high level of uncertainties in all the above forecasts and markets are currently volatile. This is due to the difficulties of forecasting the timing and amounts of QE reversal, fiscal contraction following the general election in May 2010, speed of recovery of banks’ profitability and balance sheet positions, changes in the consumer saving ratio and rebalancing of the UK economy towards exports.
- l. The 1 year investment rate started the financial year at 1.19% and on 31 July 2010 had risen to 1.35%. Figure 2 shows the positions of market interest rates available for investments, which have all marginally risen in the first four months of 2010/11.
- m. Due to the low rates available on the market for invest, a number of large UK banks keen to accept Local Authority investments continue to offer competitive rates on call accounts paying 0.25% to 0.3% above the Bank of England base rate as a minimum. In the first four months of 2010/11 call accounts still offer good value but higher rates can also now be achieved on fixed term market investments and also through Money Market Funds.

Investment Policy

6. The Treasury Management Strategy Statement for 2010/11 was approved by Council on 25 February 2010. The Council’s Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council’s investment priorities as follows:
 - Security of Capital
 - Liquidity
7. The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector, the Council’s Treasury Management advisors.
8. Investments held at 31 July 2010 in accordance with Sector’s Creditworthiness matrices, and changes to Fitch and Moody’s credit ratings remained within the Council’s approved credit criteria limits contained in the Annual Investment Strategy.

Short Term Investments

9. Investment rates available in the market remain at an historical low point. The average level of funds available for investment purposes in the first four months of 2010/11 was £42.946m. The level of funds available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants and progress on the Capital Programme. These funds are therefore available on a temporary basis dependant on cash flow movement. The authority holds some core cash balances for investment purposes, i.e. funds available for a year or more, however to date in 10/11 no funds have been invested for periods greater than one year due to the limited institutions available for investment in accordance with the credit criteria policy. This is a continuation of similar market conditions which prevailed through the majority of 2008/09 and through the whole of 2009/10.
10. Treasury Management investment activity during the first four months earned interest £221k, equivalent to a 1.24% rate of return. This is 0.82% better than the average 7 day London Inter-Bank Deposit rate (LIBID) of 0.42% and 0.74% higher than the average base rate for the period of 0.50%.
11. The high rate of return on investment activity compared to the average LIBID rate and base rate for the period is due to the treasury team continuing to monitor the market and taking advantage of longer term rates when they become available, using short term call deposit accounts where interest rates are higher and using Money Market Funds as a slightly alternate investment deposit.
12. The rate of return is approximately half of that seen in 2009/10 due to (a) interest rates remaining historically low on the market throughout 09/10 and into 10/11 and (b) no core balances having been invested for more than 1 year back in 2008/09 when rates were higher. The interest earned for the first four months of the year is in line with the treasury management budget but can be seen to be substantially lower than in previous years, thereby increases the requirement of the treasury management budget due to a less of an effect the investment earned netting off interest paid out on borrowing.
13. The Council has made 8 fixed term investments during the first four months of 2010/11, 2 directly with the Bank of Scotland and 6 via the money market brokers. This is the same as in 2009/10. Five of these investments have been made for periods of 6 months where value was shown and this allows the flexibility of funds becoming liquid if interest rates start to rise. This is shown in Figure 2 below. In accordance with the Treasury Management Strategy investments have been kept short due to the low levels of interest rates available and the limited number of institutions available in the market which the council can invest in complying with its credit rating policy.
14. A proportion of investments have been placed in call accounts where funds are secure and are able to be liquidated if more advantageous rates become available. The council operates 4 call accounts – Bank of Scotland

(0.75%), Alliance & Leicester (0.80%), Yorkshire bank 15 day (0.80%) and Yorkshire Bank call (0.50%) – but has found during the first four months of 2010/11 that better rates have been available on the market as described above in paragraph 13. Two money market funds are also being utilised – Prime rate MMF offering rates around 0.85% and Ignis offering rates around 0.60%. The MMF are needed to diversify the investment portfolio as the banks offering the most favourable fixed deposit rates are also the banks which offer the call accounts which the council uses.

15. Therefore in order to remain within the Councils lending limits, diversification of the council's portfolio is key. This ensures continued security of the council's funds, whilst operating within the bounds of the council's cash flow (liquidity) and giving consideration to the most favourable interest rates available.

16. Figure 2 shows the interest rates available on the market between 7 days and 1 year and the rate of return that the Council has achieved to 31 July 2010. It shows that favourable / competitive interest rates have been obtained for investment in line with the interest rates which are available when security of funds are of prime importance.

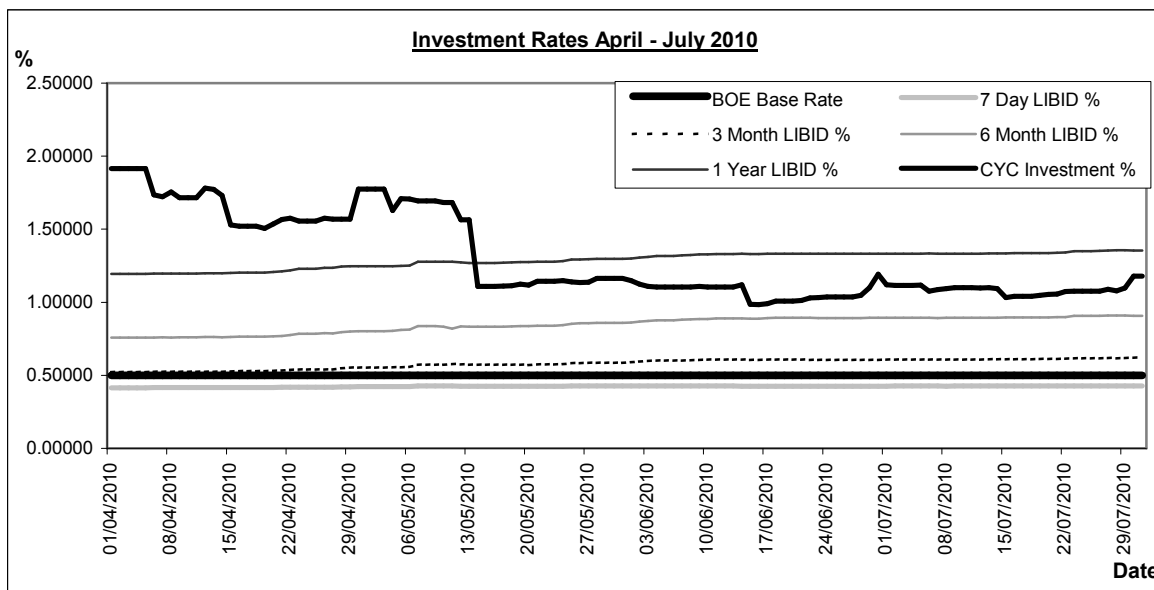


Figure 2 CYC Investments vs Money Market Rates

Long Term Borrowing

17. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme, and all borrowing is therefore secured against its asset base. The council's borrowing is funded by the Government through the Revenue Support Grant (RSG), which provides the Council with revenue funding to allow it to meet the interest and repayment costs of borrowing, this is known as supported borrowing. The introduction of the Prudential Code in April 2004 has also given the Council the flexibility to borrow without Government support. Under the Code Councils are free to borrow up to a level that is deemed prudent,

affordable and sustainable and within their prudential indicator limits. This is known as prudential borrowing.

