



Sevenoaks
DISTRICT COUNCIL

Despatched: 30.12.11

PERFORMANCE AND GOVERNANCE COMMITTEE

10 January 2012 at 7.00 pm
Conference Room - Council Office

AGENDA

Membership:

Chairman: Fittock Vice-Chairman: Walshe
Cllrs. Mrs. Bayley, Clark, Mrs. Cook, Davison, Dickins, Firth, Gaywood, Grint, Hogarth,
London, McGarvey and Piper

	<u>Pages</u>	<u>Contact</u>
Apologies for Absence.		
1. Minutes Minutes of the meeting of the Performance and Governance Committee held on 10 January 2012	(Pages 1 - 6)	
2. Declarations of interest.		
3. Formal Response or Consultation Requests from the Cabinet and/or Select Committees following matters referred by the Committee:	(Pages 7 - 8)	
(a) Financial Prospects and Budget Strategy 2012/13 and Beyond - referred on 15.11.11 (Cabinet 08.12.11)		
(b) Performance Monitoring – referred on 15.11.11 (Cabinet 08.12.11)		
(c) Investment Strategy Update – referred on 15.11.11 (Cabinet 08.12.11)		
4. To receive the minutes of the Finance Advisory Group for information. None.		
5. Actions from the last meeting of the Committee (attached)	(Pages 9 - 10)	

- | | | | |
|-----|---|-------------------|-----------------------------|
| 6. | Future Business, the Work Plan 2011/12 (attached) and the Forward Plan. | (Pages 11 - 12) | |
| | <p>Members will develop a schedule of work over the year to reflect the terms of reference of the Committee focussing on the Council's priorities for policy development. This includes opportunities to invite other organisations who provide services in the District to provide information to the Committee and discuss issues of importance to the Community.</p> | | |
| 7. | Internal Audit Progress Report - Quarter 2 | (Pages 13 - 26) | Bami Cole
01322 343117 |
| 8. | Risk Management Update | (Pages 27 - 58) | Bami Cole
01322 343117 |
| 9. | Annual Audit Letter 2010-11 | (Pages 59 - 72) | Tricia Marshall
Ext:7218 |
| 10. | Treasury Management Strategy 2012-13 | (Pages 73 - 100) | Tricia Marshall
Ext:7218 |
| 11. | Budget Monitoring - November 2011 | (Pages 101 - 108) | Tricia Marshall
Ext:7218 |

EXEMPT ITEMS

(At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public.)

To assist in the speedy and efficient despatch of business, Members wishing to obtain factual information on items included on the Agenda are asked to enquire of the appropriate Director or Contact Officer named on a report prior to the day of the meeting.

Should you require a copy of this agenda or any of the reports listed on it in another format please do not hesitate to contact the Democratic Services Team as set out below.

For any other queries concerning this agenda or the meeting please contact:

The Democratic Services Team (01732 227241)

PERFORMANCE AND GOVERNANCE COMMITTEE

**Minutes of a meeting of the Performance and Governance Committee held on
15 November 2011 commencing at 7 pm**

Present: Cllr. Fittock (Chairman)
Cllr. Walshe (Vice-Chairman)
Cllrs. Mrs. Bayley, Clark, Mrs. Cook, Davison, Dickins, Mrs. Firth,
Grint, Hogarth, London, McGarvey and Piper.

An apology for absence was received from Cllr. Gaywood.

Cllrs. Mrs. Davison and Ramsay were also present.

31. **MINUTES OF PREVIOUS MEETING**

Resolved: That the minutes of the meeting of the Performance and Governance Committee held on 27 September 2011 be approved and signed by the Vice Chairman as a correct record, as he had chaired that meeting.

32. **DECLARATIONS OF INTEREST**

No declarations of interest were made.

33. **FORMAL RESPONSE OR CONSULTATION REQUESTS FROM THE
CABINET FOLLOWING MATTERS REFERRED BY THE COMMITTEE (Item
No. 3)**

Members' attention was drawn to the tabled responses.

- (a) Performance Monitoring: LPI DS 002 – Total Trading Account Position - referred on 27.09.11 (Finance Advisory Group 02.11.11)

The tabled response was noted.

- (b) Performance Management Performance Report - LPI HB 001, 002, 005 & 006 – referred on 27.09.11 (Services Select Committee 08.11.11)

The response from the draft minutes of the meeting, was noted.

34. **MINUTES OF THE FINANCE ADVISORY GROUP (Item No. 4)**

Members' attention was drawn to the tabled Minutes of a meeting of the Finance Advisory Group held on 2 November 2011, which were noted.

Members expressed concern as to the amount of tabled paperwork. Members were advised that the Finance Advisory Group minutes had been published via the Committee Management Information System (CMIS) the day before and there had not been enough time to send out a paper copy. Also, the response from Services Select Committee was an extract from the draft minutes as the meeting had only taken place the week before and after the agenda had been published. Members suggested that a reminder that the minutes were also on this Committee's agenda

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may have helped. The Deputy Chief Executive and Director of Corporate Resources advised that he would ensure an improvement for the next meeting of the Committee, in light of Members' concerns.

In response to a Member's query, it was advised that between 95-98% was still expected back on the recovered Icelandic investment.

35. ACTIONS FROM THE LAST MEETING OF THE COMMITTEE (Report No. 5)

The completed actions were noted.

36. FUTURE BUSINESS, THE WORK PLAN 2011/12 AND THE FORWARD PLAN (Report No. 6)

Members noted the updated version of the Work Plan 2011/12, which had been tabled. The Chairman advised that this had been drawn up in response to comments made at the last meeting of the Committee on balancing the workload.

37. PERFORMANCE MONITORING (Report No. 7)

The report provided the Committee with a summary of Council performance and through the exceptions report detailed all 'Red' performance indicators for the period to the end of September 2011.

In response to Member questions, the Head of Environmental and Operational Services advised that the price of diesel was an ongoing concern and he was not yet aware of the outcome of the debate in the House of Commons that day with regards to a proposed 3p/litre increase in fuel duty from January 2012. As it stood, by year end the cost for diesel could be up to £40,000 above budget. There had been a budget presumption with regards to the charges imposed by SITA and Thames Water for trade waste and cesspool emptying disposal but they had increased their prices above budget levels after the budget was set. Operationally, SITA and Thames Water were both local, and Thames Water offered a preferential rate as the disposal point is located at the depot. Another trade waste disposal option sometimes used was Greatness Quarry, but it was a landfill site and the council's trade waste collection vehicles were not designed to tip on landfill. It also operated a 3 tonne minimum disposal.

Members asked why a higher increase in the cost of diesel had not been factored into the budget. The Head of Environmental and Operational Services reported that when setting his budget he had to factor in the price of diesel as it stood at that time in order to match the overall target for the trading accounts. Cabinet had agreed that diesel costs would be identified as a budget pressure, rather than a growth item. He was required to balance his budget and would have to find savings elsewhere. Members were concerned about this approach and felt that Cabinet should be asked to change their views on this. The Chief Executive explained that it was necessary to do this because of the relationship between Central Government and local authorities in respect of budget setting and expenditure control. In effect, local authorities were financially controlled on their estimated expenditure, rather than actual expenditure at the end of the year. This meant that if a potential price increase was factored into the budget at the beginning of the year resulting in a

projected overspend, then cuts in other services would have to be made immediately. However, if the budget was set on costs as they stood, this would provide time for savings/underspend to be identified elsewhere, negating the need for cuts and further job losses. It was a risk, but did mean that there was a certain degree of flexibility and opportunity to find savings elsewhere and prevented the need to make unnecessary cuts. If budget holders were not able to find efficiency savings this would be reported to Members. However Heads of Service all generally helped each other out and this was all monitored very carefully by the Finance Advisory Board and Cabinet. The Committee noted that the approach to budget-setting and control had been the practice for a number of years, and in each of these years, the end of year position (“outturn”) had been at or slightly below the estimates.

In response to Members’ queries on Revenues and Benefits performance, the Head of Finance and Human Resources advised that it was too early to tell whether the new measures introduced were making any significant impact. Recruiting qualified assessors was still a problem due to uncertainties and possible changes to legislation. Not as many were training as assessors and many were going on to other careers. Recruitment for apprentices was currently carried out via Kent County Council but it was hoped in the next round it would be possible to meet with prospective candidates and talk to them earlier in the process. Additional resources were used in the summer and had a positive impact on the backlog, however it was still at a high level so some extra staffing was still being used. Members felt that it was clear more staff were required to meet the increasing workload. It was also noted that despite the increased workload due to the current climate, the administration grant was being reduced by £40,000. Cabinet was expected to make representations concerning this. Members wished to make their own concerns clear to Cabinet and bring to their attention the increased workload and future need to give proper consideration for further staff.

Members noted that despite a very significant improvement, the Performance Indicator for the number of missed green waste collection complaints would likely remain red. Members congratulated the Head of Environmental and Operational Services and his Team for agreeing to the Christmas collections and extra days, which was appreciated by many residents.

ACTION 1: For the purposes of black and white printing, Officers to investigate a better way of identifying the traffic light colours in grayscale.

Resolved: That:

- (a) the contents of the report be noted; and
- (b) areas of concerns listed above with regards to the increase in cost of diesel, and the problems facing Housing Benefits, be referred to Cabinet.

38. FINANCIAL PROSPECTS & BUDGET STRATEGY 2012/13 AND BEYOND
(Report No. 8)

The report set out the major financial pressures the Council was likely to face over the next four years, together with a proposed strategy for setting a balanced and

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sustainable budget for 2012/13 and beyond. The Council had an excellent track record in identifying, planning for and addressing financial challenges. In light of the challenging financial position facing all authorities a year ago, for 2011/12 the Council brought its budget setting process forward by two months and produced a 10-year budget together with a four-year savings plan. This provided the Council with a stable basis for future years, which addressed the reduction in Government funding as well reducing its reliance on reserves.

Building on the considerable progress made over recent years, the report updated Members on significant risk areas as well as setting out the way forward for service prioritisation, business and financial planning, financial strategy and the budget setting process. The overall emphasis was on building on the strong framework provided by the 10-year budget, whilst taking into account any new financial burdens and changes in the economy that had an impact on budget assumptions. The report also provided Members with the proposed timetable for the budget setting process.

A Member commented on the opportunities offered by the possible income stream that could be achieved if Councils were allowed to retain business rates with new powers to potentially borrow against those revenues. He was advised that at the moment it was unclear how this may operate in practice and therefore no assumptions were being made and no significant extra income was expected.

Members were advised that the way reserves had been used they would have run out in three years and funds would have had to have been found from the revenue budget. Instead their use had been smoothed over the ten year period and the budget stabilisation reserve was being used as a mechanism for preventing unexpected movements between budget years. The level of reliance on reserves had significantly reduced and in the longer term, more sustainable solutions could be sought and if the economic recovery resulted in positive outcomes for the Council then the reliance on the reserves could be reduced or their period extended beyond the ten years.

The Chief Executive confirmed that partnership working was still very much on the agenda. The thrust of the Secretary of State's policy was to encourage partnership working and service sharing, especially for District Councils. Meetings were continuing with other Councils in order to look for further opportunities for partnership working. However he advised that when working with others it was a matter of persuasion and that timescales were not always as quick as one would like.

Looking at the variable income sources a Member queried why more opportunity was not taken to increase Development or Building Control fees rather than just car parking charges. The Chief Executive explained that Development Control fees were set to a national scale. All the statutory obligations were regulated by set fees, and Building Control fees were also subject to commercial competition. The issue had been taken up with the Local Government Minister and it was hoped that under the current Government review of planning fees, Councils would at the very least be allowed to set fees at a rate that would allow them to break even. It was noted that pre-application advice was a moot point, as a council this was not yet extended to householders but only developers and commercial applications. A Member suggested investigation of more commercial rubbish collection services as a potential source of income.

Resolved: That the report be noted and the comments made on the proposed budget strategy, reported to Cabinet.

39. INVESTMENT STRATEGY UPDATE (Report No. 9)

Members were reminded that they approved the Investment Strategy as part of the budget-setting process in December 2010. In considering that Strategy, Members were advised that, given the current economic climate, the Strategy would need to be monitored and reviewed, where necessary, during the year. The report gave details of recent developments in the financial markets and changes to credit ratings. Members noted that it was considered by the Finance Advisory Group on 2 November 2011.

The Head of Finance and Human Resources reported that it was difficult to place investments due to the reduced number of institutions meeting the required credit criteria, so alternatives were being investigated. Following recent downgradings, Santander UK plc, Clydesdale Bank and the Nationwide Building Society no longer met the relevant criteria and so, as investments with these institutions expired, the funds would be placed elsewhere. If conditions worsened, Members agreed that a move to more secure investments such as lending to the Debt Management Office's Account Deposit Facility or opening of Money Market Funds should be considered. Members suggested that Officers should have the discretion to deposit the amounts held by Santander, Clydesdale and Nationwide in the semi-nationalised banks, if nowhere else were found in the meantime.

Resolved: That the report and Members views be noted, and that Cabinet consider increased use of the semi-nationalised banks for placing deposits.

40. FORMAL CUSTOMER COMPLAINTS MONITORING 2010/11 (Report No. 10)

The Customer Service Manager introduced Julie Heather, the Complaints and Reporting Officer, to the Committee. He updated Members regarding customer complaints and feedback monitoring for the year 2010/11, referred to information from the Local Government Ombudsman's Annual letter, and invited Members to visit the Contact Centre for a tour and demonstration of the Lagan CRM complaints monitoring system.

ACTION 2: Future reports to contain figures as well as the percentages when referring to the number of complaints at all Stages.

Resolved: That the report be noted.

41. BUDGET MONITORING – SEPTEMBER 2011 FIGURES (Report No. 11)

Members considered the Budget Monitoring Report for the month ended September 2011, and the forecast year-end position.

Resolved: That the report be noted.

THE MEETING WAS CONCLUDED AT 9.03 P.M.

Chairman

**FORMAL RESPONSE OR CONSULTATION REQUESTS FROM THE CABINET
AND/OR SELECT COMMITTEES FOLLOWING MATTERS REFERRED BY THE
COMMITTEE**

(a) Financial Prospects and Budget Strategy 2012/13 and Beyond (Response from Cabinet – 8 December 2011)

The Cabinet had regard to the comments of the Performance and Governance Committee on the major financial pressures the Council was likely to face over the next four years, together with the proposed strategy for setting a balanced and sustainable budget for 2012/13 and beyond. In light of the challenging financial position facing all authorities a year ago the Council had brought its budget setting process for 2011/12 forward by two months and produced a 10-year budget together with a four-year savings plan. This provided the Council with a stable basis for future years and addressed the reduction in Government funding as well as reducing its reliance on reserves and provided a strong framework for the Council to use in budget setting. The Committee's views had also been taken into consideration in the preparation of the draft budget report for 2012/13 considered at minute 53 below.

