Notice of meeting of

Audit & Governance Committee

To:	Councillors B Watson (Chair), Brooks (Vice-Chair), Firth, Hyman, Scott, Vassie and Gunnell
Date:	Monday, 14 February 2011
Time:	5.30 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.

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 7 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. Also annex 1 to item 13. This information is classed as exempt under paragraph 4 & 7 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 - 12)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 6 December 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 Friday 11th February 2011**.

5. **Audit and Governance Committee Forward Plan** (Pages 13 - 18)

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2011.

6. **Certification of Claims and returns 2009/10 - Audit Commission** (Pages 19 - 36)

The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2009/10 produced by the Audit Commission (Annex A). The report reviews the Council's arrangements for the preparation and administration of grant claims within the Council.

7. **Audit Commission Opinion Plan - 2010-11** (Pages 37 - 60)

This report presents the Audit Commission's Opinion Audit Plan for 2010/11 which is attached as the annex to the report.

8. **Key Corporate Risk Quarter 3 Monitor** (Pages 61 - 90)

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

9. Update on Transparency Reporting (Pages 91 - 96)

The purpose of this report is to update members on progress to meet the government requirement to publish on line details of salaries and spending by 31st January 2011.

10. Treasury Management Quarter 3 Monitor (Pages 97 - 118)

Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Attached at Appendix A of the report is the Treasury Management Monitor 3 and Prudential Indicators 10/11 report which monitors the treasury management activity for the first nine months of the financial year.

11. Treasury Management Strategy (Pages 119 - 158)

This covering report aims to assist Audit & Governance members in the scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16 by providing keys areas and points to note.

12. Internal Audit Plan Consultation (Pages 159 - 166)

The purpose of the report is to seek members' views on the priorities for internal audit for 2011/12, to inform the preparation of the annual audit plan.

13. Audit and Fraud Risk Assessment (Pages 167 - 180)

The purpose of this report is to inform members about potential fraud risks that the council is exposed to, and proposed counter fraud activity to address those risks. The report also details the outcome of a review of the council's counter fraud policies.

14. Transition to New Style Leader and Cabinet Model (Pages 181 - 190)

This report seeks the Committee's comments on proposed constitutional changes which arise from the Council being required to implement a new form of Executive in May. The report also identifies a number of minor proposed amendments which have been identified.

15. 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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If you would, you will need to:

- register by contacting the Democracy Officer (whose name and contact details can be found on the agenda for the meeting) **no later than** 5.00 pm on the last working day before the meeting;
- 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);
- find out about the rules for public speaking from the Democracy Officer.

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Further information about what's being discussed at this meeting
All the reports which Members will be considering are available for viewing online on the Council's website. Alternatively, copies of individual reports or the full agenda are available from Democratic Services. Contact the Democracy Officer whose name and contact details are given on the agenda for the meeting. **Please note a small charge may be made for full copies of the agenda requested to cover administration costs.**

Access Arrangements
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If you have any further access requirements such as parking close-by or a sign language interpreter then please let us know. Contact the Democracy Officer whose name and contact details are given on the order of business for the meeting.

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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

Who Gets Agenda and Reports for our Meetings?

- Councillors get copies of all agenda and reports for the committees to which they are appointed by the Council;
- Relevant Council Officers get copies of relevant agenda and reports for the committees which they report to;
- Public libraries get copies of **all** public agenda/reports.

City of York Council	Committee Minutes
MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	6 DECEMBER 2010
PRESENT	COUNCILLORS B WATSON (CHAIR), BROOKS (VICE-CHAIR), FIRTH, HYMAN, SCOTT AND GUNNELL
APOLOGIES	COUNCILLORS VASSIE

PART A - MATTERS DEALT WITH UNDER DELEGATED POWERS.

39. 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. None were declared.

40. MINUTES

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

41. PUBLIC PARTICIPATION

It was reported that there were no registrations to speak under the council's Public Participation Scheme.

42. AUDIT & GOVERNANCE COMMITTEE FORWARD PLAN TO JULY 2011

Members received a paper that presented the future plan of reports expected to be presented to the Committee to July 2011.

It was noted that the Committee had been due to receive a Data Quality Progress report at this meeting but this had been removed from the agenda with the agreement of the Chair, as the Audit Commission were no longer providing the formal report following the abolition of CAA.

Members queried whether the Audit Commission reports would continue to be brought to the Committee. Officers advised that they would and reported no other changes.

RESOLVED: (i) That the Committee's Forward Plan for the period up to July 2011 be noted.

(ii) That the amendment to the Forward Plan, detailed in paragraph 3 of the report, be noted.

REASONS: (i) To ensure that the Committee receives regular reports inaccordance with the functions of an effective audit committee.

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

43. ANNUAL AUDIT LETTER 2009/10 - AUDIT COMMISSION

Members received a report that introduced the Annual Audit Letter 2009/10 (Annex A of the report) prepared by the Audit Commission together with the council's response.

It was noted that the Letter drew attention to some inconsistencies in terms of workforce planning and management. Officers reported that these issues would be addressed as part of the development of the centralised HR function.

Members were pleased to note that the Letter recognised improvements in a number of areas, as detailed in paragraph 5 of the report, and had made reference to the national award that Veritau had received for its shared service arrangements.

It was noted that the Annual Audit Letter would be considered by the Executive at their meeting in January 2011.

RESOLVED: (i) That the contents of the report and the Annual Letter (Annex A of the report) be noted.

(ii) That officers be thanked and congratulated for the work that they had carried out and which had been recognised in the report.

REASON: To comply with the statutory requirements for the external audit of the council.

44. KEY RISK UPDATE: FAIRNESS & INCLUSION AND YORK COMMUNITY STADIUM

Members received a report that provided further information as requested by the Audit and Governance Committee at the meeting of 28 July 2010 in relation to Fairness and Inclusion, and 29 September 2010 in relation to the York Community Stadium.

(i) Fairness and Inclusion

Officers gave an update on fairness and inclusion issues, as detailed in Annex A of the report, and drew Members' attention to the six areas of action in the Fairness and Inclusion Strategy (FIS) and the Single Equality Scheme (SES) 2009-12. It was noted that the legislation in respect of fairness and inclusion was changing rapidly.

Members noted that a rolling programme of equality and diversity training for staff was in place, and that an equality and human rights pre-Council seminar had been arranged.

Discussion took place around the following issues:

- Corporate procurement
- Participation in civic life and measures to encourage community engagement
- The move to a new headquarters and the need to ensure that Equality Impact Assessments were carried out to ensure that the building met the needs of staff and visitors.
- Strategies to ensure that the council's workforce is more diverse. Members requested that a copy of the council's Workforce Strategy be forwarded to them.
- Monitoring of Equality Impact Assessments – it was noted that the action plans were available on-line.
- The work that was taking place at directorate level and the need to ensure that best practice was shared.
- The need to ensure that all staff recognised that fairness and inclusion was integral to the work that they were carrying out and that it was not just the responsibility of particular officers.
- The responsibilities of schools in respect of equalities and community cohesion.
- The use of peer assessment to check on the progress that was being made.

(ii) Community Stadium

Members questioned officers regarding the key risks in respect of the community stadium project, as detailed in Annex B1 of the report. Discussion took place around the following issues:

- The possibility of time delays and the cost of call-in or legal challenge
- Impact if the planning submission is delayed or the danger of planning permission being granted and the stadium not being delivered due to funding issues.
- The need to reach terms with the University regarding new shared provision for athletics provision.
- The implications for traffic and parking in the area
- Stadium operational revenue funding and the financial viability of the stadium users.

RESOLVED: (i) That the risks in relation to Fairness and Inclusion, as set out at Annex A of the report, be noted.

(ii) That the risks in relation to the Community Stadium, as set out at Annex B of the report, be noted.

REASON: To provide assurance that risks to the council are continuously reviewed and managed.

45. INCOME POLICY

Members received a report that presented the draft revised Income Policy. Members were invited to comment on the draft policy, which would then be forwarded for approval by Executive and Full Council. The purpose of the policy was to provide the guiding principles to be followed by the council to ensure consistent and best practice in generating and collecting income.

Members noted the comments that had been received from the Citizens Advice Bureau as part of the consultation process (detailed in paragraph 8 of the report).

Clarification was sought regarding specific provisions within the Local Government Act 2003 in respect of charging powers.

RESOLVED: That it be recommended to the Executive and Full Council that the revised Income Policy be approved.[1]

REASON: To provide an opportunity for the Audit and Governance Committee to express a view as to whether the draft Income Policy provides appropriate guidance in delivering value for money income arrangements across the organisation.

<u>Action Required</u>
1.That Officers note comments made by Members prior to referral to Executive. DW

46. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) UPDATE

Members received a report that provided an update on the progress being made to implement the statutory required changes in financial reporting from UK General Accepted Accounting Practice (GAAP) to International Financial Reporting Standards (IFRS).

The report informed those responsible for governance arrangements of the transition to IFRS implementation and provided assurance that the process was being efficiently managed.

RESOLVED: That the Audit and Governance Committee note the progress detailed in the report and recognise the continuing work being undertaken for a smooth transition to IFRS.

REASON: To ensure 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 30 June 2011 implementation.

47. SCRUTINY OF TREASURY MANAGEMENT MONITOR 2 AND PRUDENTIAL INDICATORS 2010/11

Members received a report that provided a review of treasury management activity for the first six months of 2010/11, highlighted the implications of the Comprehensive Spending Review (CSR) on treasury management and indicated the change in the treasury management strategy for the modification of the target borrowing rate from 4.5% to 5.5%.

It was noted that, in accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in Public Services: Code of Practice and Cross-Sectoral Guidance ("The Code"), the Audit and Governance Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Members' attention was drawn to paragraph 7h of the report which detailed how the Comprehensive Spending Review specifically affected Treasury Management in two areas.

RESOLVED: That the Treasury Management Monitor 2 and Prudential Indicators 10/11, as detailed in Appendix A of the report, be noted.

REASON: So 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.

48. UPDATED COUNCIL RESPONSE TO THE E-PETITIONS DUTY IN THE LOCAL DEMOCRACY, ECONOMIC DEVELOPMENT AND CONSTRUCTION ACT 2009

[See also under Part B minutes]

Members received a report that provided an update on how the council intended to respond to the petitions duty in the Local Democracy, Economic Development & Construction Act 2009 (2009 Act), following recent changes introduced by the new Government.

Members recommended the following amendments to the scheme:

- Further consideration to be given as to whether people other than residents, would have the same rights in respect of petitions e.g. visitors to the city.
- Paragraph 3 under “How will the Council Respond” to read “If the petition is about something over which the council has no direct control e.g. the local railway or hospital, we *may* refer it to the council’s relevant partner organisation…”
- Paragraph 1 under “Securing a Full Council Debate” to read “*Where* a petition contains more than *750* signatures it will be debated by the full council. This means that the issue raised in the petition will be discussed at a meeting which all Councillors can attend *and vote.*”

The Head of Civic, Democratic and Legal Services suggested that the matter should be referred to the Council meeting scheduled for March, but advised that legislation may change again in the coming months and would be monitored accordingly.

RESOLVED: That Council be asked to consider the recommendations of the Audit and Governance Committee in respect of the Petitions Scheme, including the suggestion that the number of signatures be 750 rather than the 1000 suggested in the draft scheme.

REASON: In order to comply properly with the legal requirements for introducing this duty.

49. CONSTITUTIONAL CHANGE TO DELEGATED POWERS OF EXECUTIVE MEMBER FOR LEISURE, CULTURE & SOCIAL INCLUSION

Members received a report that detailed proposals for a slight change in responsibilities between the Executive Member for Neighbourhoods and Housing and the Executive Member for Leisure, Culture & Social Inclusion.

It was noted that, prior to Full Council taking a decision on this or any proposed constitutional change, the views of the Audit and Governance Committee were sought and their recommendation would be considered by Full Council.

Members commented that they did not understand how the neighbourhood management function would fit within the Leisure, Culture and Social Inclusion portfolio and felt that the decision should be made by Full Council.

RESOLVED: That the Audit and Governance Committee recommends that Council makes the decision on whether to transfer the neighbourhood management function to the Executive Member for Leisure, Culture and Social Inclusion. [1]

REASON: In order to comply with the requirements of the Constitution.

Action Required
1. Note Audit & Governance Committee's recommendation. AD

50. PROTOCOL FOR LIAISON BETWEEN INTERNAL AND EXTERNAL AUDIT

Members received a report that detailed the draft protocol for future internal and external audit working arrangements. The report also sought approval for some minor changes to the existing Internal Audit Terms of Reference.

Officers outlined the report and advised that the main changes were to job titles following recent organisational change at the Council.

Members approved the recommendations.

RESOLVED: (i) That the draft protocol for liaison between internal and external audit be noted.

(ii) That the proposed changes to the Internal Audit Terms of Reference (as detailed in Annex 2 of the report) be approved.

REASONS: (i) To enable Members to assess the arrangements for coordinating the work of external and internal audit.

(ii) To ensure that the council continues to comply with the CIPFA Code of Practice for Internal Audit.

51. AUDIT, COUNTER FRAUD & INFORMATION GOVERNANCE MID-TERM MONITOR

Members received a report that provided an update on progress made in delivering the internal audit workplan for 2010/11 and on current counter fraud and information governance activity.

Officers outlined the report and Members queried the following:

- Freedom of information requests, in particular how many were made by the press and how many were made by members of the public. Officers advised that the press accounted for a significant proportion of requests.

Members approved the recommendations.

RESOLVED: (i) That the progress made in delivering the 2010/11 internal audit work programme, and current counter fraud and information governance activity be noted.

(ii) That the variations to the 2010/11 audit plan, as set out in Annex 2 of the report, be noted.

REASONS: (i) To enable Members to consider the implications of audit and fraud findings.

(ii) To enable Members to consider the delivery of the internal audit plan.

52. SUMMARY OF AUDIT COMMISSION NATIONAL REPORTS

Members received a report that gave an overview of national reports produced by the Audit Commission, for the period July 2010 to 31 October 2010.

Consideration was given to the information on financial management of personal budgets (published October 2010). Members requested that an update on this issue be presented to them in six months time and that this be included as an item on the committee's workplan.

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.

53. UPDATED COUNCIL RESPONSE TO THE EPETITIONS DUTY IN THE LOCAL DEMOCRACY, ECONOMIC DEVELOPMENT AND CONSTRUCTION ACT.

[See also under Part A Minutes].

Members received a report that provided an update on how the council intended to respond to the petitions duty in the Local Democracy, Economic Development & Construction Act 2009 (2009 Act), following recent changes introduced by the new Government.

Members recommended the following amendments to the scheme:

- Further consideration to be given as to whether people other than residents, would have the same rights in respect of petitions e.g. visitors to the city.
- Paragraph 3 under "How will the Council Respond" to read "If the petition is about something over which the council has no direct control e.g. the local railway or hospital, we *may* refer it to the council's relevant partner organisation…"

- Paragraph 1 under “Securing a Full Council Debate” to read “*Where* a petition contains more than *750* signatures it will be debated by the full council. This means that the issue raised in the petition will be discussed at a meeting which all Councillors can attend *and vote.*”

The Head of Civic, Democratic and Legal Services suggested that the matter should be referred to the Council meeting scheduled for March, but advised that legislation may change again in the coming months and would be monitored accordingly.

RESOLVED: That Council be asked to consider the recommendations of the Audit and Governance Committee in respect of the Petitions Scheme, including the suggestion that the number of signatures be 750 rather than the 1000 suggested in the draft scheme.

REASON: In order to comply properly with the legal requirements for introducing this duty.

Councillor B Watson, Chair
[The meeting started at 5.30 pm and finished at 7.50 pm].

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CITY OF YORK COUNCIL

Agenda Item

Audit and Governance Committee 14 February 2011

Report of the Assistant Director of CBSS (Financial Services)

Audit & Governance Committee Forward Plan to December 2011

Summary

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 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 December 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.

3. There are no amendments to the forward plan since the previous version was presented to this Committee in December 2010.

Consultation

4. 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

5. Not relevant for the purpose of the report.

Analysis

6. Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

8.

(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

9. 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

10.

(a) The Committee's Forward Plan for the period up to December 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:	**Chief Officer Responsible for the report:**
Helen Malam Accountant Customer & Business Support Services Telephone: 01904 551379	Keith Best Assistant Director of CBSS (Financial Services) Telephone: 01904 551745 **Report Approved** √ **Date** 31.01.11

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 December 2011

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Annex

Audit & Governance Committee Draft Forward Plan to December 2011

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

- **<u>Committee 4 April 2011</u>**

  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

  Risk Management Quarterly Monitoring Report

  Audit Commission reports as per agreed Audit Plan

  Audit Commission national reports (if any)

  Changes to the Constitution (if any)

- **<u>Committee 29 June 2011</u>**

  Annual Scrutiny Report 2010/11

  Annual Internal Audit Report 2010/11

  Annual Governance Statement 2010/11

  Draft Statement of Accounts 2010/11

  Audit Commission reports as per agreed Audit & Inspection Plan

  Changes to the Constitution (if any)

- **<u>Committee 25 July 2011</u>**

  Risk Management Quarterly Monitoring Report

  IFRS Update

  Audit Commission national reports (if any)

  Audit Commission reports as per agreed Audit & Inspection plan

  Changes to the Constitution (if any)

- **<u>Committee 26 September 2011</u>**

  Annual Governance Report

  Corporate Governance Update

  Risk Management Quarterly Monitoring Report

  Follow-up of Internal and External Audit Recommendations

  Internal Audit & Fraud Plan Progress Report

  Audit Commission national reports (if any)

  Audit Commission reports as per agreed Audit & Inspection plan

  Changes to the Constitution (if any)

- **<u>Committee 5 December 2011</u>**

  Annual Audit Letter – Audit Commission (if published)

  Data Quality Progress Report

  Internal Audit & Fraud Plan Progress Report

  Audit Commission national reports (if any)

  Audit Commission reports as per agreed Audit & Inspection plan

  Changes to the Constitution (if any)

Agenda Item 6

CITY OF YORK COUNCIL

Audit and Governance Committee 14 February 2011

Report of the Director of Resources

Certification of Claims and Returns 2009/10 – Audit Commission

Summary

1. The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2009/10 produced by the Audit Commission (Annex A). The report reviews the Council's arrangements for the preparation and administration of grant claims within the Council.

Background

2. The report identifies that the Audit Commission was responsible for certifying 12 claims and returns to the value of £142.1m in 2009/10 (£140.3m in 2008/09). This certification work being charged on an hourly basis to the Council, in total £49,462 in 2009/10 (£54,806 in 2008/09). The fee reduction has occurred due to improved working papers from Council employees, a reduction in the number of amendments on individual claims and timely submission allowing the Audit Commission to plan and certify claims by the required deadlines.

3. The work that the audit commission completed has had a positive affect on the Council's financial position with additional housing subsidy being received and a reduction in Council Housing tax and benefits claim not being required. This totaled £77,832.

4. The overall conclusion from the Audit Commission's findings was that the Council has continued to improve its grant claim arrangements from 2008/09. A lower proportion of grant claims have been amended or qualified and all submission deadlines have been met. This is a significant improvement on the previous year, when 20 % of claims were submitted late.

5. The number and proportion of grant claims qualified or amended has improved significantly from the previous 2 years. The required improvements outlined by the Audit Commission in previous years have been acted upon during 2009/10.

6. However, the report also recognises areas of improvements that can still be made:
   a) The Control environment when claims are completed could only be relied upon in 43% of returns. Improved explanation as to previous year amendments and providing clear evidence on significant variance that occur would increase reliability.

b) Issues identified in qualification letters and amendments from previous years should be considered when preparing the current year claim or return.

7. As a result of the discussions from this review the Action Plan, at Appendix 3 of the Audit Commission Report at Annex A, has been agreed with the Audit Commission with responsibility for implementing these actions laying with all Finance Managers across the Council.

Consultation

8. Officers have contributed to this report where appropriate.

Options

9. Not relevant for the purpose of the report.

Analysis

10. Not relevant for the purpose of the report.

Corporate Priorities

11. This report contributes to the overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does. It specifically contributes to the effective Organisation priority in the Corporate Strategy.

Implications

12. There are no financial implications other than those outlined in the report. There are no HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

13. Failure to provide adequate arrangements for the administration and preparation of grant claims result in both financial and reputation risks to the Council.

Recommendations

14. Members are asked to:

(a) consider the content of the Certification of Claims and Returns Annual report 2009/10;

Reason
To enable members to consider the effectiveness of the council's grant administration activity, and in particular the areas for improvement identified within the report.

(b) note the agreed Action Plan presented as Appendix 3 to the Audit Commission Report;

Reason
To enable Members to comment on the proposed improvement arrangements.