18. The level of borrowing taken by the Council is determined by the Capital Finance Requirement, (the Councils underlying need to borrow for capital expenditure purposes). The Capital Financing Requirement for 2010/11 is £147.9m, which gives a total borrowing requirement during 2010/11 of £31.8m. This takes into account supported borrowing for capital schemes supported by RSG as explained in paragraph 18, also prudential borrowing for schemes under the prudential code that are funded from department budgets and corporate budgets– so are affordable, sustainable and prudent. In addition, due to the current economic and market environment capital receipts may not be realised when originally expected and therefore, in the short term borrowing is taken to cover this funding shortfall position of the capital programme.
19. In addition, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. The Administrative Accommodation project is substantially increasing the Council's need to borrow over the next 3 years and therefore the markets will be closely monitored to ensure that advantage is taken of favourable rates in 10/11 and the increased borrowing requirement is not as dependant on interest rates in any one year over the 3 year period.
20. The Councils long-term borrowing started the year at a level of £116.1m. One loan of £4m was duly repaid in May 2010 in line with its maturity date. New Borrowing totalling £21m has been taken to mid August 10, as follows:
 - £5m market LOBO loan at 3.60% 50 years with options every 5 years on 12 May 10
 - £5m PWLB loan at 3.70% 10 years on 25 May 10
 - £5m market loan at 0.70% 1 year on 28 May 10
 - £3m PWLB loan at 2.95% 7 years on 12 August 10
 - £3m PWLB loan at 4.01% 14 years on 12 August 10
21. The loans taken in 2010/11 have been below the target of 4.5% set in the 2010/11 strategy. The loans are of fixed term duration, have targeted periods that offer the best rates available and also take into consideration the debt maturity portfolio. In the first four months, 45-50 year PWLB rates started 2010/11 at 4.65%, had a high of 4.75% and a minimum of 4.19% to July 2010. 9.5-10 year PWLB started at 4.14% and at the end of July 2010 fell to 3.52%. Long term interest rates are showing good value and borrowing has occurred to take advantage of these favourable rates.
22. During the first quarter there has been a lot of volatility in the financial markets and this has had an impact on the PWLB rates. Also the concern over the Euro zone debt crisis has led to an influx of investments into the UK as they are seen as a "safe haven". This in turn has had an impact on borrowing rates with rates coming down. This is seen in figure 3 below, where rates have continued to fall during August 2010.

23. The Council's borrowing strategy is to borrow at a target rate of 4.5% from the PWLB or the money market when rates are low and hold off from taking new borrowing when rates are high - following advice taken from the Councils contracted treasury management advisors (Sector Treasury Services) subject to cash flow constraints. Figure 3 shows the PWLB rates since April 2009 and details when new borrowing has taken place, taking into account the borrowing maturity profile.

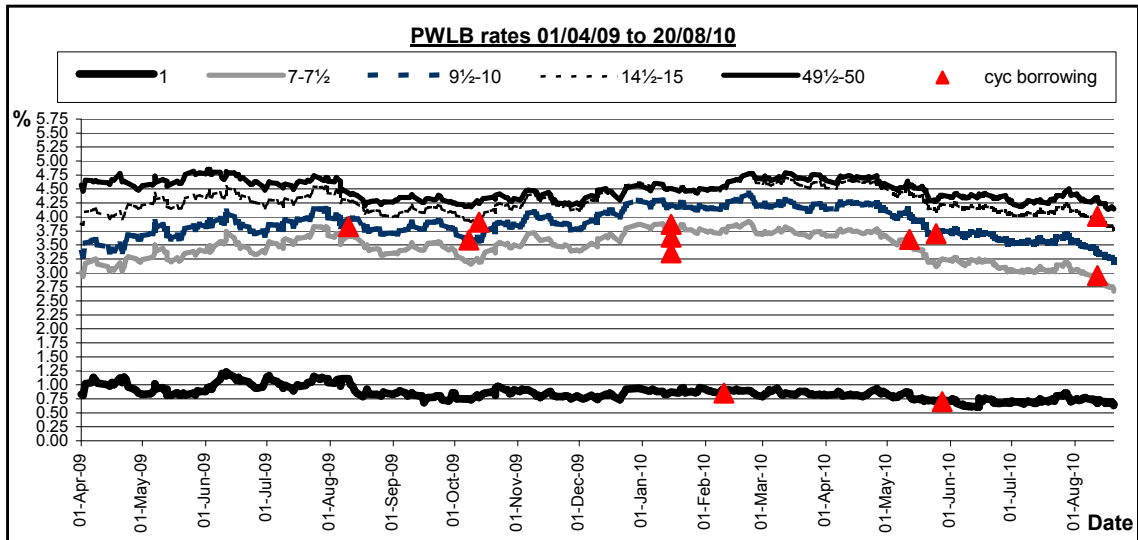


Figure 3 – PWLB rates vs CYC Borrowing Levels

24. Figure 4 illustrates the 2010/11 maturity profile of the Council's debt portfolio updated to reflect the borrowing this year. The borrowing portfolio totals £133.1m and the maturity profile shows that there is no large concentration of loan maturity, thereby spreading the interest rate risk dependency in any one year.