Resolved; That the comments of the Performance and Governance Committee on 15 November 2011 on the Financial Prospects and Budget Strategy 2012/13 be noted.

(b) Performance Monitoring (Response from Cabinet – 8 December 2011)

The Cabinet had regard to the comments of the Performance and Governance Committee on Council performance as reported in the quarterly Performance Monitoring Report. The Committee had asked for its particular concerns relating to budgeting for the higher price of diesel and the increasing workload in Housing Benefits to be drawn to the Cabinet's attention and these had been addressed in the preparation of the draft budget report for 2012/13 considered at minute 53 below.

Resolved: That the Performance and Governance Committee's concerns regarding the impact of the increasing cost of diesel on Council budgets and the increasing workload in Housing Benefits be noted.

(c) Investment Strategy Update (Response from Cabinet – 8 December 2011)

The Cabinet also had regard to the comments of the Performance and Governance Committee on the Council's Investment Strategy arising from recent developments in the financial markets and the down-rating of the credit status of some institutions which were current counter-parties for Council investments. In view of the reduced number of institutions which met the

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required credit criteria in the Investment Strategy the Committee had suggested that in addition to moving funds from these institutions to more secure investments the Council should also consider placing funds with the semi-nationalised banks. The Cabinet noted the prevailing investment conditions and limited opportunities to achieve good returns on investments and that priority was being given to ensuring the security of the Council's funds. It was noted that the Finance Advisory Group was continuing to monitor the approach to investments.

Resolved: That the views of the Performance and Governance Committee be noted.

RECORD OF ACTION POINTS:

Performance and Governance Committee Date: 15 November 2011

<u>Action</u>	<u>Description of Action</u>	<u>Response from Responsible officer</u>
ACTION 1	For the purposes of black and white printing, Officers to investigate a better way of identifying the traffic light colours in grayscale. <i>(Minute 37 - Performance Monitoring Report.)</i>	Officers are continuing to investigate whether reports provided from Covalent can be generated more clearly rather than in shades of grey, without reverting to more costly colour printing. The next performance report is due at the March Performance & Governance Committee meeting where it is hoped a solution can be delivered (21.12.11).
ACTION 2	Future reports to contain figures as well as the percentages when referring to the number of complaints at all Stages. <i>(Minute 40 - Formal Customer Complaints Monitoring 2010/11.)</i>	This has been noted and will be acted upon in the next annual update (08.12.11).

Performance and Governance Committee 2011/12 – Work Plan

Topic	10 January 2012	13 March 2012	June 2012	September 2012	November 2012
Governance	Update of the Council's Anti-Fraud and Corruption Strategy to reflect the requirements of the Bribery Act 2010 (commencement Order 2011).	Annual review of Terms of Reference			
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Self-assessment of the effectiveness of the Committee Q2 Report	Internal Audit Plan Q3 Progress Report	Review of effectiveness of Internal Audit Annual Governance Statement Internal Audit Annual Report		
Risk Management	Update		Risk Management Plan		
Accounts and External Audit	District Auditor's Annual Audit Letter	Annual Audit Plan		Draft Statement of Accounts	

Topic	10 January 2012	13 March 2012	June 2012	September 2012	November 2012
Treasury Management & Investment Strategy	Treasury Management Strategy 2012/13				Treasury Management Update
Strategic Business & Finance Planning (Budget Strategy)	Medium Term Financial Strategy <i>To be incorporated within the Budget Report or Budget Strategy Document</i>				Budget Strategy
Budget Monitoring	November Figures	January Figures	Outturn Figures	July Figures	September figures
Property				Asset Management Property Review Update	
Performance Management		Performance Report	End of Year Results	Performance Report	Performance Report
Other					Annual Complaints Monitoring Report

* The Professional Services Manager to produce a report on occupancy of the Argyle Road council building once MOAT has moved in.

PERFORMANCE AND GOVERNANCE COMMITTEE – JANUARY 2012

INTERNAL AUDIT PROGRESS REPORT – QUARTER 2

Report of the: Director of Corporate Resources

Status: For Decision

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Ramsay

Head of Service Head of Finance and Human Resources – Mrs. Tricia Marshall

Recommendations:

That this Committee note the contents of the report and the progress made by the audit team in delivering the 2011/12 Annual Internal Audit Plan

Introduction

- 1 This report summarises the audits issued during the year to date and the progress of the team in delivering the Annual Internal Audit Plan 2011/12

Summary of Issues Within the Report:

- 2 A summary of progress made towards achieving the assurance requirement is attached as Appendix A to this report. Appendix B provides a brief summary of each final audit report issued since the last meeting of the committee. Appendix C sets out the descriptions of the audit opinion for audit reviews.
- 3 The details on Appendix A set out progress to date against each audit in the Annual Internal Audit Plan for 2011/12, approved by the Performance and Governance Committee on 19 April 2011. Members may note that 16 reviews have commenced since the start of the year, with six reviews having been finalised. Four of the remaining ten reviews are due to be finalised shortly. Thus 64% of reviews within the original plan have either been completed or commenced; equivalent to 73% of the revised plan presented to this committee in September 2011.
- 4 Some progress have been made in clawing back time lost through sickness in the first two quarters; however resources have continued to be under pressure due to unplanned activities impacting on available resources. At the time of writing this report one Member of staff is on his fifth week of jury service. This clearly impacts on the ability to deliver the audit plan.

Staffing

- 5 The team commenced the year with a full staffing complement. However, long term sickness within the team and the impact of the call to the jury service of one member of staff have resulted in a drain in staffing resources which is impacting on service delivery. Thus it is likely that there would be a need to obtain additional temporary staffing resources from recruitment agencies in order to ensure delivery of the assurance requirements for 2011/12.

Partnership Arrangements

- 6 The shared services agreement with Dartford Council for the provision of Internal Audit and Anti-Fraud services is operating well at present. However, discussions are still ongoing regarding how the risk management function would be organised. Members of this committee would be given further details in due course.

Key Implications

Financial

- 7 This report has no additional financial implications.

Community Impact and Outcomes

- 8 Not applicable.

Legal, Human Rights etc.

- 9 This report has no additional legal implications save those relating to the Data Protection and Freedom of Information Acts.

Resource (non-financial)

- 10 There are no additional resource requirements impacting on this report.

Equality

- 11 There are no additional equality implications for this report.

Sustainability Checklist

- 12 Not applicable

Value for Money

- 13 There is no value for money implication.

Conclusions

- 14 The team is making good progress towards delivering the assurance requirements for 2011/12, despite the drain in resources caused by unplanned activities. This may give rise to the need to buy in temporary audit resources

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from recruitment agencies. The Committee is requested to adopt the recommendation set out above.

Risk Assessment Statement

- 15 There is a risk that due to lost staff time, resources may not be adequate to complete the audit plan this year. Thus it may be necessary to buy in external resources to facilitate delivery of the assurance requirements for 2011/12.

Sources of Information: Internal Audit Annual Plan for 2011/12

Contact Officer(s): Bami Cole Ext. 3023

Dr. Pav Ramewal
Corporate Resources Director

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PROGRESS AGAINST 2011/12 INTERNAL AUDIT PLAN					Status at 1/12/11		
		Final report issued	Draft report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Possibly defer or cancel
1	Main Accounting System						
2	Budgetary Control			✓			
3	Cash & Bank Reconciliations						
4	Treasury Management						
5	Payroll	✓					
6	Purchasing & Creditors						
7	Debtors				✓		
8	Council Tax/NNDR				✓		
9	Council Tax/Housing Benefits				✓		
10	Risk Management						✓
11	Car Parking Income	✓					
12	Contract Management Arrangements	✓					
13	Cash Collection – Council Offices	✓					
14	Licensing			✓	✓		
15	Emergency Planning/BCP				✓		
16	Annual Governance Statement						
17	Procurement						✓
18	Impact of Budget Constraints on Services				✓		
19	Dunbrik						
20	Information Governance/Document Control, Fol, DPA				✓		
21	Project Delivery Arrangements						
22	Data Quality/Accuracy	✓					
23	Register of Interest & Hospitality	✓					
24	IT Implementation & Network Security						✓
25	Value for Money Arrangements				✓		
	Total	6	0	2	8	0	3

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Item No. 7 – Appendix B

Review of Data Quality & Accuracy

Issued: 6 June 2011

Opinion: *Satisfactory*

The purpose of this review was to give an assurance on the effectiveness of the corporate performance management arrangements, designed to assess the Council's achievement in meeting its objectives. To this effect, the following key risks and associated internal controls were examined:

- The Council may not comply with relevant legislation, policies, or good practice
- The process may not facilitate the collection of adequate or accurate data
- Covalent may not be utilised to its full potential
- The process may not be as efficient or simplified as possible
- End users may not understand the process or Covalent
- Reporting of performance information to senior management and Members may not be efficient or effective
- Performance data may not be collected on all key activities
- The established process may not be fully complied with
- Fraud or corruption may go undetected
- Opportunities to demonstrate efficiency or value for money may not be maximised
- Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing indicated that, for three of the eleven risks examined, controls were fully met. For the remaining eight risks some minor issues resulted in an evaluation of partially met. The audit opinion given was "Satisfactory", indicating that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified.

The following seven recommendations were agreed with management to address the eight areas where controls were partially met. (These related to bullet points 1-5, 8, 9 and 11 above).

- That the Data Quality Statement should be updated to reflect changes in regulation
- That all responsible data collecting and checking officers be included on email distribution
- That data should not be reported via Covalent until it has been verified as quality checked
- That ad hoc one-to-one refresher training sessions be included on the Covalent training log
- The Performance Management Framework should be regularly reviewed
- The annual corporate planning process should be streamlined in order to make the process more efficient and effective
- The Strategic Risk Register should be updated to reflect current risks.

Members would be advised of the progress in implementing these recommendations in due course.

Review of Car Parking Income

Issued: 30 September 2011

Opinion: *Adequate*

The purpose of this audit was to give an assurance on the effectiveness of the arrangements regarding the security and banking of car parking income collected and the recovery process. To this effect the following key risks and relevant controls were examined.

- The Council may not comply with legislative requirements or local by laws.
- A policy and procedure for setting car parking fees and charges may not be in place or may not be followed.
- Cash collection machines are not adequately maintained and insured.
- Parking ticket income may not be collected and recorded correctly.
- Parking ticket income may not be banked promptly.
- Fees from season tickets and residents parking permits may not be accounted for correctly.
- Parking fines may not be collected promptly and recovery action may be ineffective.
- Parking fines may be written off without proper authority.
- Measures may not be taken to maximise revenue from parking ticket income.
- Fraud and corruption could go undetected.
- Opportunities to demonstrate efficiency or value for money may not be maximised.
- Risk assessments may not be undertaken and risks not adequately managed.

Audit testing results indicated that the controls were fully met in nine of the twelve risks examined, while two were partially met and one not met at all. The audit opinion given was “Adequate”, indicating that controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the service exposed to potential risks.

Three key recommendations, broken down into five parts, were agreed with management to address the three areas where controls were partially or not met. (These related to bullet points 4, 8 and 10 above).

- The Parking & Amenity Manager and the Principal Accountant should urgently liaise with all agencies to ascertain the reasons for the discrepancies between the values banked by Contract Security and the values appearing on the bank statements.
- The Parking & Amenity Manager should investigate the reasons behind the differences between the machine ‘audit’ tickets and the amounts banked by Contract Security.
- Irrecoverable fines should be written off on a more regular basis (audit testing indicated that such write offs had last been actioned in December 2008).
- Parking Services staff should periodically examine inside the ticket machines to ensure that cash boxes cannot be tampered with.
- The Parking & Amenity Manager should visit the Contract Security cash collection depot to ensure that the arrangements in place are as agreed within the terms of the contract and to appropriately manage the Council’s risks.

Members would be advised of the progress in implementing these recommendations in due course.

Item No. 7 – Appendix B

Review of Register of Interests & Hospitality Arrangements Issued: 4 October 2011

Opinion: *Satisfactory*

The purpose of this review was to give an assurance on the effectiveness of the arrangements in place for registering of interests and hospitality by Council Members and Council Officers. To this effect the following key risks and relevant controls were examined.

- Procedures and guidance for registering of interests are not documented and not accessibility to officers and Members
- Details of interests and hospitality are not recorded.
- The Hospitality Register is not subject to management review.
- Annual register of interests declarations including nil returns are not completed.
- Declarations of interests are not documented at Council or Committee meetings.
- Temporary staff/Consultants have not been instructed to declare/document their interests and hospitality received.
- Appropriate measures are not taken where failure to declare an interest or hospitality has been identified.
- Value for Money is not achieved.
- Annual assessments of risk are not undertaken.

Audit testing results indicated that the controls were fully met in four of the nine risks examined, while five were partially met. The audit opinion given was “Satisfactory”, indicating that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified.

The following five recommendations were agreed with management to address the five areas where controls were partially met. (These related to bullet points 1,2,3,4 and 9 above)

- A single version of the Sevenoaks Council Officer Code of Conduct policy should be in place. Other versions of the Code should be withdrawn from circulation.
- All officer declaration of interests should be countersigned by relevant senior management to demonstrate the declaration has been subject to management review.
- The annual officer declarations of interests’ process should be consolidated and administered by the Human Resources department rather than the function being shared.
- The officer hospitality registers should have documented evidence of management review.
- An annual risk assessment of the declaration of interests and registration of hospitality arrangements should be in place.

Members would be advised of the progress in implementing these recommendations in due course.

Review of Payroll

Issued: 17 October 2011

Opinion: *Satisfactory*

The purpose of this review was to give an assurance regarding the effectiveness of the arrangements for implementing the Council's Payroll systems including overtime. To this effect the following key risks and relevant controls were examined:

- The Council may not comply with relevant legislation, policies or good practice.
- Inaccurate, unauthorised or fraudulent payments may be made.
- The payroll system may not correctly reconcile to the main accounting system resulting in potential misstatements in the accounts.
- Overtime may not be correctly applied, approved or appropriate.
- Opportunities to demonstrate efficiency or value for money may not be maximised.
- Risk assessments may not be adequately undertaken and risks not adequately managed.

Audit testing identified that the controls were fully met in four of the six aspects examined, while two were partially met.