Contact Details

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Report Approved √ **Date** 15/02/2011

Specialist Implications Officers

Not applicable

Wards Affected: **All** √

For further information please contact the author of the report

Background Papers:

Audit and Governance Committee 21 September 2009: Grant Claim Certification Report 2007/08 – Audit Commission
Audit and Governance Committee 21 December 2009: Follow Up Audit Recommendations
Audit and Governance Committee 15 February 2010: Grant Claim Certification Report 2008/09 – Audit Commission

Annex

Certification of Claims and Returns Annual Report 2009/10 – Audit Commission

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Certification of Claims and Returns - Annual Report

City of York Council

Audit 2009/10

audit commission

Contents

Introduction

1 Under section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants or subsidies received by the Council. The Commission, rather than the appointed auditor, has the responsibility for making certification arrangements, and the auditor acts as an agent of the Commission in this respect. This is a different relationship than for the Code of Audit Practice work.

2 Good practice in the preparation of grant claims and returns is set out in the 'Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and auditors in relation to grant claims and returns', as published by the Audit Commission. This document summarises the framework under which the Audit Commission makes certification arrangements and to assist authorities by summarising the extent of their responsibilities.

3 The grant claims we certify range from complex multimillion pound schemes, to more straightforward repayments of preapproved expenditure.

4 Certification work is designed to provide assurance to the grant paying body that a grant claim is fairly stated and in accordance with specified terms and conditions. We reach a 'conclusion' on each grant claim or return and set out any matters to report to the grant paying body within a qualification letter.

5 The certification regime is outside our Code of Audit Practice responsibilities and as such the work we do is charged hourly. To minimise the cost of certification, all authorities should implement the following actions;

- Provide comprehensive working papers that fully support the grant claim or return;
- Demonstrate there is an effective control environment in place to ensure the grant claim or return was prepared in line with the relevant terms and conditions;
- Implement a robust quality assurance regime to ensure timely submission of well supported grant claims and returns.

Audit approach

6 The Audit Commission takes a risk based approach to the grant claim certification work.

7 The key features are:

- For claims and returns below £125,000 the Commission does not make certification arrangements;
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure;
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required. This means the audit fees for certification work are reduced if the control environment is strong; and
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the grants work we carry out, placing more emphasis on the high value claims.

Main conclusions

8 Overall the Council has continued to improve its grant claim arrangements from those in 2008/09. A lower proportion of claims have been amended or qualified in 2009/10, and all submission deadlines were met by the Council.

9 The total fee charged for our certification work in 2009/10 is shown in the table below with comparatives to budgeted and previous years' fee:

Table 1: **Fee Charged**

	£
Actual Certification Fee 2008-09	54,806
Budgeted Certification Fee 2009-10	53,305
Actual Certification Fee 2009-10	49,632

10 This fee reduction has been achieved despite national increases in the daily fee rates set on a national basis by the Audit Commission. It is mainly the result of:

- improved working papers being provided by Council staff; and
- a reduction in the number of amendments required and qualifications on individual claims for 2009/10.

11 An analysis of the certification fees for the individual claims and returns, comparison to the previous year, and explanations for significant variances, are shown in appendix 1.

12 In total, 12 grant claims and returns with a total value of £142.1m were subject to audit certification in 2009/10. No reductions to subsidy entitlement were identified as a result of our work and our work has had a positive impact on the Council's financial position in the following respects:

- Additional Housing subsidy entitlement of £16,281 as a result of recalculating debt charges in accordance with certification instructions; and
- Additional testing carried out on the Council's Housing and Council Tax benefits claim to confirm that a £61,551 reduction to subsidy due to excess LA error rates was not required.

13 A summary of the claims and returns certified in 2009/10 is shown in appendix 2.

Control Environment

14 For the claims and returns with a value over £500k, where an assessment of the control environment is required, we were able to rely on it

in 3 out of 7 cases (43%). Usually, the main reasons we cannot place reliance on the control environment are:

- Previous record of amendment and/or qualification on the grant claim/return;
- Significant difficulties encountered with the audit of the claim in the previous year (for example, delays in submission, inadequate working papers);
- New or unexpected entries on the grant claim/return; and
- The inherent complexity of the grant claim/return.

15 Specifically, for the 4 claims where we could not place reliance on the control environment in 2009/10, the reasons are shown in the table below:

Table 2: **Reasons the control environment was not relied on**

CI ref	Claim Title	Reason(s)
LA01	National Non-Domestic Rates	High value complicated claim. Issues raised by Internal Audit about checking exemptions, discounts and reliefs. Significant variances in the figures compared with the previous year, and a new entry for the deferral scheme.
HOU01	Housing Subsidies and Grants	Claim is high value, complex, and requires input from multiple departments. An error was identified in 2008/09, and the claim was also qualified.
EYC02	General Sure Start Grant	Claim was submitted late and amended in 2008/09 for an overstated invoice. The form was not correctly completed in relation to capital expenditure in 2008/09.
HOU02	HRA Subsidy Base Data 2010-11	New entry on the form for early loan redemption discounts in 2009/10 that should also have been included in the previous return.

Recommendation

R1 The Council should consider what action could be taken to improve the control environment for the claims and returns where we could not place reliance on it in 2009/10. This could include;

- Providing evidence that significant variances in cell values have been considered, fully explained, and reviewed before the claims submission; and
- Providing explanations for any new entries on the claim form.

Submission of Claims and Returns

16 The Council submitted all of its claims and returns by the relevant deadlines in 2009/10. This is a significant improvement on the previous year, when 20% of claims were submitted late.

17 Due to the timely submission of the claims and returns by officers, we have been able to plan and undertake our work more easily around officer availability, and therefore certify all the claims by the relevant deadline.

Qualifications and Amendments

18 The number and proportion of grant claims qualified or amended has improved significantly from the previous 2 years. A comparison of the proportion of claims qualified or amended is shown in the table below.

Table 3: **Amended or qualified grant claims over the last 3 years**

	2007/08	2008/09	2009/10
% of claims amended	40	40	25
% of claims qualified or with other reporting issues	27	30	25

19 The reasons for the amendments and qualifications or other reporting issues are summarised as follows;

- National Non-Domestic Rates - As in previous years, a report was issued in relation to the return. There is an apparent inconsistency between the Certification Instruction and the guidance notes issued to local councils in connection with some non-financial data included in the claim. We are required to bring this to the Department's attention, although it has no impact on the Council's overall financial position.
- Housing and Council Tax Benefit - Amended for a rounding error and because of the incorrect application of the backdate indicator on Non-HRA Rent Rebate. These amendments had no affect on the value of the subsidy claimed. Qualified for several issues on rent allowance and council tax benefit cells, due to the extent of errors found, and because it is difficult to apply an accurate amendment where fewer than 100% of cases in a cell have been tested.
- Housing Subsidies and Grants - Amended as the calculation method applied to the early loan redemption amount was wrong, and because of a late change to the guidance about how the capital financing requirement should be calculated.
- HRA Subsidy Base data - Amended for a minor error in calculating the transitional rent figures. Qualified as the Council system for recording terraced house sizes rounds up or down to the nearest whole number. This means that 53 houses were classified as large, whereas if the exact size were used, they would be classified as small.

Recommendation

R2 Issues identified in the qualification letters and the areas amended in the previous year should be reviewed and considered when preparing the current year claim or return.

Prior year recommendations

20 The 2008/09 Certification of Claims and Returns report made four recommendations as follows;

- Officers should make us aware of any potential delays in the submission of grant claims and returns as soon as possible.
- Claims should be checked for any inconsistencies with working papers and expected entries/ budgeted outcomes prior to submission.
- The requirements of the Certification Instruction should be considered by the responsible officer to ensure that all the requirements of the specified tests have been met; and sufficient working papers can be provided to support these requirements.
- The Council should carefully consider the issues in previous years that led to amendments and qualifications being made on grant claims and returns, and whether any improvements can be made to arrangements and the associated control environment.

21 These recommendations were all accepted by management and the completed action plan was reported to the Audit and Governance Committee meeting in February 2010.

22 The improvements outlined in the previous sections of this report suggest the recommendations have been acted on during 2009/10. The challenge is now for the Council to maintain and improve on these high standards.

Appendix 1 Certification fees analysis

CI ref	Claim Title	2008/09 fee, £	2009/10 fee, £	Reason for variance
BEN01	Housing and Council Tax Benefit	29,830	26,956	Issues identified were more straightforward to resolve than in 08/09.
CFB06	Pooling of Housing Capital Receipts	1,190	858	Grant claims work was undertaken more efficiently by being completed at the same time as audit work on related assertions in the statement of accounts
LA01	National Non-Domestic Rates	5,950	3,631	Work took less time as no additional issues identified with claim in 09/10.
HOU21	Disabled Facilities Grant	425	518	Not significant
EYC02	General Sure Start Grant	3,183	4,505	Significantly increased levels of expenditure in 2009-10 so additional testing required
HOU01	Housing Subsidies and Grants	1,162	3,083	Complex amendment required, involving adjustment of the capital financing requirement
HOU02	HRA Subsidy Base Data 2010-11	3,655	3,210	No issues identified in 08/09 so level of testing adjusted in 09/10 accordingly
PEN05	Teachers Pension Return	1,169	603	2008/09 claim required amendment
RG33	Yorkshire Forward Grants (4 project claim forms certified)	4,101	5,250	4 claims in 09/10 compared to 2 claims in 08/09.

CI ref	Claim Title	2008/09 fee, £	2009/10 fee, £	Reason for variance
	General Supervision and Review	1,869	1,020	Less qualifications and amendments than in 08/09.

Appendix 2 Summary of 2009/10 Certified Claims and Returns

Cl ref	Claim Title	Value, £	Adequate control environment	Amended	Qualified
LA01	National Non-Domestic Rates	82,193,903	No	No	Yes
BEN01	Housing and Council Tax Benefit	48,483,941	N/A - not applied to this claim	Yes	Yes
PEN05	Teachers Pension Return	10,156,169	Yes	No	No
HOU01	Housing Subsidies and Grants	-5,791,938	No	Yes	No
EYC02	General Sure Start Grant	5,411,982	No	No	No
CFB06	Pooling of Housing Capital Receipts	471,217	N/A - below £500k	No	No
HOU21	Disabled Facilities Grant	428,000	N/A - below £500k	No	No
RG33	Yorkshire Forward - Science City (New element 09/10)	279,000	N/A - below £500k over lifetime	No	No
RG33	Yorkshire Forward - Visitor Information Centre	276,868	N/A - below £500k over lifetime	No	No
RG33	Yorkshire Forward - Science City (continuing)	191,096	Yes	No	No
RG33	Yorkshire Forward - Science City 2010/11	19,372	Yes	No	No
HOU02	HRA Subsidy Base Data 2010-11	Non-financial data return only	No	Yes	Yes

Appendix 3 Action Plan

Recommendations

Recommendation 1

The Council should consider what action could be taken to improve the control environment for the claims and returns where we could not place reliance on it in 2009/10. This could include;

- Providing evidence that significant variances in cell values have been considered, fully explained, and reviewed before the claims submission; and
- Providing explanations for any new entries on the claim form.

Responsibility	All Finance Managers
Priority	Medium
Date	Ongoing
Comments	(a) Finance Managers responsible for individual claims will take into account the requirement to provide (i) evidence for variances and (ii) further explanations for amendments on claim forms. (b) The date is ongoing in reference to the different deadlines set for claim completion.

Recommendation 2

Issues identified in the qualification letters and the areas amended in the previous year should be reviewed and considered when preparing the current year claim or return.

Responsibility	All Finance Managers
Priority	Medium
Date	Ongoing
Comments	Finance Managers will review and consider claims that have been qualified or amended in previous years when preparing current year claim forms to address issues so that they do not re-occur.

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Agenda Item 7

CITY OF YORK COUNCIL

Audit and Governance Committee 14 February 2011

Report of the Assistant Director of CBSS (Financial Services)

Audit Commission Opinion Audit Plan 2010/11

Summary

1. This report presents the Audit Commission's Opinion Audit Plan for 2010/11 which is attached as the annex to this report.

Background

2. The opinion audit plan sets out the detailed work to be conducted by the District Auditor in relation to the audit of financial statements 2010/11. In this Plan he has taken account of:
    - national risks
    - the inherent audit risks arising from previous audit work carried out at the council including Internal Audit work and previous inspection findings;
    - the requirements of the Code of Audit Practice in discharging their statutory responsibilities in the conduct of the audit.

3. The fees for this work remain as notified to the Committee in April 2010.

Consultation

4. The Plan has been consulted on with the relevant responsible officers within the Customer & Business Support Services Directorate prior to it being reported to those members charged with governance at the council.

Options

5. Not relevant for the purpose of the report.

Analysis

6. Analysis of fee structures are contained in the attached reports.

Corporate Priorities

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

Implications

8.

(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

9. 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.

Recommendations

10. Members are asked to:

a) consider the matters set out in the Opinion 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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Assistant Director of CBSS (Financial Services)
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Report Approved √ **Date** 31 January 2011

Specialist Implications Officers

Wards Affected: Not applicable **All**

For further information please contact the author of the report

Background Papers:

None

Annexes

Opinion Audit Plan 2010/11

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Audit opinion plan

City of York Council

Audit 2010/11

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

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

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

Contents

Introduction

1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2010/11. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission - in 2010/11 this includes mandated work on the National Fraud Initiative;
- current national risks relevant to your local circumstances; and
- specific local risks.

Responsibilities

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

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

4 We comply with the statutory requirements governing our audit work, in particular:

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

Fee for the audit of financial statements

5 The fee for the audit is £248,900 as indicated in my letter of 29 March 2010. Further information on the basis for the fee is set out in Appendix 1. At this stage I am satisfied that this fee remains appropriate.

6 In setting the fee, we have assumed that: the Council will prepare financial statements which comply with the requirements of International Financial Reporting Standards (IFRS), and that good quality working papers will be supplied. Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Customer and Business Support Services. We will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

7 The Audit Commission has recently announced rebates to all audited bodies as part of a three-year programme to deliver cost reductions of about £70 million nationally. Rebates are from the Audit Commission centrally and not a reduction in the audit fee, although the amount of the rebate is based on audit scale fees. For City of York Council the rebate will be 3.5 per cent of scale fee ie in the region of £8,700.

Specific actions the Council could take to reduce its audit fees

8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

9 We will also provide officers with a schedule of our detailed working paper requirements in advance of the post-statements audit.

Auditors report on the financial statements

10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011. As part of this opinion I am also required to consider:

- the Group accounting statements;
- whether the governance statement is consistent with my knowledge of the Council and reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007;
- the consistency of the information contained within the explanatory foreword; and
- whether proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources ("the value for money conclusion").

Identifying opinion audit risks

11 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:

- identifying the business risks facing the Council (this includes assessing your own risk management arrangements);
- considering recent financial performance and future prospects;
- assessing internal control - this includes reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within key information systems.

Identification of specific risks

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

Table 1: **Specific opinion risks identified**

Risk area	Audit response
Implementation of new IFRS requirements	We will consider AC and CIPFA guidance and hold early discussions with officers to confirm accounting treatment. Complex or contentious issues will be referred to our central technical team if required.

Risk area	Audit response
The new Waste PFI scheme contract and the move to new HQ accommodation both represent material and potentially complex transactions in the Council's accounts.	We will review progress on these two projects at regular intervals and discuss accounting treatment with relevant officers.
2009/10 audit work identfiied material errors in PPE (fixed asset) valuation and accounting	We will undertake an early review to confirm that officers have taken appropriate action to improve the quality of asset records.
Income recognition, cut off and housing benefit assertions represent an inherant risk of mis-statement in the accounts due to fraud and error.	We will undertake additional substantive testing in there areas, and review work undertaken by Internal Audit in relation to housing benefit fraud.

Testing strategy

13 On the basis of risks identified above we will produce a testing strategy which consists of testing key controls together with substantive tests of transaction streams and material account balances at year end. This testing will be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). The timing of our work and proposed site visits will be discussed in advance with officers.

14 Wherever possible, we will seek to rely on the work of Internal Audit to help meet our responsibilities, and to avoid the risk of duplicating audit effort.

The Clarity Project

15 My audit of the financial statements is governed by International Standards on Auditing (ISAs). As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

16 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

17 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you may see some changes in the way my audit team delivers your audit and the information they seek from you.

18 The two main changes are set out overleaf.

- Group Accounting - we now need to obtain an understanding of all the group components in terms of their overall control environment, legal, management and operating structures, and any group wide controls in operation. We are also required to perform analytical procedures and make enquiries of group component auditors.
- ISA (UK&I) 330 also requires me to undertake substantive testing on all material classes of transactions. This means that I will need to sample test income and expenditure balances in the 2010/11 financial statements, To enable me to do this you will need to provide a full audit trail between the cost of services analysis on the face of the comprehensive income and expenditure statement and source documentation, via subjective codes, journal postings and feeder systems. My staff will discuss a suitable approach to this work with you.

19 In Appendix 3 I have set out the other main changes and how they may impact on the Council.

The Value for Money Conclusion

20 . From 2010/11 auditors will not be required to provide annual scored judgements relating to their local VFM audit work. We will give our statutory value for money conclusion based on only two reporting criteria specified by the Commission and set out below:

Table 2: **Value for Money reporting criteria**

Specified reporting criteria	What the auditor will consider
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust financial systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The auditor will focus on the organisation's arrangements relating to financial governance, strategic financial planning and financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and improving efficiency and productivity.

21 These criteria are in line with the expectations of the recent comprehensive spending review.

22 There will be no key lines of enquiry for the specified criteria, and auditors are expected to determine the scope of their local programme of VFM audit work on the basis of their assessment of risk. The key risks that we have identified at City of York Council, and our proposed audit work, are set out below.

Table 3: **VFMC risk areas**

Risk area	Audit response
The Council may not b able to operate within a more restricted budget	We will review budgetary control processes, including: ■ how these link to risk management processes; and ■ use made of financial modelling, demographic analysis and comparative data to inform budget setting and demand management

Risk area	Audit response
The Council may focus on short term management at the expense of longer term financial planning	We will review up to date strategic and medium term financial plans, and the quality of data underpinning these. We will consider whether financial strategies adequately consider the implications of the recent Comprehensive Spending Review.
The More for York programme may not deliver expected savings levels.	We will review progress made to date in delivering target savings and the quality of data underpinning individual service decisions.
Procurement processes may not maximise potential efficiency savings	We will review operational, tactical and strategic procurement practice and recent outcomes achieved.
The Council may be reluctant to challenge established ways of doing things	We will assess the quality of leadership shown by members and senior officers in prioritising resources.

The audit team

23 The key members of the 2010/11 audit team are shown in the table below.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0844 798 1621	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Lynn Hunt Audit Manager	l-hunt@audit-commission.gov.uk 0844 798 1675	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Customer and Business Support Services.
Keith Illingworth Team Leader	k-illingworth@audit-commission.gov.uk 0844 798 7141	On-site supervision of audit fieldwork and key point of contract for the Corporate Finance Manager.

Independence and objectivity

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

25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

26 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 4.

Quality of service

27 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Mike Haworth-Maden, Local Government Lead Director, on 0844 798 2305.

28 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

29 We will report issues arising and findings to date to officers and those charged with governance as the audit progresses

30 The following reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Opinion audit plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011

Appendix 1 – Basis for fee

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

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

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

Assumptions

3 In setting the fee, I have assumed that:

- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards and completes their planned work in sufficient time for us to place reliance on it for the purposes of our opinion audit;
- good quality working papers and records will be provided to support the financial statements by the agreed date;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- extra work will not be required to address questions or objections raised by local government electors.

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

Appendix 2 – Independence and objectivity

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

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

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

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

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

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

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

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

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

Appendix 3 The Clarity project

Introduction

Changes you will notice in our 2010/11 audit approach include audit work on:

- Year End Journals;
- Related Party Transactions;
- Accounting Estimates; and
- Reporting deficiencies in internal control.

Year End Journals

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software.

Related Party Transactions

ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ; and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit and Governance Committee as those charged with governance.