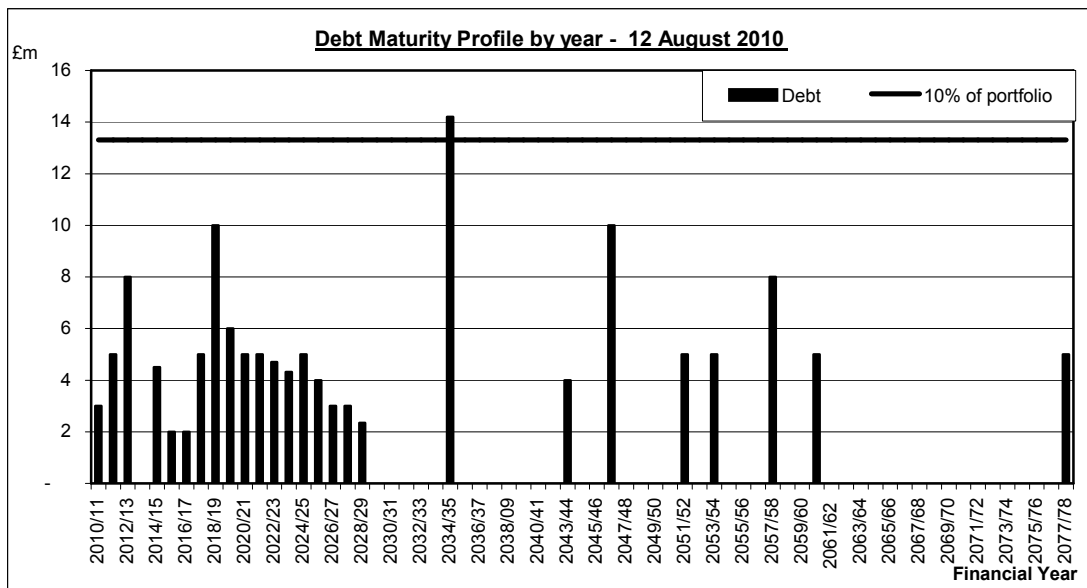


Figure 4 – Debt Maturity Profile 10/11

25. The Venture Fund is used to provide short to medium term investment for internal projects which provide new revenue streams or generate budget savings and contribute to operational benefits of policy objectives. The projected movements on the Venture Fund for the year 2010/11 are shown in table 2 below.

	£'000
Balance at 1st April 2009	2,219
New Loan Advances	(1,551)
Loan Repayments	48
Net Interest Received	18
Balance at 31st March 2010	734

Table 2 – Projected Venture Fund Movement 2010/11

26. Table 2 indicates there are approvals for new loan advances in 2010/11 of £1,551k. This is for 4 schemes, for the easy programme £650k which reflects funding required for internal resources associated with the transformation programme – More for York – work, £200k for the street lighting capital scheme approved by Council on 21 February 2009, £500k contribution for the economic downturn approved by Council on 25 February 2010 and £201k for the early years deficit cost for the administrative accommodation project approved by Council on 15 July 2010. The easy programme loan is a prudent estimate of the amount which will potentially be required by year-end. 3 schemes contribute to loan repayments.

Treasury Management Budget

27. Treasury Management activity had a Corporate Budget approved at Council on 25 February 2010 of £11,131k. In August 2010, the current approved budget stands at £11,768k. The increase of £637k is transfer of budget from departments to cover the finance costs of approved capital programme schemes funded by prudential borrowing. This is explained further in paragraph 19 above. The projected outturn for 2010/11 is £11,618k, an estimated underspend of £150k. Table 3 details the individual components that make up this overspend.

	(Under)/Over Spend £000
Decrease in financing expenditure (interest paid)	(102)
Increase in interest receivable	(48)
Total Underspend	(150)

Table 3 – Treasury Management Budget 2010/11

28. The expected Treasury Management budget underspend is driven by the 2 factors in table 3 above. The reduction in finance expenditure is due to the reduced amount of interest to be paid on borrowing during 2010/11. The borrowing interest rates currently available on the market are more favourable than was expected when the budget was set. This change in

market conditions is explained in the economic background and analysis section at the beginning of the report.

29. The increase in interest receivable is due to slightly better interest rates received on investments and slightly higher cash balances. This is seen in figure 2 above where the market rates available for investment in the first four months of the year rise marginally. As reported during 2009/10, it is expected that growth will continue to be slow in 2010/11, resulting in continued lower market interest rates being available for investments.

Prudential Indicators Update

30. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy. Prudential Indicators are attached at Annex A. Prudential Indicators were not breached during the first 4 months of 2010/11.

Consultation

31. This report is for information and reporting on the performance of the treasury management function. The budget was set in light of the prevailing expenditure plans and economic conditions, based on advice from the Council's Treasury Management advisors.

Corporate Priorities

32. The Council has a priority to ensure value for money and efficiency of its services. Treasury Management aims to achieve the optimum return on investments commensurate with the proper levels of security, and endeavours to minimise the interest payable by the Council on its debt structure.

Human Resources Implications

33. There are no HR implications as a result of this report.

Equalities

34. There are no equalities implications as a result of this report.

Legal Implications

35. Treasury Management activities have to conform to the Local Government Act 2003 (SI 2003/3146), which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Crime and Disorder Implications

36. There are no crime and disorder implications as a result of this report.

Information Technology Implications

37. There are no IT implications as a result of this report.

Property Implications

38. There are no property implications as a result of this report.

Risk Management

39. The treasury management function is a high-risk area because of the level of large money transactions that take place. As a result of this there are procedures as set out in the Treasury Management Practices statement that aim to reduce the risk associated with high volume high value transactions.

Recommendations

40. Members are requested to:

- Note the performance of the treasury management activity;
- Note the projected underspend of the treasury management budget of £150k.

Reason – to ensure the continued performance of the Council’s Treasury Management function.

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Keith Best
Assistant Director of CBSS (Finance)

Report Date 07/09/10
Approved

Wards Affected:

All
None

Specialist Implication Officers:

None

For further information please contact the author of the report

Background Papers

Cash-flow Model 09/10, Investment Register 09/10, PWLB Debt Register,
Capital Financing Requirement 09/10, Venture Fund 09/10, Statistics 09/10.

Annexes

Annex A – Prudential Indicators

Annex A

PRUDENTIAL INDICATORS – Monitor 1 2010/11		2010/11 Budget	2010/11 Monitor 1
1) Capital Expenditure To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget	Non - HRA	£'000 66,116	£'000 73,374
	HRA	6,908	8,158
	TOTAL	63,990	67,034
2) Ratio of financing costs to net revenue stream This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy	Non - HRA	9.30%	9.33%
	HRA	3.11%	1.97%
3) Incremental impact of capital investment decisions - Council Tax Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.		£ p	£ p
	Increase in Council Tax (band D) per annum	19.49	14.86
4) Incremental impact of capital investment decisions - Hsg Rents Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.		£ p	£ p
	Increase in average housing rent per week	0.00	0.00
5) Capital Financing Requirement as at 31 March Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	Non - HRA	128,483	134,454
	HRA	12,610	13,235
	TOTAL	141,093	147,688
6a) Authorised Limit for external debt - The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities for 3 financial years.	borrowing	187	187
	other long term liabilities	0	0
	TOTAL	187	187
6b) Operational Boundary for external debt - The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.	borrowing	167	167
	other long term liabilities	0	0
	TOTAL	167	167
7) Adoption of the CIPFA Code of Practice for Treasury Management in Public Services Ensuring Treasury Management Practices remain in line with the SORP.	TM Policy Statement 12 TM Practices Policy Placed Before Council Annual Review Undertaken		
8a) Upper limit for fixed interest rate exposure The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts	Net interest re fixed rate borrowing / investments	108%	108%
	Actual Net interest re fixed rate borrowing / investments	122%	122%