The audit opinion given was "Satisfactory", indicating that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified.

The following two recommendations were agreed with management to address the two areas where controls were partially met. (These related to bullet points 1 and 6 above).

- Procedures should be updated to reflect the upgrade in the payroll system.
- Operational risks for 2011/12 need to be assessed in order to ensure that they are being effectively managed.

Members would be advised of progress regarding the above recommendations in due course.

Item No. 7 – Appendix B

Review of Contract Management

Issued: 19 October 2011

Opinion: *Satisfactory*

The purpose of this review was to give an assurance regarding the effectiveness of the Council's contracting arrangements. The review examined a sample of contracts entered into over the last 12 Months. To this effect, the following key risks and relevant controls were examined:

- The Council may not comply with relevant legislation, policies or good practice
- The contract may not have been awarded effectively
- The contract may not be advantageous to the Council
- Management and monitoring of individual contracts may be inadequate or ineffective
- The Council may not be able to demonstrate its own or suppliers obligations regarding the requirements of relevant agreements
- Problems may not be identified and rectified promptly
- Insufficient paperwork to resolve disputes or responsibility
- Invalid payments could be processed
- Fraud or corruption may go undetected
- Opportunities to demonstrate efficiency or value for money may not be maximised
- Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing indicated that controls were fully met for ten of the eleven risks examined. The remaining risk area resulted in an evaluation of control partially met. The audit opinion given was "Satisfactory", indicating that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified.

The following recommendations were agreed with management to address the area where controls were partially met. (This related to bullet point 1 above).

- Steps need to be taken to ensure that the current Contract Procedures Rules are available to all staff (via the intranet) to ensure good practice
- Consideration should be given to making available further guidance to staff including the Kent Secretaries Procurement Guide which provides information in relation to the management of contracts

Members would be advised of the progress in implementing these recommendations in due course.

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AUDIT OPINIONS - Definitions

- Good** *Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*
- Satisfactory** *Controls exist to enable the achievement of service objectives, obtain good corporate governance, and reduce significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to reduce potential risks.*
- Adequate** *Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and leave the Council exposed to some minor risks. There is therefore, a need to introduce some additional controls and improve compliance with existing controls to reduce the risk to the Council.*
- Unsatisfactory** *Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*
- Unacceptable** *Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.*

Agenda Item 7

Performance and Governance Committee – 10 January 2012

Item No. 7 - Appendix C

PERFORMANCE AND GOVERNANCE COMMITTEE – 10 JANUARY 2012

RISK MANAGEMENT UPDATE

Report of the: Deputy Chief Executive and Director of Corporate Resources

Status: For Consideration

Executive Summary: This report provides the Committee with a summary of the Councils risk management processes and plans for improvements to the Risk Management Framework. The report also updates Members on the current strategic risks facing the Council.

This report supports the Key Aim of Corporate Performance Plan “Effective Management of Council Resources”

Portfolio Holder Cllr. Ramsay

Head of Service Head of Finance and Human Resources – Mrs Tricia Marshall.
Ext 7218

Recommendation:

It be RESOLVED that Members note the contents of this report.

Introduction

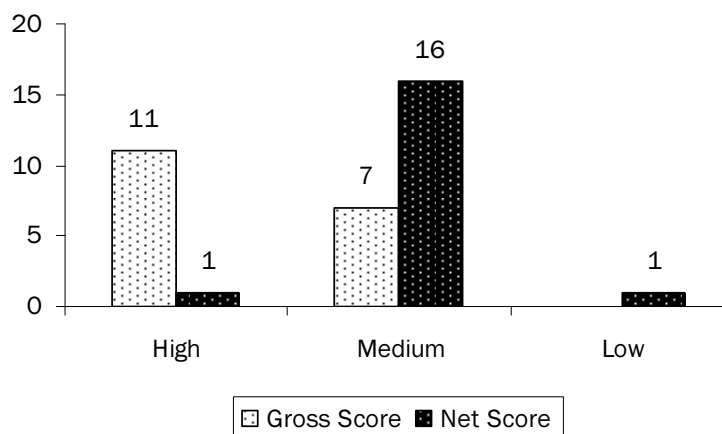
- 1 The Council’s risk management strategy sets out that risk will be identified, assessed and managed both strategically and operationally. Strategic risks are those that may prevent the Council achieving its objectives as set out in the Corporate Plan 2009-12. Strategic risks are managed by Directors and Heads of Service with oversight and scrutiny being delivered by Performance and Governance Committee.
- 2 Operational risks are those that may prevent individual services meeting the objectives set out in their service plans. Operational risks are managed by Service Managers, supported by Heads of Service.
- 3 The Council also has processes in place to manage financial risks, project risks and health and safety risks that operate alongside the risk management framework. Financial risks are monitored by the Finance team and assessed and scrutinised by the Finance Advisory Group. Project risks are managed by the relevant Head of Service working closely with the project manager and are subjected to DMT and MT monitoring, based on the type of project. Health and Safety risk assessments are overseen and coordinated by the Council’s Environmental Health team, with Service Managers responsible for

undertaking regular risks assessments and taking actions to mitigate those risks.

Strategic Risk

- 4 The Council undertook a thorough reassessment of the strategic risks it faced in May 2010. This process resulted in Directors and Heads of Service identifying 18 strategic risks that were approved by the Performance and Governance Committee at their meeting of 29 June 2010. Each of the strategic risks is assigned to a lead officer to monitor and where appropriate take mitigating action against. Strategic risks are reviewed by lead officers whenever there is significant change in legislation or an incident of major impact. Risks are also routinely reviewed every six months to ensure fitness for purpose.
- 5 To ensure strategic risk assessments remain relevant and up to date in the intervening periods the officers Risk Management Group, which meets every two months, maintains oversight and discusses any new or emerging risks that may become relevant. Where sufficient concern exists amongst the group a recommendation will be formed for the strategic risk register to be updated, including relevant mitigating action to address any perceived risks.
- 6 Officers' most recent assessment of strategic risks is attached at the Appendix to this report. Risks are scored by looking at the likelihood of the risk occurring and the severity of the impact if the risk was realised. The Council chooses to use a 5 by 5 matrix to assess risks, multiplying the score for likelihood by the score for impact gives the overall risk score. An overall risk score of 5 or less indicates a low risk, a score between 6 and 14 indicates medium risk and a score of 15 or more indicates high risk.
- 7 Risk scores are calculated as both 'gross' and 'net'. The gross scores reflect the likelihood and impact if no actions were taken by the Council to mitigate those risks. The net scores quantify the residual risk and reflect the likelihood and impact of the risks after the documented 'Internal Controls' are taken in to consideration.
- 8 The chart below shows a summary of the Council's strategic risks, indicating the number of risks ranked high, medium and low at both gross and net risk stages.

Gross and Net Risk Ratings



- 9 Officers are continuing to evaluate how each of the strategic risks interlink and what further actions can be taken to further reduce the Council’s exposure to high impact threats, whilst looking at ways to maximise potential opportunities

Improving the Risk Management Framework

- 10 The Risk Management Framework is developed and overseen by the Audit, Risk and Anti-Fraud team. As a shared team it also takes on responsibility for risk management at Dartford Borough Council. To deliver improvements it was determined that a review of risk management processes would be undertaken at each Council with the findings used to identify areas where a common approach would lead to improved efficiency and service delivery.

- 11 The review, completed by the Internal Audit team, in October 2011 has assisted in setting out the following improvements that will be delivered by Sevenoaks District Council in the coming months:

- update of the Council’s Risk Management Strategy;
- a joint Risk Management Group meeting with officers from Dartford BC at least annually to discuss approaches to managing common risks that are shared by both Councils;
- improved use of the Covalent system to assist the Council in managing risks; and
- delivering a training programme for both Members and Officers.

- 12 The Council is discussing with its insurance provider, Zurich Municipal, developing a training and strategic risk assessment course for Members of the Performance and Governance Committee. The objective of the day would be to improve Members understanding of the approach taken to risk management at the Council and importantly to have an independent assessment of risk by Members that can feed directly in to the Council’s assessment of its strategic risks from April 2012.

Key Implications

Financial

13 None

Community Impact and Outcomes

14 A robust risk management process enhances the Council's ability to minimise waste and improve efficiency and to deliver better services and outcomes for the community.

Legal, Human Rights etc.

15 None

Resource (non-financial)

16 None

Value For Money

17 A robust risk management process will enhance the Council's ability to minimise waste and inefficiencies whilst maximising value for money.

RISK ASSESSMENT STATEMENT

18 This report highlights the steps being taken to implement the Council's risk management strategy and framework. Strategic risks are being actively managed and where appropriate mitigating controls are in place or being developed to minimise threats whilst maximising available opportunities.

Sources of Information: SDC Risk Management Strategy

Strategic Risk Register

Covalent performance and risk management system

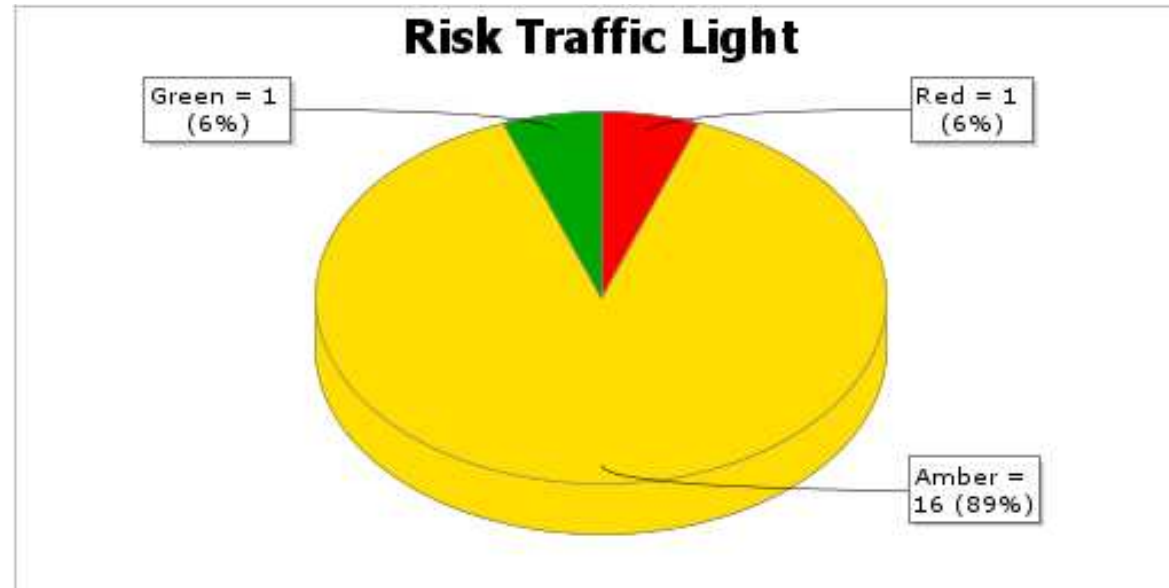
Contact Officer(s): Bami Cole, Audit, Risk & Anti Fraud Manager.
Phone: 01322 343023

Lee Banks, Policy and Performance Manager.
Ext. 7161


Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources






Strategic Risk Summary Report Table 2011/12






Title Strategic Risk Register


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 01	Achievement of the Sevenoaks District Sustainable Community Plan	Failure to fulfil strategic ambitions through non-delivery of actions and targets within the Community Plan	<ul style="list-style-type: none"> - Ineffective partnership governance - Lack of capacity at the Council and at partner organisations - Lack of finance to deliver actions - Failure to engage effectively with the local community 	<ul style="list-style-type: none"> - Reduced quality of life for residents - Increase in crime levels and the perception of crime as a problem - Negative impact on the environment - Negative impact on health equality - Negative impact on the local economy and social wellbeing - Negative impact on partnership working - Reputational damage for the Council and its partners 	4	5	20	<ul style="list-style-type: none"> - Agreed partnership governance roles and procedures including risk management of the partnership - Quarterly performance monitoring - Scrutiny arrangements in place, including reporting to Members and Cabinet oversight - Strong financial planning arrangements and monitoring of partnership resources - Regular consultation on priorities and performance - Engagement strategies in place 	3	4	12



Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 02	Management of the Council's financial resources	Failure to deliver a sustainable budget to meet the Council's key priorities	<ul style="list-style-type: none"> - Transition to retained business rates from formula grant funding - Introduction of local council tax support schemes - Already low and decreasing level of government support grant - Poor financial plans and strategies - Ineffective financial governance - Lack of capacity and skilled professionals within the finance team - Failure to maintain proper financial and budgetary controls - Inability to meet financial reporting requirements - Failure to maximise the benefits of partnership working - Failure to meet savings targets - Additional regulation - Failure to retain or attract high quality staff - Ineffective management systems 	<ul style="list-style-type: none"> - Poor financial health - Inability to maintain services and deliver key priorities - Unable to maintain low increases in council tax levels - Reputational damage - Negative impact on staff morale and potential recruitment and retention difficulties - Poor outcome for the Audit of Accounts or Value for Money assessment and potential for increased intervention 	4	5	20	<ul style="list-style-type: none"> - 10 Year Budget - 4 Year Savings Plan - Strong financial planning processes over the short, medium and long term - Effective budget setting and financial monitoring processes embedded - Financial / budget risk management process in place - Effective financial governance including reports to Finance Advisory Group and Cabinet - Qualified and experienced officers in post with continued professional development - Good progress already made in partnership working with planned approach to explore all further opportunities 	2	5	10


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 03	Effective management of the Council's investments	Failure to maximise investment returns within the terms of the Council's Treasury Management Policy	<ul style="list-style-type: none"> - Lack of investment funds - Treasury Management Policy not in accordance with best practice guidance - Stringency of investment terms - Low rates of interest - Lack of capacity or skilled professionals within the finance team - Lack of credit worthy bodies in which to invest - Potential for institutional failure resulting in loss of Council funds 	- Less diverse investments resulting in low investment returns, creating additional pressure on budgets and reserves	3	4	12	<ul style="list-style-type: none"> - Annual review of Treasury Management Policy - Treasury Management Policy in accordance with professional guidance - Effective budget setting and financial monitoring processes embedded - Effective financial governance including investment reports to Finance Advisory Group and Cabinet - Qualified and experienced officer in post with continued professional development - Increased monitoring of Treasury Management Strategy and activity by Members 	2	4	8
	SR 04	Effective management of the Pension scheme	Failure to have proper contingency arrangements in place to address under performance of the Kent County Council pension fund	<ul style="list-style-type: none"> - Government review of the Local Government Pension Scheme - KCC generating low returns from pension fund investments - Increase in SDC contributions to the pension fund - Ageing workforce - Decrease in uptake of the pension scheme or increasing number of staff opting out of the scheme 	Increased pension fund contributions creating additional pressure on budgets and reserves	4	4	16	<ul style="list-style-type: none"> - Actuarial valuations required every three years - Effective budget setting and financial monitoring processes embedded - Financial / budget risk management process in place - Effective financial governance including reports to Finance Advisory Group and Cabinet - Qualified and experienced officers in post with continued professional development 	3	4	12



Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 05	Effective management of the Council's fixed assets	Failure to have robust arrangements in place for the management of the Council's fixed assets	<ul style="list-style-type: none"> - Lack of up to date asset records - Lack of finance to deliver asset management plans and maintenance - Lack of capacity to appropriately manage the council's fixed assets - Failure to maximise the benefit from asset disposals 	<ul style="list-style-type: none"> - Decrease in fixed asset values placing increased pressure on council budgets - Increased insurance premiums - Adverse impact on service delivery 	3	4	12	<ul style="list-style-type: none"> - Annual review of Asset Management Plan - On-going review of council owned property - Inventory registers in place - Financial procedure rules and disposal policy in place - Appropriate governance arrangements in place including Internal Audit reviews and Confidential Reporting Policy - Succession planning 	2	4	8
	SR 06	Management of the Council's Human Resources	Failure to ensure that workforce capacity and wellbeing is maintained to deliver high quality services in a difficult financial environment for the Council.	<ul style="list-style-type: none"> - Financial pressures resulting in decreased budget for staff employment, development and wellbeing - National and local pay constraint affecting staff morale and creating difficulties in employing and retaining high quality staff - Review of terms and conditions - Government review of the Local Government Pension Scheme - Work pressures of delivering more for less affecting staff morale and wellbeing - Lack of capacity and skilled professionals within the Human Resources team to develop policy and support the workforce 	<ul style="list-style-type: none"> - Decrease in the quality of staff - Decrease in staff morale and satisfaction - Increased (sickness) absence levels - Unable to continue to deliver the range and quality of services currently experience - Reputational damage as an employer and a deliverer of local services 	5	5	25	<ul style="list-style-type: none"> - Effective budget setting and financial monitoring processes embedded - Human Resources Strategy including workforce development plan, recruitment and retention policies - Sickness Absence Policy supported by return to work initiatives and Employee Support Scheme - Staff Appraisal Scheme and Personal Development Plans - Risk Management embedded in budget setting and project management - Performance monitoring in place including sickness absence and staff survey every two years 	4	4	16


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 07	Governance arrangements	Failure to deliver proper governance, scrutiny and internal control to protect the Council from poor practice and mismanagement	<ul style="list-style-type: none"> - Relationships between Members and Officers - Failure to adhere to changes of legislation - Lack of capacity and skilled professionals within the Legal, Democratic and Internal Audit teams - Lack of finances to deliver high quality governance arrangements and adjust to changes of legislation - Existing governance arrangements may not reflect proper arrangements for the oversight of shared service arrangements 	<ul style="list-style-type: none"> - Ineffective political and management leadership - Ineffective scrutiny of decision making and performance - Failure to deliver statutory requirements including an up to date constitution, an effective Internal Audit function and an Annual Governance Statement - Legal consequences for the Council, individual managers and Members - Failure to deliver the Council's strategic objectives and high quality services - Reputational damage - Shared service arrangements may not be properly governed 	3	4	12	<ul style="list-style-type: none"> - Council's Constitution - Cabinet and Committee Structure including Performance & Governance Committee and Scrutiny Committee's - Protocol for Leader and Chief Executive - Monitoring Officer and Section 151 officer in post - Internal Audit function complies with CIPFA Code of Practice - Risk Management processes embedded - Effective budget setting and financial monitoring processes embedded - Annual review of Committee Terms of Reference 	2	4	8


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 08	Prevention of fraud, corruption and error	Failure to ensure that effective arrangements are in place to minimise the risk of financial loss to the Council	<ul style="list-style-type: none"> - Poor governance and weak internal control environment including lack of effective risk management - Increased financial pressure on the public and staff increasing the likelihood of fraud and error incidences - Lack of capacity and skilled professionals to manage internal control and fraud issues - Delivering a shared fraud service whilst maintaining service quality - Procedures may not reflect current best practice 	<ul style="list-style-type: none"> - Financial loss to the Council - Reputational damage - Poor value for money from procurement activity - Decline in the quality of service provided by the Council - Need to divert resources to investigations impacting adversely on the achievement of other service objectives 	3	4	12	<ul style="list-style-type: none"> - Anti Fraud and Corruption Strategy, including awareness building - Corporate Whistle Blowing Policy - Members and Officers Code of Conduct and declarations of interest - Risk management processes embedded across the Council - Procurement best practice guidance including standard contract terms - Councils Constitution includes protocol on accepting gifts and hospitality, financial procedure rules and contract procedure rules - IT Security Policy - Internal Audit function including Fraud Hotline service - Benefit Fraud team including partnership working to improve the sharing of best practice and improve team capacity - Compliance with National Fraud Initiative - Strong project management in place for shared service initiatives - Improved resilience and sharing of best practice through shared working 	2	4	8



Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 09	Understanding the needs and expectations of the community in the re-design of Council services	Failure to make adequate arrangements to identify the needs of the community (and customers) when re-designing services.	<ul style="list-style-type: none"> - Lack of finance to run effective consultations with the community - Lack of capacity and skilled professionals to manage consultation exercises - Failure to adhere to legislative changes in relation to consultation with the community - Failure to include community consultation in service re-design processes 	<ul style="list-style-type: none"> - Ineffective services that do not meet the needs of the community - Decreasing customer satisfaction levels - Decrease in the value for money achieved from the delivery of council services - Reputational damage 	4	4	16	<ul style="list-style-type: none"> - Effective budget setting and financial monitoring processes embedded - Council Residents Panel offering periodic consultation opportunities - Web based consultation software available council wide - Exit Surveys - Customer Standards - Complaints process - Performance monitoring 	3	4	12
	SR 10	Achievement of the key objectives of the Council's IT Strategy and Plan	Failure to identify technology that would benefit the Council to support and enable the continuous improvement of Council services	<ul style="list-style-type: none"> - Lack of finance to run effective procurement and develop IT solutions across the Council - Lack of capacity and skilled professionals to procure, implement and develop IT solutions across the Council - Failure to identify areas where IT solutions could improve service delivery - Failure to implement proper IT security arrangements in existing and new infrastructure and software 	<ul style="list-style-type: none"> - Failure to deliver Council objectives - Failure to benefit from the service efficiencies good use of IT would deliver - Failure to maximise the cost savings and value for money efficient use of IT would deliver - Security lapse would compromise the Council IT network and render systems inoperable - Data loss - Reputational Damage 	4	4	16	<ul style="list-style-type: none"> - IT Security Policy - Network security measures in place including firewall and access level controls - IT Disaster Recovery Plan - IT Steering Group - Risk management and procurement best practice embedded across the Council - Internal Audit review of IT Security - Experienced staff in post - Effective budget setting and financial monitoring processes embedded 	3	4	12


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 11	Maximising the benefit of shared service and partnership working	Failure to enter in to shared service and partnership opportunities that would be beneficial to the Council and the community	<ul style="list-style-type: none"> - Lack of Member and Management leadership and support to partnership and shared service activity - Lack of capacity, skills and expertise in the workforce to effectively manage and optimise partnership working opportunities - Lack of financial resources for the investigation and set-up costs that partnership working may require - Partnership governance arrangements - Lack of potential partner organisations - Partnership failure - Failure to maintain existing shared service arrangements 	<ul style="list-style-type: none"> - Failure to meet the Council's objectives - Unable to sustain the Council's budget - Failure to continue to deliver high quality services - Failure to maximise financial savings and value for money - Reputational damage - Partnership failure - costs of re-establishing an internal service or seeking new partners 	5	4	20	<ul style="list-style-type: none"> - Reports to Members on partnership working to ensure their support - Management Team lead in partnership and shared service activity - Effective relationships across Chief Executives and neighbouring Councils - Key officers have skills and expertise to deliver effective partnership working - Partnership Toolkit for best practice guidance - Effective risk management embedded across the organisation - Partnership Agreement in place with Dartford Borough Council - Exit Strategies in place for existing partnership arrangements 	3	4	12

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 12	National and Local Politics	The risk of failure to identify opportunities and challenges in the Coalition Governments national agenda, including the impact on the local political climate	<ul style="list-style-type: none"> - Failure to identify potential developments at the earliest stage - Failure to develop initiatives to benefit from available opportunities - Failure to balance political aspirations with the regulatory and budgetary framework in which the Council operates - Failure to deliver statutory obligations 	<ul style="list-style-type: none"> - Legal Challenge - Government Intervention - Negative impact on the relationship between Officers and Members - Negative impact on maintaining a sustainable budget - Reputational damage 	2	5	10	<ul style="list-style-type: none"> - Management structure in place to oversee key service areas and to advise Council on proposals - Protocol for the Leader and Chief Executive - Portfolio Holder briefings with Management Team and Heads of Service - Legal and Policy team provide updates on government proposals and their potential impact - Robust budget setting processes with Priority Matrix highlighting statutory functions 	1	5	5
	SR 13	Complying with legislative changes	Failure to adjust to and cope with changes in legislation	<ul style="list-style-type: none"> - Lack of capacity in the workforce to effectively manage changes to service delivery as a result of legislative changes - Lack of finance to adjust to changes in legislation - Short timescales allowed by Government to deliver significant service changes - Lack of Member support to deliver changes to legislation 	<ul style="list-style-type: none"> - Failure to fulfil statutory duties resulting in government intervention and an increase in legal liabilities - Failure to continue to deliver high quality services - Increase in customer complaints and falling satisfaction levels - Failure to maximise the opportunities changes to legislation may bring, e.g. new income streams, the ability to make financial savings or improved levels of service to the community - Reputational damage 	3	4	12	<ul style="list-style-type: none"> - Dedicated in house Legal team with qualified and experienced officers in place - Legal team briefing notes to Managers on legislative changes - Professional managers within service areas - Effective governance and internal control arrangements in place - Robust budget setting processes with Service Change Impact Assessments (SCIA) highlighting changes to service delivery expected each year 	2	4	8

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 14	Adjusting to a changing economic environment	Failure to ensure arrangements are in place to respond effectively to changes in the economic climate. Minimising negative impacts and maximising benefits.	<ul style="list-style-type: none"> - Lack of capacity in the workforce to effectively manage changes to service delivery as a result of changes in the economic environment - Lack of financial resources to respond to changes in the economic environment 	<ul style="list-style-type: none"> - Negative effect on social wellbeing - Negative effect on the local economy - Increased demand for council services - Negative effect on council income levels and increased budgetary pressures 	4	4	16	<ul style="list-style-type: none"> - Co-ordinated council response through the Economic Development Group and the remit being covered by two Portfolio Holders - Strong partnership working arrangements to address issues and maximise opportunities - Service Prioritisation process in place - Robust financial management procedures and budget monitoring, including a 10 year budget - Strong internal control arrangements including managing incidences of fraud and error 	2	4	8

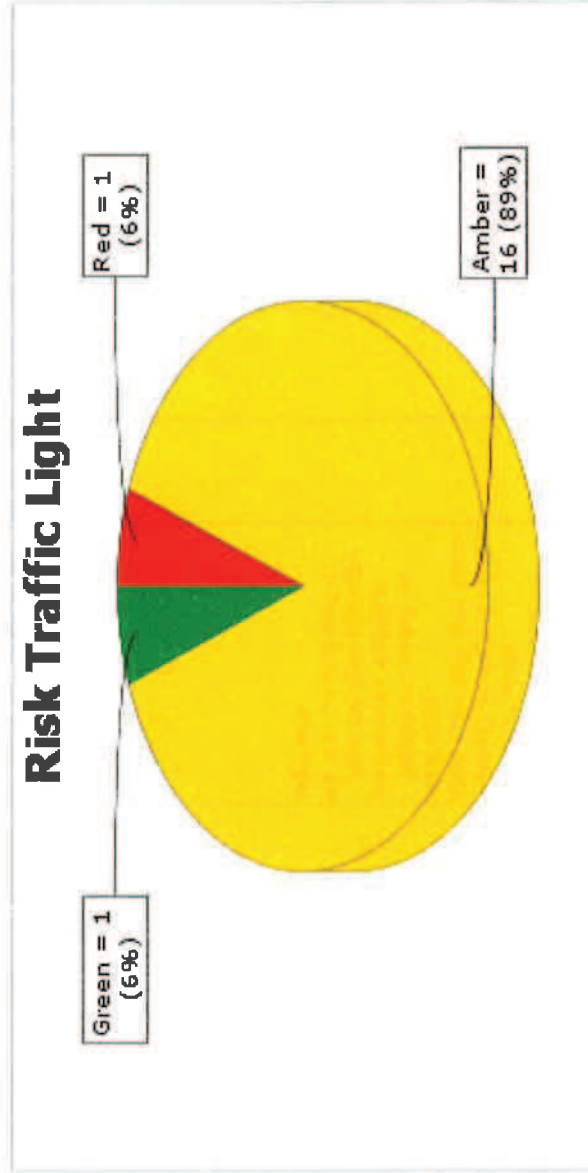
Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 15	Competitive service performance	Failure to ensure Council services, including shared services are high performing, cost effective and fit for purpose	<ul style="list-style-type: none"> - Lack of capacity in the workforce to continue to deliver high quality, competitive services - Lack of financial resources to continue to deliver high quality, competitive services - Lack of performance management to identify the quality of services and any areas where decline is evident - Changes to legislation impacting on the range or way that services are delivered - Lack of IT infrastructure or capacity to improve service delivery - Failure to capitalise and shape partnership and shared service opportunities that would improve service competitiveness - Poor governance of shared service arrangements 	<ul style="list-style-type: none"> - Decline in the quality of services delivered to the community - Declining levels of customer satisfaction - Increase in the cost of service delivery - Decrease in the value for money achieved from the delivery of council services - Decline in staff morale and increase in absence levels - Loss of control of service delivery through partnership or shared service opportunities - Reputational damage 	4	4	16	<ul style="list-style-type: none"> - Robust service prioritisation process in place - Robust financial management and budget setting processes in place - Performance management framework embedded across the Council - Strong governance arrangements in place including Member scrutiny - IT Strategy, Plan & Steering Group in place - Management Team providing positive leadership in partnership and shared service activity - Service review processes in place 	2	4	8

