



**Meeting: Corporate Governance Committee**

**Date/Time: Monday, 12 May 2014 at 10.00 am**

**Location: Guthlaxton Committee Room, County Hall, Glenfield**

**Contact: Mrs. J. Twomey (tel: 0116 305 6462)**

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### **Membership**

Mr. E. D. Snartt CC (Chairman)

Mr. G. A. Boulter CC   Mrs. J. Richards CC  
Mr. G. A. Hart CC   Mr. S. D. Sheahan CC  
Mr. K. W. P. Lynch CC   Mr. R. J. Shepherd CC

### **AGENDA**

<b><u>Item</u></b>	<b><u>Report by</u></b>	
1. Minutes of the meeting held on 10 February 2014.		(Pages 3 - 8)
2. Question Time.		
3. Questions asked by members under Standing Order 7(3) and 7(5).		
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5. Declarations of interest in respect of items on the agenda.		
6. East Midlands Shared Service Outturn 2013/14 and 2014/15 Audit Plan.	Director of Corporate Resources	(Pages 9 - 22)
7. External Review of the Medium Term Financial Strategy 2014/15 - 2017/18.	Director of Corporate Resources	(Pages 23 - 48)



- |    |                         |                                       |                 |
|----|-------------------------|---------------------------------------|-----------------|
| 8. | Risk Management update. | Director of<br>Corporate<br>Resources | (Pages 49 - 66) |
|----|-------------------------|---------------------------------------|-----------------|

(A presentation will be provided as part of this item on the risks associated with the delivery of savings and efficiencies through service redesign and transformation recorded in the Corporate Strategic Risk register.)

- |     |   |   |                      |
|-----|---|---|----------------------|
| 9.  | Employee Code of Conduct.   | County Solicitor<br>and Director of<br>Corporate<br>Resources | (Pages 67 - 86)      |
| 10. | Covert Surveillance and Regulation of<br>Investigatory Powers Act 2000 - Quarterly<br>Update. | County Solicitor  | (Pages 87 - 88)      |
| 11. | Annual Treasury Management Report 2013/14.  | Director of<br>Corporate<br>Resources                         | (Pages 89 - 94)      |
| 12. | Quarterly Treasury Management Report.   | Director of<br>Corporate<br>Resources                         | (Pages 95 - 98)      |
| 13. | Annual Governance Statement 2013/14.  | Director of<br>Corporate<br>Resources                         | (Pages 99 -<br>124)  |
| 14. | Quarterly Internal Audit Service Progress<br>Report.  | Director of<br>Corporate<br>Resources                         | (Pages 125 -<br>144) |
| 15. | Section 106 Developer Contributions.  | County Solicitor  | (Pages 145 -<br>148) |
| 16. | Internal Audit Service Audit Plan for 2014/15.  | Director of<br>Corporate<br>Resources                         | (Pages 149 -<br>160) |

17. Date of next meeting.

The next meeting of the Committee will be held on 22 September 2014 at 10.00 a.m.

18. Any other items which the Chairman has decided to take as urgent.



Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Monday, 10 February 2014.

PRESENT

Mr. E. D. Snartt CC (in the Chair)

Mr. G. A. Boulter CC  
Mr. G. A. Hart CC  
Mr. W. Liquorish JP CC

Mr. K. W. P. Lynch CC  
Mr. S. D. Sheahan CC  
Mr. R. J. Shepherd CC

55. Minutes.

The minutes of the meeting held on 25 November 2013 were taken as read, confirmed and signed.

56. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

57. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

58. Urgent Items.

There were no urgent items for consideration.

59. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Mr Shepherd CC declared a personal interest in item 6, 'External Audit – Annual Grant Certifications 2012/13', as a member of the teachers' pension scheme. Mr Lynch CC also declared a personal interest in this item as his wife was a member of that scheme.

60. External Audit - Annual Grant Certifications 2012/13.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the results of external audit grant certification work for 2012/13. A copy of the report is filed with these minutes.

The Chairman welcomed Matthew Elmer from PricewaterhouseCoopers LLP (PwC), the County Council's external auditors, to the meeting.

It was reported that, in light of the areas for improvement identified by PwC, the payroll system would be reviewed with consideration being given to expanding the payroll team during peak periods. Work was also being undertaken to ensure processes were automated where possible.

The Committee noted that where the County Council undertook payroll work for an academy, the County Council would calculate the Teachers' Pension Return, but that it was the responsibility of the academy to submit the Return and to ensure this was appropriately audited.

RESOLVED:

- (a) That the contents of the report be noted;
- (b) That the actions being taken by management to address issues raised by the external auditor, PwC, be noted.

61. External Auditor - Service Delivery Centres.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide the Committee with information about the use of overseas Service Delivery Centres (SDC's) by PricewaterhouseCoopers LLP (PwC) when undertaking audit work. A copy of the report is filed with these minutes.

The Committee acknowledged PwC's commitment to ensure its audit work undertaken for the Authority was of a high standard and was reassured that, under current proposals, if any of its data processes in relation to local government audit work were to be offshored, this would be to its SDC in Poland.

It was moved by Mr Lynch, seconded by Mr Boulter and carried:

"That PwC be advised that it is the County Council's view that no audit work undertaken on behalf of the Authority should be offshored outside the European Union."

RESOLVED:

- (a) That the contents of the guidance provided by the Audit Commission and the report from PwC on Service Delivery Centres be noted;
- (b) That PwC be advised that it is the County Council's view that no audit work undertaken on behalf of the Authority should be offshored outside the European Union.

62. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an overview of key risk areas and the measures being taken to address them. The report also provided an update on the Internal Audit Review of the revised Risk Management Policy Statement and highlighted key information on anti-fraud initiatives. A copy of the report is filed with these minutes.

The Committee also received a presentation on the 'Better Care Fund' risk area of the Corporate Risk Register. A copy of the presentation slides is filed with these minutes.

### Risk Register – risk relating to the transfer of nine elderly persons homes

- (i) Some members questioned the expectation noted in the register (page 59 of the report) that this risk would move to a medium rating and suggested that there were still uncertainties around whether or not the outstanding deferred payment would be received by the deadline of 31 March. It was suggested that this risk should continue to be rated high until such time as the balance had been received;
- (ii) The Committee noted that the expected risk rating had been based on the fact that the deadline for payment had not yet been reached, that payment was expected and that the County Council had not incurred any financial loss and had continued to receive regular interest payments;
- (iii) A report had been presented to the Cabinet on 4 February 2014 outlining the up to date position. Leicestershire County Care Limited (LCCL) was in the process of securing the finance it required to repay the balance outstanding and payment was still expected within the agreed timescale;
- (iv) To mitigate against the risks to the County Council if payment was delayed, various options had been presented to the Cabinet on 4 February 2014 for consideration and these would be pursued if necessary;
- (v) The Committee noted that ultimately the County Council had a legal charge secured against the homes should LCCL not meet the arrangements for repayment. However, some members questioned how viable this option would be in practice. The Committee was advised that the needs of residents would always be considered and that this was one of a number of actions which could be taken if necessary;
- (vi) The Committee agreed that further consideration of the level of risk relating to this issue should be deferred to its next meeting in May, which would be after the deadline for payment had passed.

### Presentation - Better Care Fund (BCF)

- (vii) The introduction of the NHS 111 service would be an important part of the development of a new integrated health and care system nationally. It supported demand management by signposting people to the right service for their needs and provided information and advice to support self care. It would be necessary to link the new community services offered in Leicestershire, as a result of the developments in the BCF, to the menu of services/information held by the NHS 111 service so that its information kept pace with new local developments;
- (viii) A draft BCF Plan had been prepared and would shortly be presented to the Health and Wellbeing Board for consideration. Further work was being undertaken to identify the impact of the Plan on outcomes and performance metrics, including measures required both nationally and locally;
- (ix) The BCF Plan proposed a number of activities to address the rising trend in emergency admissions. The trajectory of improvement proposed in the BCF

Plan was to reduce these numbers locally by 500 when comparing a period of six months in 2013 with the same period in 2014/15. A reduction in the number of bed days associated with delayed discharges had also been proposed. These metrics would be tested and subjected to a challenge process before the final submission of the Plan in April. It was expected that the scale and pace of the metrics could be further challenged, as there would be a need to make a significant impact on reducing acute hospital activity over the next two years.

- (x) As part of the development process an assessment of all projects aimed at supporting people leaving hospital, including those provided by the County Council and support services such as adaptation grants, would be undertaken. Consideration would be given as to how these could be brought together to provide an overall improved package of care. Equality and other relevant impact assessments would be undertaken to ensure there was a clear understanding of how various groups might be affected.

RESOLVED:

- (a) That the status of the strategic risks facing the Council be noted and that the updated Corporate Risk Register be approved;
- (b) That the initiative adopted to improve the Council's acknowledgement, prevention and pursuit of fraud be supported;
- (c) That, in the light of concerns now raised by the Committee, issues relating to the risks to the County Council surrounding arrangements in respect of the transfer of nine Elderly Persons Homes in September 2012, be further considered at the next meeting of the Committee;
- (d) That officers be requested to provide a presentation at the next meeting of the Committee on the risks associated with the delivery of savings and efficiencies through Service Redesign/Transformation as required in the MTFS.

63. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update about the actions taken in respect of treasury management in the quarter ended 31<sup>st</sup> December 2013. A copy of the report is filed with these minutes.