Appendix 4 – Working together

Meetings

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

Our proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Customer and Business Support Services	Audit Manager (AM) and Team Leader (TL).	Quarterly	General update plus: ■ January - audit plan ■ September - annual governance report ■ November - annual audit letter
Assistant Director of Resources and Corporate Finance Manager	AM and TL	Weekly during post-statement site visit Quarterly the rest of the year	Update on audit issues
Audit and Governance Committee	District Auditor and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: ■ Audit Plan ■ Annual governance report ■ Annual Audit Letter ■ Other issues as appropriate

Sustainability

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

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

If you require a copy of this document in an alternative format or in a language other than English, please call:
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Agenda Item 8

Audit & Governance Committee **14 February 2011**

Report of the Assistant Director CBSS (Head of Financial Services)

Key Corporate Risk Monitor Three 2010/11

Summary

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

Background

2. The KCRs are reported to both the Audit & Governance Committee (A&G) and CMT four times a year as part of the council's overall governance arrangements. The KCRs are regularly reviewed at A&G, CMT and also at Directorate Management Teams (DMT's) at least four times a year.

3. Three new KCRs were added and approved by Executive on 7 September 2010 as a result of this review process. These were 'Financial Pressures' as a result of the Government's spending policy, 'Corporate Performance Management Framework' to replace the CAA and UoR risk and Climate Change. The risks associated with Climate Change have yet to be provided however risks associated with the other two new KCRs are set out at Annex B (corporate risk monitor).

Monitor Three

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 position of the KCRs as at the end of December 2010 is set out at Annex B and confidential Annex C 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 York Sports Village has been removed as the University has now set a date for starting the project, outline planning permission has been received and the funding is in place. Two 'medium' risks remain the details of which

are set out at Annex B. Whilst A&G can review the monitor (Annex B) in its entirety there remains only two Critical risks and these are set out below with the risk owners' up to date views on the situation:

KCR 0016 Capital Programme

<u>Failure to obtain funding for Access York Phase 1</u>

'The delivery risk for the Access York Phase 1 has been elevated to critical because of the current suspension of the government's transport major scheme procedure for certain schemes. 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 (DfT). Their budgets have now been reduced and this has resulted in the scheme being placed in what is termed the 'Development Pool'. The final number, and value, of schemes in this pool will be known in January 2011 when potentially a significant number of other schemes could be added. The budget available for Development Pool schemes, over the period of the Comprehensive Spending Review, is £600 million but this is expected to be much lower than the total value of the competing schemes. An Expression of Interest will be submitted to DfT by 4 January 2011. This will be followed later in the year, but before the autumn deadline, by a 'Best and Final Funding Bid'. DfT will make a decision regarding the funding of the schemes by the end of 2011 and the earliest that successful schemes could re-start with DfT funding is April 2012. This delay means that if the Access York Phase 1 scheme is successful, it would be completed and the Park & Ride sites operational, by early summer 2014.'

KCR 0019 Safeguarding

<u>Safeguarding</u>

"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 LGID 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 & C). Risk owners also provide comments around some of their other risks that whilst not critical they feel need bringing to A&G'S attention to show the progress that has been made in managing the risk. As part of monitor three the following observation has been raised in relation to other KCRs within the attached monitor (Annex B & C):

<u>Risk Area – Administration and Accommodation Review</u>

'The failure to discharge planning conditions risk has recently been reduced as the developers have demonstrated that sufficient of the conditions have been satisfied to enable work to start. However this risk remains on the register, as the risk will not be fully discharged until a licence is granted to occupy the building upon completion. The risks associated with the specification and costs are, to an extent, related to this risk and discussions are continuing to finalise the details of the specification.
Confidence in the ability to negotiate dilapidations within the budget has improved following the successful conclusion of the negotiations with the landlord at 10/12GHS, which tied the revised lease arrangements and the dilapidations together in a single package.
The failure of the organisation to implement the corporate change agenda remains unchanged on the risk register as many of the assumptions on which the projects business case is based are reliant on the change agenda being implemented. In particular, 5:4 staff to desk ratios, the use of shared spaces and the introduction of flexible and mobile working practices. A further report is being prepared for CMT.'

<u>Risk Area – Financial Pressures</u>

"The financial pressures on the council following CSR2010 continue to be managed efficiently and effectively by CBSS. The councils Executive have been kept informed in relation to the development of the Budget Planning Framework for 2011/12 and have received three reports on this issue. In addition they have also been regularly briefed by CMT. The Budget process is on target to meet the publication deadlines and will outline a robust financial strategy to deal with the pressures resulting from reducing resources and increasing cost & demand. Whilst risks under this KCR remain high the proactive approach to managing these financial pressures provides assurance and ensures non of the risks have escalated to critical in what is a very severe financial environment for all local authorities"

<u>Risk Area – Fairness & Inclusion</u>

"The current Corporate Fairness and Inclusion Strategy 2009-12 (FIS) and the corporate Single Equality Scheme were approved by the

council Executive in December 2009 and will be refreshed by June 2011. The FIS was produced with the involvement and engagement of the council's Equality Advisory Group following a two-year consultation with key equality community groups. It puts in place the common minimum standards for equality and inclusion policy-making and practice across all council services. Each Directorate has its own Single Equality scheme, Directorate schemes identify the specific equality outcomes to be achieved. The schemes are monitored by each Directorate Management Team at least quarterly. They have led to improvements some of which have been recognised nationally, for example in disabled children services.
Officers use the Equality Framework for Local Government to assure progress with equality in the council. It has three levels: Developing Achieving and Excellent. Currently officers assess that the council is at the top end of Achieving and has attained Excellent in some areas. This self assessment will be reviewed by external peers in summer 2011."

Risk Area – Waste Strategy

"During the last quarter Members will be aware that both the City Council and North Yorkshire County Council have agreed to award the Long Term Waste Management Contract to Amey Cespa. This has meant that the previously highlighted critical risk relating to the Termination of the Project is no longer a critical risk to the council.
The project will now enter the Planning phase with a planning application anticipated to be submitted in February 2011.
There remains a number of high risks relating to planning as well as affordability due to delays and changing interest rates / exchange rates. These risks are being constantly monitored with mitigation controls been undertaken where appropriate."

8. Following the more detailed presentations at A&G in December 2010 in relation to Fairness and Inclusion and the York Community Stadium A&G members may wish to consider whether they would like a more detailed report at there next meeting in April 2011 and which risk area they would like to review?

Directorate High & Critical Risks

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

Options

10. Not applicable.

Corporate Strategy

11. 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.

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

12. 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

13. 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.

b. Consider what area of risk they would like to review in more detail at A&G in April 2011 (Paragraph 8).

   Reason
   To provide assurance that key risks to the council are been properly managed.

Contact Details

Author:	**Chief Officer Responsible for the report:**
David Walker Head of Financial Procedures Phone No. 01904 552261	Keith Best Assistant Director of Financial Services Customer and Business Support Services
Claire Holliday Risk Management Officer Phone No. 01904 551156	**Report Approved** ✓ **Date** 25/01/2011

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 two 2010/11.

Annexes

Annex A – KCR summary page

Annex B – Key Corporate Risk Monitor

Annex C – Key Corporate Risk Monitor (Confidential)

	New (first time reported)	Increased	Stayed the same	Decreased	Total	Removed (no longer reported)
KCR 0003 Waste PFI	0	0	2	2	4	1
KCR 0010 Emergency Planning & BC	0	0	2	0	2	0
KCR 0014 Equal Pay	0	0	1	0	1	0
KCR 0015 Fairness & Inclusion	0	0	4	0	4	0
KCR 0016 Capital Programme	6	0	4	0	10	3
KCR 0017 More for York	2	0	3	1	6	2
KCR 0018 Ageing Population	0	0	2	0	2	0
KCR 0019 Safeguarding	0	0	1	0	1	0
KCR 0020 Climate Change	N/a	N/a	N/a	N/a	N/a	N/a
KCR 0021 Performance Framework	3	0	0	0	3	0
KCR 0022 Financial Pressures	0	0	6	0	6	0

New risks: (N.B. 'New' risks, in this context, are risks that have not been reported in the previous monitor. They could have been identified and recorded in the risk register some time ago or they could have only been recently identified and recorded.

KCR 0016 Capital Programme Transport Capital Programme: 1832, York Sports Village: 1835 & 1836, Barbican: 1839, Admin Accom: 1315, Community Stadium: 1844

KCR 0017 More for York Risk ref: 1838 & 1837

KCR 0021 Performance Framework Risk ref: 1819, 1859 & 1861

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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 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	Owner
Communication Strategy	Bill Woolley
Public Consultation	Bill Woolley
Communication Plan	Bill Woolley
Work with Amey Cespa and NYCC planners	Bill Woolley
Project programme includes time for planning debate	Bill Woolley
Work to ensure the site is deliverable	Bill Woolley
Early feasibility study to be carried out to identify possible areas of concern	Bill Woolley

Actions	Target Date	Revised Date
Consultation to be completed as statutory consultation on planning	31/08/2010	31/12/2011

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	Owner
Identification of suitable alternative sites	Bill Woolley
Environment Impact Assessment	Bill Woolley
Amey Cespa working closely with planning department re design and site plan	Bill Woolley
Council engagement with statutory consultees	Bill Woolley
Engagement with Government Office	Bill Woolley
Requirement of Amey Cespa to demonstrate how they plan to ensure planning success	Bill Woolley
Work closely with Amey Cespa through planning - communication process	Bill Woolley

Actions	Target Date	Revised Date
Support provided to NYCC in terms of peer review of planning process	31/12/2010	31/12/2011

Solution is unaffordable

Risk Owner: Bill Woolley **Risk Ref: 1019** Medium 14

Cause *The council has agreed to an affordability envelope for the project however this could be breached due to delays, changes in interest rates or exchange rates/ inflation.*

Consequence *The cost of continuing with the project could be greater than do - minimum in which case the project could be terminated (at a cost to the councils).*

Controls	Owner
Highlighted as a budget requirement as part of the MTFS.	Bill Woolley
The Council has signed up to the additional budget requirement	Bill Woolley
Regular monitoring of latest costs	Bill Woolley
Review affordability gap	Bill Woolley
Manage cost drift with contractor	Bill Woolley
Possible need to request further budget	Bill Woolley

Potential challenge of the procurement process

Risk Owner: Bill Woolley **Risk Ref: 1030** Low 6

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	Owner
Auditable trails of documentation	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 it's 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 it's 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	Owner
Emergency Plans for the city	Richard Wood
Emergency manuals	Richard Wood
Exercising of the plans	Richard Wood
Officers on-call	Richard Wood
Plans and manuals updated twice (particularly contacts)	Richard Wood
CYC Emergency Handbook	John Wray

Actions	Target Date	Revised Date
Continued engagement with Regional partners via Local Resilience Forum and at regional level where appropriate.	31/03/2011	

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

Actions	Target Date	Revised Date
A BC Lead for every Directorate has now been identified and Departmental level leads are in the process of being identified.	31/03/2011	

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.*

Controls	Owner
Corporate Fairness and Inclusion Strategy and Single Equality Scheme	Evie Chandler
Directorate Single Equality Schemes	Evie Chandler
Equality Framework for Local Government self-assessment and peer assessment	Evie Chandler

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: Pauline Stuchfield

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.*

Controls	Owner
CBSS directorate Single Equality Scheme	Pauline Stuchfield

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**

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

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

Controls	**Owner**
Directorate Single Equality Schemes	Evie Chandler

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**

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

<u>*Consequence*</u> *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.*

Controls	**Owner**
Workforce Plan	Pauline Stuchfield

Actions	**Target Date**	**Revised Date**
Implementation of Workforce Plan	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

Strategic Planning 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	Owner
Regional Funding Allocation confirmed available.	Tony Clarke
Follow DfT procedures to obtain main funding.	Tony Clarke
Follow CYC CRAM procedures for local contribution.	Tony Clarke

Actions	Target Date	Revised Date
Confirm CYC funding through CRAM process	31/03/2009	31/03/2011
Progress scheme once new guidance and results of spending review published in Autumn 2010	31/03/2011	

Failure to deliver objectives of LTP

Risk Owner: Tony Clarke **Risk Ref: 1832** High **16**

Cause *Reduced funding from DfT* Consequence *Congestion, air quality, safety levels will worsen.*

Controls	Owner
Obtain funding from alternative sources	Tony Clarke

Actions	Target Date	Revised Date
Progress opportunities for funding through Local Sustainable Transport Fund and Regional Growth Fund	21/03/2011	

Communities & Neighbourhoods

Failure to obtain planning approval

Risk Owner: Charlie Croft **Risk Ref: 1835** Medium **12**

Cause *If for any reason the planning authority deemed the scheme not acceptable then planning approval may not be obtained.* Consequence *An inability to obtain planning approval would result in the project not going ahead.*

Controls	Owner
Outline planning permission	Charlie Croft
Pre-planning meetings	Charlie Croft
Consultation with Sport England	Charlie Croft

Failure to meet the external funding body's criteria

Risk Owner: Charlie Croft | **Risk Ref: 1836** | Medium | **12**

Cause *Sport England could decide that the project does not meet their criteria.*

Consequence *The project would not receive the £1m allocation.*

Controls	**Owner**
Consultation with Sport England	Charlie Croft

Barbican lease does not become live

Risk Owner: Charlie Croft | **Risk Ref: 1839** | Medium | **12**

Cause *There is a conditional development agreement that means certain criteria must be fulfilled before the lease can go live.*

Consequence *Should this risk materialise than it would mean the process of finding a developer would have to start again resulting in delays to the re-opening, financial impacts to the council from additional legal fees etc, as well as lost opportunity and reputational damage.*

Controls	**Owner**
Contract awarded to a company with experienced in this field and has proven track record.	Charlie Croft

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: Rawcliffe and Clifton Primary schools and English Martyrs and Our Lady's primary school merger. Other schemes now in development include: Clifton Green extension, Applefields school integrated provision, Huntington secondary construction project. Further projects are subject to DfE funding announcements.*

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

Controls	**Owner**
Extensive project management	Maggie Tansley
Regular reporting to Members	Kevin Hall

City Strategy

Administration & Accommodation Review

Developers unable to meet the requirements of the development brief.

Risk Owner: Ian Asher **Risk Ref: 1315** High **18**

<u>Cause</u> *Developers are unable to comply with the brief as outlined in the design brief, within the budget due to emerging historical building, archaeological or onerous conditions.*

<u>Consequence</u> *Reduction in scope.- eg. Building area or quality.*
Possibly less effective building due to an increase in staff density resulting in negative feedback and staff dis-satisfaction.
Sustainability features put at risk.
Potential for extended programme due to historic finds.
Reputational damage to CYC.

Controls	Owner
Realistic development brief	Ian Asher
Professional advice to ensure specification is acheivable.	Ian Asher

Actions	Target Date	Revised Date
Monitor design proposals and early site work	08/04/2010	30/05/2011

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

Risk Owner: Ian Asher **Risk Ref: 0351** Medium **14**

<u>Cause</u> *The organisation does not effectively coordinate and implement the transformational change agenda.*

<u>Consequence</u> *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	Owner
Integration with the More for York Programme	Maria Wood

Actions	Target Date	Revised Date
Revised report to CMT	10/12/2010	04/02/2011

City Strategy

Community Stadium

Commercial Development does not progress

Risk Owner: Tim Atkins **Risk Ref: 1844** High **18**

<u>Cause</u> *The developer has problems raising funds.*

<u>Consequence</u> *No enabling funds available resulting in a shortfall of capital. Scheme delayed and / or alternative developer required.*

Controls	Owner
Financial protocols	Tim Atkins

Actions	Target Date	Revised Date
Due diligence	28/02/2011	
Soft market test another developer-partner	30/04/2011	

Capital Funding

Risk Owner: Tim Atkins **Risk Ref: 1759** Medium **14**

<u>*Cause*</u> *Insufficient funds to effectively fund capital for project.*

<u>*Consequence*</u> *Fail to meet vision for community benefit.*

Controls	**Owner**
Planning Strategy	Tim Atkins
CYC capital programme	Tim Atkins
Other external funding sources	Tim Atkins

Actions	**Target Date**	**Revised Date**
Undertake S106 discussions to assess available capital-finalise development appraisals.	31/01/2011	28/02/2011
Assess alternative commercial components.	28/02/2011	
Develop prioritised specification for cost - quality reduction.	28/02/2011	

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

Programme - Lack of required skills and knowledge

Risk Owner: Ian Graham **Risk Ref: 1769** High **19**

Cause *The programme may not have the required skills and knowledge at the relevant time as a result of inadequate resource planning. The programme needs to ensure that resources with the right skills are recruited in order to up skill the programme.*

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

Controls	Owner
Ongoing review of resource management	Stewart Halliday
Monthly workstream review meetings	Stewart Halliday and Phil Davidson
Programme resources supplemented by external expertise where necessary	Stewart Halliday

Actions	Target Date	Revised Date
Project management (Prince2) and programme management (MSP) training to be provided.	31/12/2010	21/03/2011

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	Owner
Constant monitoring of workstream progress	Programme Office and Ross Brown
Early capture of risks and issues	Chris May
Escalation of issues to programme management	Phil Davidson
Budget realisation monitoring	Ross Brown
Clear escalation route for savings issues	Ross Brown
Clear savings sign-off process	Ross Brown

Actions	Target Date	Revised Date
Next update review of at risk savings to identify solutions and mitigations	15/10/2010	04/02/2011
Updated savings profile	15/10/2010	04/02/2011

Programme - Ineffective communications with staff

Risk Owner: Ian Graham **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	Owner
Workstream communication plans	Charlotte Jennings
Regular weekly or fortnightly staff updates	More for York workstream leads
Programme Communications Group	Charlotte Jennings
Regular Comms updates to CMT	Charlotte Jennings
Ongoing union engagement at programme level	Stewart Halliday
Ongoing close union involvement at Directorate level	More for York workstream leads

Actions	Target Date	Revised Date
Communications training for workstream leads	28/02/2011	

Programme - Customer Organisations

Risk Owner: Ian Graham **Risk Ref: 1838** Medium **13**

Cause *Some customer groups may object to individual proposals.*

Consequence *Possible reputational damage and negative public perception of the More for York Programme or CYC services.*

Controls	Owner
EIAs accompanied by customer engagement	Phil Davidson
Workstream comms plans and stakeholder matrix to identify and address potential customer issues.	Phil Davidson
Resource from Programme Office to co-ordinate EIAs between programme and Equalities team	Bethan Portlock

Actions	Target Date	Revised Date
Programme Office and Equalities decide which EIAs should go to EIA Fair and SERG for consultation and input.	30/11/2010	31/01/2011
Planning to attend EIA fair in February 2011	30/11/2010	14/02/2011
More for York SERG event to be held on 17th Feb	14/12/2010	17/02/2011
Individual workstreams consult particular customer base as required	14/12/2010	28/02/2011

Programme - Cultural resistance to changes proposed by the programme

Risk Owner: Ian Graham **Risk Ref: 1795** Medium **12**

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	Owner
Programme of organisational culture change initiated throughout CYC	Charlotte Jennings
Yoreka - staff suggestion scheme	Charlotte Jennings
Engagement strategy incorporating leadership teams, members and staff	Charlotte Jennings

Actions	Target Date	Revised Date
Yoreka boards to be placed in service areas.	01/11/2010	28/02/2011

Programme - Management and Communications

Risk Owner: Ian Graham **Risk Ref: 1837** Medium **12**

Cause *Failure to engage all stakeholders.*

Consequence *Programme may encounter resistance to proposals after time and money has already been committed. This may also result in an impact to the reputation of the Programme and CYC.*

Controls	Owner
Workstream stakeholder matrix	Phil Davidson
Robust Programme management and governance arrangements	Phil Davidson
Development of More for York Newsletter	Charlotte Jennings
Comms discussed at workstream review meetings	Phil Davidson

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	Target Date	Revised Date
Older Peoples Accomodation review	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	Owner
Prioritisation of work following CLG and support from the Chief Executive	Graham Terry
Continue to engage stakeholders in key actions to deliver these.	Graham Terry

Actions	Target Date	Revised Date
Finalise key actions and embed within Service Plans.	31/10/2010	31/03/2011

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

KCR 0021 Corporate Performance Management Framework

Corporate Lead Kersten England

The council has a duty to provide value for money services to meet the needs of the citizens in York and to be accountable to local people where this is not achieved. Failure to effectively manage the council's performance could impact adversely on the council's reputation both at a local and national level. As such the council's corporate performance management framework must be robust and provide a level of assurance which enables both officers and Elected Members to make informed decisions

Office of the Chief Executive

Ensuring we get commitment and support from Partnerships for a city-wide hub

Risk Owner: Marilyn Summers **Risk Ref: 1819** Medium **14**

Cause *The new performance framework needs to be city-wide to ensure it is effective at delivering joined up intelligence and supporting more integrated improvement.*

Consequence *Less data/information will be available in the intelligence hub and we may fail to properly integrate the big partners into the system (e.g. PCT & NY Police)*

Controls	Owner
Papers and regular updates to LSP & WoW-EDB	Peter Lowe
Regular task & finish meetings with SCS refresh and business planning workstreams	Peter Lowe

Actions	Target Date	Revised Date
Review 'challenge' part of new PMF	18/02/2011	
Ensure both local and national data requirements are incorporated into hub	29/04/2011	

Implementing a new PMF at the same time as restructures, blueprints & major changes to govt framework

Risk Owner: Peter Lowe **Risk Ref: 1859** Medium **13**

Cause *It can be difficult to consult on PMF requirements and data intelligence whilst key staff and stakeholders are going through restructures and blueprint exercises. The government are also drip-feeding changes to the performance framework and the replacement of the CAA with a sector-led self assessment framework.*

Consequence *It's similar to trying to bake a cake without knowing all the ingredients. If we do not keep up with changes or ensure that proposed PMF and intelligence hub changes do not feed into restructures and blueprints, the final result could be a disjointed or out-of-date city-wide PMF.*

Controls	Owner
Regular papers and updates to OCE DMT and directorate management team	Peter Lowe

Actions	Target Date	Revised Date
Integrated project plan	21/12/2010	11/02/2011

Geographic Information System (GIS)

Risk Owner: Simon Lutman **Risk Ref: 1861** Medium **13**

Cause *The role of GIS across the council needs to be reviewed over the next 6 months to ensure it can support all requirements (e.g. operational / IT maintenance / business intelligence).*

Consequence *1. GIS data management & ownership could become fragmented and uncordinated.*
2. Other systems or applications that rely on central GIS support could be compromised.
3. GIS packages and website could have a lot of down-time if not maintained properly.
4. The business intelligence hub requires geo codes and mapping to ensure profiling and mash-ups are developed and accessible.