8b)	<p>Upper limit for variable rate exposure</p> <p>The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts</p>	<p>Net interest re variable rate borrowing / investments -8% -8%</p> <p>Actual Net interest re variable rate borrowing / investments -22% -22%</p>																			
9)	<p>Upper limit for total principal sums invested for over 364 days</p> <p>To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long term loans mature in different periods thus spreading the risk.</p>		<p>£10,000 £10,000</p>																		
10)	<p>Maturity structure of new fixed rate borrowing during 2010/11</p> <p>The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.</p>	<p>under 12 months</p> <p>12 months and within 24 months</p> <p>24 months and within 5 years</p> <p>5 years and within 10 years</p> <p>10 years and above</p>	<table border="1"> <thead> <tr> <th>Upper Limit</th> <th>Lower Limit</th> <th>Mon 1</th> </tr> </thead> <tbody> <tr> <td>10%</td> <td>0%</td> <td>4%</td> </tr> <tr> <td>10%</td> <td>0%</td> <td>2%</td> </tr> <tr> <td>25%</td> <td>0%</td> <td>7%</td> </tr> <tr> <td>40%</td> <td>0%</td> <td>24%</td> </tr> <tr> <td>90%</td> <td>30%</td> <td>63%</td> </tr> </tbody> </table>	Upper Limit	Lower Limit	Mon 1	10%	0%	4%	10%	0%	2%	25%	0%	7%	40%	0%	24%	90%	30%	63%
Upper Limit	Lower Limit	Mon 1																			
10%	0%	4%																			
10%	0%	2%																			
25%	0%	7%																			
40%	0%	24%																			
90%	30%	63%																			

Glossary Of Abbreviations

HRA Housing Revenue Account

CYC City of York Council

SORP Statement of Recommended Practice for Local Authorities

CFR Capital Financing Requirement

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 25th February 2010 for the financial year 2010/11 must be monitored and reported through the financial year. The Prudential Indicators are detailed above and some of the key points are explained below:
2. Size of the **Capital Programme (Indicator 1)** - The capital programme expenditure at monitor 1 was estimated to be £81.532m and in the original budget was £73.024m. The increase is detailed further in the Capital Programme Monitor1.
3. **Net revenue Stream (indicator 2)** - This indicator represents how much borrowing for the capital programme will cost as a percentage of the net revenue stream. The General Fund indicator at Monitor 1 is 9.33% compared to a budgeted level of 9.30%. This indicator is an increase from 2009/10 of 2.35% due to the increased borrowing undertaken in 2009/10 in replace of capital receipts, which affects the provision to repay debt in 2010/11 and also the interest paid on increased borrowing in 2010/11 mainly due to the Administrative Accommodation project. The Housing Revenue Account (HRA) version of the indicator at monitor 1 is 1.97% compared to the budgeted level of 3.11%, the difference is due to lower amount of interest to be paid on debt in relation to the HRA than originally anticipated.
4. **Incremental Impact on the Level of Council Tax (Indicator 3)** – This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council can fund its discretionary capital programme from two main sources, from unsupported borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, however in the current economic environment with reduced capital receipts there is the requirement to use unsupported borrowing to support the

capital programme, which has an impact on Council Tax. The unsupported borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. At monitor 1 the impact on council tax is estimated at £14.86 per Band D charge. This has decreased from the estimate of £19.49 due to the interest paid on new borrowing during 2010/11 being lower than expected in the budget. Borrowing rates have fallen due to the sentiment on the market that the economy is weak and a risk of a double dip recession.

5. **Capital Financing Requirement (CFR) (Indicator 5)** - The CFR at Monitor 1 is estimated at £147.688m, which is the Council's underlying need to borrow for all capital investment over time. The CFR will fluctuate as new schemes are introduced into the capital programme and the funding position changes (as a result of external contributions, reductions in grants, changes to capital receipts etc) to support the Capital investment of the Council. The budget announcement on 22 June 2010 reduced £1.5m external grant funding in relation to the Local Transport Plan, however the capital expenditure has also been cut so as not to impact the borrowing requirement.
6. **Authorised Limit / Operational Boundary (Indicator 6)** – The Council debt position at 1 April 2009 was £116.064m and currently stands at £133.064m. The Council's Operational Boundary (maximum prudent level of debt) was approved at Council as part of the budget set at £167m, along with the Authorised Limit (maximum allowed debt) at £187.m. The headroom available within these limits allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme. If these limits were breached the LG Act 2003 requires full Council approval. Debt levels have remained within the limits set.
7. **Adoption of the CIPFA Code of Practice in Treasury Management (Indicator 7)** – In accordance with the Prudential Code the Council has adopted the revised Treasury Management Code of Practice on 25 February 2010 and as detailed in the table has adhered to the requirements.
8. **Upper Limit for Fixed and Variable Interest rate Exposure (Indicator 8)** – Interest rate exposure on debt is positive due to it being in relation to interest paid on borrowing and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%. If the majority of the interest received by the Council is fixed and the interest paid on debt is fixed then the closer the actual fixed interest rate exposure will be to 100% and the variable rate exposure to zero. The limits set in the budget were not breached and at Monitor 1 fixed rate exposure was at 122% and variable rate exposure –22%.
9. **Upper Limit for total principal sums invested for over 364 days (Indicator 9)** – This has been set at £10m and is approximately 25% of the total portfolio. To date in 2010/11, no funds have been invested for longer than 364 days due to the uncertainty in the current economic environment and no value to be obtained from longer rates.
10. **Maturity structure of fixed rate borrowing in 2010/11 (Indicator 10)** – The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year

and be exposed to interest rates in any one year. Currently in 2010/11 the borrowing portfolio maturity profile is within the limits set.



Audit & Governance**29 September 2010**

Report of the Director of Customer Business and Support Services

International Financial Reporting Standards (IFRS) Update**Summary**

1. The purpose of this report is to continue the update to Members of the progress being made on implementing the statutory required changes in financial reporting from UK General Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS)
2. This fifth report updates those responsible for governance arrangements of the transition to IFRS implementation to provide assurance that the process is being efficiently managed.

Background

3. The fourth report to Audit & Governance Committee on 28 July 2010 incorporated the IFRS overview project plan. The three key dates included in the project plan are (i) 30 September 2010: Obtain information required and restate 1 April 2009 balance sheet (ii) 31 December 2010: Identify information required and restate balance sheet for 09/10 accounts (iii) 30 June 2011: Produce 2010/11 accounts on IFRS basis.
4. The information required to restate the 1 April 2009 balance sheet focuses on 5 areas - the collection fund, the private finance initiative (PFI), group accounts, leases and employee benefits. In accordance with the Statement of Recommended Practice 2009 regulations the requirements for the conversion of the collection fund and PFI to be compatible with IFRS have been included in the Statement of Accounts 2009/10, along with the completed group accounts statements. The approval by this committee of the final audited accounts 2009/10 is included as another item on the agenda.
5. Work continues in the area of leasing and employee benefits. The information for leases required to convert to IFRS requires all service level agreements across the Council to be examined and reclassified as operating leases, finance leases or remain as service level agreements. The collation of this data is well progressed and the completion of the analysis and conversion to IFRS accounting treatment will be completed by 31 October 2010. The employee benefits information is a collation of data across the authority to identify average untaken leave per person. This is a sample exercise and currently information is awaited from departments. The accounting treatment will be complete by 31 October 2010.
6. With the completion of the change in accounting treatment for PFI, collection fund and the group account statements, more than 75% of the work has been completed to progress towards the restatement of the 1 April 2009 Balance under IFRS regulations. Leasing and

employee benefit information will be completed for the final conversion of 1 April 2009 balance sheet by 31 October 2010. The slight delay in comparison to the project plan of restating the 1 April 2009 balance sheet does not affect the continuation of work in other areas and therefore, the restatement of the 2009/10 accounts is still on target for 31 December 2010.