The Committee noted that a further loan with Lloyds Banking Group as part of the Local Authority Mortgage Scheme had been issued on 31 December 2013 for £1m at a rate of 3.8%. This brought the total amount now invested through this scheme to £8.4m.

RESOLVED:

That the contents of the report be noted.

64. Treasury Management Strategy Statement and Annual Investment Strategy.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the draft 2014/15 Treasury Management Strategy Statement and

Annual Investment Strategy for consideration. A copy of the report is filed with these minutes.

RESOLVED:

That the draft Treasury Management Strategy and Statement and Annual Investment Strategy for 2014/15 be noted with support.

65. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide a summary of the work finalised by the Internal Audit Service since the last report to the Committee and to highlight audits where high importance recommendations had been made to managers. The report also provided an update on Nottingham City Council's Internal Audit progress against the 2013/14 Internal Audit Plan for the East Midlands Shared Service, the recovery of outstanding costs owed by the former Leader of the County Council, Mr David Parsons, and the annual internal audit planning process and the adoption of the Public Sector Internal Audit Standards. A copy of the report is filed with these minutes.

Recovery of outstanding monies owed by Mr Parsons

A statement was circulated to all members of the Committee at the request of the Chairman and Spokesmen which detailed the most up to date position regarding the outstanding money owed by Mr Parsons. The Committee noted that the first payment, one sum of £285.93, due by Saturday, 1 February 2014, as detailed in paragraph 13 of the report, had been received late on Friday, 7 February. A copy of the statement is filed with these minutes.

In response to questions raised by the Committee, the County Solicitor confirmed that:

- once the outstanding balance had been repaid by Mr Parsons in accordance with the settlement reached, the County Council would have recovered 85% of the total amount (i.e. £15,267.31 gross) owed and that, in his view, when balanced against the potential risks and costs associated with pursuing the full amount in court, this was an appropriate level of settlement;
- if Mr Parsons defaulted on the settlement payments agreed, action would be taken to recover the balance.

Although paragraph 14 of the report confirmed that the Committee would be informed if there were any significant variations to the scheduled repayment agreed with Mr Parsons, the Committee requested that officers provide regular updates at each future meeting of the Committee until such time as the total amount due had been repaid in full.

General

Arising from discussion, the following points were noted:

- (i) The Internal Audit Service carried out audit work for approximately 70 academies across the County on a commercial basis;
- (ii) Work continued to address those issues raised in the audit of Developers Contributions (section 106 – referred to in Appendix B to the report). The County Solicitor informed members that, although difficulties had arisen in

relation to the implementation of the new planning data system, these were being addressed and a more detailed update on the work undertaken would be presented at the next meeting of the Committee.

RESOLVED:

- (a) That the contents of the report and the statement now circulated in response to a request from the Chairman and Spokesmen of the Committee, be noted;
- (b) That, with regard to the repayment of outstanding monies owed by Mr Parsons, the former Leader of the County Council, officers be requested to provide regular updates at each future meeting of the Committee until such time as the total amount due had been repaid in full.

66. Regulation of Investigatory Powers Act 2000.

The Committee considered a report of the County Solicitor, the purpose of which was to provide an update on the use of powers under the Regulation of Investigatory Powers Act 2000 during the period 1 October 2013 and 31 December 2013. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

67. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on 12 May 2014 at 10.00am.

10.00 - 11.20 am  
10 February 2014

CHAIRMAN





**CORPORATE GOVERNANCE COMMITTEE**  
**12 MAY 2014**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**EAST MIDLAND SHARED SERVICES AUDIT OUTTURN 2013/14**  
**AND AUDIT PLAN 2014/15**

**Purpose of the Report**

1. The purpose of this report is to present the East Midland Shared Services (EMSS) Audit Outturn for 2013/14 and the draft Audit Plan for 2014/15.

**Background**

2. At the meeting of this Committee on 13 February 2013 an update on progress on the internal audit work of the EMSS with Nottingham City Council was noted.
3. The Director of Corporate Resources has invited the Head of Internal Audit at Nottingham City Council to attend to present the report.
4. The EMSS Audit Outturn 2013/14 and Audit Plan 2014/15 is attached as Appendix 1 to this report.

**Recommendation**

5. The Committee is asked to consider any issues and note the progress made.

**Equal Opportunities**

None.

**Circulation Under Sensitive Issues Procedure**

None.

**Background Papers**

Report to the Corporate Governance Committee on 13 February 2013 – Progress report on Internal Audit Work for East Midlands Shared Services

**Officers to Contact**

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**Appendices**

Appendix 1 – EMSS Audit Outturn 2013/14 and Audit Plan 2014/15

**EMSS Audit Outturn 2013/2014 and Audit Plan 2014/2015****EMSS – 2013 /14 Annual Outturn Summary****1. Background**

Nottingham City Council and Leicestershire County Council formed a partnership, East Midlands Shared Services (EMSS), in 2011 to deliver HR, payroll and finance transactional shared services. The change to EMSS required significant changes to both organisations operational procedures and culture. Both organisations agreed that Nottingham City Audit Services would conduct the required audit work both during the transition and when the service was in full operation

**2. Nottingham City Council Internal Audit (NCCIA)**

The Head of Internal Audit (HoIA) has established all appropriate standards and processes to comply with the governance requirements set down in the Cipfa Statement on the role of the Head of Internal Audit. NCCIA policies, plans and performance are effectively scrutinised throughout the year including, within an approved timetable of meetings, by the City Council's Audit Committee. The service has adopted, and complies with, the principles contained in the Public Sector Internal Audit Standards (PSIAS) and has met the requirements of the Account and Audit Regulations 2011 and associated regulations.

**3. EMSS Audit Plan Outturn 2013/14**

EMSS managers are responsible for ensuring that proper standards of internal control operate within their organisation. Internal Audit reviews these controls and gives an opinion in respect of the systems and processes put in place. The 2013/14 Audit Plan, as agreed by EMSS and reported to LCC and NCC governance committees has been completed in accordance with the professional standards set for the service. The Internal Audit service has undertaken reviews of the internal control procedures in respect of the key systems and processes run by EMSS on behalf of itself and its clients. The planned work has been supplemented by ad hoc reviews and requests for audit input by EMSS management. Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Each report included a level of assurance that can be taken from its findings. A summary of the work completed is shown as **Appendix 1** and an overall opinion will be given when this is completed.

## **Audit Plan 2014/15**

### **1. Introduction**

**Appendix 2** contains the EMSS operational Internal Audit Plan for 2014/15

### **2. Background**

2.1. Nottingham City Internal Audit Services are the appointed Internal Auditors for EMSS

2.2. The Public Sector Internal Audit Standards (PSIAS) definition of Internal Audit (IA) is as follows:

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

2.3. Consequently IA is an integral part of the EMSS’s Corporate Governance Framework and gives assurance complementing that given by external review bodies including external audit

### **3. The Role of IA**

3.1. IA is an independent, objective assurance and consulting activity designed to promote the highest levels of financial management and probity across the enterprise.

3.2. A key factor in the effectiveness of IA is that it is independent. To ensure this independence, IA operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

3.3. Each audit or piece of work undertaken has a clear scope and objectives. Any audit undertaken within EMSS is conducted under the framework of an agreed audit programme, with a clearly defined scope agreed with the partner organisations. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs are clearly

defined and the independence of auditors maintained.

3.4. The IA Service requires unrestricted coverage to EMSS activities and unrestricted access to all employees' records and assets deemed necessary to fulfil this function.

#### 4. The Audit Planning Process.

4.1. The work is targeted in order to address the key risks to the EMSS strategic objectives and other priorities of the enterprise. The main elements used in constructing the plan have been agreed with EMSS management.

4.2. The unique value that the professional IA function provides to EMSS is objective assurance on the effectiveness of the governance, risk management and internal control processes. Management is responsible for the strategic and operational elements of these processes but need independent assurance that they are operating effectively and advice in respect of their improvement.

4.3. IA also helps EMSS to achieve its key priorities. The service does this by helping to promote a secure and robust internal control environment which enables a focus to be maintained on these key priorities.

4.4. In accordance with this principle the Audit Plan has been devised following a risk based approach using the following sources:

- The need to provide effective and efficient services to the client base and give appropriate assurances to clients and external auditors
- Consultation with management
- IA risk assessment informed by cumulative audit knowledge and experience and meetings with senior colleagues
- Professional judgement including the risk of fraud and error

4.5. IA will also deliver work on the core financial systems to provide assurance that the basic governance and control arrangements are continuing to operate effectively. The scope of audits will be agreed with management and the IA Plan can be similarly developed to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified.

4.6. EMSS IA Plan 2014-15 is attached as **Appendix 2**

## 5. Standards

- 5.1. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9001:2008 accredited. It has adopted the standards contained in the PSIAS and has fulfilled the requirements of the Account & Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.
- 5.2. The EMSS Operations Board will be provided with regular monitoring reports of work undertaken against the Plan. This will help inform the Boards understanding of EMSS's Corporate Governance Arrangements and their effectiveness.