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 16	Knowledge and information management	Failure to ensure that the Council makes best use of and preserves the information and knowledge that it holds	<ul style="list-style-type: none"> - Lack of capacity or skills within the workforce to implement a knowledge management system - Lack of IT capacity to support a knowledge and information management system - Failure to succession plan 	<ul style="list-style-type: none"> - Failure to meet the Council's objectives - Failure to continue to deliver high quality services across the Council - Increased costs from recruitment and staff training - Negative impact on the organisations culture and on staff morale - Reputational damage 	4	4	16	<ul style="list-style-type: none"> - Management development plans in place - Workforce development plan in place - IT Strategy, Plan and Steering Group in place - Robust disaster recovery plans in place 	3	4	12
	SR 17	Impact of a major incident or disaster	Failure to ensure arrangements are in place to meet the Councils statutory obligations to respond to a major emergency impacting on the local community and/or the Council's operations (Civil Contingencies Act 2004)	<ul style="list-style-type: none"> - Inadequate and/or untested Major Emergency Plan in place - Failure to implement the Major Emergency Plan - Lack of capacity or specialist skills within the workforce to co-ordinate and respond to a major emergency - Inadequate controls on major emergency hazards 	<ul style="list-style-type: none"> - Disruption to the community and to community services - Inability to maintain Council services - Excessive non-recoverable expenditure on response - Loss of Council information - Reputational damage 	3	5	15	<ul style="list-style-type: none"> - Dedicated lead officer in post - District Major Emergency Plan (including the Business Continuity Plan) in place, regularly updated and enhanced, and tested - Community Risk Register in place - IT Disaster Recovery Plan in place - Collaborative arrangements with other Category 1 and 2 responders, Town and Parish Councils, the voluntary sector and others are in place - Access to support resources from across the Council, including from Direct Services 	2	5	10

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 18	Environmental sustainability	Failure to implement objectives to adapt to and mitigate the effects of climate change	<ul style="list-style-type: none"> - Lack of financial and staff resources to deliver climate change initiatives or to deliver services in the most environmentally friendly way - Lack of capacity in the workforce to deliver climate change initiatives alongside other priorities - Lack of specialist skill across the workforce to identify and address the range of climate issues experienced in delivering council services - Legislative changes on addressing Climate Change - Lack of political support to address climate change issues as a strategic priority 	<ul style="list-style-type: none"> - Failure to meet the objectives in the Sustainable Community Plan, the Local Development Framework and the Nottingham Declaration - Increase in the Council's carbon footprint and fuel costs, failing in its role as community leader - Increased costs of dealing with the effects of climate change across the District - Failure to meet government targets on climate change and recycling - Reputational damage 	4	3	12	<ul style="list-style-type: none"> - Co-ordinated approach to climate change issues through the Corporate Climate Change Group - Local Development Framework sets out the requirements for sustainable development of the District - Successful approach to gaining external funding for community based climate change initiatives - Embedding climate change issues at an operational level, for example through Sustainable Procurement 	3	3	9





Strategic Risk Summary Report Table 2011/12



Agenda Item 8



Title Strategic Risk Register



Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 01	Achievement of the Sevenoaks District Sustainable Community Plan	Failure to fulfil strategic ambitions through non-delivery of actions and targets within the Community Plan	<ul style="list-style-type: none"> - Ineffective partnership governance - Lack of capacity at the Council and at partner organisations - Lack of finance to deliver actions - Failure to engage effectively with the local community 	<ul style="list-style-type: none"> - Reduced quality of life for residents - Increase in crime levels and the perception of crime as a problem - Negative impact on the environment - Negative impact on health equality - Negative impact on local economy and social wellbeing - Negative impact on partnership working - Reputational damage for the Council and its partners 	4	5	20	<ul style="list-style-type: none"> - Agreed partnership governance roles and procedures including risk management of the partnership - Quarterly performance monitoring - Scrutiny arrangements in place, including reporting to Members and Cabinet oversight - Strong financial planning arrangements and monitoring of partnership resources - Regular consultation on priorities and performance - Engagement strategies in place 	3	4	12

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 02	Management of the Council's financial resources	Failure to deliver a sustainable budget to meet the Council's key priorities	<ul style="list-style-type: none"> - Transition to retained business rates from formula grant funding - Introduction of local council tax support schemes - Already low and decreasing level of government support grant - Poor financial plans and strategies - Ineffective financial governance - Lack of capacity and skilled professionals within the finance team - Failure to maintain proper financial and budgetary controls - Inability to meet financial reporting requirements - Failure to maximise the benefits of partnership working - Failure to meet savings targets - Additional regulation - Failure to retain or attract high quality staff - Ineffective management systems 	<ul style="list-style-type: none"> - Poor financial health - Inability to maintain services and deliver key priorities - Unable to maintain low increases in council tax levels - Reputational damage - Negative impact on staff morale and potential recruitment and retention difficulties - Poor outcome for the Audit of Accounts or Value for Money assessment and potential for increased intervention 	4	5	20	<ul style="list-style-type: none"> - 10 Year Budget - 4 Year Savings Plan - Strong financial planning processes over the short, medium and long term - Effective budget setting and financial monitoring processes embedded - Financial / budget risk management process in place - Effective financial governance including reports to Finance Advisory Group and Cabinet - Qualified and experienced officers in post with continued professional development - Good progress already made in partnership working with planned approach to explore all further opportunities 	2	5	10


Item No. 8 - Appendix


Agenda Item 8

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 03	Effective management of the Council's investments	Failure to maximise investment returns within the terms of the Council's Treasury Management Policy	<ul style="list-style-type: none"> - Lack of investment funds - Treasury Management Policy not in accordance with best practice guidance - Stringency of investment terms - Low rates of interest - Lack of capacity or skilled professionals within the finance team - Lack of credit worthy bodies in which to invest - Potential for institutional failure resulting in loss of Council funds 	<ul style="list-style-type: none"> - Less diverse investments resulting in low investment returns, creating additional pressure on budgets and reserves 	3	4	12	<ul style="list-style-type: none"> - Annual review of Treasury Management Policy - Treasury Management Policy in accordance with professional guidance - Effective budget setting and financial monitoring processes embedded - Effective financial governance including investment reports to Finance Advisory Group and Cabinet - Qualified and experienced officer in post with continued professional development - Increased monitoring of Treasury Management Strategy and activity by Members 	2	4	8
	SR 04	Effective management of the Pension scheme	Failure to have proper contingency arrangements in place to address under performance of the Kent County Council pension fund	<ul style="list-style-type: none"> - Government review of the Local Government Pension Scheme - KCC generating low returns from pension fund investments - Increase in SDC contributions to the pension fund - Ageing workforce - Decrease in uptake of the pension scheme or increasing number of staff opting out of the scheme 	<ul style="list-style-type: none"> - Increased pension fund contributions creating additional pressure on budgets and reserves 	4	4	16	<ul style="list-style-type: none"> - Actuarial valuations required every three years - Effective budget setting and financial monitoring processes embedded - Financial / budget risk management process in place - Effective financial governance including reports to Finance Advisory Group and Cabinet - Qualified and experienced officers in post with continued professional development 	3	4	12

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 05	Effective management of the Council's fixed assets	Failure to have robust arrangements in place for the management of the Council's fixed assets	<ul style="list-style-type: none"> - Lack of up to date asset records - Lack of finance to deliver asset maintenance - Lack of capacity to appropriately manage the council's fixed assets - Failure to maximise the benefit from asset disposals 	<ul style="list-style-type: none"> - Decrease in fixed asset values placing increased pressure on council budgets - Increased insurance premiums - Adverse impact on service delivery 	3	4	12	<ul style="list-style-type: none"> - Annual review of Asset Management Plan - On-going review of council owned property - Inventory registers in place - Financial procedure rules and disposal policy in place - Appropriate governance arrangements in place including Internal Audit reviews and Confidential Reporting Policy - Succession planning 	2	4	8
	SR 06	Management of the Council's Human Resources	Failure to ensure that workforce capacity and wellbeing is maintained to deliver high quality services in a difficult financial environment for the Council.	<ul style="list-style-type: none"> - Financial pressures resulting in decreased budget for staff employment, development and wellbeing - National and local pay constraint affecting staff morale and creating difficulties in employing and retaining high quality staff - Review of terms and conditions - Government review of the Local Government Pension Scheme - Work pressures of delivering more for less affecting staff morale and wellbeing - Lack of capacity and skilled professionals within the Human Resources team to develop policy and support the workforce 	<ul style="list-style-type: none"> - Decrease in the quality of staff - Decrease in staff morale and satisfaction - Increased (sickness) absence levels - Unable to continue to deliver the range and quality of services currently experience - Reputational damage as an employer and a deliverer of local services 	5	5	25	<ul style="list-style-type: none"> - Effective budget setting and financial monitoring processes embedded - Human Resources Strategy including workforce development plan, recruitment and retention policies - Sickness Absence Policy supported by return to work initiatives and Employee Support Scheme - Staff Appraisal Scheme and Personal Development Plans - Risk Management embedded in budget setting and project management - Performance monitoring in place including sickness absence and staff survey every two years 	4	4	16



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Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 07	Governance arrangements	Failure to deliver proper governance, scrutiny and internal control to protect the Council from poor practice and mismanagement	<ul style="list-style-type: none"> - Relationships between Members and Officers - Failure to adhere to changes of legislation - Lack of capacity and skilled professionals within the Legal, Democratic and Internal Audit teams - Lack of finances to deliver high quality governance arrangements and adjust to changes of legislation - Existing governance arrangements may not reflect proper arrangements for the oversight of shared service arrangements 	<ul style="list-style-type: none"> - Ineffective political and management leadership - Ineffective scrutiny of decision making and performance - Failure to deliver statutory requirements including an up to date constitution, an effective Internal Audit function and an Annual Governance Statement - Legal consequences for the Council, individual managers and Members - Failure to deliver the Council's strategic objectives and high quality services - Reputational damage - Shared service arrangements may not be properly governed 	3	4	12	<ul style="list-style-type: none"> - Council's Constitution - Cabinet and Committee Structure including Performance & Governance Committee and Scrutiny Committee's - Protocol for Leader and Chief Executive - Monitoring Officer and Section 151 officer in post - Internal Audit function complies with CIPFA Code of Practice - Risk Management processes embedded - Effective budget setting and financial monitoring processes embedded - Annual review of Committee Terms of Reference 	2	4	8

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 08	Prevention of fraud, corruption and error	Failure to ensure that effective arrangements are in place to minimise the risk of financial loss to the Council	<ul style="list-style-type: none"> - Poor governance and weak internal control environment including lack of effective risk management - Increased financial pressure on the public and staff increasing the likelihood of fraud and error incidences - Lack of capacity and skilled professionals to manage internal control and fraud issues - Delivering a shared fraud service whilst maintaining service quality - Procedures may not reflect current best practice 	<ul style="list-style-type: none"> - Financial loss to the Council - Reputational damage - Poor value for money from procurement activity - Decline in the quality of service provided by the Council - Need to divert resources to investigations impacting adversely on the achievement of other service objectives 	3	4	12	<ul style="list-style-type: none"> - Anti Fraud and Corruption Strategy, including awareness building - Corporate Whistle Blowing Policy - Members and Officers Code of Conduct and declarations of interest - Risk management processes embedded across the Council - Procurement best practice guidance including standard contract terms - Councils Constitution includes protocol on accepting gifts and hospitality, financial procedure rules and contract procedure rules - IT Security Policy - Internal Audit function including Fraud Hotline service - Benefit Fraud team including partnership working to improve the sharing of best practice and improve team capacity - Compliance with National Fraud Initiative - Strong project management in place for shared service initiatives - Improved resilience and sharing of best practice through shared working 	2	4	8


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Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 09	Understanding the needs and expectations of the community in the re-design of Council services	Failure to make adequate arrangements to identify the needs of the community (and customers) when re-designing services.	<ul style="list-style-type: none"> - Lack of finance to run effective consultations with the community - Lack of capacity and skilled professionals to manage consultation exercises - Failure to adhere to legislative changes in relation to consultation with the community - Failure to include community consultation in service re-design processes 	<ul style="list-style-type: none"> - Ineffective services that do not meet the needs of the community - Decreasing customer satisfaction levels - Decrease in the value for money achieved from the delivery of council services - Reputational damage 	4	4	16	<ul style="list-style-type: none"> - Effective budget setting and financial monitoring processes embedded - Council Residents Panel offering periodic consultation opportunities - Web based consultation software available council wide - Exit Surveys - Customer Standards - Complaints process - Performance monitoring 	3	4	12
	SR 10	Achievement of the key objectives of the Council's IT Strategy and Plan	Failure to identify technology that would benefit the Council to support and enable the continuous improvement of Council services	<ul style="list-style-type: none"> - Lack of finance to run effective procurement and develop IT solutions across the Council - Lack of capacity and skilled professionals to procure, implement and develop IT solutions across the Council - Failure to identify areas where IT solutions could improve service delivery - Failure to implement proper IT security arrangements in existing and new infrastructure and software 	<ul style="list-style-type: none"> - Failure to deliver Council objectives - Failure to benefit from the service efficiencies good use of IT would deliver - Failure to maximise the cost savings and value for money efficient use of IT would deliver - Security lapse would compromise the Council IT network and render systems inoperable - Data loss - Reputational Damage 	4	4	16	<ul style="list-style-type: none"> - IT Security Policy - Network security measures in place including firewall and access level controls - IT Disaster Recovery Plan - IT Steering Group - Risk management and procurement best practice embedded across the Council - Internal Audit review of IT Security - Experienced staff in post - Effective budget setting and financial monitoring processes embedded 	3	4	12


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 11	Maximising the benefit of shared service and partnership working	Failure to enter in to shared service and partnership opportunities that would be beneficial to the Council and the community	<ul style="list-style-type: none"> - Lack of Member and Management leadership and support to partnership and shared service activity - Lack of capacity, skills and expertise in the workforce to effectively manage and optimise partnership working opportunities - Lack of financial resources for the investigation and set-up costs that partnership working may require - Partnership governance arrangements - Lack of potential partner organisations - Partnership failure - Failure to maintain existing shared service arrangements 	<ul style="list-style-type: none"> - Failure to meet the Council's objectives - Unable to sustain the Council's budget - Failure to continue to deliver high quality services - Failure to maximise financial savings and value for money - Reputational damage - Partnership failure - costs of re-establishing an internal service or seeking new partners 	5	4	20	<ul style="list-style-type: none"> - Reports to Members on partnership working to ensure their support - Management Team lead in partnership and shared service activity - Effective relationships across Chief Executives and neighbouring Councils - Key officers have skills and expertise to deliver effective partnership working - Partnership Toolkit for best practice guidance - Effective risk management embedded across the organisation - Partnership Agreement in place with Dartford Borough Council - Exit Strategies in place for existing partnership arrangements 	3	4	12