7. In addition to the leasing and employee benefit changes required for the conversion of the 2009/10 statement of accounts, areas which also affect finance departments across the Council include segmental reporting, capital grants / contribution and capital grants unapplied. Two training sessions have been arranged for the beginning of October and November 2010 to ensure that all finance departments are aware of the IFRS changes that are occurring that will affect their areas of work. They will contribute and understand the changes required for the conversion of the accounts 2009/10 and therefore be in a strong position to acknowledge what is required of them for the final statement of Accounts 2010/11.
8. Two other significant areas of change are the structure of the Statement of Accounts and accounting for the Council's fixed assets. The Statement of Accounts 2010/11 are likely to double in size with regards to the increase in reporting requirements. This includes the change in the structure of the "core" statements in the accounts but is mainly attributable to the requirement of IFRS to provide more detailed disclosure notes. This is based on the experience in the private sector, which went live with IFRS in 2005.
9. Fixed assets under IFRS are to be re-categorised in line with international reporting requirements and valuations undertaken by professional valuers within Property Services now need to consider the different components of assets. Components of an asset are defined by their useful economic life and the rate in which they depreciate. An example of an asset formed into components in a building may be that the land is 25%, the structure of the building is 35%, the roof is 25% and the services are 15%. The valuer now needs to value all these areas and consider the different asset lives. Local Authority Accounting Panel Bulletin 86 – Componentisation of Property, Plant & equipment under 2010/11 IFRS-based code - was issued in June to provide direction as to the new procedure to be adopted. Fixed assets are valued on a five-year basis and therefore all assets will be converted to IFRS regulation by 2014/15.
10. The council's external auditors – Audit Commission – are involved in the transition to IFRS and are on board with the processes that are currently being undertaken. Early in 2011, an examination of the fixed asset register will be undertaken to verify that all conditions and requirements are being well progressed. Discussion occurs with them on a regular basis as and when specific issues come to light. It is important to update the Audit Commission and have sharing of information so provide assurance that the Statement of Accounts 2010/11 will be completed on time.
11. Updates to members will continue on a quarterly basis and will continue to be monitored against the IFRS overview project plan.

Consultation

12. The report shows that collaborative working with all departments across the authority is positive in assisting the progress in attaining the changes required by IFRS.

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all*

All ✓

For further information please contact the author of this report

Background Working Papers

IFRS information produced by CIPFA

Supporting documentation for collection fund, PFI, group accounts, leasing, employee benefits, property plant & equipment, proformas, Directorate information, accounting analysis

CIPFA training course information



Audit and Governance Committee

29 September 2010

Report of the Assistant Director of Customer and Business Support Services
(Customer Service & Governance)

Follow Up of Internal Audit Agreed Actions

Summary

1. This report sets out the progress made by departments in implementing those actions agreed with internal audit which were due to have been implemented by 1 August 2010. It also includes a summary of follow up of external audit recommendations.

Background

2. Internal audit follow up reports are brought to the committee twice a year, setting out the progress made by service departments in implementing agreed internal and external audit actions and recommendations together with details of outstanding issues that require referral to the committee for further action. This report is based on follow up work by the internal audit service. All agreed actions are reviewed once their implementation date has passed. The review is carried out using a combination of questionnaires completed by departments, risk assessment, and by further detailed examination by internal audit where appropriate. The last report was brought to this committee in April 2010.

Consultation

3. Details of the findings of follow up work have been discussed with the relevant service managers.

Follow up of internal audit agreed actions

4. A total of 172 actions were followed up as part of this review. A summary of the priority of these actions is included in figure 1, below.

Figure 1: actions followed up as part of the current review

Priority of actions	No. of actions followed up
1 (High)	5
2	53
3 (Low)	114
Total	172

5. Figure 2 below provides an analysis of the actions which have been followed up, by directorate. Most of the actions followed up were from reports issued under the previous directorate structure. The actions have been mapped to the relevant directorate in the new structure, which will be used for all future reports.

Figure 2: Actions followed up by directorate

Priority of actions	Number of actions followed up by directorate				
	Chief Executives	City Strategy	CANs	ACE	CBSS
1 (High)	0	1	4	0	0
2 (Medium)	5	12	19	10	7
3 (Low)	9	15	11	58	21
Total	14	28	34	68	28

6. Of the 172 recommendations, 13 (8% of total) had been superseded (for example by business developments or because of cessation of service). Of the remaining recommendations, 127 (74% of total) had been satisfactorily implemented.
7. In a further 32 cases (18% of total) the recommendation had not been implemented. In these cases an explanation for delays in implementing the action was received (e.g. unexpected difficulties or dependent on new systems being implemented). Following this, revised implementation deadlines have been agreed in each case. These will be followed up again after the revised deadline, and if necessary will be escalated in accordance with the approved policy.
8. Figure 3 below provides an analysis, by priority, of the recommendations which had not been implemented by the agreed date.

Figure 3: Recommendations by priority, with revised implementation dates

Priority of Recommendations	No. of Recommendations With revised implementation dates
1 (High)	1
2 (Medium)	10
3 (Low)	21
Total	32

Follow Up of Audit Commission Recommendations

9. Progress in implementing the recommendations made in the Audit Commission's 2009/10 audit of Asset Management were followed up during this period. The Head of Asset and Property Management advised that significant work had been undertaken. A five year corporate asset management plan is in the final stages of development and will be presented to the Executive for comment and approval in November 2010. This will encompass many of the recommendations (e.g. the development of PIs), although decisions may be required about some issues as additional resources are likely to be needed to implement some of the recommendations in full.

10. It has been confirmed that all grant claims due to be audited by the Audit Commission were submitted on time for 2009/10. The corporate finance team has also confirmed that procedures have been put in place to issue reminders to the relevant accounting staff when claims are due, and for review and quality spot checks of claims.
11. Financial Planning: The budget process planning framework presented to the Executive in July 2010 addressed a number of the issues raised by the Audit Commission in relation to consultation, planning and decision timetables. The 2010/16 financial strategy paper presented to the Executive in February 2010 was also a key document in addressing concerns raised about the clarity of links with corporate priorities and the results of the budget consultation. Overall, much has been done to implement the recommendations and other work is planned or ongoing to continue to embed improvements in future years, including the production of a budget manual for the 2011/12 budget planning process.