# East Midlands Shared Services

## 2013 / 2014

### Internal Audit Outturn against Plan

## ASSURANCE RELATED AUDITS 2013/14

Description	Outline / Service Delivery	Assurance / Status
Payroll Audit	System Audit / Employee Service Centre	In Progress
Pensions Audit	System Audit / Employee Service Centre (NCC only)	Significant
Accounts receivable Audit	System Audit / Finance Service Centre	In Progress
Accounts Payable Audit	System Audit / Finance Service Centre	In Progress



## EMSS - BUSINESS AUDITS

Audit	Description / Business Development Service Delivery	Assurance/ Status
EMSS IT Audit	<ul style="list-style-type: none"> <li>Review of hosting and associated IT configurations</li> </ul>	Significant
Contingency Planning	<ul style="list-style-type: none"> <li>Review initial Contingency arrangements</li> <li>Review Business Continuity Plans</li> </ul>	Significant Significant
Reviews requested by the Head of EMSS	<ul style="list-style-type: none"> <li>Systems Administration Team</li> <li>BACS (June 2013)</li> <li>Duplicate Payments NCC</li> </ul>	Limited Significant Significant
Reviews requested by Section 151 Officers	<ul style="list-style-type: none"> <li>LCC <ul style="list-style-type: none"> <li>Waste Contractor</li> </ul> </li> <li>NCC <ul style="list-style-type: none"> <li>Accounts Receivable</li> </ul> </li> </ul>	Significant  Significant
Velos-IT contract	<ul style="list-style-type: none"> <li>Review performance in line with the contract with Velos-IT</li> </ul>	Significant

### Definitions of Assurance Levels Given

<b>High Assurance</b>	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
<b>Significant Assurance</b>	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
<b>Limited Assurance</b>	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
<b>No Assurance</b>	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

# East Midlands Shared Services

## 2014 / 2015

### Proposed Internal Audit Plan

## ASSURANCE RELATED AUDITS 2014/15

Description	Outline / Service Delivery	Days	Start / Status
Payroll Audit	System Audit / Employee Service Centre	20	Oct 14
Accounts Receivable Audit	System Audit / Finance Service Centre	15	Oct 14
Accounts Payable Audit	System Audit / Finance Service Centre	18	Oct 14

## EMSS - BUSINESS AUDITS

Audit	Description / Business Development Service Delivery	Days	Start / Status
EMSS IT Audit	<ul style="list-style-type: none"> <li>Systems Administration Follow up</li> <li>Velos-IT contract Follow up</li> <li>IT Audits</li> </ul>	5 3 10	Oct 14 Nov 14 As Commissioned
Targeted Risk Based Reviews	<p>EMSS income control systems</p> <p><u>Potential Issues Brought Forward</u></p> <ul style="list-style-type: none"> <li>EMSS payments and income from clients</li> <li>Teachers Pensions – Follow up as required</li> <li>Payroll QA</li> <li>Overpayments <ul style="list-style-type: none"> <li>Skills</li> <li>Academy interface</li> </ul> </li> <li>Recruitment Team <ul style="list-style-type: none"> <li>CRB checks</li> </ul> </li> </ul>	40	As Commissioned

Audit	Description / Business Development Service Delivery	Days	Start / Status
	<ul style="list-style-type: none"> <li>○ QA</li> <li>• File Management</li> <li>• External Customers / Academies – SLA's</li> <li>• Duplicate Payments NCC &amp; LCC</li> </ul>		
Reviews requested by Section 151 Officers	<ul style="list-style-type: none"> <li>▪ LCC</li> <li>• NCC</li> </ul>	20 20	As Commissioned

#### POST LIVE REVIEWS

Audit	Description / Business Development Service Delivery	Days	Start / Status
	<ul style="list-style-type: none"> <li>• Review SLA and contractual arrangements (Brought Forward)</li> </ul>	1	Mar 15  TBC

#### Contact Details

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**CORPORATE GOVERNANCE COMMITTEE****12 MAY 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****EXTERNAL REVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY**  
**2014/15 – 2017/18****Purpose of the Report**

1. The purpose of this report is to present the key findings from a review undertaken by the Council's external auditor, PricewaterhouseCoopers (PwC), on the Medium Term Financial Strategy (MTFS) 2014/15 – 2017/18.

**Background**

2. The County Council approved the MTFS 2014 on 19 February 2014. The external auditor, PwC, is required by the Use of Resources Code to carry out sufficient and relevant work in order to conclude on whether proper arrangements are in place to secure economy, efficiency and effectiveness in the use of resources and financial resilience.
3. As part of this process they have undertaken a review of the approved MTFS 2014/15 – 2017/18 and their report is attached as Appendix 1. The PwC audit manager will attend the meeting of this Committee to present their findings.

**Recommendation**

4. The Committee is asked to consider any issues raised by the auditor in their report.

**Equal Opportunities Implications**

5. None.

**Circulation Under Local Issues Alert Procedure**

6. None.

**Background Papers**

The Medium Term Financial Strategy 2014 approved by County Council on 19 February 2014.

**Officers to Contact**

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**Appendices**

Appendix 1 – PwC Review of the County Council's Medium Term Financial Strategy – 2014 Report





# *Leicestershire County Council*

May 2014

## Medium Term Financial Strategy report

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

# Introduction

## Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2013/14 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for prioritising resources.

The focus of these criteria for 2013/14 will be on whether:

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry' for each criteria. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements. As part of our work in this area we have undertaken a review of your Medium Term Financial Strategy.

## Background

On 20 October 2010 the coalition government published the Spending Review 2010, which set out government department budgets for the period 2011/12 to 2014/15. The impact of the reductions in central government funding on individual local authorities in the two final years of this period was finalised in December 2012.

The Chancellor's Autumn Statement was given on 5 December 2013 and it described a medium term position characterised by lower than anticipated economic growth and, as a result, a higher forecast public sector borrowing requirement. It included the following key headlines:

- Economic growth forecasts were revised upwards for 2013/14 and 2014/15;
- The deficit was due to be eliminated by 2017/18. Austerity measures may continue until at least 2018/19; and
- Business rates are to be capped at 2% rather than linked to RPI inflation.

The provisional Local Government Finance Settlement was released later in December 2013. The key points raised were that:

- The 'spending power' of the Council is to fall by 0.6% in 2014/15 and rise by 1.7% in 2015/16 (due to the Better Care Fund);
- Revenue Support Grant will fall by 15.4% to £70.8m in 2014/15 and by 25% to £53m in 2015/16;

- The New Homes Bonus would continue to be received by the Council rather than be allocated to the Single Local Growth Fund; and
- A 1% council tax freeze grant will be available for 2014/15 and 2015/16.

In addition, there are ongoing changes to policy such as the proposals raised by the Dilnot Commission, the impact of which is not included within the MTFS.

### **Medium Term Financial Strategy**

In our audit plan presented to you in November 2013, we highlighted a specific audit risk in relation to your savings requirement over the next few years. You will be required to make around £110m of savings and service reductions over 5 years (2013/14 – 2017/18).

The Council took prompt action in 2010 to cut costs in advance of the Comprehensive Spending Review. You have been planning ahead for the impact of the economic environment for a number of years, and are on track to deliver the £23m of savings planned to be achieved during 2013/14.

We agreed in the audit plan that we would review your MTFS, including how you manage the plan and comparing it with other similar plans. The areas of focus for this work are:

- |  |
|--|
| <ul style="list-style-type: none"> <li>• Programme management;</li> <li>• Progress to date;</li> <li>• Assumptions;</li> <li>• Sensitivity analysis;</li> <li>• Reserves; and</li> <li>• Economy, efficiency and effectiveness.</li> </ul> |
|--|

# Section I: Progress to date

## Progress to date

The Authority has made significant strides over the past few years to identify savings and deliver more efficient services. There has been a well-established Change Management Programme and Organisational Efficiency Programme which has helped deliver demonstrable value for money over a number of years.

You have continued to focus on maximising efficiency savings. Previous examples have included reductions in management and associated costs through reducing the layers of management, exploiting new technology and a further review of employee terms and conditions. You are also planning further efficiencies over the MTFS period, including reductions in administration costs (£4 million), better commissioning and procurement (£9 million) and transformational change projects (£11 million).

The scale of the challenge over the next few years is significant and much of the good practice you have demonstrated will need to continue and be intensified if your planned savings and service reductions are to be delivered. Significantly, this is likely to include a greater level of service reductions, and the delivery of more challenging savings, than has been the case to date.

During 2013/14 you have continued to deliver savings and you reported to members in February this year a forecast net under-spend against the updated budget of around £11.6 million before carry forwards. This was for a variety of reasons including contingency budgets which have not been required and the achievement of efficiencies ahead of further reduction in formula grant and spending power in later years. This gives you further flexibility to invest to save, for example through:

- The ongoing shared services project with Nottingham City Council;
- The funding of any required severance payments;
- Implementing transformational change;
- Developing further shared services or collaborative agreements; and
- A variety of departmental projects.

There is continued evidence of proactivity and looking forward, with in-year projects identified and progressed, enabling required future savings to be realised.

The overall underspend for 2013/14 masks some overspending within the Council. The Adults and Communities Department has experienced increased demographic pressures which has resulted in a forecast overspend of around £5m.

## Link to your MTFS

Progress to date puts you in a good position to address future challenges. For example, the earmarked reserves you have established for 'invest to save' projects and other future commitments mean that you can continue planning for the reduction in your grant from central government over the next few years.

However, the challenge remains significant and is growing. This should not (and in our view is not) being underestimated. Your MTFS for 2014/15 and beyond was approved at the February Council meeting. This highlights that in 2014/15, for example, you will be required to deliver savings of around £18 million, or around 5% of your net budget. This grows to a savings requirement of over £33 million in 2015/16, a significant increase in the scale of savings required.