Controls	Owner
Simon Lutman now member of BI Hub architecture project team	Peter Lowe

Actions	Target Date	Revised Date
Building GIS requirements into the BI Hub early on	16/12/2010	11/02/2011

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	Owner
Identify budget reductions at the earliest opportunity	Keith Best
Regular monitoring of the financial position through in year monitoring	Keith Best

Requirement to reduce revenue budgets by approximately 28% and a 45% reduction in capital funding over the next 4 years

Risk Owner: Keith Best **Risk Ref: 1806** High **19**

Cause *Reductions of approximately 28% in local government revenue funding and 45% capital funding over the next 4 years as announced in the CSR. The specific impact for York is yet to be determined.*

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

Controls	Owner
Long term financial planning to identify funding gaps	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 *Following the CSR announcement, further details are required to assess the impact for York. 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	Owner
Long term financial planning to identify funding gaps	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**

<u>Cause</u> *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*

<u>Consequence</u> *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	**Owner**
Regular communication and consultation	Keith Best
Regular monitoring of progress by More for York programme	Keith Best
Identify potential savings in excess of current target	Keith Best
Structured and planned approach to budget planning	Keith Best

Customer & Business Support Services

Financial Services

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**

<u>Cause</u> *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.*

<u>Consequence</u> *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	**Owner**
Increase in employer contributions built in to 2010-11 Medium Term Financial Plan.	Louise Dixon

City Strategy

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

Actions	**Target Date**	**Revised Date**
Regularly review current status of several initiatives	25/10/2011	

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

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CITY OF YORK COUNCIL

Audit & Governance **14th February 2011**

Report of the Director of Customer Business and Support Services

Transparency in local government

Summary

1. The purpose of this report is to update members on progress to meet the government requirement to publish on line details of salaries and spending by 31st January 2011.

Background

2. The Department of Communities and Local Government (DCLG) require publication of data on spend and salaries by 31st January 2011.

3. In support of this policy on the 7th October Council carried a motion, as follows:

   - This Council welcomes the proposals recently put forward by the Department of Communities and Local Government (DCLG) as part of its efforts to improve local transparency and accountability.

   - This Council therefore commits itself to complying with the DCLG recommendations and by 1st January 2011 at the latest will publish and continuing publishing online:
     - Details in full of total cumulative spending over £500;
     - Information on all posts paying over £50,000 per year (including details of benefits and expenses) and their job descriptions;
     - Councillor allowances and expenses in a real time rather than annual format.

   - This Council also pledges that this information shall be published at zero cost to the taxpayers, with its collation and presentation forming part of other processes already carried out by the Council.

   - With some of this information already available, the Council further pledges to make itself even more transparent by requiring that the various strands of information be collected and brought together on the Council website, with a link on the front page, under the heading 'www.york.gov.uk/transparency' to make it easy for residents to find.

Publication

4. All transparency data is published in the following location http://www.york.gov.uk/opendata (opendata) on the Council's website within 30 days of month end in both PDF and CSV formats, as recommended by the guidance.

5. The categories due to be published to date on the opendata page include the following:

Freedom of Information (FoI) Requests

6. FoI requests received and the outcomes or responses from the week commencing 6th December 2010 are included. FoI requests received, and the outcomes or responses, continue to be published on the same pages, in weekly batches, while direct access through the Documentum records management system is developed (as approved by the Executive in September 2010).

Payments over £500

7. Draft guidance was issued in September which set out a mandatory format. This guidance will be updated in 6 months time following feedback from local authorities. To supplement the draft guidance a practitioner guide was published by the Local Government Association (LGA).

8. Local authorities are required to publish items of spend over £500 online before 31st January 2011. The data must include all individual invoices to suppliers for goods or services, grant payments, payments to other public bodies, travel and subsistence payments. All credit notes and journals/recodings relating to the above will also be published. It does not include salary, pension costs or internal recharges.

9. The Council achieved publication some months in advance of the deadline, initially for September 2010 (included only payments relating to the CBSS directorate) followed by payments for the whole Council from November 2010.

Senior salaries and expenses

10. Salary details of senior management are required to be published by 31st January. It is up to each individual council how they define senior management but it normally only applies to chief officer posts. Details of individuals, job titles, department and salaries of all chief officers are now available on the opendata page. This information will be updated annually in April.

11. In order to provide details of the accountability and responsibilities of senior roles, the Council will publish job descriptions of the Chief Executive and first tier officer posts.

12. To put this information into context, organisational data is also included and links to the existing pages on the Council's website provide further details on directorate responsibilities and budget information.

13. In addition to the information provided on chief officer posts in accordance with the guidance, the council motion requires publication of salary details over £50,000, which includes some grade 12 posts.

14. To comply with the council motion we intend to publish all grade 12 posts as 'banded' data stating the salary range. Individual names will not be included. Although some grade 12 posts will fall below the £50k limit, it would be inconsistent from an organisational context if we do not publish all grade 12 posts.

15. We intend to publish the grade 12 data in April when the Organisation Review is complete and structures finalised. This also allows time to notify the individuals concerned.

16. The council motion also requires the publication of expenses. To minimise the cost of production chief officer expenses will be published annually in April.

Members expenses and allowances

17. Members expenses and allowances are already published annually on the council website. The 'opendata' page will include the existing annual publication and also publication on a monthly basis from December 2010.

18. Further information is available on this page explaining the type of allowances and expenses.

Council contracts and tenders above £500

19. All Council contracts and tenders for expenditure over £500 are required to be published by 31st January 2011.

20. All contracts let after the 31st January will be published and include the specification, terms and conditions and associated schedules.

Data protection and redacted entries

21. There are limited exceptions surrounding personal information that falls under the Data Protection Act, mainly when dealing with payments to vulnerable people (e.g. payments to foster parents). The data to be published will in most instances not disclose price and therefore is unlikely to be commercially sensitive. The payee name is replaced with the word 'redacted' where any payments are deemed to fall under the Data Protection Act or are commercially sensitive.

22. It should be noted that payments to individual consultants, sole-traders or other supplying individuals would not normally be redacted.

Process for Queries

23. It is hoped that the publication of transparency information will reduce the number of queries received because the information is readily available. To date there have not been a significant amount of queries in relation to ‘over £500 payments’. We are currently using the same process as FOI requests for any queries we receive and the relevant section on the opendata page of the website includes the contact details for queries.

Consultation

24. To keep costs to a minimum we informed our main suppliers (which constitute 80% of our spend) by email.

25. In addition, to notify any remaining suppliers we have updated our terms and conditions on our website at http://www.york.gov.uk/procurement and made a reference to this update on our remittance advice.

26. Directors and Assistant Directors have consented to the first phase of the publication of salary information and Grade 12 staff will be notified in due course.

Options

27. As a minimum, we have complied with the government requirement to publish the mandatory data set out in the guidance.

28. However, the Council may choose to publish additional data in addition to the mandatory requirements as we have elected to do in the Council motion.

29. Any future decision to publish additional data should weigh up the cost to produce and publish the data compared to the benefits of publication.

30. Types of transparency data the Council may opt to publish in the future could include:
- Details of Council’s major projects
- Additional Performance or Financial information

Corporate Priorities

31. Publication of this information contributes to all areas of the corporate strategy as it encourages the Council, it’s members and staff to be accountable for their spend and decision making.

Implications

32. The implications are
- Financial – Production, review and publication of the data requires staff resources and therefore has a cost implication. However, in order to reduce officer time the process is automated where possible and manual intervention is

kept to a minimum. It is anticipated that publication will reduce the number of FoI requests, which would offset the additional resources required to produce the data.

- Human Resources – The Council already has in place established data protection policies surrounding personal data, which will apply to these publications. Where individuals may be identified through the publication, this will be only done in accordance with established policy and the transparency guidelines, and the officers concerned will be reminded of those policies prior to publication. This has already taken place with regard to senior officer salary details. The publication of the data will also reduce the amount of Officer time spent responding to FoI enquiries
- 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 currently no information technology implications to this report as only current IT available is being utilised.
- Property –are no property implications to this report
- Other - there are no other implications to this report

Risk Management

33. The ‘payments over £500’ report is distributed to assistant directors to review or forward to budget managers. The purpose of this review is to identify any transactions which should not be published under the Data Protection Act or to highlight any significant issues.

34. The data on members expenses and allowances is distributed to all members before publication to ensure that there are no significant errors.

Recommendations

35. That Audit & Governance Committee note the progress contained in this report and recognise the continuing work being undertaken.

36. Reason: That those responsible for governance arrangements are updated to ensure that the implementation of the transparency agenda is achieved in accordance with the recommended guidance.

Contact Details

Author:	**Chief Officer responsible for the report:**
Sarah Kirby Finance Manager 01904 551635	Keith Best Assistant Director (Financial Services) Ian Floyd 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:

DCLG draft guidance: http://data.gov.uk/blog/local-spending-data-guidance.

Practitioner's guidance: Publication of senior salary information
http://lgtransparency.readandcomment.com/introduction-2/

Practitioner's guidance: Publication of local spending data
http://lgtransparency.readandcomment.com/1-introduction-2/

Agenda Item 10

Agenda item

Audit & Governance **14 February 2011**

Report of the Director of Customer & Business Support Services

Scrutiny of Treasury Management Monitor 3 and Prudential Indicators 2010/11

Summary

1. 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") which was published in November 2009 and adopted by the council on 25 February 2010, from 2010/11, Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Attached at Appendix A is the Treasury Management Monitor 3 and Prudential Indicators 10/11 report which monitors the treasury management activity for the first nine months of the financial year.

Background

3. The report gives an update on the economic environment and the current analysis of the interest rate environment in which treasury management operates. It also updates on the position of short term investments, long term borrowing, the position of 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 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.

4. Points of interest to note in the report are as follows
   a) The economic recovery continues slowly with the forecast of borrowing rates in the foreseeable future remaining higher than investment rates.
   b) The rate of return on investments at 1.14% is 0.64% higher than the base rate at 0.5% and 0.72% higher the average 7 day London Inter-Bank Deposit rate (LIBID) at 0.42%.
   c) The borrowing portfolio is forecast to be £136.1m at the end of 2010/11, with the external interest rate being 4.2%.
   d) The Venture Fund reserve balance to assist in the funding of new projects stands at £734k.
   e) The treasury management budget projected outturn for 2010/11 is £11,536k, an estimated under spend of £200k.

4. Those charged with governance are also responsible for ensuring they have the necessary skills and training. To this end a training session was held in September to give a general overview of all areas of treasury management. A follow up training session is scheduled for 14 February 2011 covering the council's treasury management investment policy, the security of the council's surplus funds -creditworthiness policy - and the council's investment strategy.

5. The information provided above is a brief overview of the "Treasury Management Monitor 3 and Prudential Indicators 10/11" report for scrutiny by Audit & Governance Committee Members.

Consultation

6. Not applicable.

Options

7. 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 25 February 2010. The Council also approved the Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15 which confirmed 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

8. 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

9. 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 – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) and the *Local Authorities (Capital Finance and Accounting) (England**)** (Amendment) Regulations 2008* (SI 2008/414)
   - 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 requires officers and members to scrutiny and manage the treasury function.

Risk Management

10. 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

11. That Audit & Governance Committee note the Treasury Management Monitor 3 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

Author:	**Chief Officer responsible for the report:**			
Louise Branford-White Technical Finance Manager 01904 551187	Keith Best Assistant Director of Customer & Business Support services (finance) Ian Floyd Director of Customer & Business Support Services			
	Report approved	√	Date	06/12/10

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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CITY OF YORK COUNCIL

Appendix A

Executive **15 February 2011**

Report of the Director of Customer and Business Support Services

Treasury Management Monitor 3 and Prudential Indicators 10/11

Summary

1. This report updates the Executive on the Treasury Management performance for the period 1 April 2010 to 31 December 2011 compared against the budget presented to Council on 25 February 2010.

2. The report highlights the economic environment for the first nine months of the 2010/11 financial year and 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. CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009. It recommended that at a minimum, a mid year review of Treasury Management strategy and performance should be undertaken which highlights any areas of concern that have arisen since the original strategy was approved. These quarterly reports therefore ensure this council is implementing best practice in accordance with the Code.

5. 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 nine months of 2010/11 and shows the change in the Treasury Management budget to 31 December 2010 and the forecast outturn position for the year.

Economic Background and Analysis

6. The Council's short term investment and long term borrowing decisions have been affected by the following economic conditions described in the paragraphs below.

7. The quarter ended 31st December 2010 saw the following
   i. Activity indicators strengthening again, suggesting that the recovery still has a reasonable amount of momentum;
   ii. Spending on the high street continuing to recover;
   iii. Conditions in the labour market deteriorating further;
   iv. House prices continuing to fall with some regional exceptional;
   v. The public finances deteriorating, tentatively questioning whether the government can meet its fiscal forecasts;
   vi. The UK's trade deficit widens further, pouring cold water on hopes of an export-led recovery;
   vii. CPI inflation rise and pipeline price pressures continuing to build;
   viii. The Monetary Policy Committee shying away from doing more quantitative easing;
   ix. UK equities surging and gilt yields rising;
   x. Economic growth picking up strongly in the US and maintaining pace in the euro-zone

8. Activity indicators suggested that the recovery still has a reasonable amount of momentum with modest growth, having briefly pointed to a double-dip in prior months. The recovery weakened in the construction sector, but strengthened in the larger manufacturing sector. GDP (Gross Domestic Product) expanded by 0.7% q/q in the third quarter of 2010 to 2.7%

9. There were signs that consumer spending improved during the quarter. Survey evidence has suggested that December's heavy snowfall has not had too much of a negative effect on retail spending over the festive period as a whole, with consumers making up for weaker spending in early December during the post-Christmas "sales" period.

10. The resilience of consumer spending during the quarter was in sharp contrast to the renewed deterioration of conditions in the labour market with unemployment rising over the last quarter. House prices have also continued to fall during the quarter.

11. Public finances appear to have deteriorated during the quarter. Borrowing on the PSNB ex. measure (Public sector net borrowing excluding temporary effects from financial interventions) was in line with 2009/10's figure in October but was £6bn higher than a year before in November. The figures therefore cast doubt on whether the Government will be able to meet its borrowing forecast of £149bn this year, some £7bn lower than last year's total. Elsewhere, there are still few signs that the external sector has begun to support the overall recovery.

12. The CPI (consumer price inflation) edged up from 3.1% to 3.2% in October and then to 3.3% in November. Part of the rise may have reflected retailers pushing up their prices ahead of the VAT rise in January 2011. The rise also seems to have reflected the surge in commodity prices (eg food, grains, metals) during the quarter and earlier in the year. If these commodities hold onto their recent price gains, then their inflationary effects will build over the next few months.

13. Encouraging activity data and strong inflation data prevented the Monetary Policy Committee (MPC) from following the Fed in sanctioning more quantitative easing (QE) at its November meeting. The majority of members on the MPC have continued to vote for official interest rates to remain on hold at 0.5%; the minutes to their meetings suggested that most members thought that the risks that CPI inflation would overshoot the 2% target in two years time had grown. Some members also expressed concern about the recent rise in households' inflation expectations.

14. From the economic analysis, figure 1 below shows the actual and projection of the base rate, which has remained 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 revised forecast along with other economists in January 2011. The graph highlights the shift in the position of the base rate which is aligned with the slower growth forecast. The base rate will now slowly start to rise in the last quarter of 2011/12, 0.75% in December 2011 and continue gradually out to 2013, where in December 2013 it is forecast to be 3.25%. 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.

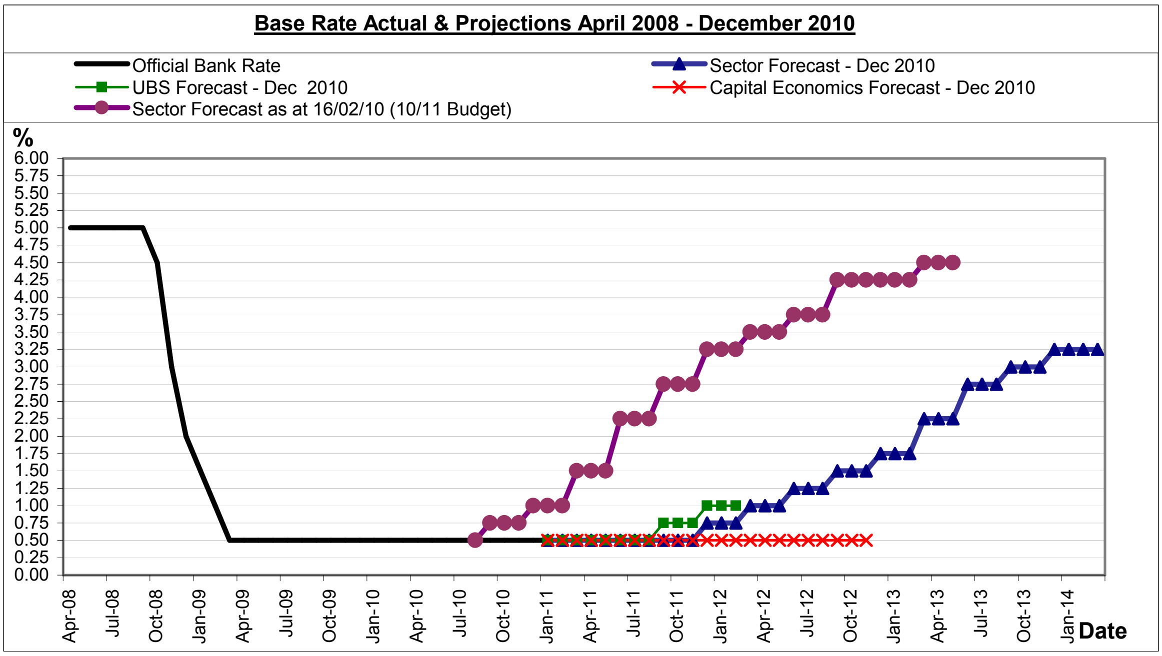

Figure 1: Base Rate 2008 to 2013 - latest forecast Dec 2010

15. Table 1 below provides the Council's Treasury Advisers', Sector, forecast of the base rate and Public Works Loan Board (PWLB) rates as at 5 January 2011. This forecast has not changed their view on base rate or the outlook for the UK economy to that reported in the previous monitor, however this revised update is particularly for the sell off in the bond markets in November and December and is mainly focused on revisions to the 5 and 10 year rates:

Sector's Interest Rate View	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%
5yr PWLB Rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%
10yr PWLB View	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%
25yr PWLB View	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%
50yr PWLB Rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%

Table 1 – Sector's forecast interest rates as at 5 January 2011

16. The Treasury Management 2010/11 monitor 1 and 2 reports saw overall rates across all ranges forecast to steadily increase. During August and, September however there was a fall in yields and the lowest rates were seen in this period. Long term borrowing for the Council was taken during this time as detailed later in the report.

17. This interest rate forecast for monitor 3 shows that PWLB rates are still forecast to steadily rise. The change in the forecast sees rates in the first half of 2011 being higher than previously estimated and then continuing to rise but at a slightly slower rate. All rates across the board increased at monitor 2 due to the comprehensive spending review and PWLB rates being set at 1% above the governments gilt level. This is approximately 0.85% increase across the board on all PWLB rates.