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Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 12	National and Local Politics	The risk of failure to identify opportunities and challenges in the Coalition Governments national agenda, including the impact on the local political climate	<ul style="list-style-type: none"> - Failure to identify potential developments at the earliest stage - Failure to develop initiatives to benefit from available opportunities - Failure to balance political aspirations with the regulatory and budgetary framework in which the Council operates - Failure to deliver statutory obligations 	<ul style="list-style-type: none"> - Legal Challenge - Government Intervention - Negative impact on the relationship between Officers and Members - Negative impact on maintaining a sustainable budget - Reputational damage 	2	5	10	<ul style="list-style-type: none"> - Management structure in place to oversee key service areas and to advise Council on proposals - Protocol for the Leader and Chief Executive - Portfolio Holder briefings with Management Team and Heads of Service - Legal and Policy team provide updates on government proposals and their potential impact - Robust budget setting processes with Priority Matrix highlighting statutory functions 	1	5	5
	SR 13	Complying with legislative changes	Failure to adjust to and cope with changes in legislation	<ul style="list-style-type: none"> - Lack of capacity in the workforce to effectively manage changes to service delivery as a result of legislative changes - Lack of finance to adjust to changes in legislation - Short timescales allowed by Government to deliver significant service changes - Lack of Member support to deliver changes to legislation 	<ul style="list-style-type: none"> - Failure to fulfil statutory duties resulting in government intervention and an increase in legal liabilities - Failure to continue to deliver high quality services - Increase in customer complaints and falling satisfaction levels - Failure to maximise the opportunities changes to legislation may bring, e.g. new income streams, the ability to make financial savings or improved levels of service to the community - Reputational damage 	3	4	12	<ul style="list-style-type: none"> - Dedicated in house Legal team with qualified and experienced officers in place - Legal team briefing notes to Managers on legislative changes - Professional managers within service areas - Effective governance and internal control arrangements in place - Robust budget setting processes with Service Change Impact Assessments (SCIAS) highlighting changes to service delivery expected each year 	2	4	8


Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 14	Adjusting to a changing economic environment	Failure to ensure arrangements are in place to respond effectively to changes in the economic climate. Minimising negative impacts and maximising benefits.	<ul style="list-style-type: none"> - Lack of capacity in the workforce to effectively manage changes to service delivery as a result of changes in the economic environment - Lack of financial resources to respond to changes in the economic environment 	<ul style="list-style-type: none"> - Negative effect on social wellbeing - Negative effect on the local economy - Increased demand for council services - Negative effect on council income levels and increased budgetary pressures 	4	4	16	<ul style="list-style-type: none"> - Co-ordinated council response through the Economic Development Group and the remit being covered by two Portfolio Holders - Strong partnership working arrangements to address issues and maximise opportunities - Service Prioritisation process in place - Robust financial management procedures and budget monitoring, including a 10 year budget - Strong internal control arrangements including managing incidences of fraud and error 	2	4	8

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Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 15	Competitive service performance	Failure to ensure Council services, including shared services are high performing, cost effective and fit for purpose	<ul style="list-style-type: none"> - Lack of capacity in the workforce to continue to deliver high quality, competitive services - Lack of financial resources to continue to deliver high quality, competitive services - Lack of performance management to identify the quality of services and any areas where decline is evident - Changes to legislation impacting on the range or way that services are delivered - Lack of IT infrastructure or capacity to improve service delivery - Failure to capitalise and shape partnership and shared service opportunities that would improve service competitiveness - Poor governance of shared service arrangements 	<ul style="list-style-type: none"> - Decline in the quality of services delivered to the community - Declining levels of customer satisfaction - Increase in the cost of service delivery - Decrease in the value for money achieved from the delivery of council services - Decline in staff morale and increase in absence levels - Loss of control of service delivery through partnership or shared service opportunities - Reputational damage 	4	4	16	<ul style="list-style-type: none"> - Robust service prioritisation process in place - Robust financial management and budget setting processes in place - Performance management framework embedded across the Council - Strong governance arrangements in place including Member scrutiny - IT Strategy, Plan & Steering Group in place - Management Team providing positive leadership in partnership and shared service activity - Service review processes in place 	2	4	8

Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likely hood	Gross Impact	Gross Risk Score	Internal Controls	Net Likely hood	Net Impact	Net Risk Score
	SR 16	Knowledge and information management	Failure to ensure that the Council makes best use of and preserves the information and knowledge that it holds	<ul style="list-style-type: none"> - Lack of capacity or skills within the workforce to implement a knowledge management system - Lack of IT capacity to support a knowledge and information management system - Failure to succession plan 	<ul style="list-style-type: none"> - Failure to meet the Council's objectives - Failure to continue to deliver high quality services across the Council - Increased costs from recruitment and staff training - Negative impact on the organisations culture and on staff morale - Reputational damage 	4	4	16	<ul style="list-style-type: none"> - Management development plans in place - Workforce development plan in place - IT Strategy, Plan and Steering Group in place - Robust disaster recovery plans in place 	3	4	12
	SR 17	Impact of a major incident or disaster	Failure to ensure arrangements are in place to meet the Councils statutory obligations to respond to a major emergency impacting on the local community and/or the Council's operations (Civil Contingencies Act 2004)	<ul style="list-style-type: none"> - Inadequate and/or untested Major Emergency Plan in place - Failure to implement the Major Emergency Plan - Lack of capacity or specialist skills within the workforce to coordinate and respond to a major emergency - Inadequate controls on major emergency hazards 	<ul style="list-style-type: none"> - Disruption to the community and to community services - Inability to maintain Council services - Excessive non-recoverable expenditure on response - Loss of Council information - Reputational damage 	3	5	15	<ul style="list-style-type: none"> - Dedicated lead officer in post - District Major Emergency Plan (including the Business Continuity Plan) in place, regularly updated and enhanced, and tested - Community Risk Register in place - IT Disaster Recovery Plan in place - Collaborative arrangements with other Category 1 and 2 responders, Town and Parish Councils, the voluntary sector and others are in place - Access to support resources from across the Council, including from Direct Services 	2	5	10

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Status	Code	Title	Description	Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Risk Score	Internal Controls	Net Likelihood	Net Impact	Net Risk Score
	SR 18	Environmental sustainability	Failure to implement objectives to adapt to and mitigate the effects of climate change	<ul style="list-style-type: none"> - Lack of financial and staff resources to deliver climate change initiatives or to deliver services in the most environmentally friendly way - Lack of capacity in the workforce to deliver climate change initiatives alongside other priorities - Lack of specialist skill across the workforce to identify and address the range of climate issues experienced in delivering council services - Legislative changes on addressing Climate Change - Lack of political support to address climate change issues as a strategic priority 	<ul style="list-style-type: none"> - Failure to meet the objectives in the Sustainable Community Plan, the Local Development Framework and the Nottingham Declaration - Increase in the Council's carbon footprint and fuel costs, failing in its role as community leader - Increased costs of dealing with the effects of climate change across the District - Failure to meet government targets on climate change and recycling - Reputational damage 	4	3	12	<ul style="list-style-type: none"> - Co-ordinated approach to climate change issues through the Corporate Climate Change Group - Local Development Framework sets out the requirements for sustainable development of the District - Successful approach to gaining external funding for community based climate change initiatives - Embedding climate change issues at an operational level, for example through Sustainable Procurement 	3	3	9

PERFORMANCE AND GOVERNANCE COMMITTEE – 10 JANUARY 2012

ANNUAL AUDIT LETTER 2010/11

Report of the: Deputy Chief Executive and Corporate Resources Director

Status: For Information

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr Ramsay

Head of Service Head of Finance and Human Resources -Tricia Marshall

Recommendation: That the report be noted.

Introduction

1 The District Auditor, Andy Mack, would like the opportunity to present to Members the District Audit 2010/11 Annual Audit Letter for Sevenoaks District Council. The Letter is attached as an Appendix.

Summary

2 The Annual Audit Letter covers the audit of the 2010/11 financial statements and the District Auditor's assessment of the Council's arrangements to achieve value for money in its use of resources. Both of these areas have received very positive comments.

3 The District Auditor has given an unqualified opinion on the Council's financial statements. The financial statements were prepared for the first time under the requirements of International Financial Reporting Standards (IFRS). This required a significant effort from officers and the external audit team to ensure the financial statements adopted by members complied with the new reporting requirements.

4 The outcome of the external audit of the 2010/11 accounts was reported to this committee on 27 September 2011.

5 The District Auditor has given an unqualified value for money conclusion stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness. The following specific items are mentioned in the letter:

- the Council continues to have strong governance, a highly effective financial planning framework and very good financial management. It took early action to address financial pressures and has strong arrangements in place to secure financial resilience;

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- the Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity. It has embraced partnership working and moves rapidly to adopt new joint arrangements working with staff and empowering decision making.

Conclusion

- 6 It is pleasing to note the positive comments made by the District Auditor about the Council's performance in the challenging financial environment in which it is operating.

Contact Officer(s):

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DR. PAV RAMEWAL

**DEPUTY CHIEF EXECUTIVE AND
CORPORATE RESOURCES DIRECTOR**

Annual Audit Letter

Sevenoaks District Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two parts:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk

Unqualified audit opinion



Our findings

Proper arrangements to secure value for money



Audit opinion and financial statements

I am pleased to report that I gave an unqualified opinion on the Council's financial statements on 27 September. The financial statements were prepared for the first time under the requirements of International Financial Reporting Standards (IFRS). This required a significant effort from officers and my team to ensure the financial statements adopted by members complied with the new reporting requirements.

Value for money

I gave an unqualified value for money conclusion on 27 September, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.

- The Council continues to have strong governance, a highly effective financial planning framework and very good financial management. It took early action to address financial pressures and has strong arrangements in place to secure financial resilience.
- The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity. It has embraced partnership working and moves rapidly to adopt new joint arrangements working with staff and empowering decision making.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified conclusion on the Council's financial statements on 27 September following their approval by members at the Performance and Governance Committee. I discussed a number of key risk areas that I had identified in planning my audit and confirmed to members in my Annual Governance report that satisfactory assurance had been obtained against each risk. The first time adoption of IFRS was the key issue and preparing IFRS based accounts involved a significant amount of work for the Council's finance team, including:

- review of transactions to identify the appropriate accounting treatment under the new framework;
- restatement of the Council's balance sheets at 1 April 2009 and 1 April 2010; and
- work to produce a number of new disclosure notes.

I worked closely with your officers during this transition period and am satisfied that the first year IFRS accounts presented for approval were prepared to a high standard.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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Value for money criteria and key messages

Criterion

1. Financial resilience
The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Key messages

Sevenoaks District Council has strong financial governance. Financial planning is robust and forward looking. With these sound arrangements for financial control it is well-placed to maintain a secure and stable financial position.

The Council has an established financial planning process with a ten year budget. This allowed it to identify the budget gap and conduct early modelling over a range of scenarios. The Council's 2011/12 budget was the earliest within Kent.

The Council's financial systems and processes are effective. The financial position is monitored closely, variances are investigated and action is taken where necessary. The Council's overall financial out turn for 2010/11 was a net surplus of £419,000. Service expenditure was managed within budget, there was a small under spend of £146,000 on a net service expenditure budget of £16,724,000.

Criterion

Key messages

This is less than 1 per cent. Given the challenging economic environment and the impact on fluctuations on the Council’s income and service pressures this is an impressive result. The Council has reviewed the level of reserves it holds, £14 million is earmarked for future spending including £2.3 million to provide budget stabilisation by managing future spending and income fluctuations. The general fund balance continues to be in line with plans at £3.7 million.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council takes a strategic approach to prioritising resources, improving efficiency and productivity. It challenges how services are provided and secures new ways of doing things.

The Council has a strong track record of delivering high quality, efficient, value for money services. Services are constantly challenged on an ongoing basis to improve. It has a strong culture where officers at all levels are empowered to take ownership of decisions that shape service delivery. A culture which emphasises transformation by embracing change, staff empowerment and continuous improvement has been developed. The Council is also not afraid to take difficult decisions where necessary, for example the transfer of the minibuss service to the voluntary sector.

Efficiencies are also being gained by sharing services with neighbouring authorities; a partnership with Dartford BC has been quickly formed to provide a joint Revenues and Benefits service with anticipated annual savings approaching £250,000 for Sevenoaks. Other partnerships exist for Licensing, Internal Audit and Anti Fraud and more are planned.

Current and future challenges

The Council has coped well in meeting the immediate pressures of the credit crunch. Demands on the public sector to manage within ever more constrained resources look set to continue. The Council has positioned itself well, but will need to continue to focus on its priorities.

Economic downturn and pressure on the public sector	<p>The economic forecast for the UK and western developed economies remains gloomy. Since taking office in May 2010 the Coalition government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding. The UK recovery continues to remain weak and there is considerable volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the euro zone.</p> <p>The Council has positioned itself well to ensure it is financially resilient, having adopted a ten-year budget it is able to predict and model future spending and savings plans. It has maintained an adequate level of reserves to smooth the impact of spending and income fluctuations. It has un-earmarked general fund reserves of £3.7 million. At the mid point in the year, the Council's income from fees and charges is falling behind budgeted levels and the year end forecast is that it will be 4 per cent below the £4 million budgeted level. Performance in collecting Council tax and business rates has been maintained to date, but the Council recognises that the risk that collection may suffer.</p> <p>The Council is delivering savings, it has reduced its budget by 28 per cent from 2004/05 and continues to challenge spending, recently agreeing a series of changes to staff terms and conditions of pay.</p>
Joint arrangements/shared services	<p>The Council has taken a strategic decision to investigate shared services as the primary tool for identifying cost reductions going forwards. It has been quick to establish a collaboration partnership with Dartford BC covering the revenues and benefits service and internal audit service.</p>
Treasury management	<p>The UK recovery remains weak and there is much volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the Euro zone. The current stresses are impacting on the stability of the European banking system, with a major European bank requiring government support.</p>

Following exposure to the 2008 banking crisis the Council continues to closely monitor its treasury management activities and risk associated with investments.