## Section II: Programme management

### Programme Management

You have effectively managed savings programmes over a number of years, but the scale of the current challenge will put your arrangements to the test.

Governance structures in each department have overseen delivery of past plans, and our recent work suggests these remain fit-for-purpose. There continues to be:

- strong leadership from your Directors who have taken responsibility for delivering the required savings and service reductions;
- agreed priorities which have influenced spending decisions;
- a well-established reporting framework with clear accountability to ensure that projects down to a granular level are delivered; and
- business partners in each Directorate to support the delivery of savings projects and improve information to support decision making.

### Involvement of Members

Members are involved through each of the lead members and the review of corporate performance against capital and revenue budgets at relevant committees. Members also have a significant involvement in the development of the Medium Term Financial Strategy through a number of means:

- meetings with members and briefings for individual political parties;
- detailed scrutiny of the plans for Adult & Communities and Children & Young People's Services at separate scrutiny meetings. This also includes scrutiny of Environment & Transport and Public Health;
- detailed scrutiny of Chief Executive and Corporate Resources plans by the Scrutiny Commission;
- scrutiny at a summary level by the Scrutiny Commission;
- discussion of the proposals at Cabinet meetings; and
- approval of the final MTFS at the Council meeting in February 2014.

Members have also been involved in the development of the financial strategy which underpins the MTFS as part of the 'Transformation Board'. This was introduced during 2013 on an all-party basis for members to engage with officers on the medium term transformation of the way the Council operates. This is being supported by significant resources, and we believe this investment will be critical if the required transformation is to be delivered.

In overall terms, we think that your programme management arrangements are good and should enable you to manage the challenging savings target you need to deliver. The changes to your arrangements, in

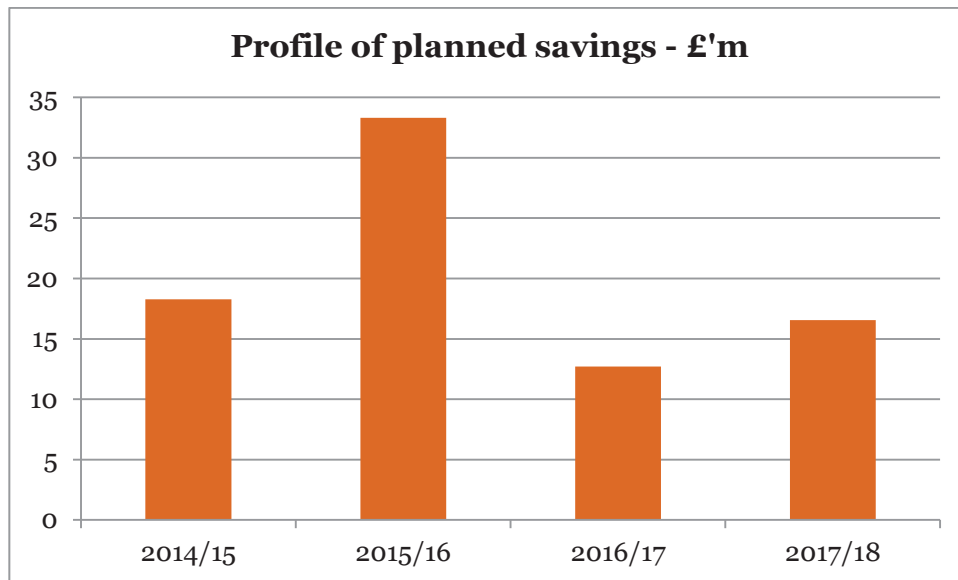
particular the increased resource you have allocated to delivering the transformation agenda, is important and necessary given the scale of the challenge.

The MTFS includes a number of significant service reduction and efficiency schemes which will be particularly influential in meeting your targets. The largest of these schemes in 2014/15 are as follows:

Department	Scheme	2014/15 £'m	Comments
Children and Young People	No individual schemes above £1m due to be realised in 2014/15.  Cumulative savings of £12.690m per annum need to be made by 2017/18. The largest scheme is a reduction in early help services which will save £2.1m by 2017/18.		
Adults and Communities	Additional Health transfer funding	1.250	Proposed utilisation of additional health transfer funding for 2014/15 to mitigate savings required, subject to partner agreement.
	New model of Early Intervention and Prevention support	1.000	This saving arises from a review of non- statutory Housing Related Support and Voluntary sector contracts. There will be a reduced level of support.
	Cumulative savings of £22.765m per annum need to be made by 2017/18. The largest element is the assumed £10 million income from the Better Care Fund from 2015/16 onwards.		
Public Health	Expenditure managed by Public Health absorbed into the ring fenced budget	1.420	Some expenditure within the Public Health remit has been allocated within ring fenced budgets, producing a saving.
	Cumulative savings of £2.420m per annum need to be made by 2017/18. The largest scheme is the one noted above.		
Environment and Transport	No individual schemes above £1m due to be realised in 2014/15.  Cumulative savings of £18.520m need to be made by 2017/18. The largest scheme is a revised approach to Highways Maintenance which will save £5.5m by 2017/18 through service reductions and efficiency savings.		
Chief Executive	No individual schemes above £1m due to be realised in 2014/15.  Cumulative savings of £4.690m need to be made by 2017/18. The largest scheme is a reduction of funding and support to agencies which will save £590,000 by 2015/16.		
Corporate Resources	No individual schemes above £1m due to be realised in 2014/15.  Cumulative savings of £7.165m need to be made by 2017/18. The largest schemes are:		
	<ul style="list-style-type: none"> <li>Operational property review – £1.840m;</li> <li>Operational ICT review - £1.650m; and</li> <li>A review of Strategic Finance, Property &amp; Procurement- £1.110m.</li> </ul>		

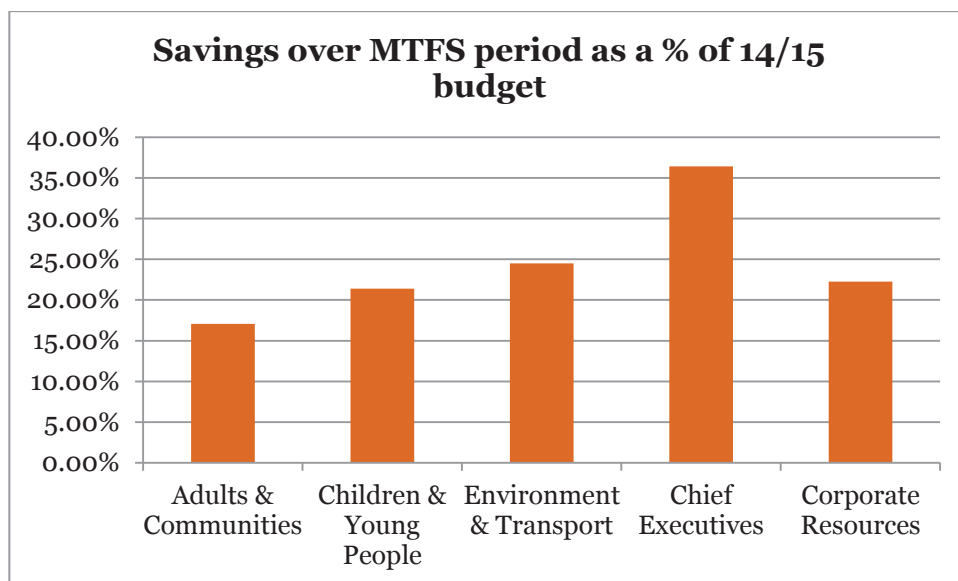
The majority of the largest schemes have been already agreed or are subject to consultation for implementation in 2014/15. The delivery needs to be effectively monitored and slippage identified at an early stage for mitigating actions to be achieved. Your arrangements should enable this.

The challenge for later periods of the MTFS is far greater. The profile of when savings are due to be delivered over the 4 year period of the MTFS is illustrated below. The majority of these savings are in the early stages of development and require either significant transformation or tough reductions in service levels to be implemented:



There are difficult actions which need to be taken if the planned savings are to be realised over the medium term. The lower savings figure for 2014/15, much of which is secured, gives you some space to plan for and deliver future required savings. In particular, 2015/16 will be very demanding; you have included an £8 million contingency in your budget for 2015/16 to help manage financial risk and a £5.75 million contingency for inflationary pressures. The figure for 2017/18 includes the £12.5m budget shortfall. Significant savings are also likely to be required in 2018/19, which is not covered by the current MTFS.

The savings also impact some areas of the Council more than others. The following graph illustrates the total savings required in each department, over the lifetime of this MTFS, as a percentage of their 2014/15 budget:



The relatively lower requirement for Adults and Communities reflects a number of factors - the significant uncertainty regarding funding for care, pressure from changing demographics and the results of the consultation process which prioritised many services for older people. The savings for Adults and Communities also includes £10 million addition income for the impact of the Better Care Fund.