18. There is a risk in the forecast that the Monetary Policy Committee (MPC) will increase the base rate in Q3 of 2011 rather than Q4 as detailed in the above table. This is due to concerns that inflation has been so much above its 2% target for such a long time. The bank of England's growth forecast has been downgraded in 2011 to 2.3% but upgraded in 2012 to 3% due to the continuation of strong monetary policy stimulus through an exceptionally low Bank Rate and the current level of QE.

19. Sector still maintains that the general trend beyond the next twelve months is of rising gilt yields and PWLB rates. However, as there are significant potential downside risks to these forecasts and to the pace of both UK /

world recovery, the Council should err on the side of caution when forecasting investment rates.

20. The 1 year investment rate started the financial year at 1.19%, on 30 September 2010 had risen to 1.36% and on 31 December 2010 had fallen back slightly to 1.33%. Advantage was taken of favourable1 years rates with a nationalised bank in the their quarter of 2010/11 when 1.9% was achieved. Any forecasts beyond a one year time horizon will be increasingly subject to being significantly amended as and when world events and financial markets change. Figure 2 below shows the positions of market interest rates available for investments during 2010/11, which have all marginally risen in the first nine months.

Investment Policy

21. 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
    - yield

22. The Council will aim to achieve the optimum return (yield) 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 seek to invest where value is available in significantly higher rates in periods up to 12 months; particular to nationalised and semi nationalised UK banks. Investments are with highly credit rated financial institutions using the creditworthiness matrices described in the Treasury Managment Strategy, including sovereign credit ratings and credit default swap (CDS) overlay information provided by Sector.

23. Investments held at 31 December 2010, which were 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

24. Investment rates available in the market continue to remain at a historical low point. The average level of funds available for investment purposes in the first nine months of 2010/11 was £65.535m. 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, borrowing and progress on the Capital Programme. These funds are therefore available on a temporary basis dependant on cash flow movement.

25. 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, due to the credit crunch.

26. Treasury Management investment activity during the first nine months of 2010/11 earned interest £562k, equivalent to a 1.14% rate of return. This is 0.72% better than the average 7 day London Inter-Bank Deposit rate (LIBID) of 0.42% and 0.64% higher than the average base rate for the period of 0.50%.

27. The higher 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.

28. The interest earned for the first nine months of the year is slightly higher than the Treasury Management budget estimated but is substantially lower than in previous years. This thereby increases the requirement of the Treasury Management budget, as detailed below in the report, due to a reduced affect the investment earned has in netting off interest paid out on borrowing.

29. The Council has made 21 fixed term investments during the first nine months of 2010/11, 5 directly with the Bank of Scotland and Santander and 16 via the money market brokers. Six of these investments have been made for periods of 6 months where value was shown at between 1.15% and 1.35% and 3 made for a year at between 1.50% and 1.90%. The money market rates available for investment are shown in Figure 2 below. Investing for 6 months allows favourable rates to be taken and also allows the flexibility of funds becoming liquid when interest rates are predicted to start to rise in the future. 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.

30. 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 6 call accounts – Bank of Scotland (0.75%), Alliance & Leicester (0.80%), Yorkshire bank 15 day (0.80%) and Yorkshire Bank call (0.50%), and opened a 30 day (1.0%) and instant access (0.80%) with Natwest in October 2010 – but has found during 2010/11 that better rates have been available on the market for fixed term deposits and also in money market funds (MMF). Therefore, funds held in the call accounts have been reduced with the average balance for the first 9 months in 2010/11 being £10.914m compared to £14.870m in 2009/10. The two money market funds being utilised are Prime rate MMF offering rates around 0.85% and Ignis offering rates around 0.70%. The MMF's 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. In 2010/11 the average balance in the money market funds is £22.808m.

31. In order for investments 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.

32. Figure 2 shows the interest rates available on the market between 7 days and 1 year and also the rate of return that the Council has achieved to 31 December 2010. It shows that favourable / competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

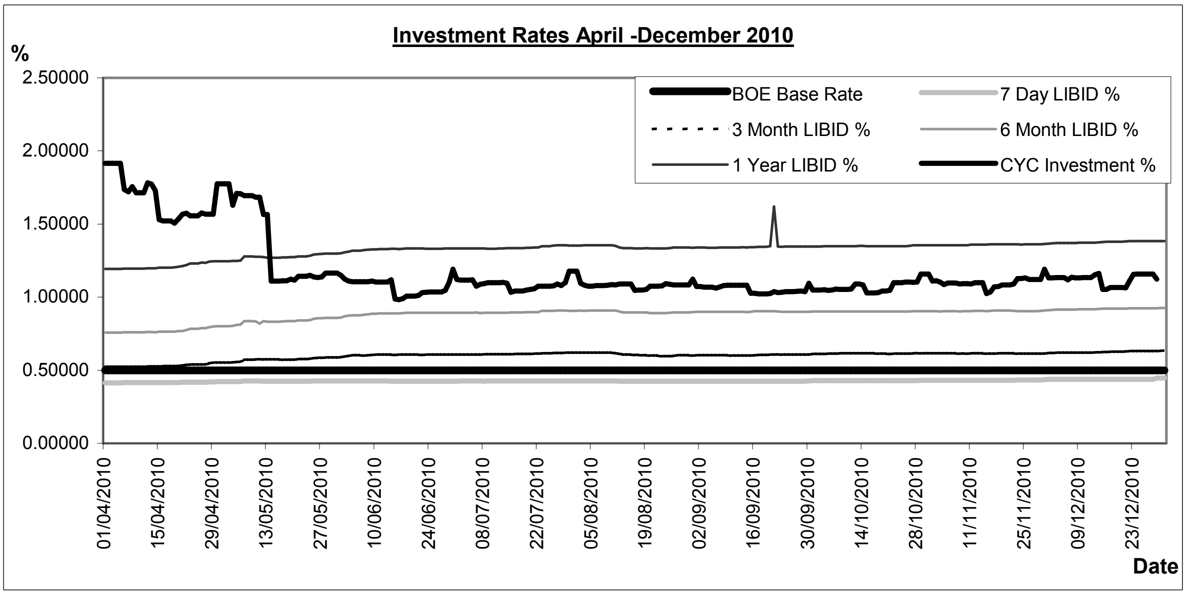

Figure 2 CYC Investments vs Money Market Rates

Long Term Borrowing

33. 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.

34. 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). This takes into account supported borrowing for capital schemes supported by RSG as explained in the paragraph above, 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.

35. 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 continue to be closely monitored to ensure that advantage is taken of favourable rates in 2010/11 and the increased borrowing requirement is not as dependant on interest rates in any one year over the 3 year period.

36. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised instead, decreasing the level of surplus funds being available for investment. In the current interest rate environment where investment rates are below borrowing rates consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower.

37. Prior to the Comprehensive Spending Review loans have been taken as borrowing rates were seen to be good value for the longer term, as explained in paragraph 16 above. Locking into historically low borrowing rates enables some stability on the costs incurred in the Treasury Management revenue budget going forwards.

38. Equally since the Comprehensive Spending Review, borrowing rates are being closely monitored for volatility in the market for when rates are deemed to be favourable, market loans are being considered in addition to PWLB loans and a balance is being taken between increasing borrowing and the lower levels of interest being earned on investments. The Sector Treasury Management advisors forecast that future PWLB rates will also rise - in addition to the increase from the Comprehensive Spending Review - which is also being taken into account.

39. 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 £24m has been taken to date in 2010/11:
    - £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
- £3m PWLB loan at 3.92% 50 years on 31 August 10

40. The loans taken in 2010/11 have been below the original target of 4.5% set in the Council approved 2010/11 strategy. In the Treasury Management Monitor 2 report the target level was raised to 5.5% due to the change in PWLB rates in the Comprehensive Spending Review, paragraph 17 refers. (It is not intended that borrowing rates will be taken at this level as it is forecast that the market is still volatile and there will remain opportunities for rates below 4.5%, every attempt will be made to keep rates at the lowest levels possible.)

41. The loans taken are of fixed term duration, have targeted periods that offer the best rates available and also take into consideration the debt maturity portfolio. In 2010/11, from 1 April 2010 to 31 December 2010, 45-50 year PWLB rates started at 4.65%, rose to a high of 5.45% during December 2010 and were at a minimum of 3.92% on 31 August 2010. 9.5-10 year PWLB started at 4.14%, at the end of August fell to a minimum of 3.05% and have seen a high of 4.75% in December 2010.

42. Figure 3 shows the fluctuation in PWLB rates since April 2009 and details when new borrowing has taken place.

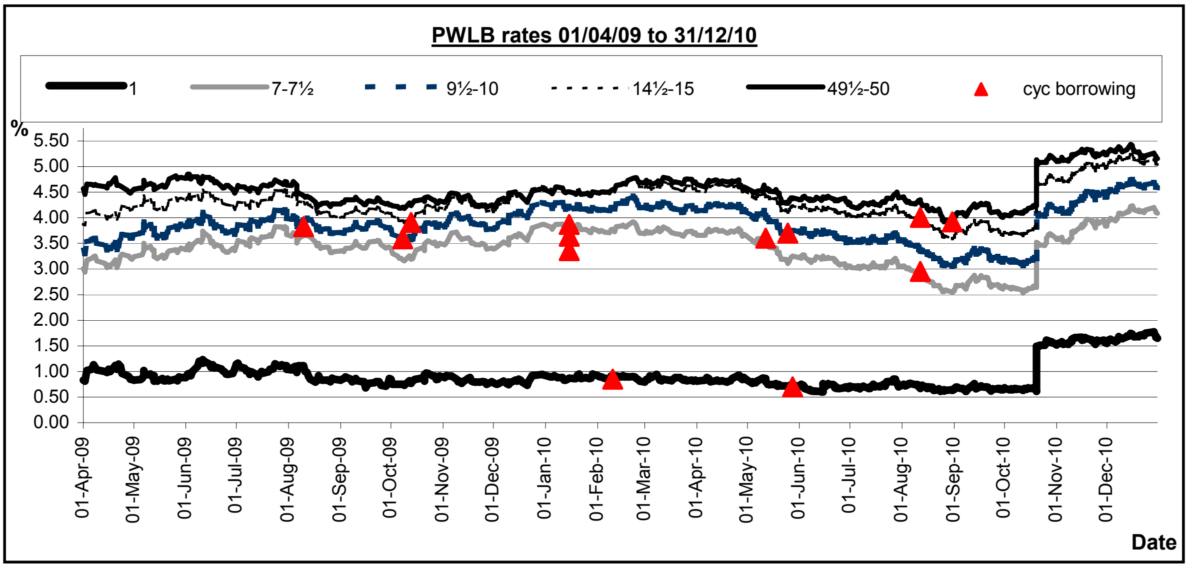

Figure 3 – PWLB rates vs CYC Borrowing Levels

43. Figure 4 illustrates the 2010/11 maturity profile of the Council's debt portfolio updated to reflect the borrowing this year to 31 December 2010. The borrowing portfolio totals £136.1m 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.

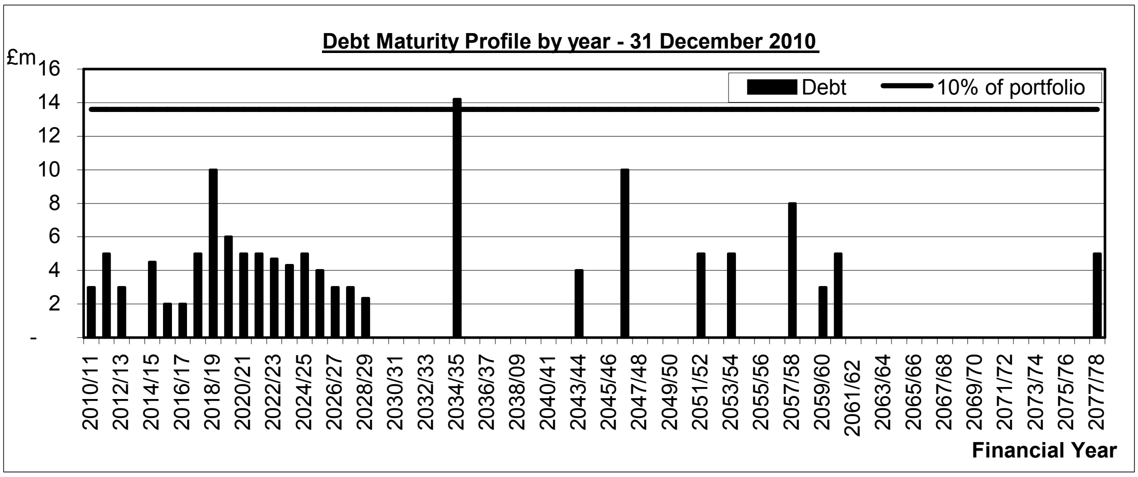

Figure 4 – Debt Maturity Profile 10/11

Venture Fund

44. 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

45. 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 to the Treasury Management budget 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.

46. The position of the venture fund reported at monitor 3 is no change from that reported to Members on 16 November 2010 at monitor 2.

Treasury Management Budget

47. Treasury Management activity had a Corporate Budget approved at Council on 25 February 2010 of £11,131k. In August 2010, the current approved

budget stood 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. In January 2011, the current approved budget stood at £11,736k. The reduction of £32k was approved by the Director of Customer & Business Support Services in line with the financial regulations. It was a transfer to Property Services for the loss of revenue from the property 1 Newgate Street being sold as a capital receipt and used to fund the capital programme in 09/10.

48. The projected outturn for 2010/11 is £11,536k, an estimated underspend of £200k. Table 3 details the individual components that make up this overspend.

	(Under)/Over Spend £000
Decrease in financing expenditure (interest paid)	(114)
Reduction in Minimum revenue provision charge to repay debt	(61)
Increase in interest receivable	(25)
Total Underspend	**(200)**

Table 3 – Treasury Management Budget 2010/11

49. The Treasury Management budget under spend at monitor 3 is driven by the 3 factors in table 3. The reduction in finance expenditure is due to the reduced amount of interest to be paid on borrowing during 2010/11. Until the Chancellor's Comprehensive Spending Review (CSR) on 20 October 2010, the borrowing interest rates available on the market were more favourable than were expected when the budget was set. There has been a delay in taking further borrowing due to the CSR, this has resulted in lower interest being paid in 10/11. In addition there is still volatility to lock into lower rates.

50. There is a slight increase in interest receivable compared to the budget. The cash balances to invest are slightly higher than anticipated and the use of various investment products - longer term deposits, short term call accounts and money market funds – are resulting in slightly better interest rates being received on investments. Of prime importance is always the security of the Council's funds.

51. It is expected that growth will continue to be slow in 2010/11, resulting in continued lower market interest rates being available for investments. It is interesting to note that in the 2010/11 strategy in February 2010 our Sector Treasury Management advisers were forecasting the base rate to rise in September 2010 to 0.75% and in March 2011 to 1.50%. On 29 October 2010, this had been revised to 0.75% in September 2011 and 1.50% in June 2012. Now the forecast on 5 January 2011 has been revised to 0.75% in December 2011 and 1.50% in September 2012. This highlights that investment interest earned will continue to be at low levels for the foreseeable future.

52. A technical review of the council's capital financing requirement and minimum revenue provision is ongoing and more detail on the financial impact of this will be provided in a future report. In accordance with the guidance the minimum revenue provision is at a level that is prudent. Further details are contained in the capital programme Budget Strategy 2010/11 to 2014/15.

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Compliance with Treasury and Prudential Limits

53. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved treasury limits and prudential indicators (affordability limits) for 2010/11 are outlined in the approved Treasury Management Strategy Statement (TMSS) at Council on 25 February 2010. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS. The monitoring of the Prudential Indicators is attached at Annex A. Prudential Indicators were not breached during the first 9 months of 2010/11.

Consultation

54. 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

55. The Council's corporate strategy has the 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

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

Equalities

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

Legal Implications

58. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to 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

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

Information Technology Implications

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

Property Implications

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

Risk Management

62. 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

63. Members are requested to:
- Note the performance of the Treasury Management activity;
- Note the projected underspend of the Treasury Management budget of £200k.

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

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Report Approved	☐	Date	15/02/11

Wards Affected: All ☐ None

Specialist Implication Officers:

None

For further information please contact the author of the report

Background Papers

Cash-flow Model 10/11, Investment Register 10/11, PWLB Debt Register, Capital Financing Requirement 10/11, Venture Fund 10/11, Treasury Management budget 101/11, Statistics 09/10.

Annexes

Annex A – Prudential Indicators

Annex A

ANNEX A

	PRUDENTIAL INDICATORS – Monitor 3 2010/11		2010/11 Budget	2010/11 Monitor 3
1)	**Capital Expenditure**		£'000	£'000
	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	66,116	57,497
		HRA	6,908	7,305
		TOTAL	73,024	64,802
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%	8.95%
		HRA	3.11%	2.50%
3)	**Incremental impact of capital investment decisions - Council Tax**		£ p	£ p
	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.	Increase in Council Tax (band D) per annum	25.43	21.72
4)	**Incremental impact of capital investment decisions - Hsg Rents**		£ p	£ p
	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.	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	143,623
		HRA	12,610	18,869
		TOTAL	141,093	162,492
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	192	192
		other long term liabilities	0	0
		TOTAL	192	192
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	172	172
		other long term liabilities	0	0
		TOTAL	172	172
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%	148%
		Actual Net interest re fixed rate borrowing / investments		

8b)	**Upper limit for variable 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 variable rate borrowing / investments Actual Net interest re variable rate borrowing / investments	-8%	-48%	
9)	**Upper limit for total principal sums invested for over 364 days** 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.		£10,000	£10,000	
10)	**Maturity structure of new fixed rate borrowing during 2010/11**		Upper Limit	Lower Limit	Mon 1
	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.	under 12 months	10%	0%	6%
		12 months and within 24 months	10%	0%	2%
		24 months and within 5 years	25%	0%	6%
		5 years and within 10 years	40%	0%	23%
		10 years and above	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 3 was estimated to be £64,802m and in the original budget was £73.024m. The Capital Programme Monitor 3 report provides further information with regards to the movements.

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 3 is 8.95% compared to a budgeted level of 9.30%. This indicator has fallen slightly due to a lower amount of borrowing estimated to be repaid during 2010/11 as more capital receipts have been received in the year than originally anticipated. The Housing Revenue Account (HRA) version of the indictor at monitor 3 is 2.50% 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, 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 3 the impact on

council tax is estimated at £21.72 per Band D charge. This has decreased from the estimate of £25.43 due to the interest paid on new borrowing during 2010/11 being lower than expected in the budget. Borrowing taken at the beginning of the financial year was at rates lower than originally anticipated due to the sentiment on the market that the economy was weak and there was a risk of a double dip recession. A reduced amount of borrowing has also occurred as more capital receipts have been received in the year than originally anticipated.

5. **Capital Financing Requirement (CFR) (Indicator 5)** - The CFR at Monitor 3 is estimated at £162.492m, 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. A technical review of the calculation of the capital financing requirement and the minimum revenue provision is currently underway. More detail on the financial impact of this will be provided in a future report.

6. **Authorised Limit / Operational Boundary (Indicator 6)** – The Council debt position at 1 April 2010 was £116.064m and currently stands at £136.064m. The Council's Operational Boundary (maximum prudent level of debt) was approved at Council as part of the budget set at £171.9m, along with the Authorised Limit (maximum allowed debt) at £191.9.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 3 fixed rate exposure was at 148% and variable rate exposure –48%.

9. **Upper Limit for total principal sums invested for over 364 days (Indicator 9)** – This has been set at £10m and is approximately 17% of the total average investment 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 the longer rates available to the council within its credit criteria limits.

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.

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Agenda Item 11

Audit & Governance **14 February 2011**

Report of the Director of Customer & Business Support Services

Scrutiny of Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/2016

Summary

1. 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") which was published in November 2009 and adopted by the council on 25 February 2010, Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. This is the second Treasury Management Strategy that Audit & Governance members will have received under the 2009 "code" guidance. This will be the start of the 2011/12 cycle of reports which includes 2 monitoring reports, a mid-year review report and an outturn report.

3. Attached at Appendix A is the Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16 including the required annexes.

Background

4. The key areas of the treasury management strategy report are the:
   a) Borrowing strategy which includes the policy on borrowing in advance of need, the policy on gross and net debt, and the issues surrounding debt rescheduling.
   b) Investment strategy which includes Investment policy and the creditworthiness policy - the security of the council's surplus funds
   c) Prudential Indicators 11/12 to 15/16 which ensure the affordability, sustainability and prudence of the Council's investment plans
   d) Minimum Revenue Provision Policy statement where the Council should make prudent provision to redeem its debt liability over a period which is reasonably
   e) Policy on the use of external advisers
   f) Scheme of delegation

5. The areas covered in the treasury management strategy report statement and prudential indicators for 2011/12 to 2015/16 are as required in legislation and "the code".