Conclusions

12. The follow up testing undertaken by Internal Audit confirms that in general, good progress has been made by directorates to rectify the weaknesses in control identified in audit reports. Although there are still some areas where work is required to address the issues identified. This is an ongoing process and progress in implementing agreed actions will be monitored, and reported as required through the escalation procedure. There are no specific issues that need to be brought to the attention of the Audit and Governance Committee at this time.

Options

13. Not relevant for the purpose of the report.

Analysis

14. Not relevant for the purpose of the report.

Corporate Priorities

15. This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

16. The implications are:
 - **Financial** – there are no financial implications to this report.
 - **Human Resources (HR)** – there are no HR implications to this report.
 - **Equalities** – there are no equalities implications to this report.

- **Legal** – there are no legal implications to this report.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – there are no IT implications to this report.
- **Property** – there are no property implications to this report.

Risk Management

17. The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if it fails to follow up on control weaknesses identified in audit reports and report progress to the appropriate officers and members.

Recommendations

18. Members of the Audit and Governance Committee are asked to:
- consider the progress made in implementing internal audit agreed actions (paragraphs 4 – 8) and external audit recommendations (paragraphs 9-11).

Reason

To enable members to fulfil their role in providing independent assurance on the council's control environment.

Contact Details

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Chief Officer Responsible for the report:

Pauline Stuchfield
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Telephone: 01904 551706

Report Approved **Date** 15/09/10

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Annexes:

None

None

**Audit and Governance Committee**

29 September 2010

Report of the Assistant Director of Customer and Business Support Services
(Customer Service & Governance)

Audit, Counter Fraud & Information Governance Mid-Term Monitor

Summary

- 1 This report provides an update on progress made in delivering the internal audit workplan for 2010/11 and on current counter fraud and information governance activity.

Background

- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2003 (as amended) and the CIPFA Code of Practice for Internal Audit in Local Government. In accordance with the code of practice, the 2010/11 audit and fraud plan was approved by the Audit and Governance Committee on 26 April 2010. The plan included a programme of audit reviews, along with details of planned counter fraud and information governance activities.
- 3 It was also recognised that changes might need to be made to the audit plan through the year as a result of new or changed priorities and/or if new risks were identified. To reflect the new contractual relationship between the council and Veritau, all proposed variations to the agreed audit plan arising as a result of emerging issues and/or requests from management are subject to a change control process. Where the variation exceeds 5 days then the change must be authorised by the Assistant Director of Customer and Business Support Services (Customer Service & Governance) who is the client manager for the service. All agreed variations will then be communicated to the Audit and Governance Committee for information.

2010/11 Internal Audit Plan – Progress to Date

- 4 Two of the priorities for Veritau are to deliver at least 93% of the audit plan and to ensure that the service continues to operate to recognised professional standards (as determined by the code of practice).
- 5 Internal audit successfully delivered 94.9% of the 2009/10 audit plan. 20% of the 2010/10 audit plan has been completed to date. This figure

is based on reports issued and does not take into account further audit fieldwork which is planned, complete or in progress. It is anticipated that the 93% target will be achieved by the end of April 2011. Details of the audits completed and reports issued since the last report to this committee (on 29 June 2010) are given in annex 1.

- 6 As noted in paragraph 3 above, it has been necessary to make a number of variations to the audit plan. Details of the audit plan variations approved by the client manager to date this year are given in annex 2.

Counter Fraud

- 7 Counter fraud work has been undertaken in accordance with the approved plan. Annex 3 provides details of the investigations completed and provides a summary of the work undertaken.

Information Governance

- 8 The information governance strategy, approved by the Executive earlier this year, will now be carried forward by the Corporate Information Governance Group which met for the first time on 7 September chaired by the director of Business and Customer Support Services. The group includes champions from each directorate, and receives specialist support from Veritau Ltd. The principal strands of the strategy are to review the policy framework and to carry out an information audit, both contributing to a national quality assurance standard known as the "Maturity Model". Risk management principles will need to be applied to ensure that the council's different classifications of information are appropriately controlled and processed. The practical outcomes will be better security of personal and other data, better control over the Council's information, including paper records and email, and an easier move to the new headquarters in 2012.
- 9 So far this year the team has tracked 293 freedom of information requests, up from 184 in the same period last year (a 59% increase). Providing advice and quality control over these requests, and data protection subject access requests, is the main work of the information governance team. A proposal to publish questions and answers publicly was considered by the Executive on 21 September, as a way of improving openness and accountability, and potentially reducing the volume of work for service managers.

Breaches of Financial Regulations

- 10 There have been no significant breaches of the council's financial regulations identified during the course of internal audit work in 2010/11 to date. However, a number of relatively minor breaches have been noted. Details of these breaches are summarised in annex 4.

Consultation

- 11 Not relevant for the purpose of the report.

Options

- 12 Not relevant for the purpose of the report.

Analysis

- 13 Not relevant for the purpose of the report.

Corporate Priorities

- 14 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an effective organisation.

Implications

- 15 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 16 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported to those charged with governance.

Recommendation

- 17 Members are asked to:

- (a) Note the results of the audit and fraud work undertaken to date in 2010/11.

Reason

To enable members to consider the implications of audit and fraud findings.

- (b) Note the variations to the 2010/11 audit plan, approved to date by the internal audit client manager (see annex 2).

Reason

To enable members to consider the delivery of the internal audit plan.

Contact Details

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Report Approved



Date 15/9/10

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- 2010/11 Internal Audit & Counter Fraud Plan

Annexes

Annex 1 – 2010/11 Audits Completed and Reports Issued
Annex 2 – Variations to the 2010/11 Audit Plan
Annex 3 – Counter Fraud Activity
Annex 4 – Summary of Breaches of Financial Regulations

2010/11 AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

Opinion	Level of Assurance
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	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.
Moderate	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	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.

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

<u>Priority</u>	<u>Long Definition</u>	<u>Short Definition – for use in Audit Reports</u>
1 (High)	<p>Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.</p> <p>These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.</p> <p>Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.</p>	<p>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</p>
2 (Medium)	<p>Action considered necessary to improve or implement system controls so as to ensure an effective control environment exists to minimise exposure to significant risks such as financial or other loss.</p> <p>Such issues may require the input at Head of Service</p>	<p>A significant system weakness, whose impact or frequency presents risks to the system objectives, and which needs to be addressed by management.</p>

Priority

Long Definition

Short Definition – for use in Audit Reports

3 (Low)

or senior management level and may result in significantly revised or new controls.