## Section III: Assumptions

### Key Assumptions

The MTFS is underpinned by a number of key assumptions. These include:

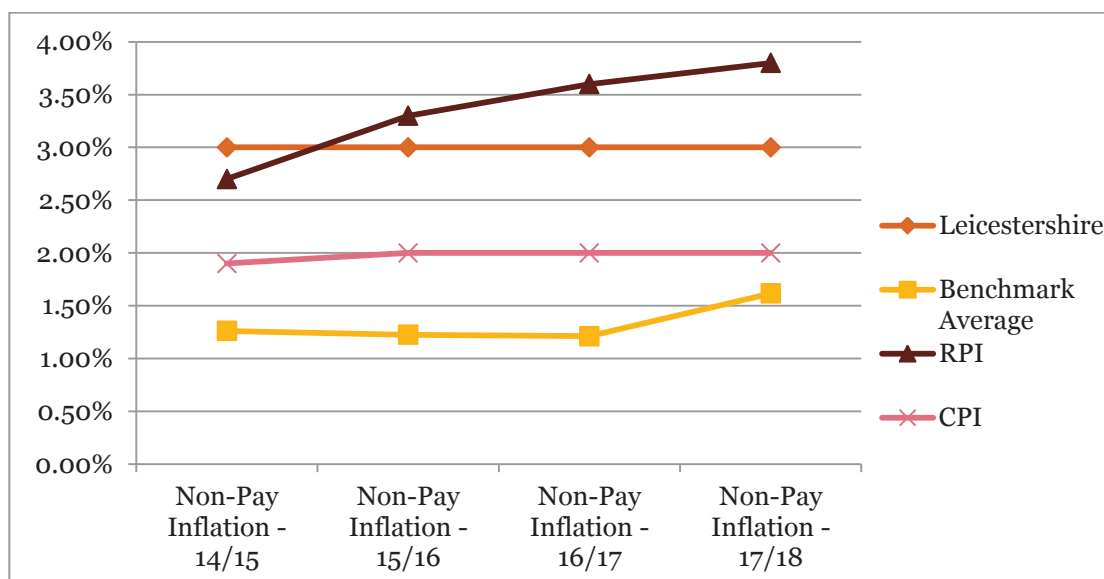
- Inflation – for both pay and non-pay expenditure;
- Growth – your estimate of future cost and budget pressures from changes in demand and volume;
- Efficiency savings – the level and timing of the savings you need;
- Council tax; and
- Use of reserves.

Each of these assumptions has varying degrees of inherent uncertainty. Assumptions applied to forecasts can often have a significant impact on balancing budgets. You have a history of delivering good financial management although the economic climate for Local Authorities continues to be challenging. With so many assumptions being applied there is an ongoing risk that one of the influencing factors may vary significantly from the assumptions you have applied.

We have reviewed the assumptions in your MTFS and compared them to all of our other Upper Tier External Audit clients. We have also taken into account our wider understanding of the sector. A summary of our findings is included below.

### Inflation – non-pay costs

You have applied higher non-pay inflation assumptions for the whole MTFS period than our benchmark group, showing prudence in your estimation of the potential costs for non-pay items. You have assumed 3% inflation across the MTFS period. This is above current Treasury projections for CPI, the government's preferred measure of inflation, and generally below RPI in later years. You are also anticipating higher inflationary costs than the average of our benchmark group:

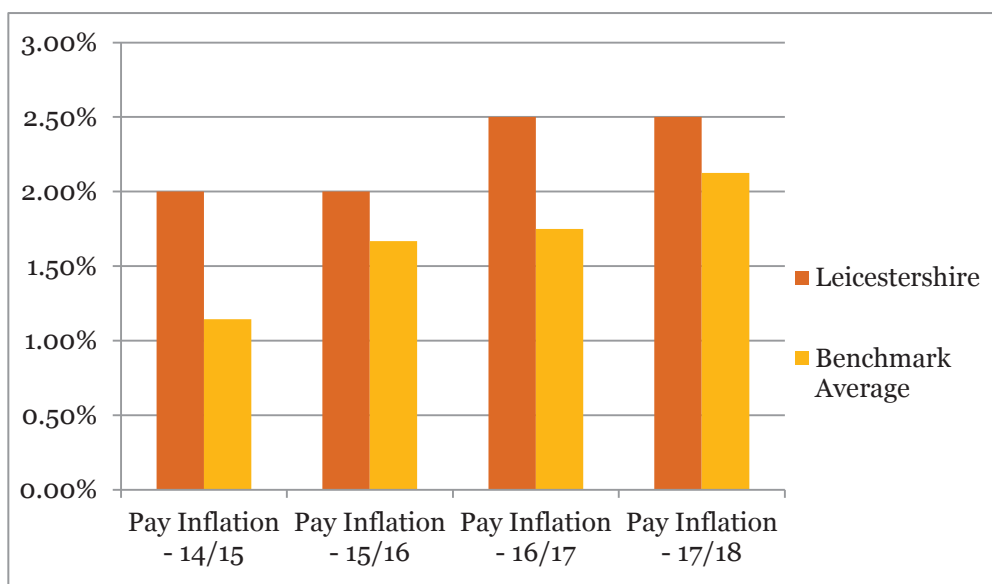


A 1% increase in inflation above your assumptions would result in an overspend of approximately £3m in 2014/15. You have also included some specific inflationary items to address cost pressures significantly above your general inflation assumptions.

### Inflation – pay costs

The majority of the Local Authorities in our benchmark group have assumed 1% pay inflation in 2014/15. This is in line with the agreed local government pay settlement. The assumption of pay varies across our benchmark group between 2014 and 2017, even in the context of the announcement of a 1% rise for local government staff in 2014/15 and 2015/16. The range of pay costs modelled by other Authorities ranges between 1% and 3% in these later years.

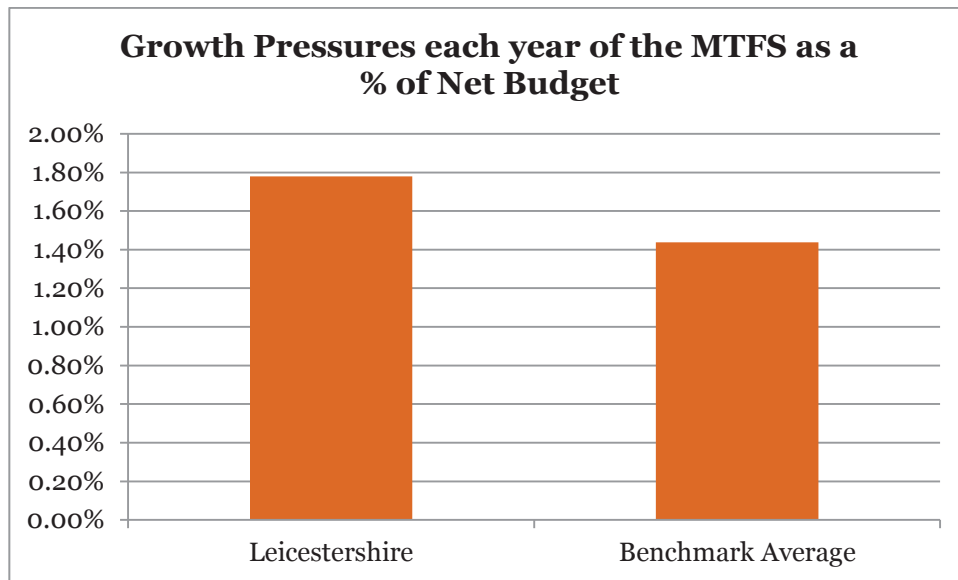
You have modelled 2% for the first 2 years and 2.5% for the later 2 years. You are at the higher end of the range. Your rationale is that after pay freezes for three years there will be significant cost pressures for pay and on-costs, including employer pension contributions. We believe this continues to be a reasonable assumption for planning purposes:



With pay costs representing over 40% of Leicestershire County Council net expenditure, a 1% increase in this assumption would represent additional cost to the Authority of approximately £1.6m in 2014/15.

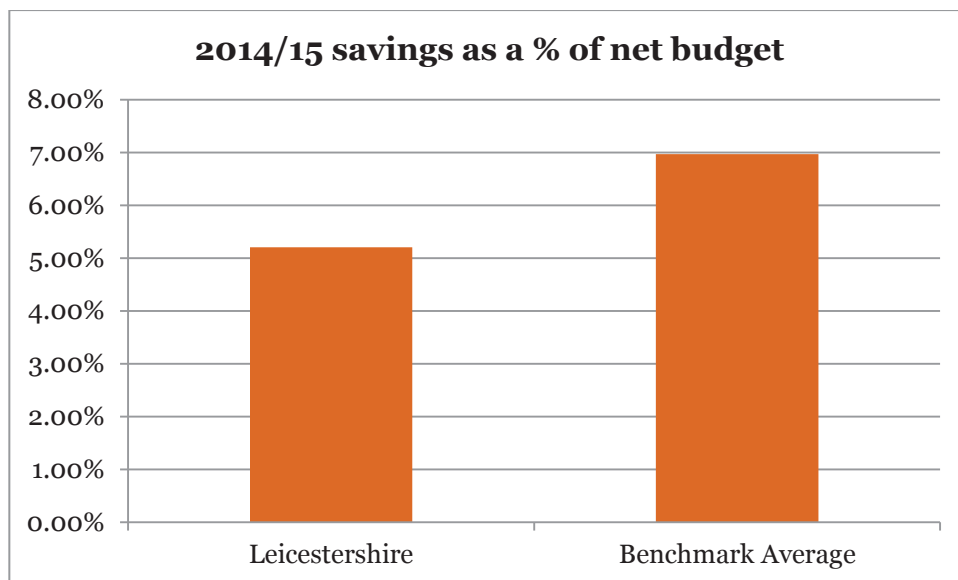
### Growth pressures

The growth and demand pressures you have modelled in your MTFS, when reviewed as a percentage of your net budget, are higher than our benchmark group. The growth you have identified in the current MTFS is nearer to 2%:

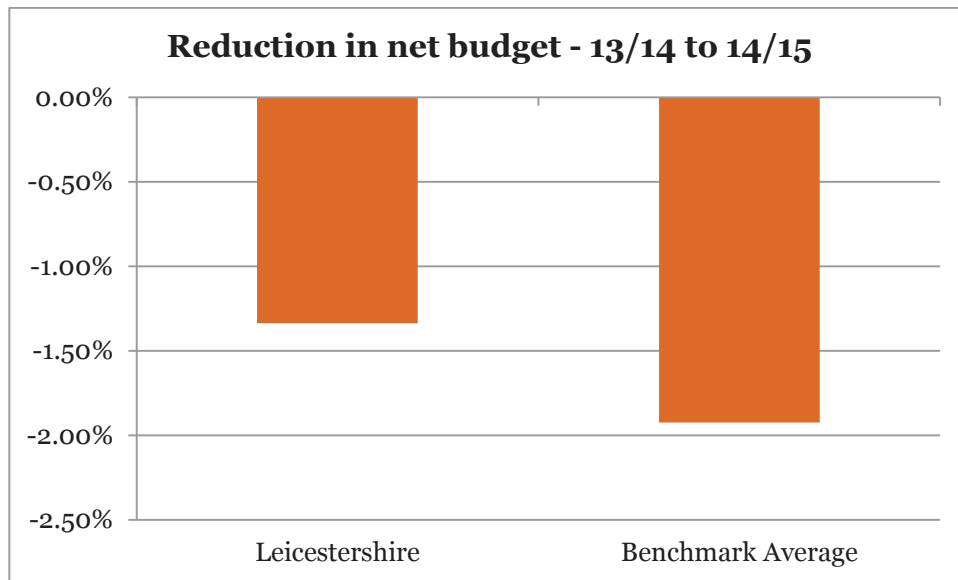


### Total Savings

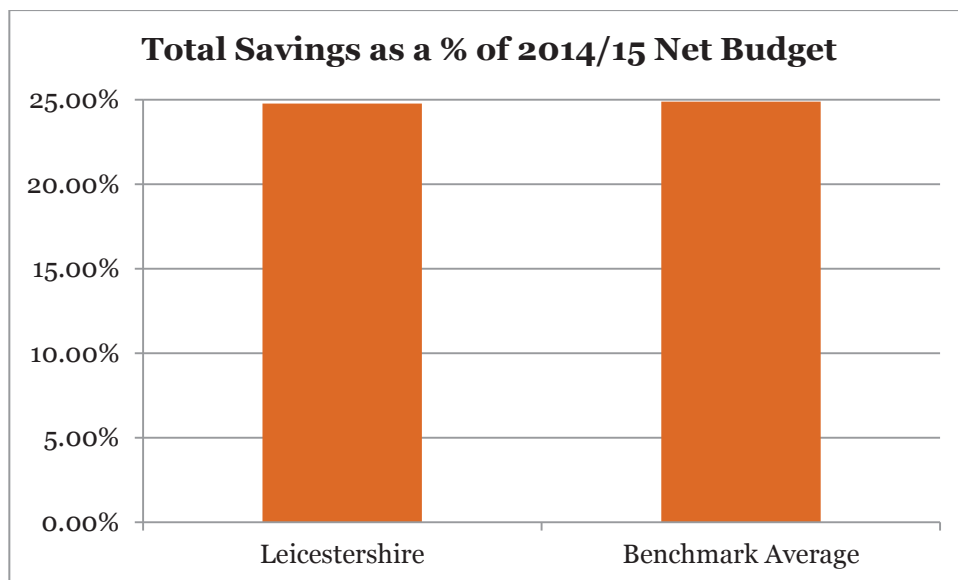
The levels of savings you are planning to make in 2014/15 to deliver a balanced budget are slightly below our benchmark group:



This is also reflected in the change in your net budget between 2013/14 and 2014/15 being slightly lower than for our benchmark average group. These two factors perhaps reflect the significant level of savings you have already made over the past 4 years. This has resulted in a lower than average reduction in spending this year:



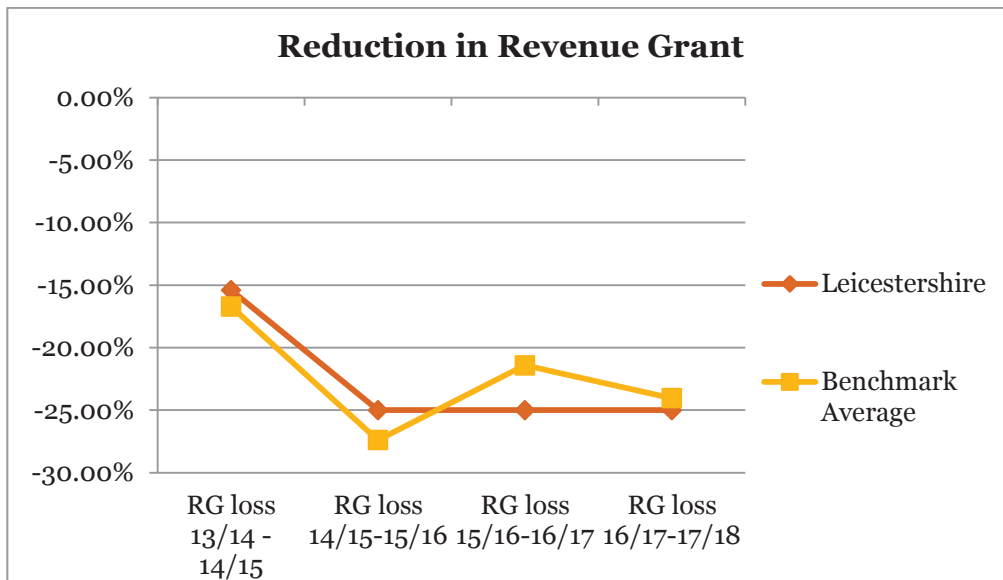
The levels of savings you are making over the period from 2014/15 to 2017/18 as a whole are broadly the same as for our benchmark group. The lower level of savings you are required to deliver in 2014/15 gives you scope to identify, plan and then deliver the significant level of savings you will be required to make in the later years of the plan:



This indicates that, relative to your peers, you are making similar savings or reductions over the course of your MTFS. The scale of savings being over future periods has become more consistent in the sector, as the expectation of ongoing reductions in revenue funding has become more established.

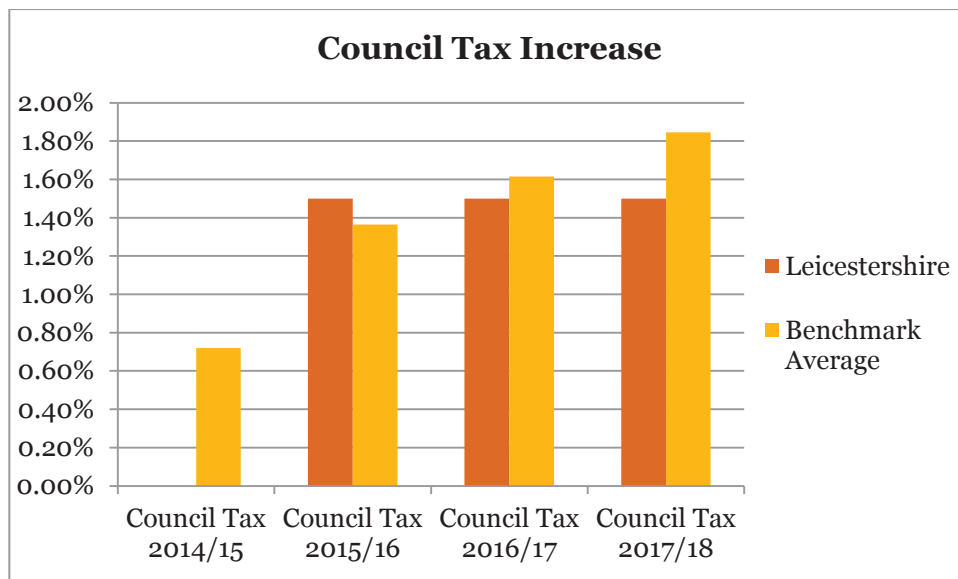
### Funding

The provisional level of revenue support grant (RSG) is known for 2014/15 and 2015/16, but has not yet been disclosed for later years. You have also made assumptions about the level of business rates which will be received following the localisation of this income stream. You have assumed a similar continued reduction in revenue funding for later periods of the plan when compared with our benchmark group. The level of expected reductions in later years is much more consistent this year than when we have undertaken this review in the last few years:



### Council Tax

You have decided on a 0% increase in Council tax for 2014/15, with an increase of 1.5% in subsequent years modelled for planning purposes. You will receive an additional grant from the Government that is equivalent to a 1% increase in Council Tax in 2014/15. The majority of Councils are planning a Council Tax increase of at least 2% in later years of their MTFS, and the average increase is around 1.5%:



### Use of Reserves

See section IV of this report for more details.

### Sensitivity Analysis

Sensitivity analysis of your inflation assumptions was performed to give an idea of what total expenditure would look with a 1%, 2%, 3% and 4% increase and decrease in inflation. In broad terms, a 1% increase in inflation above your assumptions would result in a cost pressure of approximately £4.6m in 2014/15.