6. Points of interest to note in the report are as follows:

a) The prudential indicators are set in line with the council capital programme 2011/12 to 2015/16 to be approved at Full Council on 24 February 2011 along with the strategy at Appendix A.
b) The borrowing strategy is to consider shorter dated long term borrowing along with reducing the investment portfolio in a time where borrowing rates are rising but remain above the rate of interest that can be earned on surplus funds.
c) The target rate for borrowing is 5% in 2011/12.
d) Debt rescheduling will be reviewed and undertaken if it offers savings over the long term.
e) Investment strategy is primarily concerned with the security of the council's funds and therefore a strict credit criteria policy operates as advised by Sector – the council's treasury management advisers.
f) The target average rate of return for the year is 1.5%.
g) The minimum revenue provision policy states the prudent provision taken to redeem its debt liability over a period which is reasonably. This assists in ensuring that borrowing is affordable, sustainable and prudent.
h) The treasury management budget will rise by £1,131k to £12,867k in 2011/12 predominantly due to an increase in interest paid on borrowing in line with the capital investment requirements of the capital programme.

7. This covering report aims to assist Audit & Governance members in the scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16 by providing keys areas and points to note.

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 25 February 2010. The Council also approved 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 – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) and the *Local Authorities (Capital Finance and Accounting) (England)* ***)*** *(Amendment) Regulations 2008* (SI 2008/414)
- 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 requires officers and members to scrutiny and manage 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 Strategy Statement and Prudential Indicators for 2011/12 to 2015/16 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

Author:	**Chief Officer responsible for the report:**			
Louise Branford-White Technical Finance Manager 01904 551187	Keith Best Assistant Director of Customer & Business Support services (finance) Ian Floyd Director of Customer & Business Support Services			
	Report approved	√	Date	06/12/10

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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CITY OF YORK COUNCIL

Appendix A

Executive **15 February 2011**

Report of the Director of Customer and Business Support Services

Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16

Purpose

1. The purpose of this report is to ask the Executive to recommend that Council approve the:
    - Integrated Treasury Management Strategy Statement including the annual investment strategy and the minimum revenue provision policy statement;
    - Proposed Prudential Indicators for 2010/11 to 2014/15
    - Revised Treasury Management Policy Statement
    - Specified and Non-specified investments schedule
    - Treasury Management Scheme of Delegation and role of the section 151 officer

Summary

2. The report provides a background to why it is necessary to produce a Treasury Management strategy, including an investment strategy, a minimum revenue provision policy statement and set prudential indicators for the following three years.

3. The Council is currently undertaking a series of significant capital schemes that will realise revenue savings over the following 30 years. This high level of upfront capital investment will contribute to the rise in the Council's underlying need to borrow from the current level of approximately £136.1m in 2010/11 to a high of £182.1 over the next 5 years. The borrowing strategy aims to minimise the risks to the Council of borrowing large amounts in a single year by giving the Council the flexibility to borrow in advance of need or reduce the amount of borrowing taken, in order to take advantage of favourable borrowing and investment interest rates as they arise.

4. The annual investment strategy reviews the projected interest rates over the next 3 years until the 2011/12 financial years, and seeks to maximise the returns to the Council whilst minimising the risks involved in placing deposits on the money market.

Background
Statutory requirements

5. The Local Government Act 2003 and supporting regulations requires the Council to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

6. As part of the strategy, the Local Government Act 2003 and supporting regulations also requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for a minimum of the next three years to ensure the Council's capital investment plans are affordable, prudent and sustainable. The strategy therefore is affected by the Council's capital spending plans, as set out in the capital programme budget 2011/12 to 2015/16 report and the revenue implications of these that are reflected in the revenue budget report, both presented to Full Council on 24 February 2011.

7. The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

CIPFA requirements

8. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 25 February 2010.

9. The primary requirements of the Code are as follows:
   a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities. This was adopted and approved at Full Council on 25 February 2010.
   b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
   c) Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
   d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
   e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. This

Council approved the delegated body as the Audit & Governance Committee on 25 February 2010.

10. The suggested strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the Director of Customer & Business Support Services views on interest rates, supplemented with market forecasts provided by Sector Treasury Services, the Council's treasury management advisor. The strategy covers:

- Balanced Budget Requirement
- Treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential Indicators
- Current treasury position Prospects for interest rates Economic Background
- Borrowing strategy
- Policy on Borrowing in advance of need
- Policy on gross and net debt
- Debt rescheduling
- Investment Policy
- Creditworthiness Policy
- Investment Strategy
- Minimum Revenue Provision strategy
- Policy on external advisers
- Scheme of Delegation / Role of the Section 151 Officer

Balanced Budget Requirement

11. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:
    a) increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
    b) any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

12. For 2011/12 the treasury management revenue budget will rise by £1,131k to £12,867 from £11,736k in 2010/11. This rise is predominantly due to an increase in interest paid on borrowing in line with the capital investment requirements of the capital programme. There is little impact on the budget from the principal repayments of debt known as the minimum revenue provision. This is calculated in accordance with the minimum revenue provision policy statement detailed later in this report. The forecast of interest to be earned in 2011/12 remains low in the historically low investment interest rate environment.

Treasury Limits 20010/11 –2014/15

13. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Authorised Borrowing Limit", and represents the legislative limit specified in the Act. Within this limit there is an "Operational Boundary", which is the maximum level of debt allowed for on going operational purposes. In reality the operational limit would only be breached as a result of in year cash flow movements.

14. The Council must have regard to the Prudential Code when setting the Authorised and Operational Limits which essentially requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'. Both the authorised limit and operational limit have been reviewed in light of the capital investment plans, as set out in the capital programme, and rebased for 2011/12. They now stand at £222m and £202m respectively.

15. The "Authorised Borrowing Limit" incorporates external borrowing and other forms of liability, such as credit arrangements. Both the Authorised Borrowing Limit and Operational Boundary are set on a rolling basis for the forthcoming financial year and two successive financial years as set out in the Prudential Code. Details of these limits can be found in Annex A of this report – Prudential Indicators 2011/12 to 2015/16

Prudential and Treasury Indicators 2011/12 to 2015/16

16. Prudential and Treasury Indicators attached at Annex A are required under legislation for the purposes of setting an integrated treasury management strategy.

17. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised 2009 Code was adopted by the full council on 25 February 2010.

Current Treasury Management Portfolio Position

18. The Council's current treasury portfolio position at 31 January 2011 is detailed below in Table 1:

Institution Type	**Principal**	**Average Rate**
Public Works Loan Board (PWLB) – Money borrowed from the Debt Mgt Office (Treasury Agency)	£111.1m	4.07%
Market Loans Club Loan – A loan taken in conjunction with 2 other Authorities	£10.0m	7.155%

LOBO Loan – Lender Option Borrower Option Local Authority Loan – One year	£10.0m £5.0m	3.74% 0.70%
Total Gross Borrowing	**£136.065**	**4.148%**
Total Investments	**£ 58.900**	**1.18%**
Net Debt	£ 77.165	

Table 1 – Current treasury portfolio position

19. The Council currently has £136.1m of fixed interest rate debt with an average life of loan of 19 years and average cost of debt of 4.148%. The Council currently has no variable rate borrowing. The Council is only permitted to borrow to invest in capital projects, unless permitted to do otherwise by the Government. Therefore the majority of the Councils existing debt is secured against its asset base.

20. Figure 1 shows the Councils current debt maturity structure as at 31 January 2011:

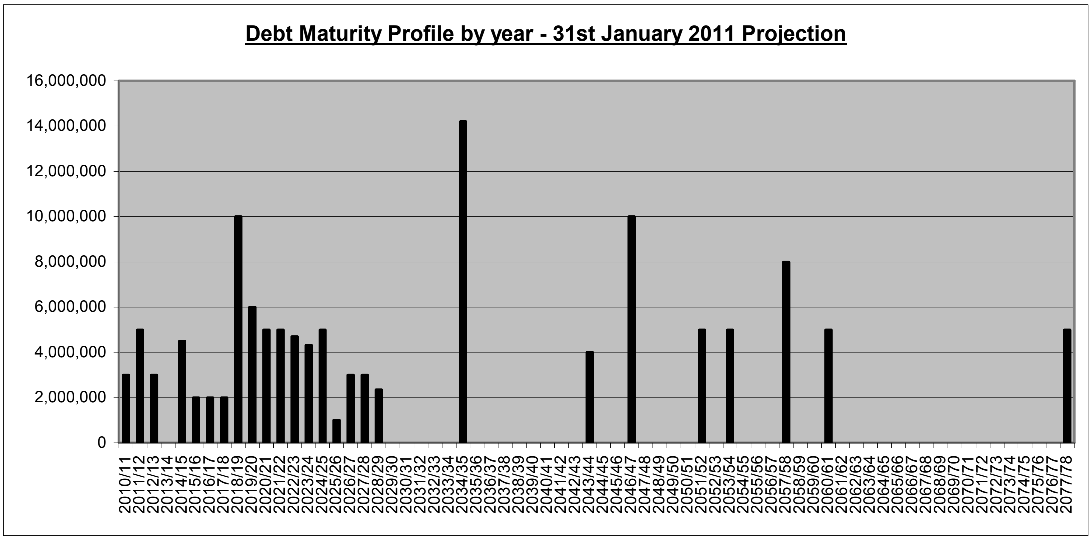

Figure 1 – Debt Maturity Profile as at January 2011

21. The Council's total investments at 31 January 2011 was £58.9m of which £17.1m were held in instant access call accounts, £17.9m in instant access money market funds and £23.9m invested in fixed term deposits on the UK money market.

Prospects for Interest Rates

22. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions the Council contracts Sector Treasury Services as its treasury advisor. Part of their service is to assist the Council in formulating a view on interest rates. Annex B draws together a number of current forecasts for short term (Bank Rate) and longer fixed

interests rates. Table 2 gives Sector Treasury Services Bank Rate forecast:

Year	2010/11	2011/12	2012/13	2013/14
Rate	0.50%	1.00%	2.25%	3.25%

Table 2 – Sector's Bank Rate forecast for financial year ends

23. Sector Treasury services view of fixed long term borrowing rates (PWLB) and the base rate are also shown below in Figure 2.

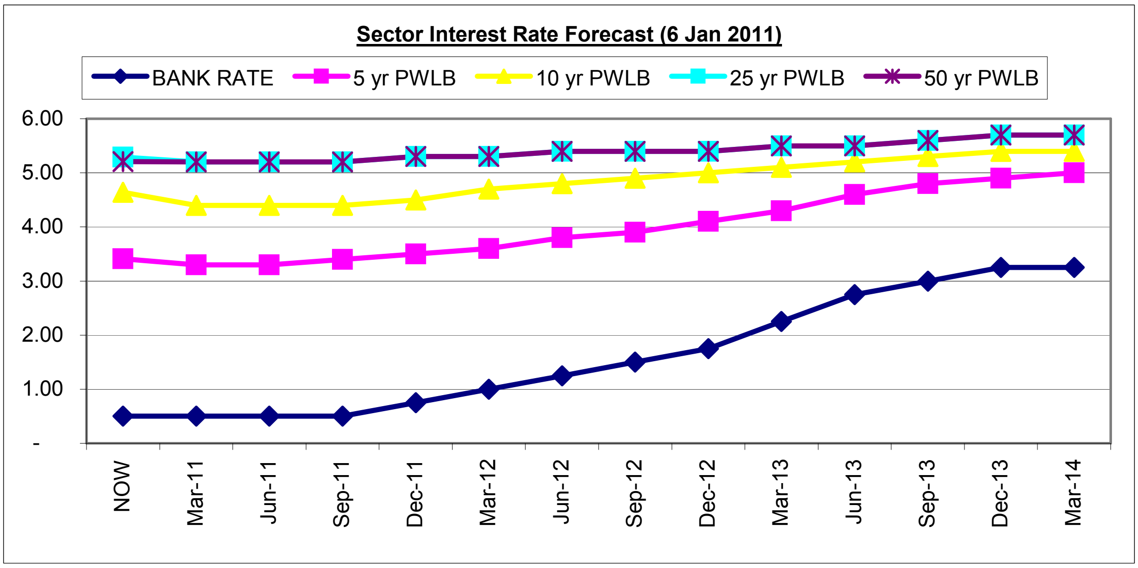

Figure 2 – Sector interest rate forecast

24. The graph clearly shows that the base rate and the range of PWLB borrowing rates are forecast to rise in the foreseeable future. Borrowing rates in 2011/12 are between 3.30% and 5.30%, they then rise at the end of 2013/14 to between 5% and 6%. There is a downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

Economic Background

25. A detailed view of the current economic background is contained within Annex C and assists in the formulation of the treasury management strategy as it details the current economic and market environment.

Borrowing Strategy

~~26.~~ The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme. The council's borrowing is described as either "supported" or "prudential". If 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. If the Council borrows without Government support, under the Prudential 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.

27. In 2011/12, under the Comprehensive Spending Review borrowing ceased to be "supported" by the Government through RSG. Therefore, as it currently stands in future all borrowing is of a prudential nature as in accordance with Council's priorities and it has to be affordable, sustainable and prudent. It is estimated that the capital financing requirement in 2011/12 will be around £20m. This includes projects such as the Administrative Accommodation Rationalisation Project, the pools strategy, West of York Recycling site, Community Stadium, Highways resurfacing & reconstruction, assisting in independent living etc., more detail is found in the capital programme budget report 2011/12 to 2015/16 also included on this Executive agenda.

28. As a result of the Capital programme 2011/12 to 2015/16 the borrowing requirement is projected to increase significantly from its current level of £136.1m in 2010/11 to a high of £182.1 over the next 5 years. The treasury management and borrowing strategy needs to reflect this position when considering the current economic and market environment. The Sector forecast for PWLB borrowing rates for future years is detailed below in table 3:

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%

Table 3 – Forecast of PWLB Borrowing Rates

29. The borrowing strategy is influenced by the above interest rate forecast. The interest rate forecast shows that borrowing rates are estimated to rise substantially over the next 3 years and the base rate, although rising, remains at historically low levels and below the borrowing rates. Therefore, the borrowing strategy will be to lock into some long term borrowing in 2011/12 whilst interest rates are lower than in the coming years, but also give consideration to running down the investment portfolio as this is currently the cheapest form of borrowing. This balanced strategy will assist in stabilising the treasury management budget in future years but also allow the flexibility to utilise the changing interest rate environment to the best opportunity for the Council.

30. The Council's borrowing strategy is based on the following opportunities:

    a) The cheapest form of borrowing will be internal borrowing which is the running down of surplus cash balances cash balances. This foregoes the interest that would have been earned at historically low rates on investments but saves the interest that would have been paid on higher borrowing rates. That said, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential longer term costs of the opportunity missed for taking loans at long term rates which will be higher in future years. However, there remains volatility in the market so favourable rates should still be available.
    b) Temporary borrowing from the money markets or other local authorities
    c) PWLB variable rate loans in the short term for up to 10 years
    d) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
    e) PWLB borrowing for periods under 10 where rates are expected to be significantly lower than rates for longer periods.

31. External borrowing will be taken throughout the financial year when interest rates seem most favourable. A target interest rate in light of table 3 above is 5%. Consideration will also be given to the maturity profile of the debt portfolio so the Council is not exposed to the concentration of debt being in any one year.

32. External borrowing for the timing in shortfall of Capital receipts will be kept at the very short end - 1 or 2 years - in order to spread the interest rate cost over a number of years until budget pressures have eased and the capital receipt realised.

33. Caution in this approach will be adopted by the Director of Customer & Business Support Services (Section 151 Officer), the interest rate market will be monitored and a pragmatic approach adopted to changing circumstances, reporting any decisions as part of the monitoring cycle.

34. The main sensitivities of the forecast are likely to be the two scenarios below. The Treasury Management team in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

    - if it were felt that there was a significant risk of a sharp fall in long and short term rates, due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

- if it were felt that there was a significant risk of a much sharper rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap

Policy on Borrowing in advance of need

35. The Council will not borrow “in advance of” or “more than” its need, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance of need will be considered carefully in accordance with the capital programme to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

36. In determining whether borrowing will be undertaken in advance of need the Council will:
    a) ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
    b) ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
    c) evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
    d) consider the merits and demerits of alternative forms of funding
    e) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
    f) consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them

37. The borrowing requirement is projected to increase significantly from its current level of £136.1m in 2010/11 to £182.1m over the next 5 years in line with the capital programme budget report 2011/12 to 2015/16. Borrowing rates are forecast to rise in the future years in the current economic environment, whereas the level of investment rates are forecast to be lower.

38. Consideration will be given to borrowing in advance of need to seek to minimise the risk of being required to borrow a large amount of money in a single year. The strategy therefore allows borrowing to be taken in advance of need if interest rates are at favourable levels or not to borrow until future years if borrowing rates remain above investment rates.

Policy on Gross and Net debt

39. The revised Prudential Code now requires each authority to explain its policy on gross and net debt if there is a significant difference between them. This Council currently has a difference between gross debt, £136.1m, and net debt, £111.1m, (after deducting cash balances), of £25.0m.

Comparison of gross and net debt position at year end							
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Probable	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross external debt	116.1	136.1	179.6	182.1	176.1	172.5	169.0
Cash balances	25.9	25.0	30.0	30.0	30.0	30.0	30.0
Net debt	**90.2**	**111.1**	**149.6**	**152.1**	**146.1**	**142.5**	**139.0**

Table 4 – Comparison of Gross and Net Debt

40. The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years, (taking into account the forecast of interest rates) in order to reduce the credit risk incurred by holding investments. Important factors to consider are the (i) forecast of interest rates and (ii) the difference between borrowing rates and investment rates. This will ensure the Council obtains "value for money" once an appropriate level of risk management has been attained to ensure the security of its investments.

41. The next financial year is again expected to be one of historically abnormally low Bank Rate. Therefore, over the next three years, investment rates are expected to be below long term borrowing rates and consideration will be given to reducing the level of the investment portfolio to support the capital investment requirement. This would maximise short-term savings.

42. However, the benefits of short term savings by avoiding new long term external borrowing in 2010/11 will also be analysed against the potential for incurring additional extra costs in the long term from delaying unavoidable new external borrowing in later years when PWLB long term rates are forecast to be higher.

43. The Council continues to examine the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action; such levels of premiums are unlikely to be justifiable on "value for money grounds". This situation

will continued to be monitored in case these differentials are narrowed by the PWLB at some future date.

44. Against this background caution will be adopted with the 2011/12 treasury operations. The Director of Customer Business and Support Services (S151 officer) will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

Debt Rescheduling

45. Prior to November 2007, it was often advantageous to reschedule one Public Works Loans Board (PWLB) loan for another PWLB loan, in order to make a saving on the Council's budget. However, since then, with the PWLB introducing a spread between the interest rates "applied" to new borrowing and repayment of debt and the affects of the Comprehensive Spending Review on 20 October 2010 - a considerable further widening of the difference between new borrowing and repayment rates - restructuring PWLB to PWLB debt is now much less attractive.

46. In particular, consideration has to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. Some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) market loans (or other market loans) in rescheduling exercises, rather than using PWLB borrowing as the source of replacement financing.

47. As short term borrowing rates will be considerably cheaper than longer-term rates, there maybe opportunities to generate savings by switching from long term debt to short-term debt. However, these savings will need to be considered in the light of their short-term nature, the costs of premiums involved and the likely cost of refinancing those short-term loans, once they mature.

48. The reasons for any rescheduling to take place will include:

a) the generation of cash savings and / or discounted cash flow savings;
b) helping to fulfil the strategy outlined above, and
c) enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

49. Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

50. Any rescheduling will be reported in accordance with the usual monitoring cycle.

Investment Policy

51. The Council will have regard to the department of Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") and the 2009 CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

52. The Council's investment priorities are the security of capital and the liquidity of its investments. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of it investments, see later in the section of the Creditworthiness Policy.

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

54. In accordance with "the Guidance" it is necessary in the strategy to determine investment instruments which are identified for use in the financial year. The investment instruments are classed under "specified" and "non-Specified" investments categories and are detailed in Annex D. It is also a requirement to set limits for the institutions in which the Council will invest their surplus funds - Counterparties limits. These are set out in the later section - the Investment Strategy.