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

Draft Reports Issued

6 internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows:

Opinion	Number
“High Assurance”	2
“Substantial Assurance”	1
“Moderate Assurance”	1
“Limited Assurance”	1
“No Assurance”	0
“Not given”	1

Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in June 2010. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

Description	Date Final Report Issued	Opinion	Agreed Actions		Work done / significant weaknesses / issues identified
			Total number	Number which are priority 1	
On Street Parking & Car Parks	8/6/10	Substantial Assurance	3	0	There were some minor issues around the recording of cancelled penalty charge notices. It was also found that PCN debts had been written off without proper authorisation, as required by financial regulations (the write offs were legitimate
Property Income & Lease Management	17/6/10	Substantial Assurance	2	0	There was a need to improve systems for recovering outstanding debts.
Contact Point Database	20/6/10	Substantial Assurance	4	0	A review of compliance against the conditions of accreditation for the database. A number of minor issues were found.
Poppleton Road Primary School	29/6/10	High Assurance	5	0	A school establishment audit. No significant issues were found.
Environment & Sustainability	9/7/10	Moderate Assurance	5	0	Issues identified included the need to review and update the council's strategy

Description	Date Final Report Issued	Opinion	Agreed Actions		Work done / significant weaknesses / issues identified
			Total number	Number which are priority 1	
					and work programme in relation to environment and sustainability issues, and to develop systems for ensuring members are aware of the sustainability implications of any decisions.
Dunnington Primary School	22/7/10	High Assurance	5	0	A school establishment audit. No significant issues were found.
Headlands Primary School	22/7/10	High Assurance	4	0	A school establishment audit. No significant issues were found.
Leisure Facilities (Energise)	2/8/10	High Assurance	0	0	There were no significant issues identified.
Main Accounting System	6/8/10	Moderate Assurance	7	1	There were a number of minor weaknesses around control account reconciliations, user access controls and the need to document procedures. The high priority issue related to the lack of ongoing bank reconciliation during the year (this issue has been reported to the committee previously)

Description	Date Final Report Issued	Opinion	Agreed Actions		Work done / significant weaknesses / issues identified
			Total number	Number which are priority 1	
Asset Management	27/8/10	Substantial Assurance	5	0	Actions were agreed to address a number of minor issues.
Libraries	7/9/10	Limited Assurance	9	3	There were significant concerns around the management of the budget for book purchases (£300k annually). Poor control has resulted in a projected overspend position for the current financial year. The service has agreed to draw up a plan setting out how the budget will be managed for the remainder of the current year. Other issues related to the management of book stocks and the need to improve procedures for recovering fines.

Other Work Completed in 2010/11

- Ongoing support and advice to departments across the council on control issues, and support in relation to specific projects eg HR transformation
- Review of progress made by management to implement actions agreed as a result of internal audit work – see separate report on this agenda
- Review of progress made by service departments to address Audit Commission recommendations
- Chargeable work including grant claim audits and support in relation to the community stadium project

VARIATIONS TO THE 2010/11 AUDIT PLAN

Additions to the plan are considered where:

- specific requests are received from the S151 Officer which are necessary for him to discharge his statutory responsibilities.
- new or previously unidentified risks result in changes to the priority of audit work
- significant changes in legislation, systems or service delivery arrangements occur which have an impact on audit priorities
- requests are received from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management
- urgent or otherwise unplanned work arises as a result of investigations into fraud and other wrongdoing identifying potential control risks.

Additions to the audit plan are only made if the proposed work is considered to be of a higher priority than work already planned, the change can be accommodated within the existing resource constraints and the change has been agreed by the Head of Internal Audit.

Audits are deleted from the plan or delayed until later years where:

- specific requests are received from the S151 Officer or the audit customer and the grounds for such a request are considered to be reasonable
- the initial reason for inclusion in the audit plan no longer exists
- it is necessary to vary the plan to balance overall resources.

To reflect the new contractual relationship between the council and Veritau, all proposed variations to the agreed audit plan arising as the result of emerging issues and/or requests from directorates will be subject to a change control process. Where the variation exceeds 5 days then the change must be authorised by the Assistant Director Customer and Business Support Services (Customer Service and Governance) as the client manager for internal audit. Any significant variations will then be communicated to the Audit and Governance Committee for information.

2010/11 Audit Plan Variations

Audit	Days	Justification For Change
Deletions from the Audit Plan		
Reduction in Contingency	-74	<p>An overall reduction in the audit plan is required to reflect a shortfall in the resources available due to:</p> <ul style="list-style-type: none"> - a gap in the provision of a seconded accounting trainee from CYC to Veritau due to the need to provide finance support elsewhere within the council during the financial year end closedown period - the need to relocate the Veritau office, to accommodate CYC staff being moved as part of the overall rationalisation of reception areas.
Total	-74	

The following variation has also been approved, but does not affect overall planned days.

Audit	Days	Justification For Change
Deletion from the Audit Plan		
Post 16 Funding Audit	-10	<p>This audit is funded directly by the service and therefore requires removal from the audit plan to avoid duplication. The days released will be transferred to contingency to partly offset the overall reduction in resources set out above.</p>

COUNTER FRAUD ACTIVITY 2010/11

The table below shows the total numbers of investigations completed, sanctions applied, fraudulent overpayments identified by the counter fraud team to date. The table also shows performance against agreed targets (as at 31/08/10):

	2010/11 Actual to date	2010/11 Target	2009/10 Actual
Number of Benefit Fraud referrals received (excluding HBMS). <i>The target is designed to promote fraud awareness and encourage people to report suspected fraud.</i>	188	400 referrals to be received	391
% of referrals which are investigated (excluding HBMS). <i>The target is designed to measure the quality of referrals received and the capacity of the counter fraud team to investigate cases.</i>	47%	60% of referrals investigated	51%
% of investigations completed which result in a positive outcome (benefit stopped or amended, sanction or prosecution). <i>The target is designed to measure the effectiveness of counter fraud activity</i>	54%	25% of those cases which are investigated to result in a positive outcome	35%
Value of fraudulent overpayments identified. <i>The target is designed to measure the effectiveness of counter fraud activity</i>	£152k	£350k of overpayments to be identified	£340k
Number of investigations completed	212	N/A	327
Number of sanctions / prosecutions	9	N/A	44

The relevant caseload figures for the period are:

	As at 1/4/10	As at 31/08/10
Awaiting allocation	75	40
Under investigation	157	196

Summary of counter fraud activity:

Activity	Work Completed or in Progress
Data Matching	Work is currently ongoing to coordinate data submission for the National Fraud Initiative on 4 October (see the separate report on NFI on this agenda). Other work includes Housing Benefit Matching Service (HBMS) referrals. The counter fraud team has received 349 HBMS referrals to date in 2010/11. The total value of benefit overpayments identified through HBMS matches since 1 April 2010 is in excess of £90k.
Fraud Detection and Investigation	<p>As in previous years, the majority of investigations undertaken relate to benefit fraud. Other activity includes the investigation of housing tenancy related fraud through the Operation Red Card initiative. This has generated significant interest – 59 referrals have been received from the public and from other council staff since the initiative began in April, and around half of these are currently under investigation. Two properties have been recovered from tenants since April 2010.</p> <p>Joint working with other teams remains a priority for the service. So far this year 33% of sanctions and prosecutions are the result of joint working with the DWP and there are a large number of other joint investigations ongoing.</p> <p>The team continues to undertake internal investigations and provide advice to council departments on internal fraud matters. Seven internal referrals have been received so far in 2010/11, and a number of investigations are ongoing.</p>