### Summary of Assumptions

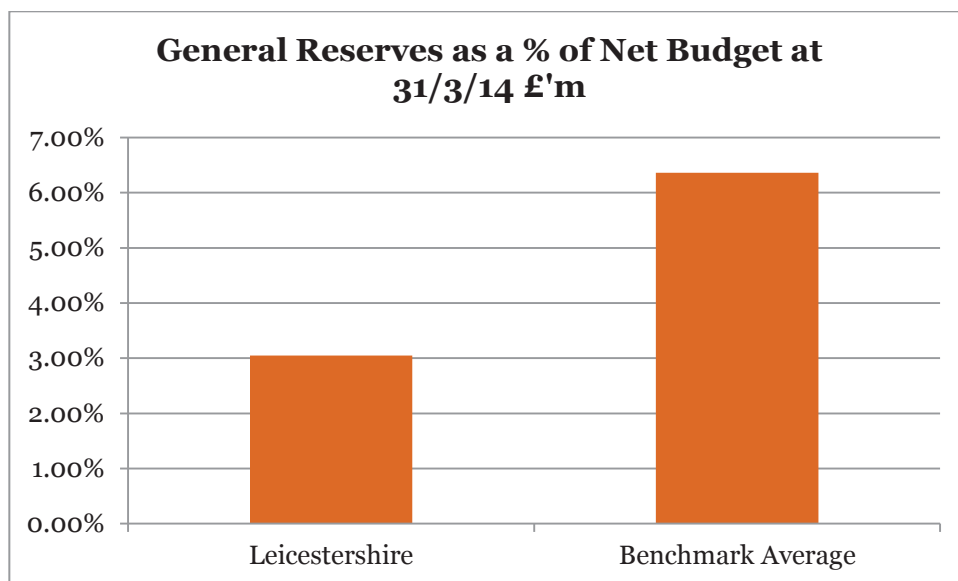
You have generally made prudent assumptions in your MTFS when compared with other similar authorities. This means that you are in a comparatively more favourable position to respond to the challenges which the MTFS presents.

You need to ensure that you continue to monitor your progress against the plan, paying particular attention to changes in the original assumptions you have made.

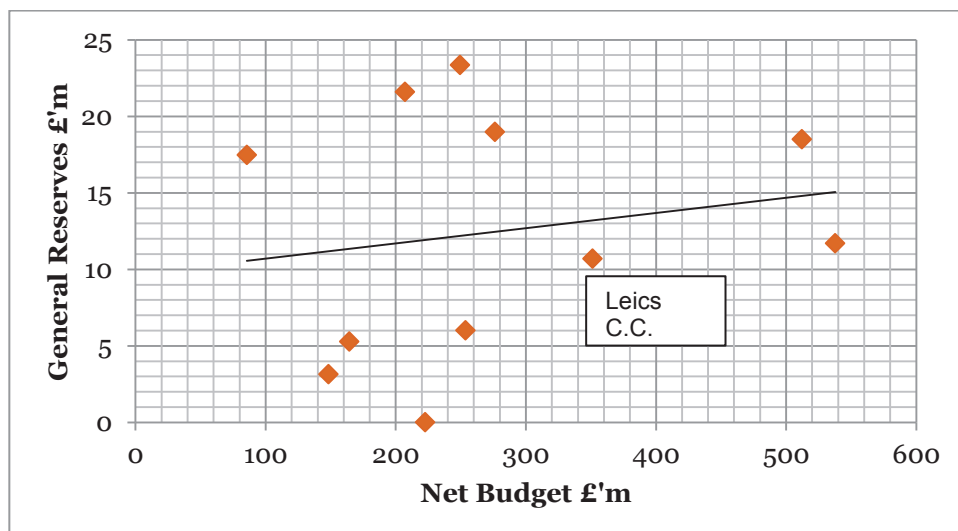
## Section IV: Reserves

### Reserves – General Fund

You have a policy to maintain your general fund at a level consistent with the risks you face, which has historically been at 2-3% of net expenditure. Your forecast for the end of the 2013/14 financial year is to be holding £10.7m of general fund reserves, which represents 3% of your net spend. The policies in our benchmark group of Local Authorities ranges from 2% of net expenditure to around 7% of net expenditure. Your level of General Fund held is therefore relatively low when compared to others where this information was accessible:



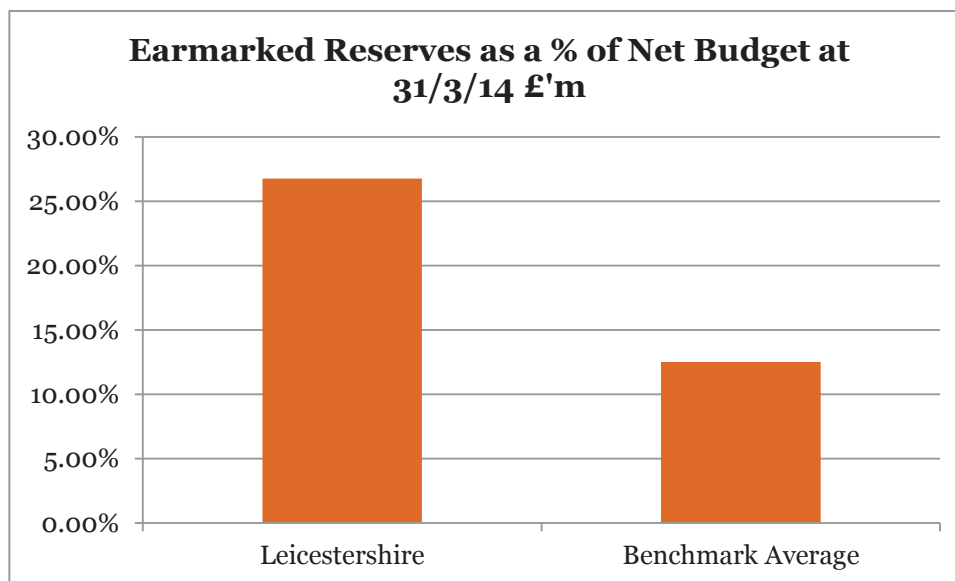
Your policy is within our own expectation for the level of general fund reserves which we would independently expect you to hold. In addition, you hold a higher level of earmarked reserves than the Local Authorities in our benchmark group which mitigates this difference to some degree. The following graph shows the level of general reserves the authorities in our upper tier benchmark group held relative to their net budget:



## Reserves – Earmarked Reserves

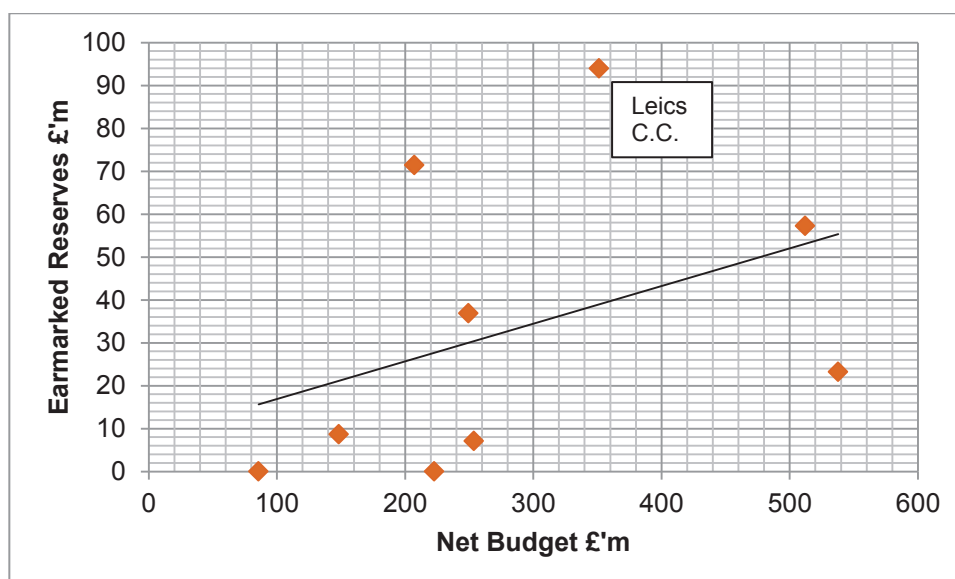
During the past 12 months you have undertaken a detailed review of your earmarked reserves to ensure that all reserves held were in relation to identified future spend, cost pressures and invest to save schemes. This review involved members and resulted in some changes to earmarked reserves being made to reflect future plans.

Your earmarked reserves start the MTFS period remains higher than the average for our benchmark group. These are being held to manage the transition period, fund specific cost pressures and to deliver the transformation programme which you have set out in your MTFS. The costs associated with this transformation, such as severance costs, are being met through the use of these reserves rather than recurrent spending:



The level of earmarked reserves reduces to a level more comparable with our benchmark group from in later years of the plan. The level of earmarked reserves is being held to manage specific future costs identified and address the medium term financial risks which you face. This includes the potential impact of future Comprehensive Spending Reviews, the localisation of business rates, uncertainty around funding the Dilnot Commission recommendations and other future changes to public policy.