55. Consideration will be given throughout the year, and approval requested where necessary, to the alteration of the "specified" and "non-specified" investment categories to allow the continued effective management of the Councils treasury management operations. The Council continues to take a prudent approach to investing funds as set out in the Creditworthiness Policy below.

Creditworthiness Policy

56. This Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, which forms the core element. It does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:
    - credit watches and credit outlooks from credit rating agencies
    - CDS spreads to give early warning of likely changes in credit ratings
    - sovereign ratings to select counterparties from only the most creditworthy countries

57. This modelling approach combines credit ratings, credit watches, credit outlooks and CDS (Credit Default Swap) spreads in a weighted scoring

system for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much-improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

58. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands*:*
    - Yellow 5 years
    - Purple 2 years
    - Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
    - Orange 1 year
    - Red 6 months
    - Green 3 months
    - No colour not to be used

59. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

60. All credit ratings will be monitored on an ongoing basis as information is provided weekly basis and also adhoc**.** The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service:
    - If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
    - In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

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

62. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex E. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment Strategy

63. The Council's in-house funds are mainly cash flow derived. Investments will accordingly be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The Council uses matrices that stipulate both time and financial limits in order to spread counterparty (credit) risk when investing money with approved counterparties. The matrices are based on the projected average balance for the year. Therefore for 2011/12 (as for 2010/11) with the average balance forecast to be circa £60m, the matrix stipulates a limit for £8m for counterparties with a durational band of 3 months and £15m longer than 3 months.

64. The market interest rate outlook for 2010/11 is based on the position of the Bank Rate. The Bank Rate has been unchanged at 0.50% since March 2009 but is forecast to commence rising in quarter 4 of 2011 and then to rise steadily from thereon. Bank rate forecast for financial year-end (March) are: 2009/10:0.5%, 2010/11:1.5%, 2011/12:3.5%, 2012/13:4.5%

65. There is downside risk to these forecasts economic growth is weaker than expected. There is also a risk that the MPC could decide to start raising Bank Rate in quarter 3 of 2011 if it feels it needs to defend its credibility in containing inflation and the inflation expectations of the public.

66. The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.

67. For 2011/12, in the current economic environment, the Council has budgeted for an investment return target of 1.5% on investments placed during the financial year. For its cash flow generated balances, the Council will seek to utilise short dated fixed term deposits along with instant access business reserve accounts (call accounts) and money market funds in order to benefit from the compounding of interest.

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

Minimum Revenue Provision (MRP) Policy Statement

69. Statutory Instrument (SI) 2008 no.414 s4 explains that a local authority shall determine for the current financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This SI is an amendment and stands along side the previous requirement to comply with regulation 28 in SI 2003 no.3146. In accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003, a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year.

70. The Council are legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The four options are:

   a) The regulatory method – 4% of the borrowing outstanding;
   b) The Capital Financing Method – 4% of the Council's Capital Financing Requirement;
   c) The Depreciation Method – repayment of the debt over its depreciation life;
   d) The Asset Life Method – repayment over the life of the asset to which the borrowing has been taken to fund.

71. Options a and b have broadly the same impact on the Council and the DCLG states are only used for the government supported borrowing, which mainly relates to the more historic debt liability. Option c would take the maximum repayment period to 40 years on operational land and buildings. Option d would take the maximum repayment period up to 60 years for some assets.

72. There are merits in adopting all the options, however, in terms of prudence it is recommended that the Council adopts option a for government supported borrowing and option d for unsupported borrowing, with a caveat that the asset life is an absolute maximum and wherever possible the debt should be repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. To this end it is recommended that the standard repayment period should be up to 25 years or less if the asset life is shorter, unless approval is sought to extended the repayment provision over a longer period and a formal business case is made to the Director of Customer & Business Support Services.

73. It should be noted that with all debts, the longer the repayment period the more is paid in interest over the period of the loan. It is therefore deemed as prudent to reduce the period over which the repayments are made.

Policy on use of External Service providers

74. The Council uses Sector Treasury Services as its external treasury management advisers.

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

76. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation and the Role of the Section 151 Officer

77. Those charged with governance are responsible for the treasury management activities and these need to be clearly defined within the organisation. Attached at Annex F are the Treasury Management Scheme of Delegation and also the Treasury Management role of the section 151 officer (Director of Customer & Business Support Services).

Consultation and Options

78. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the Council to the Director of Customer & Business Support Services, who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices. In order to inform sound treasury management operations the Council works with its Treasury Management advisers, Sector Treasury Services. Sector Treasury Services offer the Council a comprehensive information and advisory service to enable the Council to maximise its investment returns and minimise the costs of its debts.

79. Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.

~~80.~~ At a strategic level, there are a number of treasury management options available which depend on the Council's stance on interest rate movements. The report sets out the Council's stance and recommends the setting of key trigger points for borrowing and investing over the forthcoming financial year.

Corporate Priorities

81. The Treasury Management Strategy Statement and Prudential Indicators are aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Corporate Strategy.

Implications

- **Financial** – The revenue implications of the treasury strategy are set out in the Revenue Budget report also on this agenda.
- **Human Resources (HR)** – None
- **Equalities** – None
- **Legal** – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to 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** – None
- **Information Technology (IT)** – None
- **Property** – None

Risk Management

82. 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), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

83. The Executive are asked to recommend that Council approve:

a. The proposed Treasury Management Strategy for 2011/12 including the annual investment strategy and the minimum revenue provision policy statement;
b. The Prudential Indicators for 2011/12 to 2015/16 (Annex A);
c. The Specified and Non-specified investments schedule (Annex D)

d. The Scheme of Delegation and the Role of the Section 151 Officer (Annex F)

84. **Reason**: To enable the continued effective operation of the Treasury Management function and ensure that all Council borrowing is prudent, affordable and sustainable.

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Report Approved ☐ **Date** 15/02/11

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Director of Customer Business and Support Services

Report Approved Y **Date** 15/02/11

Specialist Implications Officer(s)
N/a

Wards Affected: **All** Y

For further information please contact the author of the report

Background Papers
2010/11 monitoring workings
Prudential Indicator Workings 2010/11 to 15/16
Treasury Management budget 2011/12
Capital Budget Control 2010/11 to 2015/16.
Sector Treasury Services -Treasury Management Advisers Commentary.

Annexes
Annex A – Prudential and Treasury Indicators 2010/11– 2015/16
Annex B – Interest Rate Forecast
Annex C – Economic Background
Annex D – Specified and Non-Specified Investments categories Schedule
Annex E – Approved countries for investments
Annex F – Scheme of Delegation and the Role of the Section 151 Officer

Annex A

	PRUDENTIAL INDICATORS		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
			Probable Outturn	estimate	estimate	estimate	estimate	estimate
1)	**Capital Expenditure**		£'000	£'000	£'000	£'000	£'000	£'000
	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	57,621	51,478	43,392	22,090	12,348	4,641
		HRA	7,305	7,305	8,575	7,128	8,973	6,772
		TOTAL	**64,926**	**58,783**	**51,967**	**29,218**	**21,321**	**11,413**
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 tax payers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy	Non - HRA	8.95%	9.59%	10.11%	9.73%	9.26%	8.81%
		HRA	2.50%	2.06%	2.15%	2.14%	2.08%	2.05%
3)	**Incremental impact of capital investment decisions - Council Tax**		£ p	£ p	£ p	£ p	£ p	£ p
	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.	Increase in Council Tax (band D) per annum	21.72	22.85	27.06	6.32	0.88	0.00
4)	**Incremental impact of capital investment decisions - Hsg Rents**		£ p	£ p	£ p	£ p	£ p	£ p
	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.	Increase in average housing rent per week	0.00	0.00	0.00	0.00	0.00	0.00
5)	**Capital Financing Requirement as at 31 March**		£'000	£'000	£'000	£'000	£'000	£'000
	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	143,623	160,738	163,182	157,181	153,637	150,082
		HRA	18,869	18,869	18,869	18,869	18,869	18,869
		TOTAL	**156,779**	**179,607**	**182,051**	**176,050**	**172,506**	**168,951**

6a)	**Authorised Limit for external debt -**		£'000	£'000	£'000	£'000	£'000	£'000
	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	192	212	212	212	206	204
		other long term liabilities	0	10	10	10	10	10
		TOTAL	192	222	222	222	216	214
6b)	**Operational Boundary for external debt -**		£'000	£'000	£'000	£'000	£'000	£'000
	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	172	192	192	192	186	183
		other long term liabilities	0	10	10	10	10	10
		TOTAL	172	202	202	202	196	193
7)	**Adoption of the CIPFA in Public Services: Code of Practice and Cross-Sectoral Guidance Notes**	Recommended in the Treasury Management Strategy 2010/11 to 2014/15						
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 principal re fixed rate borrowing / investments	148%	110%	110%	110%	111%	111%
8b)	**Upper limit for variable 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 principal re variable rate borrowing / investments	-48%	-10%	-10%	-10%	-11%	-11%

			2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
9)	**Upper limit for total principal sums invested for over 364 days**		£'000	£'000	£'000	£'000	£'000	£'000
	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.	Upper Limit	£10,000	£10,000	£10,000	£10,000	£10,000	£10,000
10)	**Maturity structure of new fixed rate borrowing during 2006/07**		Upper Limit	Lower Limit				
	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.	under 12 months	30%	0%				
		12 months and within 24 months	30%	0%				
		24 months and within 5 years	35%	0%				
		5 years and within 10 years	40%	0%				
		10 years and above	90%	30%				

Glossary Of Abbreviations

HRA Housing Revenue Account

SORP Statement of Recommended Practice - for Local Authority Accounting

CYC City of York Council

CFR Capital Financing Requirement

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Annex B

Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector Treasury Services interest rate forecast – 06/01/11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics interest rate forecast – 12.01.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%	3.60%	3.90%	4.20%
10yr PWLB rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%	4.00%	4.30%	4.60%
25yr PWLB rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%	4.85%	5.10%	5.30%
50yr PWLB rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%

UBS interest rate forecast (for quarter ends) – 06/01/11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Bank rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2011		ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	2.00%		0.90%	1.60%	2.40%	3.00%
Highest	0.50%	0.50%		2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.80%		0.50%	0.50%	0.60%	1.20%

Annex C

Economic Background

Global economy

1. The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland in November, culminated in Ireland also having to take a bail out. At the time of writing (early January 2011) there is major concern that Portugal will also shortly need to take a bail out. That, in turn, would then stoke major concerns as to whether the current size of the bail out facility put together by the EU and IMF would be big enough to cope with any crisis that then blew up over Spanish government debt.

2. The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

UK economy

3. Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The result of fiscal contraction will be major job losses during this period, in particular in public sector services. This is likely to have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a generally negative trend starting in mid 2010. Mortgage approvals are also at very weak levels, all of which indicates that the housing market is likely to be weak in 2011.
4. **Economic Growth** – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. Growth in quarter 3 @ +0.7% was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.
5. **Unemployment** – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which may be the start of a new trend for some years ahead of rising unemployment.
6. **Inflation and Bank Rate** – CPI has remained high during 2010. It peaked at 3.7% in April and then gradually declined to 3.1% in September (RPI 4.6%).

However, the outlook from there is a rising trend which could even reach as much as 4% in early 2011 before starting to subside again. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

7. The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectation that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, has evaporated after the surprises of the Q3 GDP figure of +0.7% and the November Inflation Report revising the forecast for short term inflation sharply upwards.

8. Sector's central view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

9. **AAA rating** – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors viewed UK government gilts as being a safe haven from EU government debt during mid 2010. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

Sector's forward view

10. It is currently difficult to have confidence as to exactly how strong UK economic growth is likely to be during 2011/12, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

    - the strength / weakness of economic growth in our major trading partners - the US and EU
    - the danger of currency war and resort to protectionism and tariff barriers if China does not adequately address the issue of its huge trade surplus due to its undervalued currency
    - the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
    - changes in the consumer savings ratio
    - the speed of rebalancing of the UK economy towards exporting and substituting imports
    - the potential, in the US, for more quantitative easing, and the timing of this , and its subsequent reversal in both the US and UK
    - the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers

- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
- political risks in the Middle East and Korea

11. The overall balance of risks is weighted to the downside and there is some residual risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

12. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries

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Annex D

Specified and Non-Specified Investments Categories

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

	Minimum 'High' Credit Criteria	**Use**
Term Deposits with nationalised banks and banks and building societies operating with government guarantees		
Debt Management Agency Deposit Facility	Long term AAA	In-house
Term deposits – local authorities	Long term AAA	In-house
Term deposits – banks and building societies	Coded: Orange on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2 Or equivalent rating from Standard & Poors and Moody's	In-house
Collateralised deposit	UK Sovereign rating / Long term AAA	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	UK Sovereign rating / Long term AAA	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies covered by UK Government banking support package	UK Sovereign rating / Long term AAA	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies NOT covered by UK Government banking support package	Fitch's rating: UK sovereign rating or Short-term F1+, Long-term AA-, Individual B, Support 2 or equivalent rating from Standard& Poors and Moodys	In-house and Fund Mangers
UK Government Gilts	UK Sovereign rating / Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK government	UK Sovereign rating / Long term AAA	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold and Fund Managers
Treasury Bills	UK Sovereign rating	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Short-term F1, Long-term AAA	In-house and Fund Managers

	Volatility rating	
2. Money Market Funds	Short-term F1, Long-term AAA Volatility rating	In-house and Fund Managers
.3. Enhanced cash funds	Short-term F1, Long-term AAA Volatility rating	In-house and Fund Managers
4. Bond Funds	Long-term AAA Volatility rating	In-house and Fund Managers
5. Gilt Funds	Long-term AAA Volatility rating	In-house and Fund Managers

Since the credit crunch crisis there have been a number of developments that require separate clarification. In the table there is mention of the "uk government banking support package" which when initially announced covered the following banks:

- Abbey (now Santander)
- Barclays
- HBOS (now part of the Lloyds group)
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, a review of the accounting implications of new transactions will be occur before they are undertaken.

NON-SPECIFIED INVESTMENTS*:*
A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	Coded: red and green on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	100%	3-6 Months
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Short-term F1+, Long-term AA-, Individual B, Support 2	In-house	40%	1 Year
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Short-term F1+, Long-term AA-, Individual B, Support 2	In-house buy and hold and Fund Managers	30%	1 Year
Commercial paper issuance covered by a specific UK Government guarantee and issued by banks covered by the UK bank support package	UK Sovereign rating / Long term AAA	In-house and Fund Managers	30%	1 Year
Commercial paper other	Short-term F1+, Long-term AA-, Individual B, Support 2	In-house	30%	1 Year
Corporate Bonds issued by UK banks covered by the UK bank support package and UK Government guarantee: the use of these investments would constitute capital expenditure	UK Government explicit guarantee	In-house and Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Corporate Bonds other: the use of these investments would constitute capital expenditure	Short-term F1+, Long-term AA-, Individual B, Support 2	In-house and Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Managers	30%	
Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank	Long-term AAA	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure

Property fund: the use of these investments would constitute capital expenditure	--	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Local Authority mortgage guarantee scheme	Short-term F1+, Long-term AA-, Individual B, Support 2	In-house		

2. Maturities in excess of 1 year

Term deposits – local authorities	--	In-house	10%	> 1 year
Term deposits – banks and building societies	Coded: Purple on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2 Or equivalent rating from Standard & Poors and Moody's	In-house	10%	> 1 year
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	UK Sovereign / Long Term AAA	In house and Fund Managers	10%	> 1 year
Certificates of deposits issued by banks and building societies covered by the UK government banking support package	UK Sovereign / Long Term AAA	In house and Fund Managers	10%	> 1 year
Certificates of deposits issued by banks and building societies NOT covered by the UK government banking support package	Short-term F1+, Long-term AA-, Individual B, Support 2	In house and Fund Managers	10%	> 1 year
UK Government Gilts	UK Sovereign rating / Long term AAA	In-house and Fund Managers	10%	> 1 year
Bonds issued by multilateral development banks	Long term AAA	In-house and Fund Managers	10%	> 1 year
Sovereign bond issues (i.e. other than the UK govt)	Long term AAA	In-house and Fund Managers	10%	> 1 year
Collective Investment Schemes structure as open Ended Investment Companies (OEICs)				
1. Bond Funds	Long-term AAA Volatility rating	In-house and Fund Managers		
2. Gilt Funds	Long-term AAA Volatility rating	In-house and Fund Managers		

Annex E

Approved countries for investments

AAA
- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+
- Australia
- Belgium
- Hong Kong

AA
- Japan
- Kuwait
- Qatar (AA S&P rating)
- UAE

AA-
- Italy
- Saudi Arabia

The Council's creditworthiness policy in the main body of the report explains the prudent approach that is taken at the Council. The Council only uses approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). Current investments are only held with AAA or AA+ rated countries.

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Annex F

Treasury Management Scheme of Delegation

(i) Executive / Full Council

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

(ii) Executive

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

(iii) Audit & Governance Committee

- receiving and scrutinising reports on treasury management policies, practices and activities
- scrutinising the annual strategy, annual outturn and quarterly updates.

(iv) Director of resources (Section 151 Officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

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

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 Agenda Item 12

Audit and Governance Committee 14 February 2011

Report of the Assistant Director, Financial Services

Internal Audit Plan Consultation

Summary

1 The purpose of the report is to seek members' views on the priorities for internal audit for 2011/12, to inform the preparation of the annual audit plan.

Background

2 In accordance with the CIPFA Code of Practice for Internal Audit (the Code of Practice), audit plans are prepared on the basis of a risk assessment process. The risk assessment methodology is designed to ensure that limited audit resources available are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of the council's corporate priorities and objectives.

3 Consultation with members and with senior council officers is an essential part of the risk assessment process, to ensure that their views on the risks facing the organisation are taken into account.

2011/12 Audit Plan

4 Annex 1 shows the internal audit risk assessment for each area subject to audit. The assessment is based on the position at the beginning of 2010/11. Areas are listed in descending order from high to low risk. Historically, audit activity has focussed on those areas listed as a high risk.

5 The council is currently experiencing the most significant financial pressures it has faced since its formation in 1996. Major changes are taking place across all council services, with corresponding increases in risk in all areas. Internal audit has a continued responsibility to provide assurance on the council's overall control environment. However, with the current level of resources available it is not possible to achieve this by maintaining a traditional approach to audit which assumes change is limited to discrete areas. Currently, major changes are being made in areas which historically have not been classed as a high risk (for example human resources). And even where changes are not

significant, reductions in resources may mean that services can no longer continue to operate controls to the extent that they have historically.

6 To reflect this, the intention is for the 2011/12 audit plan to provide a mix between traditional audits (for example in areas such as the main financial systems where the volume and value of transactions processed are so significant that regular audit is essential) and other reviews targeted towards areas of increased risk due to change. These audits will include (a) direct support to change projects eg housing repairs, to ensure controls being implemented as part of the project are reasonable and (b) a change in focus for existing audits such as budgetary control and value for money, to focus on the achievement of overall council objectives for example by reviewing progress in achieving planned savings.

7 Members views are sought about whether:

a) the proposed approach to determining priorities for the 2011/12 audit plan, set out above, is reasonable

b) there are specific high risk areas in the existing risk assessment (Annex 1) which should continue to be a priority for a more traditional audit review

c) there are other specific areas which should be considered for audit in 2011/12.

Consultation

8 This report is part of the ongoing consultation with stakeholders on priorities for internal audit work.

Options

9 Not relevant for the purpose of the report.

Analysis

10 Not relevant for the purpose of the report.

Corporate Priorities

11 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

12 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

13 The council will fail to comply with proper practice if audit plans are not based on an appropriate assessment of risk.

Recommendations

14 Members are asked to;

- Comment on the proposed approach to internal audit planning for 2011/12 and identify any specific areas which should be considered a priority.

  Reason

  To ensure that scarce audit resources are used effectively.