Activity	Work Completed or in Progress
Fraud Awareness	<p>Ongoing activity includes publication of successful prosecutions through the local press, other internal and external publicity, and feedback on the results of fraud investigations to council officers to improve the quality of referrals and to put in place appropriate controls to prevent and detect fraud.</p> <p>The team is currently configuring an e-learning fraud awareness package which will be rolled out to council officers in the next few months. A series of face to face fraud awareness sessions is also planned.</p>

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ANNEX 4

**SUMMARY OF BREACHES OF FINANCIAL REGULATIONS IDENTIFIED
DURING INTERNAL AUDIT WORK COMPLETED IN THE PERIOD**

Description of Breach	Instances
Debts written off without proper authorisation	1
Waiver not obtained prior to selecting a quotation (which was not the lowest or where less than 3 quotes obtained)	1
Purchase orders not completed by staff when ordering goods and services.	1
Inventory records not properly maintained or incomplete.	2

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**Audit and Governance Committee**

29 September 2010

**Report of the Assistant Director of Customer and Business Support Services
(Customer Service & Governance)**

2010/11 National Fraud Initiative

Summary

- 1 The purpose of this report is inform Members of the preparations which are being made to enable the council to participate in the 2010/11 National Fraud Initiative (NFI) exercise.

Background

- 2 The Audit Commission organise a national data matching exercise every two years. The exercise is designed to detect fraud and error, particularly in respect of housing benefits, occupational pensions and student loans. Data from local authorities is matched against data provided by central government, the NHS and a number of participating private sector bodies using sophisticated computer techniques. The previous NFI exercise in 2008/09 identified over £215 million in fraud and error nationally. Since it was first launched in 1996, NFI has detected fraud, error and overpayments totalling £664 million.
- 3 The Audit Commission will conduct the next NFI exercise using its new statutory powers under the Audit Commission Act 1998 (Part 2A). All local authorities are legally obliged to participate in the NFI exercise. To ensure appropriate safeguards are built into the exercise, and to ensure compliance with the Human Rights Act 1998 and the Data Protection Act 1998, participating authorities also need to follow the Code of Data Matching Practice 2008. The Code sets out the requirements for ensuring that the data used in the exercise has been properly collected, processed securely and appropriately disclosed.
- 4 The NFI exercise forms an important part of the council's overall arrangements to prevent and detect fraud.

Data Security and Fair Processing

- 5 The Code of Data Matching Practice 2008 provides guidance to participating bodies on the notification process to adopt for letting individuals know why their data is being matched and by whom, the standards that apply to the data match and where they can obtain further information about the exercise. The

processing of data by the Audit Commission is carried out with statutory authority so the consent of the individuals concerned is not required under the Data Protection Act 1998. However, participating bodies should, as far as is practicable, ensure that fair processing notices are provided or made available to those individuals. The fair processing notices should clearly explain that the data collected may be disclosed for the purpose of preventing and detecting fraud. The notice should also state that the data will be provided to the Audit Commission for this purpose.

- 6 Fair processing notices have been included on all forms where the data is required to be submitted for data matching purposes. In addition, letters will be sent to market traders and information will be included on payslips and rent statements. Details of the NFI exercise have also been included on the council's website and in staff newsletters. The council is required to provide confirmation to the Audit Commission that it has complied with the guidance relating to fair processing notices.
- 7 The Audit Commission has set up a secure, password protected and encrypted website to allow participating bodies to transmit data and to enable the results to be made available in secure conditions. The website also allows the Audit Commission to make available to individual bodies further guidance material and reports on data quality.

Data Requirements

- 8 The following data sets relating to the council will be matched by the Audit Commission¹:
 - (a) Payroll
 - (b) Pensions
 - (c) Trade creditors
 - (d) Housing
 - (e) Housing benefits
 - (f) Council tax
 - (g) Electoral register
 - (h) Students eligible for a loan
 - (i) Private supported care home residents
 - (j) Transport passes and permits (including residents' parking, blue badges and concessionary travel)
 - (k) Insurance claimants
 - (l) Licences (including market traders, taxi drivers and personal licences to supply alcohol)

¹ Some of the datasets will be supplied by other bodies on behalf of the council, for example the Department for Work and Pensions (DWP) supplies the housing benefit data

- 9 The Audit Commission will charge the council £3,650 to participate in the 2010/11 NFI exercise.
- 10 Detailed specifications are issued for each data set. The data itself must be extracted from the underlying systems on 4 October but needs to be checked for accuracy and completeness before it can be transferred to the secure NFI website. Arrangements have been made to ensure that all the required data sets are ready and in the prescribed format by this date.

Data Matches

- 11 The resulting data matches will be made available by the Audit Commission from 25 January 2011. The matches will be classified as high, medium or low risk. Fraud investigators from Veritau will undertake an initial review of the data matches. In some cases, further information will need to be requested from other public sector bodies or government departments to verify the accuracy of the data match. Specific matches, where fraud and error is suspected, will then be subject to detailed investigation. However, a data match will not necessarily be evidence of fraud. Often there is a simple explanation or minor inaccuracy in the data held. In these cases, the relevant service department will be informed and asked to make any corrections to the underlying data.

Options

- 12 This report is for information purposes. The council is required to participate in the 2010/11 NFI exercise.

Analysis

- 13 Not relevant for the purpose of the report.

Corporate Priorities

- 14 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an Effective Organisation.

Implications

- 15 The implications are:
 - **Financial** – the costs of participating in the NFI exercise are detailed in the report. There are no other financial implications to this report other than the time required to collect and submit the data to the Audit Commission, and to investigate the subsequent data matches.
 - **Human Resources (HR)** – there are no HR implications to this report.
 - **Equalities** – there are no equalities implications to this report.
 - **Legal** – there is a legal requirement to participate in the NFI exercise. There is also a requirement to comply with the Data Protection Act.

- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – there are no IT implications to this report.
- **Property** – there are no property implications to this report.

Risk Management

- 16 Failure to participate fully in the NFI exercise may result in adverse criticism from the external auditor.

Recommendations

- 17 Members are asked to:
- note the work which is currently underway to enable the council to participate in the National Fraud Initiative (NFI).

Reason

To enable Members to assess the progress which has been made to prepare for the next NFI exercise.

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**Report
Approved**



Date 15/9/10

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

- Audit Commission 'The National Fraud Initiative 2008/09' national report
- The Code of Data Matching Practice 2008