Planned changes to legislation

The Coalition government have announced a significant number of wide ranging reforms to the public sector since taking office in May 2010. The Localism Bill is advanced in its parliamentary progress and if enacted will have a significant impact on Local Government. Key aspects of the Bill are:

- the abolition of the Standards Board regime;
- introducing a general power of competence for local authorities;
- introducing rights for communities to buy local assets threatened with closure and challenge the way services are provided;
- substantial reforms of the planning system; and
- other changes to local government finance including business rates.

In addition other government reforms are planned to the welfare system, which will impact on the Council's future work in administering Housing and Council tax Benefits.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, Deputy Chief Executive and Director of Resources. I will present this letter at the Performance and Governance Committee on 10 January 2012 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan 2010/11	March 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Andy Mack
District Auditor
November 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 initial estimate (April 2010)	2010/11 revised estimate (January 2011)	2010/11 final
Fee for Audit	92,250	104,600	104,600	104,600
Inspection Fee	9,152	9,152	0	0
Total	101,402	113,752	104,600	104,600

In addition the Audit Commission issued rebates in respect of the 2010/11 audit fee as follows.

	Audit Commission rebates 2010/11
Audit fee 2010/11	104,600
Rebate for the costs associated with the first year implementation of IFRS	(6,630)
Rebate to reflect the new approach to VFM work in 2010/11	(1,645)
	96,325

i Inspection activity cancelled following abolition of CAA.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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

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



PERFORMANCE AND GOVERNANCE COMMITTEE - 10 JANUARY 2012

TREASURY MANAGEMENT STRATEGY 2012/13

Report of the: Deputy Chief Executive and Director of Corporate Resources

Also considered by: Finance Advisory Group - 25 January 2012

Cabinet - 9 February 2012

Council - 21 February 2012

Status: For consideration and recommendation to Cabinet

Key Decision: No

Executive Summary: The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) revised the Prudential Code, Treasury Management Code and Guidance Notes in November 2011 and recommend formal adoption of the amended clauses and a restatement of the Treasury Management Policy Statement. These have been included in the main body of the report.

Members' particular attention is drawn to paragraphs 43-59 of the report, which deal with changes to the investment criteria in the light of recent credit rating downgrades.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Head of Service Head of Finance and Human Resources – Mrs. Tricia Marshall

Recommendations:

That Cabinet recommend Council to approve the Treasury Management Strategy Statement set out in this report.

Background

1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3. CIPFA defines treasury management as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Introduction

Reporting requirements

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Finance Advisory Group and the Performance and Governance Committee.
5. Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:
 - the capital plans (including prudential indicators);
 - a Minimum Revenue Provision Policy (MRP) (how residual capital expenditure is charged to revenue over time);
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an investment strategy (the parameters on how investments are to be managed).
6. A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary,

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and whether the treasury strategy is meeting the strategy or whether any policies require revision.

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

Treasury Management Strategy for 2012/13

8. The strategy for 2012/13 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

Treasury management Issues

- the current treasury position;
 - treasury indicators which will limit the treasury risk and activities of the Council;
 - prospects for interest rates;
 - the borrowing strategy;
 - the investment strategy;
 - creditworthiness policy; and
 - policy on use of external service providers.
9. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.
 10. The suggested strategy for 2012/13 in respect of the above aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services Limited.

Capital Issues

The Capital Prudential Indicators 2012/13 – 2014/15

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

Capital Expenditure

12. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	2,786	1,390	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

13. Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.
14. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	2,786	1,390	***	***	***
Financed by:					
Capital receipts	139	13	***	***	***
Capital grants	1,669	347	***	***	***
Capital reserves	456	330	***	***	***
Revenue	522	700	***	***	***
Net financing need for the year	2,786	1,390	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

The Council's Borrowing Need (the Capital Financing Requirement)

15. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
16. Following accounting changes the CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.2m of such schemes within the CFR.
17. The Council is asked to approve the CFR projections below:

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Financing Requirement					
Total CFR	206	185	164	143	122
Movement in CFR	-21	-21	-21	-21	-21

Movement in CFR represented by:					
Net financing need for the year (above)					
<u>Less</u> MRP/VRP and other financing movements	-21	-21	-21	-21	-21
Movement in CFR	-21	-21	-21	-21	-21

Note:- The MRP / VRP includes finance lease annual principal payments

MRP Policy Statement

18. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
19. CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:
20. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR – MRP will be based on the CFR.
21. These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.
22. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Depreciation method – MRP will follow standard depreciation accounting procedures. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

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

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

Year End Resources	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Fund balances / reserves	17,711	***	***	***	***
Capital receipts	763	***	***	***	***
Provisions	2,719	***	***	***	***
Other	0	***	***	***	***

Total core funds	21,193	***	***	***	***
Working capital*	21,193	***	***	***	***
Under/over borrowing	0	***	***	***	***
Expected investments	21,193	***	***	***	***

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

*** Figures to be added to Cabinet report when Capital Programme is completed

Estimates of the incremental impact of capital investment decisions on council tax.

24. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate
Council tax band D	-0.14%	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

Treasury Management Issues

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

Current Portfolio Position

26. The Council's treasury portfolio position at 22 December 2011 appears in Appendix A.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Operational boundary	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	5,000	5,000	5,000	5,000

The Authorised Limit for external debt

28. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
29. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
30. The Council is asked to approve the following Authorised Limit:

Authorised limit	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	5,000	5,000	5,000	5,000

Prospects for Interest Rates

31. The Council has appointed Sector Treasury Services Limited as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix B draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

32. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Bank of England's Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.
33. Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total

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national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

34. This challenging and uncertain economic outlook has a several key treasury management implications:
- the Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
 - investment returns are likely to remain relatively low during 2012/13;
 - borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
 - there will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

35. It is anticipated that there will be no capital borrowings required during 2012/13.

Annual Investment Strategy

Investment Policy

36. The Council's investment policy has regard to the Department of Communities and Local Government (CLG) Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
37. In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
38. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the

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opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “Credit Default Swaps (CDS)” and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Sector.

39. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
40. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.
41. The intention of the strategy is to provide security of investment and minimisation of risk.
42. Investment instruments identified for use in the financial year are listed in Appendix C under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

Creditworthiness Policy

43. This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:
 - credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
44. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:
 - 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

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45. This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
46. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of Short Term rating F1, Long Term rating A-, Individual of Viability ratings of C- (or BB+), and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
47. All credit ratings will be monitored regularly. 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 Council's lending list.
48. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Country limits

49. The Council has determined that it will only use approved counterparties from the UK or the EU which also have a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Investment Counterparty Selection Criteria

50. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate

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security, and monitoring their security. This is set out in the specified and non-specified investments listed in Appendix C; and

It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

51. Officers will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
52. Credit rating information is supplied by Sector, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (lending) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.
53. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:
 - Banks 1 - good credit quality - the Council will only use banks which:
 - are UK banks; and/or
 - are EU banks and domiciled in a country which has a minimum sovereign long term rating of AA-
 and have, as a minimum, the following Fitch credit ratings:
 - Short term F1
 - Long term A-
 - Viability / financial strength C-
 - Support 3
 - Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
 - Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
 - Building societies - The Council will use all societies which meet the ratings for banks outlined above
 - Money Market Funds

- UK Government (including gilts, treasury bills and the DMADF)
 - Other local authorities
 - Supranational institutions
54. It should be noted that the previous minimum long term credit rating of AA- has been reduced to A- in the suggested 2012/13 creditworthiness policy, as recent downgrades have resulted in very few institutions meeting the previous minimum.
55. As an alternative to the construction of a counterparty (or lending) list based around the colour coded credit rating matrix supplied by Sector, Members may prefer an approach using certain specified institutions only. Such an approach might be to limit investments to the main UK banks and building societies irrespective of their credit ratings. The current long term ratings of the major UK banks and top building societies are as follows:
- Barclays Bank plc A
Clydesdale Bank plc A+
Co-Operative Bank plc A-
Coventry Building Society A
HSBC Bank plc AA
Leeds Building Society A-
Lloyds Banking Group plc A
Nationwide Building Society A+
Royal Bank of Scotland Group plc A
Santander UK plc A+
56. The drawback of using a prescriptive list of nominated institutions is that it will not be sensitive to changes in ratings and will require further resolutions from Council to add institutions back on to the approved list.
57. Members views on this issue would be appreciated.

Use of additional information other than credit ratings

58. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Other Creditworthiness Issues

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59. The Council's investment policy further limits the one proposed by Sector as follows:-

- Maximum investment period of 1 year.
- Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies.
- Total investments in any one foreign country is limited to 15% of the total fund.
- Investments are limited to £5m per counterparty excluding call accounts and £6m including call accounts.

Investment Strategy

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

61. Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

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

63. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

Icelandic Bank Investments

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64. The Icelandic courts have supported the view that the Council will be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The actual repayment is currently expected to be partially in foreign currency assets. It is currently too early to provide a definitive policy on how this exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

Policy on the use of external service providers

65. The Council uses Sector Treasury Services as its external treasury management advisers.
66. 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.
67. 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

68. The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix E.

Role of the Section 151 officer

69. As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix F.

Key Implications

Financial

70. The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.
71. There are financial implications arising from the restriction of the Council's lending list in that an inferior rate of interest may have to be accepted on a particular investment if some of the smaller and lower-rated institutions have been removed from the list.

Community Impact and Outcomes

72. There are no community impacts arising from this report.

Legal, Human Rights etc.

73. This report satisfies the requirements of the Local Government Act 2003 and supporting regulations plus the Council's Financial Procedure Rules which both require the preparation of an annual treasury strategy.

Conclusions

74. The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.
75. In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy must be considered by Council and this is planned for its meeting on 21 February 2012. Given the current uncertainties in the banking sector and financial markets, the Council may need to consider amending its strategy during the year.

Risk Assessment Statement

76. Treasury Management has two main risks :

Fluctuations in interest rates can result in a reduction in income from investments; and

A counterparty to which the Council has lent money fails to repay the loan at the required time.

77. The movement towards having a restricted lending list of better quality institutions but higher individual limits with those institutions reduces the chances of a default. But if a default did occur, the potential loss would be greater. Previously, the preference was to have smaller investments with a greater range of institutions.
78. These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

Sources of Information:

Existing treasury counterparty list

Treasury Management Strategy Statement for 2012/13 provided by Sector Treasury Services Ltd.

CIPFA – Prudential Code on Treasury Management

Item No. 10

ODPM (now DCLG) – Guidance on Local
Government Investments (March 2004)

CIPFA Treasury Management in the Public
Services Code of Practice (Revised 2009,2010 &
2011)

Contact Officer(s): Roy Parsons ext.7204

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources

SEVENOAKS DISTRICT COUNCIL

List of Investments as at:- 22-Dec-11

Reference	Name	Country	Group	Amount	Start Date	Comm Rate	End Date	Curr Rate	Terms
	Santander UK plc (Business Reserve A/C)	U.K.	Santander	0	01-Apr-99			0.60000%	Variable
	Santander UK plc (Money Market A/C)	U.K.	Santander	0	09-Oct-06			0.80000%	Variable
	Bank of Scotland plc (Corp Instant Access A/C)	U.K.	Lloyds/HBOS	0	01-Aug-04			0.50000%	Variable
	Clydesdale Bank plc (Base Tracker Plus - 15 Day)	U.K.	NAB	0	10-Sep-10			0.65000%	Variable
	Barclays Bank plc (Business Premium A/C)	U.K.		1,192,000	01-Oct-11			0.45000%	Variable
	National Westminster Bank plc (Liquidity Select)	U.K.	RBS	2,000,000	07-Oct-11			0.80000%	Variable
IP991	Aberdeen City Council	U.K.		1,000,000	29-Nov-11	0.50000%	29-May-12		6 Months
IP963	Bank of Scotland plc	U.K.	Lloyds/HBOS	1,000,000	26-May-11	1.80000%	24-Feb-12		9 Months
IP986	Bank of Scotland plc	U.K.	Lloyds/HBOS	1,000,000	03-Nov-11	1.35000%	14-Feb-12		3 Months
IP987	Barclays Bank plc	U.K.		1,500,000	14-Nov-11	0.91000%	14-Feb-12		3 Months
IP989	Barclays Bank plc	U.K.		1,500,000	16-Nov-11	0.91000%	16-Feb-12		3 Months
IP985	Blaenau Gwent County Borough Council	U.K.		2,000,000	07-Nov-11	0.55000%	08-May-12		6 Months
IP813	Landsbanki Islands hf	Iceland		1,000,000	25-Jun-07	6.32000%	25-Jun-09		2 Years
IP953	Lloyds TSB Bank plc	U.K.	Lloyds/HBOS	1,000,000	03-Feb-11	1.95000%	03-Feb-12		1 Year
IP961	Lloyds TSB Bank plc	U.K.	Lloyds/HBOS	1,000,000	28-Apr-11	1.65000%	31-Jan-12		9 Months
IP970	Lloyds TSB Bank plc	U.K.	Lloyds/HBOS	1,000,000	25-Jul-11	1.42000%	25-Jan-12		6 Months
IP992	Midlothian Council	U.K.		1,000,000	14-Dec-11	0.40000%	14-Mar-12		3 Months
IP958	National Westminster Bank plc	U.K.	RBS	2,000,000	22-Mar-11	1.00000%	27-Apr-12	2.50000%	1 Year
IP997	National Westminster Bank plc	U.K.	RBS	1,000,000	19-Dec-11	1.00000%	18-Jul-12	1.80000%	6 Months
IP968	Nationwide Building Society	U.K.		1,000,000	29-Jun-11	1.02000%	30-Dec-11		6 Months
IP969	Nationwide Building Society	U.K.		1,000,000	15-Jul-11	1.02000%	16-Jan-12		6 Months
IP977	Nationwide Building Society	U.K.		1,000,000	01-Sep-11	1.09000%	01-Mar-12		6 Months
IP948	Newcastle Upon Tyne City Council	U.K.		1,000,000	12-Jan-11	1.25000%	11-Jan-12		1 Year
IP990	Nottingham City Council	U.K.		2,000,000	23-Nov-11	0.50000%	23-May-12		6 Months
IP993	UK Debt Management Office	U.K.		2,500,000	05-Dec-11	0.25000%	04-Jan-12		1 Month
IP994	UK Debt Management Office	U.K.		2,000,000	13-Dec-11	0.25000%	04-Jan-12		22 Days
IP995	UK Debt Management Office	U.K.		1,500,000	15-Dec-11	0.25000%	04-Jan-12		20 Days
IP998	UK Debt Management Office	U.K.		1,000,000	19-Dec-11	0.25000%	05-Jan-12		17 Days
IP999	UK Debt Management Office	U.K.		1,000,000	21-Dec-11	0.25000%	09-Feb-12		7 Weeks
IP983	Ulster Bank Ltd	U.K.	RBS	1,000,000	26-Oct-11	1.05000%	26-Jan-12		3 Months
	Total Invested			34,192,000					
	Other Loan								
	Sevenoaks Leisure Limited			250,000	29-Apr-08	7.00000%	31-Mar-18		10 Years

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APPENDIX B - INTEREST RATE FORECASTS 2011/2015

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	0.87%	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	1.16%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	1.65%	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	2.25%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	3.33%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	4.24%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	4.26%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	2.25%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	2.25%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.25%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	3.33%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	3.33%	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	3.33%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	4.24%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	4.24%	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	4.24%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	4.26%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	4.26%	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	4.26%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

APPENDIX C - SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS

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

Term deposits within the UK

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Sector colour code 'Green' or better	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum 'High' Credit Criteria	Use
UK part nationalised banks	Sector colour code 'Blue'	In-house
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA- or better and Sector colour code 'Green' or better	In-house

Others

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating AA- or better and Sector colour code 'Green' or better	In-house
UK Government Gilts	UK sovereign rating AA- or better	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating AA- or better	In-house buy and hold
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold
Treasury Bills	UK sovereign rating AA- or better	In house

Item No. 10 - Appendix C

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
Government Liquidity Funds	Long-term rating AAA Volatility rating MR1+	In-house
Money Market Funds	Long-term rating AAA Volatility rating MR1+	In-house
Enhanced cash funds	Long-term rating AAA Volatility rating MR1+	In-house
Gilt Funds	Long-term rating AAA Volatility rating MR1+	In-house

NON-SPECIFIED INVESTMENTS: As the Council has a maximum investment period of one year, many of the investment instruments previously listed in this category are no longer applicable

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities (i.e. structured deposits)	Sovereign rating AA- or better and Sector colour code 'Green' or better	In-house	25	1 year

APPENDIX D - Approved countries for investments

Based on lowest available rating

AAA

- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Sweden
- Switzerland
- U.K.