Contact Details

Author:	**Chief Officer Responsible for the report:**
Richard Smith Audit and Fraud Manager Telephone: 01904 552936	Keith Best Assistant Director, Financial Services Telephone: 01904 551745

Report Approved ✔ **Date** 1 February 2011

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ☐

For further information please contact the author of the report

Background Papers

None **Annexes** Annex 1 – Internal Audit Risk Assessment

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Consultation on 2011/12 Internal Audit Plan
Audit Risk Assessment

Annex 1

Ref	Audit Area	Risk Rating
19091	Financial Planning and Budget Setting	High
19090	Budgetary Control	High
19020	Administration and Accommodation Review	High
11060	Business Continuity	High
10200	Payroll	High
10200a	New Personnel & Payroll System	High
19520	Equalities	High
10120	Main Accounting System (Financial Ledger)	High
10320	Council Tax Benefits & Housing Benefits	High
10400	Asset Management	High
10405	Community Stadium	High
10310	Council Tax & NNDR	High
11710	Housing Rents	High
19095	More 4 York / Efficiency and Value for Money	High
11050	Performance Management	High
19080	Procurement and Contract Management	High
19160	Sickness Management	High
10790	Partnership Arrangements	High
19519	Health & Safety	High
11040	Performance Indicators and Data Quality	High
10150	Treasury Management & Prudential Code	High
10330	Income Management	High
11030	Recruitment	High
11140	Nursery Education Grants	High
10430	Risk Management	High
10180	Ordering and Creditor Payments	High
10190	Debtors	High
10260	Information Security	High
10140	VAT Accounting	High
10530	Environment and Sustainability	High
19120	Project Management	High
19515	Waste PFI	High
15699	School Audits	High
19130	Workforce Planning	High
10610	On Street Parking & Car Parks	Medium
11340	Education Contracts (PFI, Catering, Caretaking)	Medium
10650	Public Transport	Medium
10870	Fleet Services & Fleet Maintenance	Medium
10600	Emergency Planning	Medium
10940	Stores and Purchasing	Medium
11470	Homecare Services	Medium
11280	Transport (Home to School, Social Services etc)	Medium
11630	Supporting People	Medium
11740	Tenants Choice	Medium
10690	Crematoria and Cemeteries	Medium
10860	Commercial Waste	Medium
10910	CANS Job Costing	Medium
11730	Housing Repairs and Maintenance	Medium
10270	IT Asset Management	Medium
10670	Concessionary Travel	Medium
11100	Youth Services	Medium
11300	Capital Programme	Medium
11480	Direct Payments & Personalisation	Medium
11570	EPH's, Special Sheltered Housing and Sheltered Housing.	Medium
10730	Waste Operations - Disposal	Medium

Consultation on 2011/12 Internal Audit Plan
Audit Risk Assessment

Annex 1

Ref	Audit Area	Risk Rating
10930	Building Repairs and Maintenance	Medium
11110	Behaviour Support (including Exclusions)	Medium
11250	Individual School Budgets	Medium
11390	Out of City Placements	Medium
11510	Residential and Nursing Home Costs	Medium
11670	Housing Revenue Account	Medium
10985	Members Allowances	Medium
11210	Leisure Facilities	Medium
19180	Travel and Subsistence	Medium
19525	Handling Complaints	Medium
10580	Highways Regulation	Medium
10880	Waste Operations - Refuse Collection & Recyling	Medium
19517	Information Governance	Medium
11590	Mental Health Services	Medium
10280	Electronic Communications	Medium
10700	Licensing	Medium
19100	Staff Registers of Interests and Gifts and Hospitality	Medium
11130	Early Years and Childcare Service	Medium
19140	Agency Staff	Medium
10210	Construction Industry Scheme	Medium
10510	Section 106 Agreements	Medium
10680	Food Safety, Environmental Health and Trading Standards	Medium
10815	Future Prospects	Medium
11360	Children Leaving Care	Medium
10540	Engineering Consultancy	Medium
10710	Area Based Working / Ward Committee Funding	Medium
11610	Adults Respite, Employment & Day Services	Medium
11700	Housing Allocations	Medium
19511	Disciplinary Procedures	Medium
10250	IT Business Continuity	Medium
11600	Referrals and Care Assessments (Adults)	Medium
11601	Referrals and Assessments (Children's Services)	Medium
10435	Insurance	Medium
10460	Development Control	Medium
10470	Building Control	Medium
10920	Civil Engineering	Medium
10420	Facilities Management	Medium
11760	Blue Badge Scheme	Medium
11150	Sure Start York	Medium
11240	Music Tuition Fees	Medium
11420	Foster Carers and Adoption Allowances	Medium
11690	Right to Buy	Medium
10850	Cleaning (Buildings, Schools, Voids)	Medium
11620	Community Equipment and Loans Store	Medium
11120	Special Educational Needs	Medium
11430	Children's Residential and Respite Accommodation	Medium
11380	Family Support	Medium
11650	Commissioning & Bought in Services	Medium
10410	Property Income and Lease Management	Medium
11190	Libraries	Medium
19170	Mobile Working	Medium
10550	City Development	Medium
10970	Legal Services and Coroner	Medium
11170	Adult and Community Education	Medium
19518	Education Access Service	Medium

Consultation on 2011/12 Internal Audit Plan
Audit Risk Assessment

Annex 1

Ref	Audit Area	Risk Rating
10760	Economic Development Unit	Medium
11320	Education Development Service	Medium
10480	National Land and Property Gazetteer	Medium
10220	IS-IT Strategy	Medium
10640	Staff Park and Ride and Staff Parking	Low
10170	Invest to Save Schemes	Low
11200	Open Spaces, Park and Play Areas	Low
11230	Performance Arts / Arts and Entertainment	Low
11270	Recoupment	Low
11410	Children with Disabilities	Low
10490	Local Land Charges	Low
11720	Grants & Adaptations (Private Sector Housing Renewal & DFGs)	Low
10360	Registrars	Low
10980	Electoral Services, Member Support and Democracy Support	Low
11000	Marketing & Communications	Low
10840	External Trading	Low
10900	Street Environment Service	Low
11530	Homelessness - Travellers	Low
10520	Heritage Properties	Low
10990	Lord Mayoralty	Low
10740	Pool Cars	Low
11500	Delayed Discharges	Low
11540	Pooled Budgets	Low

Note
The risk assessment above is based on the position at the beginning of 2010/11.
It should be noted that the annual plan will also contain allocations to cover a number of mandatory and contingency areas including support and advice, special investigations, follow up audits, and the National Fraud Initiative.

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CITY OF YORK COUNCIL

Agenda Item

Audit and Governance Committee 14 February 2011

Report of the Assistant Director, Financial Services

Fraud Risk Assessment & Review of Counter Fraud Policies

Summary

1 The purpose of this report is to inform members about potential fraud risks that the council is exposed to, and proposed counter fraud activity to address those risks. The report also details the outcome of a review of the council's counter fraud policies.

Background

2 Fraud is a significant issue for all public sector organisations. Current estimates suggest fraud costs the public purse in excess of £17bn per year. In addition, reports by the Audit Commission, and other authorities, suggest that the risk of fraud is growing due to additional pressures on suppliers, customers and staff in the current economic climate. To help direct counter fraud resources to the areas most needed, it is essential that the council considers the range of fraud risks it faces.

3 It is also important for the council to ensure that its overall policy framework for combating fraud continues to reflect best practice.

Risk Assessment

4 Counter fraud work is part of the role of both the internal audit and counter fraud teams. However, there has historically been no separate assessment of fraud risks facing the council. Fraud is one element of the overall risk assessment undertaken by internal audit. The allocation of audit resources also takes account of a wide range of other factors. This means, for example, that lower value but high fraud risk services may not be reviewed by internal audit. In addition, the work of the counter fraud team has tended to be reactive and to focus on specific areas of known high fraud risk (eg benefit fraud). As awareness of the range of different fraud risks faced by councils has grown over the last few years, it has become apparent that there are areas of fraud risk that are not being properly addressed.

5 An initial assessment of possible fraud risks faced by the council is included at exempt Annex 1. This includes an indication of the susceptibility of each area to fraud, and further action required. This is a

relatively simple model and it is anticipated that the basic assessment set out will be built upon in future years as more information becomes available and new techniques are developed[1]. One of the main issues that the exercise has highlighted is the lack of readily available information in some areas.

Review of Counter Fraud Policies

6 A review of the council's counter fraud and corruption policy and counter fraud and corruption prosecution policy has recently been conducted. This found that the draft policies reported to the Audit and Governance Committee in February 2010 and approved by the Executive Member for Corporate Services in March 2010 remain in line with best practice. However, some minor amendments to job titles are required to keep the policies up to date and it is recommended that the policies are updated to reflect these changes.

Consultation

7 This report is part of the ongoing consultation with stakeholders on priorities for internal audit and counter fraud work.

Options

8 Not relevant for the purpose of the report.

Analysis

9 Not relevant for the purpose of the report.

Corporate Priorities

10 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

11 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**

[1] There is currently little advice available about how to assess fraud risks. However, many organisations are now going through this process and it is likely that new techniques and methods of assessment will emerge over the next few years.

- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

12 The council will fail to comply with proper practice if counter fraud arrangements are not based on an appropriate assessment of risk, or if it fails to maintain up to date counter fraud and corruption policies and procedures.

Recommendations

13 Members are asked to;

- comment on the fraud risk assessment set out in Annex 1 and the proposed priorities for counter fraud work.

  Reason

  To ensure that scarce audit and counter fraud resources are used effectively.

- comment on the review of the council's counter fraud and corruption policy and fraud and corruption prosecution policy, and the changes proposed.

  Reason

  To ensure counter fraud procedures and policies are up to date, as part of their responsibility for overseeing the council's overall governance framework.

Contact Details

Author:

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Telephone: 01904 552936

Chief Officer Responsible for the report:

Keith Best
Assistant Director, Financial Services
Telephone: 01904 551745

Report Approved ✔ **Date** 1 February 2011

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable **All** ☐

For further information please contact the author of the report

Background Papers

None

Annexes

Annex 1 – Internal Audit & Fraud Service Fraud Risk Assessment 2010/11(Exempt)

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CITY OF YORK COUNCIL	
Audit and Governance Committee	14 February 2011
Report of the Assistant Director of Governance and ICT	

Constitutional Changes

Summary

1.1 This report seeks the Committee's comments on proposed constitutional changes which arise from the Council being required to implement a new form of Executive in May. The report also identifies a number of minor proposed amendments which have been identified.

Amendments arising from changes to Executive arrangements

2.1 Appendix 'A' to this report identifies amendments which flow from the legal requirement for the Council to adopt a new form of Executive and from the Council's decision in December that this would be a "new style" Leader and Cabinet Executive.

2.2 In summary the amendments deal with new legal requirements that:

- The Leader be appointed for the remaining term of his office rather than be appointed on an annual basis (provision is made though for the Council to remove the Leader at an earlier time).
- The Leader rather than Council determines the identity of Executive Members.
- The Leader rather than Council determines the allocation of Executive responsibilities and portfolios.

2.4 No changes are proposed to the Council's Scheme of Delegations which will remain as set out in the current Constitution until the new Leader determines otherwise in respect of Executive functions.

Other proposed amendments

3.1 Annex 'B' to this report contains amendments which are not linked to the change in Executive arrangements. The rationale for each proposal is set out in the table of proposals.

Future Constitution Review

4.1 The Localism Bill which is currently before Parliament includes a number of provisions relating to governance structures which the Council will need to consider in due course. These include provisions in relation to the operation of Executives and the functions of the Standards Committee. The implementation of those provisions is likely to require a full review and significant rewrite of the Constitution and the Audit and Governance Committee will no doubt wish to consider this prospect in determining its work plan for the next municipal year.

Corporate Priorities

5.1 The Council's Constitution is its key governance document and contributes to an 'effective organisation'.

Implications

6.1

- **Financial** – no implications
- **Human Resources (HR)** – no implications
- **Equalities –** no implications
- **Legal** – the proposed amendments described in Annex 'A' bring the Council's Constitution in line with the legal requirements for a new form of Leader and Cabinet Executive. Annex 'B' includes a number of amendments which bring the Constitution in line with a number of changes to legal requirements.
- **Crime and Disorder** – no implications
- **Information Technology (IT) -** no implications
- **Property** - no implications
- **Other** – none

Recommendations

7.1 The Audit and Governance Committee is recommended to support the forwarding of this report to Council with the recommendation that the proposals contained in it be approved for implementation after the May elections.

Reason: To ensure that the Constitution remains up to date and fit for purpose.

Contact Details

<table>
<tr><td>Author:</td><td colspan="4">Chief Officer Responsible for the report:</td></tr>
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Assistant Director of Governance and ICT
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Assistant Director of Governance and ICT</td></tr>
<tr><td>Report Approved</td><td>tick</td><td>Date</td><td>Insert Date</td></tr>
<tr><td colspan="4">Chief Officer's name
Title</td></tr>
<tr><td>Report Approved</td><td>tick</td><td>Date</td><td>Insert Date</td></tr>
</table>

Wards Affected: *Not applicable*	**All**	*tick*

For further information please contact the author of the report

Background Papers

None

Annexes

Annex 'A' – Proposed amendments arising from changes to Executive Arrangements
Annex 'B' – Other proposed amendments

Appendix A	
Existing wording	***Proposed wording***
Part 1A Paragraph 4 The Executive is made up of a leader and six other Councillors, who are appointed by the Council	“The Executive is made up of a Leader and up to nine other Councillors who are called “Executive Members”. The Leader appoints Executive Members, gives them areas of responsibility and allocates decision making powers.
Article 7 Paragraph 2.2 The Executive will consist of the Leader together with at least 2, but no more than 9, Councillors appointed to the Executive by Full Council. Should any Member(s) of the Executive cease to be a Councillor, or in the opinion of the Leader become disabled (temporarily or permanently) from performing the duties of their office, the Leader may remove them from office, and may appoint any other Councillor(s) to the Executive, and the Councillor so appointed shall hold office until the next meeting of Full Council. The Leader’s powers of removal/appointment shall be exercisable by giving written notice to the Head of Civic, Democratic and Legal Services.	The Executive will consist of the Leader together with at least 2, but no more than 9 Councillors appointed to the Executive by the Leader. The Leader may remove any Member from the Executive and may appoint any other Councillor(s) to the Executive, The Leader’s powers of removal/appointment shall be exercisable by giving written notice to the Monitoring Officer.
Article 7 Paragraph 3 The Leader will be a Councillor appointed annually to the position of Leader by Full Council. The Leader will hold office until: (a) he/she resigns from the office; or (b) he/she is suspended from being a Councillor under Part III of the Local Government Act 2000 (although he/she may resume office at the end of the period of suspension); or (c) he/she is no longer a Councillor; or (d) he/she is removed from office by resolution of the Council	The Leader will be a Councillor elected to the position of Leader by Full Council for a term of four years or the balance of his/her current term of office as a Councillor. The Leader will hold office until:- (a) he/she resigns from the office; or (b) he/she is suspended from being a Councillor under Part III of the Local Government Act 2000 (although he/she may resume office at the end of the period of suspension); or (c) he/she is no longer a Councillor; or (d) he/she is removed from office by

	resolution of the Council; or (e) the time period for which he/she was appointed has elapsed.
Article 7 Paragraph 4 Other Executive Members shall hold office until: they resign from office; or (b) they are suspended from being Councillors under Part III of the Local Government act 2000 (although he/she may resume office at the end of the period of suspension); or (c) they are no longer Councillors; or (d) they are removed from office, either individually or collectively, by resolution of the Council, or by the Leader under paragraph 1.1.2 (a) above.	Other Executive Members shall hold office until: (a) they resign from office; or (b) they are suspended from being Councillors under Part III of the Local Government act 2000 (although he/she may resume office at the end of the period of suspension); or (c) they are no longer Councillors; or (d) they are removed from office by the Leader under paragraph 2.2 above. **The Deputy Leader** The Leader will appoint a Deputy Leader who will be a member of the Executive and will have all the powers of the Leader if the Leader is unable to act or the office is vacant.
Article 7 Paragraph 7 [this is a new paragraph]	**Responsibility for Executive Functions** The Leader may exercise any executive function. The Leader will maintain a list in Part 3 of this Constitution setting out functions which the Executive, individual members of the Executive or Committees of the Executive may exercise and which Officers have delegated power to exercise Executive Functions.
Part 3A – Functions of full Council Paragraph 3.1 (g) appoint and remove the Leader and other Members of the Executive	appoint and remove the Leader
Part 3A Paragraph 3.1 (h) Agree and/or amend the scheme of delegation to the Executive, Committees and or sub-committees of Full Council	[this paragraph is to be omitted]
Part 3A Paragraph 4 – Functions of the Executive The Executive may exercise any Executive function delegated to an	The Leader may exercise any Executive function and may determine whether

Executive Member, an Officer or Ward Committee where requested by such persons or bodies to do so.	such functions may be exercised by the Executive, a Committee of the Executive, an Executive Member, an Officer, a Ward Committee or a Joint Committee
Part 4A – Council procedure Rules Annual meeting (e) To establish an Executive for the purposes of the Local Government Act 2000. In so doing; i. To appoint a Member as the Executive Leader for the ensuing municipal year (called the 'Executive Leader'). ii. To appoint a Member to act as Deputy Executive Leader of the Executive. iii. To appoint other Members of the Executive up to any maximum as may be defined by law. iv. To approve the portfolios of the Council's Executive so appointed.	(e) At the first Annual Meeting following local elections to appoint a Member as the Executive Leader

Appendix B		
Current Wording	**Proposed wording**	**Reason**
Article 13 Paragraph 1.2 The Council designates the following posts as shown: a) Head of Paid Service - Chief Executive b) Chief Finance Officer - Director of Resources c) Monitoring Officer - Head of Civic, Democratic and Legal Services d) Chief Internal Auditor - Audit & Fraud Manager Such posts will have the functions described in the section 'Structure' below.	The Council designates the following posts as shown: a) Head of Paid Service - Chief Executive b) Chief Finance Officer - Director of Customer and Business Support Services c) Monitoring Officer – Assistant Director of Governance and ICT d) Chief Internal Auditor - Audit & Fraud Manager Such posts will have the functions described in the section 'Structure' below.	To reflect revised structures
Article 13 Paragraph 7 Article 15 Article 17 All references to the Head of Civic, Legal and Democratic Services	Replace with references to the Monitoring Officer	To reflect revised structures and to simplify any future revisions of the Constitution
All references to principal and senior solicitors	Replace with reference to a solicitor nominated by the Monitoring Officer	To reflect changes to structures in legal services
Article 14 paragraph 4.2 For the purpose of the above, savings or expenditure are significant if they are equal to or greater than £500,000 or equal to or greater than £100,000 where the savings or expenditure exceeds	For the purpose of the above, savings or expenditure are significant if they are equal to or greater than £500,000 or equal to or greater than £100,000 where the savings or expenditure exceeds 10% of the budget for the	Words are added to ensure that the Article is consistent with the Contract Procedure Rules which have previously been approved by Council

10% of the budget for the service plan area whichever is the less. Expenditure in excess of the above levels will not constitute a key decision if such expenditure is made as part of the implementation of a decision which itself was a key decision e.g. the award of a contract.	service plan area whichever is the less. Expenditure in excess of the above levels will not constitute a key decision if such expenditure is made as part of the implementation of a decision which itself was a key decision e.g. the award of a contract *or where the expenditure is routine expenditure as described in the Contract procedure rules.*	
Part 3A Paragraph 3 Functions of the Full Council 3.1 a) The functions reserved to Full Council are to: a) approve, adopt, amend, monitor and/or review the following plans, strategies and policies which together make up the Council's Policy Framework, i. Best Value Performance Plan ii. Children's Services Plan iii. Community Strategy and the Local Strategic Partnership iv. Crime and Disorder Reduction Strategy v. Early Years and Childcare Development Plan vi. Education Development Plan vii. Plans and	Functions of the Full Council 3.1 The functions reserved to Full Council are to: a) approve, adopt, amend, monitor and/or review the following plans, strategies and policies which together make up the Council's Policy Framework, i. Children and Young People's Plan ii. Sustainable Community Strategy iii. Crime and Disorder Reduction Strategy iv. Plans and alterations which together comprise the Local Development Framework v. Youth Justice Plan vi. Local Transport Plan vii Licensing Authority Policy Statement in relation to Gambling	A number of the plans specified in this Article are no longer required to be produced or have been retitled. Changes to legal requirements have added some new plans.

alterations which together comprise the Local Development Framework viii. Youth Justice Plan ix. Local Transport Plan x. Food Law Enforcement Service Plan xi. Local Agenda 21 Strategy xii. the Council's Corporate Plan or its equivalent xiii. HR Strategy xiv. Risk Management Strategy xv. Procurement Strategy having regard to the recommendations of the Executive and in accordance with the Standing Orders of the Council set out in Part 4.	viii Licensing Act 2003 Policy Statement x. Food Law Enforcement Service Plan xii. the Council's Corporate Plan or its equivalent xiii. HR Strategy xiv. Risk Management Strategy xv. Procurement Strategy having regard to the recommendations of the Executive and in accordance with the Standing Orders of the Council set out in Part 4.	
Part 3.C paragraph 1.3 (Planning Committee functions) To designate new Conservation Areas or modify boundaries of existing Conservation Areas. To approve Supplementary Planning Guidance (SPG's) and Supplementary Planning Documents (SPD's).	[These words to be omitted]	To reflect the legal position

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