AA+

- Belgium

Item No. 10 - Appendix E

APPENDIX E - Treasury management scheme of delegation

Full Council

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

Cabinet

- 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;
- approving the selection of external service providers and agreeing terms of appointment.

Performance and Governance Committee

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

APPENDIX F - The treasury management role of the section 151 officer

The S151 (responsible) officer is responsible for:

- 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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PERFORMANCE AND GOVERNANCE COMMITTEE – 10 JANUARY 2012

BUDGET MONITORING – NOVEMBER 2011

Report of the: Deputy Chief Executive and Corporate Resources Director

Status: For Information

This report supports all the Council’s key themes and objectives

Portfolio Holder Cllr Ramsay

Head of Service Head of Finance and Human Resources -Tricia Marshall

Recommendation: That the report be noted.

Overall Financial Position

- 1 Eight months into the year the results to date show an overall favourable variance of £226,000, an improvement when compared with the previous month.
- 2 The year-end position is forecast to be £57,000 better than budget; similar to the previous month.

Key Issues for the year to date

- 3 *Income* – investment income is performing above target and is forecast to be better than budgeted at the year-end. This is due to higher than estimated balances and slightly higher rates being achieved during the year so far, and a favourable forecast is shown to reflect this improved position. However, looking forward the current rates being achieved are lower, with a consequent impact on returns.
- 4 Looking at the other main income sources, the position remains difficult. Car Park, Building Control, Land Charges, Development Control and On-street Parking income all continue to show adverse variances for the year to date.
- 5 Community Development external funding is ahead of profile, contributing to the favourable variance at present, but this will not have any impact on the year-end results.
- 6 *Pay costs* – the favourable trend has continued and the underspend for the year to date is now £279,000. Almost all services are showing a small underspend; in some cases these are offset by agency staff costs (particularly Direct Services), but there are a number of favourable variances forecast for year-end.

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- 7 *Other* – Direct Services' results show an adverse variance of £101,000, due to increased fuel and waste disposal costs as well as a shortfall in income.

Year End Forecast

- 8 The year-end position is forecast to be £57,000 better than budget, similar to the previous month. Adverse variances have been forecast to reflect the adverse position for Direct Services to date, and the fact that some savings from partnership working will be achieved later than originally planned. Adverse forecasts are also shown for variable income sources such as Building Control and On-street parking. Favourable variances has been forecast for investment income and against some salary budgets.

Risk areas

- 9 The current economic situation continues to have a real and potential impact on the Council's finances:
- The number of institutions meeting the Council's credit rating criteria of 'AA-' or better has reduced and the alternatives for placing funds will produce lower investment returns;
 - property related income such as Development Control, Building Control, Land Charges and Capital Receipts remain vulnerable and parking income is also struggling ;
 - the Benefits workload is continuing at a higher level than before the recession, which is having an impact on processing times (though an action plan is in place to improve performance);
 - the Housing Team has a higher number of homeless people in bed and breakfast accommodation; whilst every effort is being made to contain these costs, there is a risk that there will be an impact on the year-end result;
 - Council Tax collection rates, though currently in line with the previous year, could be affected by increased unemployment and squeezed household incomes; and
 - diesel prices continue at a high level and the financial impact seen in the last financial year is continuing.
- 10 Staff turnover remains relatively low. This has a positive impact on service delivery but puts at risk the achievement of the vacant post saving in future years. Conversely, in some specialist areas, experienced staff are proving difficult to recruit and so temporary staff are being used to cover vacancies. Where appropriate, apprenticeships are being considered to increase the pool of trained staff.
- 11 Planned savings through the generation of income, particularly from new partnership working, remain risk areas for the current and for future years. However, on a positive note, the Building Control Manager partnership with

Item No. 11

Tonbridge and Malling Borough Council is now in place and the business case for the Environmental Health partnership with Dartford Borough Council has been approved by Members at both authorities and is now progressing to implementation.

Contact Officer(s):

Head of Finance and Human Resources –
Tricia Marshall Ext 7205

Finance Manager - Adrian Rowbotham Ext 7153

DR. PAV RAMEWAL

**DEPUTY CHIEF EXECUTIVE AND
CORPORATE RESOURCES DIRECTOR**

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Overall Summary
**NOVEMBER 11 -
Final**

Community and Planning

	Period	Period	Period	Period	Y-T-D	Y-T-D	Y-T-D	Y-T-D	Annual	Annual	Annual	2010/11
	Budget	Actual	Variance	Variance	Budget	Actual	Variance	Variance	Budget	Forecast (including Accruals)	Variance	Actual
	£'000	£'000	£'000	%	£'000	£'000	£'000	%	£'000	£'000	£'000	£'000
Community Development	46	54	- 8	-18.1	706	609	97	13.8	1,151	1,133	18	887
Development Services	102	130	- 28	-27.0	903	860	43	4.7	1,376	1,366	10	1,672
Environmental and Operations	224	157	67	29.9	2,038	2,038	- 0	-0.0	2,862	2,990	- 128	3,979
Housing and Communications	62	51	10	16.7	612	602	11	1.7	923	909	14	1,014
Total Community and Planning	434	393	41	9.5	4,259	4,109	151	3.5	6,312	6,398	- 86	7,552

Corporate Resources

Finance and Human Resources	389	375	14	3.6	3,153	3,241	- 88	-2.8	4,782	4,649	133	5,589
IT and Facilities Management	155	108	47	30.4	1,067	973	94	8.8	1,654	1,654	-	1,704
Legal and Democratic Services	118	103	15	12.6	877	854	23	2.6	1,364	1,375	- 10	1,564
Total Corporate Resources	663	586	76	11.5	5,097	5,068	30	0.6	7,800	7,678	123	8,857

NET EXPENDITURE (1)

	1,097	979	118	10.7	9,357	9,176	180	1.9	14,112	14,076	37	16,409
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Adjustments to reconcile to Amount to be met from Reserves

Removal of Asset Maintenance Variance	-	- 17	17	-	-	- 73	73	-	-	-	-	72
Direct Services Trading Accounts	5	29	- 24	- 480.0	- 118	- 17	- 101	- 85.6	- 74	- 8	- 66	- 17
Capital charges outside General Fund	- 4	- 4	- 0	- 0.0	- 31	- 31	- 0	- 0.0	- 47	- 47	-	- 47
Support Services outside General Fund	- 16	- 16	- 0	- 0.1	- 131	- 131	0	0.1	- 220	- 220	-	- 216
Redundancy Costs - all	-	-	-	-	-	15	- 15	-	-	-	-	244

NET EXPENDITURE (2)

	1,081	970	111	10.3	9,076	8,938	138	1.5	13,771	13,801	- 29	16,445
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Government Grant	- 428	- 428	-	0.0	- 3,427	- 3,427	-	-	- 5,141	- 5,141	-	- 6,348
Council Tax Requirement - SDC	- 767	- 767	-	0.0	- 6,133	- 6,133	-	-	- 9,199	- 9,199	-	- 9,172

NET EXPENDITURE (3)

	- 114	- 225	111	-97.5	- 484	- 622	138	28.4	- 569	- 539	- 29	925
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Summary including investment income

Net Expenditure	- 114	- 225	111	- 98	- 484	- 622	138	28.4	- 569	- 539	- 29	925
Investment Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Investment Income	- 18	- 28	10	-54.9	- 120	- 208	89	73.8	- 153	- 239	86	- 335
Overall total	- 132	- 252	121	- 152	- 604	- 830	226	102	- 722	- 779	57	590

Planned appropriation (from)/to Reserves
Supplementary appropriation from Reserves

	722	722	-	-								
	-	-	-	-								
												- 171
Surplus		- 56	57									419

Reserves

	31/3/11	Movement in month	Cumulative to date	Balance as at 31/10/11	31/3/12 budget	31/3/12 forecast
	£000	£000	£000	£000	£000	£000
<u>Provisions</u>						
First Time Sewerage	915	0	0	915	0	915
Edenbridge Relief Road Compensation (1)	1,566	0	-27	1,539	0	1,539
Accumulated Absences	152	0	0	152	152	152
Others	85	0	-33	52	0	0
	2,718	0	-60	2,658	152	2,606
Capital Receipts(Gross)	763	0	63	826	1,369	1,369
Note: this balance will reduce at year end as the receipts are used to finance capital expenditure						
<u>Earmarked Reserves</u>						
Asset Maintenance (2)	4,315	0	-3,315	1,000	1,000	1,000
Employer's Superannuation (2)	2,569	0	-2,569	0	0	0
Financial Plan (2)	0	0	5,824	5,824	5,812	5,824
Budget Stabilisation	2,436	0	0	2,436	341	2,436
Housing Benefit subsidy	1,192	0	0	1,192	701	1,117
LDF	574	0	-22	552	267	552
Vehicle Renewal	564	0	28	592	608	608
Community Development	418	0	35	453	0	0
Reorganisation (previously Termination)	358	0	-21	337	75	300
Carry Forward Items	341	0	-25	316	0	0
Action and Development	314	0	-4	310	300	300
Vehicle Insurance	264	0	0	264	246	246
Others	824	-15	-37	787	322	322
	14,169	-15	-106	14,063	9,672	12,705
<u>General Fund</u>						
Required Minimum	1,500				1,500	1,500
Available Balance	2,213				2,213	2,213
	3,713				3,713	3,713
TOTAL	21,363				14,906	20,393

Notes

1. Changes in the Edenbridge Relief Road Compensation provision is very difficult to predict as it is dependant on the timing of agreeing compensation sums.

2. Cabinet (13/12/10) approved that allowing for an emergency Asset Maintenance reserve of £1m, the remaining balances from the Asset Maintenance and Employer's Superannuation Reserves be moved to a new Financial Plan Reserve which will be used over the ten-year period equally to smooth the rundown of these reserves.

Capital

NOVEMBER 11 - Final

	Period	Period	Period	Period	Y-T-D	Y-T-D	Y-T-D	Y-T-D	Annual	Annual	Annual	
	Budget	Actual	Variance	Variance	Budget	Actual	Variance	Variance	Budget	Forecast	Variance	
	£'000	£'000	£'000	%	£'000	£'000	£'000	%	£'000	(including Accruals) £'000	£'000	
COMMDEV	Big Community Fund - Capital	-	5	-5	-	-	5	-5	-	-	-	-
COMMDEV	Local Strategic Partnership - Capital Delivery	-	1	-1	-	-	12	-12	-	-	-	-
COMMDEV	Parish Projects	7	-	7	100.0	43	-	43	100.0	71	51	20
ENVOPS	Playground Improvements	6	4	2	36.8	35	8	27	77.8	59	59	-
ENVOPS	Vehicle Purchases	127	121	6	4.4	760	369	390	51.4	1,266	1,266	-
FINSERV	Sevenoaks Town Centre (Capital) (LKF)	18	-	18	100.0	105	3	102	96.9	175	175	-
FINSERV	Horton Kirby Village Hall	-	35	-35	-	-	62	-62	-	-	-	-
HOUSING	Improvement Grants	69	56	14	19.6	423	174	249	58.8	699	699	-
HOUSING	Wkha Adaps For Disab Financing Costs Advances-Hs	-	-	-	-	-	66	-66	-	-	-	-
HOUSING	SDC - HMO Grants	-	8	-8	-	-	8	-8	-	-	-	-
HOUSING	RHPCG 10-11 SDC	-	15	-15	-	-	30	-30	-	-	-	-
HOUSING	RHPCG - Discretionary Grants	-	-	-	-	-	7	-7	-	-	-	-
HOUSING	RHPCG - Empty Homes	-	-	-	-	-	2	-2	-	-	-	-
HOUSING	RHPCG - HMO Grants	-	-	-	-	-	7	-7	-	-	-	-
HOUSING	Hever Road Gypsy Site - Consultants	-	-	-	-	-	11	-11	-	-	-	-
HOUSING	Hever Road Gypsy Site - Amenity Blocks	34	-	34	100.0	206	21	184	89.6	343	343	-
HOUSING	Hever Road Gypsy Site - Ground Works	-	18	-18	-	-	320	-320	-	-	-	-
HOUSING	Hever Road Gypsy Site - Preliminary Work	-	-	-	-	-	1	-1	-	-	-	-
HOUSING	Hever Road Gypsy Site - Bomb Disposal	-	-	-	-	-	10	-10	-	-	-	-
LEGAL	Modern Govt Document Management System	2	-	2	100.0	10	-	10	100.0	16	16	-
		262	262	0	0.1	1,580	1,115	466	29.5	2,628	2,608	20

Improvement Grants budget shown net of Government grant.

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