The following graph shows the level of earmarked reserves the authorities in our upper tier benchmark group held relative to their net budget:





## Section V: Economy, Efficiency and Effectiveness

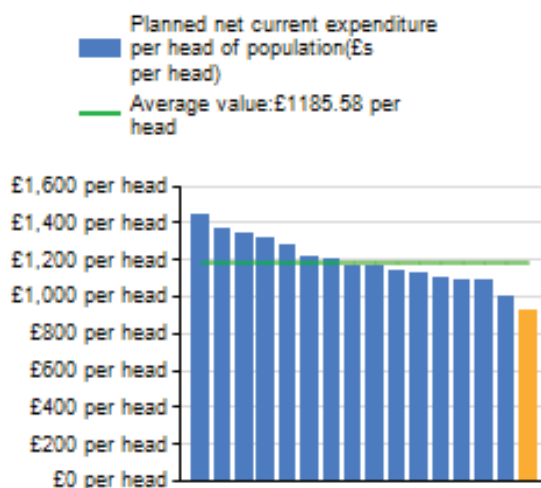
### Economy, Efficiency and Effectiveness

The Authority has a responsibility to challenge economy, efficiency and effectiveness in everything it does. This is performed in each department and evident as part of your response to the identification of specific savings compared to service reductions.

#### Value for Money Profile

We have reviewed the Audit Commission Value for Money (VfM) profile for the Authority. Please note that this section contains comparators with your statistical nearest neighbours. These are the other County Councils which are most like Leicestershire County Council. This is a different benchmark group to that used for the analysis in previous sections of the report, which focussed on our other audit clients. The most recently available information is for the 2012/13 financial year.

Your planned net expenditure per head for 2013/14 is lower than the average against your benchmark group:

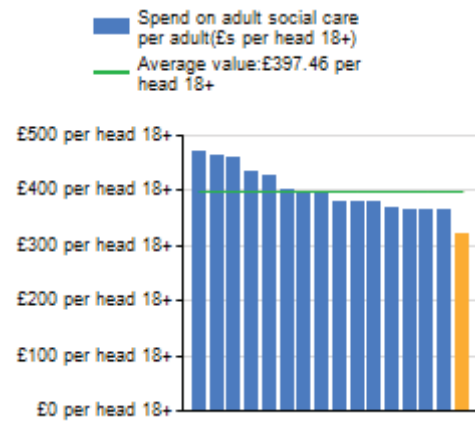


**Financial Resilience:** The specific measures identified in the ‘financial resilience’ section of the VFM profile show that during 2012/13 against your statistical nearest neighbours:

- Council tax requirement was in the middle third at £240.339m against an average of £278.682m;
- Income from fees and charges was in the middle third at 7.46% of total spend. The average was 8%;
- Non-school reserves are in the middle third at 15.1% of net expenditure;
- Spend on management and support (back office) services as a proportion of total service spend was significantly lower than at other County Councils, being at 1.5% compared to an average of 6.1%; and
- The total value of assets is in the lowest 10%.

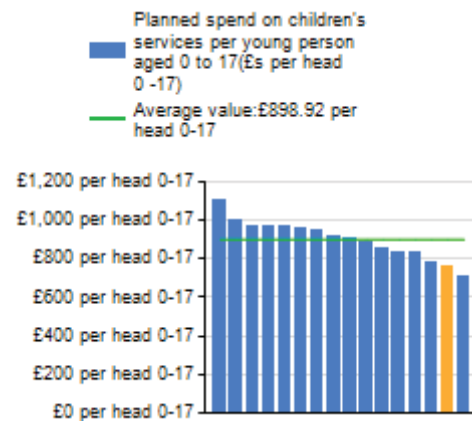
This indicates a broadly positive, financially resilient position. There is a low relative planned spend in most areas, low management support & back office costs and average levels of income from fees and charges. The level of your reserves was explored in a previous section of the report.

**Adult and Social Care (ASC):** spending per person on ASC is in the lowest 10% and is the lowest in your benchmark group by a clear margin. This is particularly the case in services for older people (lowest 10%) and adults with learning disabilities (lowest 20%). There is average spend on adults with mental health needs and those with a physical disability.

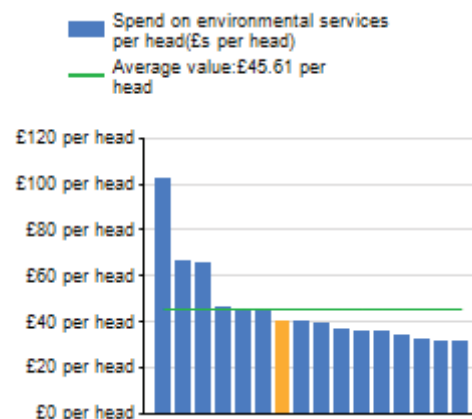


The performance indicators also show that a good service is generally being delivered in those areas. For example, in relation to the number of delayed transfers of care performance is average and improving for the latest period available.

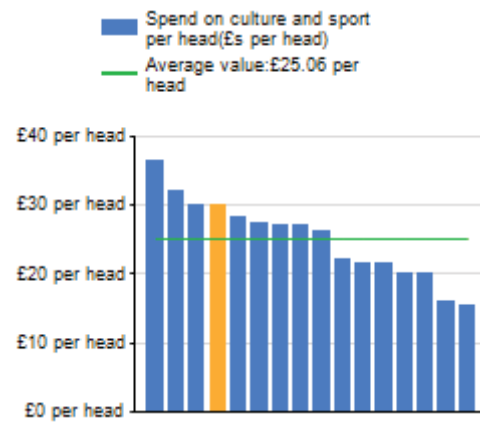
**Spend on children's services and young people aged 0 - 17:** planned spending per young person is in the lowest 20% of your benchmark group. This is reflected across all key areas of spend, such as social services, looked after children and special educational needs:



**Environmental Services:** spend on environmental services has decreased from being well above average in 2005/06 to at or below since 2007/08. This continues to be the case:

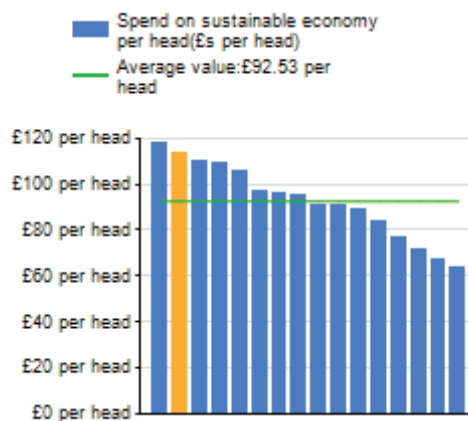


**Culture and Sport:** spend per person is above average when compared with the benchmark group:



This benchmark reflects your provision of a museums service; in most other County Council areas in the benchmark group the museums service is typically provided at District Council level.

**Sustainable Economy:** total spend on sustainable economy activities is above average, as is the total spend on highways and roads (in the highest 10%):



**Outliers reporting:** The Audit Commission tool identifies any significant outliers from their data. The most relevant are as follows:

- The number of adults with mental health needs aged 18-64 receiving direct payments is in the highest 5%;
- The number of weeks residents aged 18-64 with mental health needs spent in own provision residential placements is in the highest 5%;
- Income from libraries, museums and archives, and from arts, tourism and the historic environment, are all in the highest 5% as a percentage of spend;
- Income from area based grant as percentage of total spend is in the lowest 10%;
- Spend on street cleaning, planning, planning policy, museums and galleries and trade waste are all in the top 5%;
- Planned spend on schools per pupil aged 3 to 19 is in the lowest 10%.

No other significant outliers were identified.

**Overall:** In overall terms, your spend tends to be below average in the largest areas when compared to other County Councils, particularly for Adult and Social Care and Services for Young People. You also typically continue to produce good performance when performance indicators are reviewed.

**Prioritisation of resources**

You undertook an extensive consultation process over the past 12 months, in preparation for the MTFS process during 2013 and through your scrutiny process to involve members. You identified clear priorities in this process and these have influenced the decisions you made in your most recent MTFS.

You have consulted in preparation for this MTFS and have taken account of responses as part of your financial plans. Your MTFS shows that you have, in broad terms, prioritised your services in the areas of greatest need.

## Section VI: Conclusions

### Conclusions

You have set a challenging and robust MTFS after going through a process of extensive consultation. The key points we have noted are:

- You have demonstrated in the past that you have robust programme management arrangements in place and that you achieve the savings targets which you have set yourself. However, the scale of the challenge in the medium term, particularly during 2015/16, is more significant than what you have faced to date. This is something you recognise through the establishment of the Transformation Board and the additional resources you have put in place;
- You have applied a number of prudent assumptions in setting your MTFS. In some cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help you to meet manage the financial risks which exist over the plan period;
- The Audit Commission value for money profile, whilst backwards looking, continues to show a number of key areas where the Authority is providing services which can demonstrate value for money when compared with other County Councils;
- You have set aside a significant level of earmarked reserves and a level of contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that you have taken a prudent approach in setting your MTFS. These reserves will be required to effectively deliver the transformation you require.

In conclusion, we have reviewed your MTFS and the assumptions which lie behind it. We have compared you with other, similar Local Authorities and taken into account our wider understanding of the Local Government sector. Our work in this particular area has not identified any issues which would lead to an unqualified value for money conclusion.

However, despite the preparation you have undertaken and the prudent assumptions you have made, there continues to be a risk around delivery of your MTFS. The main risks you face as an organisation to non achievement of your medium term financial strategy are consistent with those we reported to you in 2013 and can be summarised as follows:

### Risk

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**Slippage:** you may not be able to identify or achieve the savings you want either from a service reduction or through efficiencies.

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**Timing:** The timing of savings, service reductions and funding announcements will impact how you deliver against your MTFS.

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**Assumptions:** We have gone some way above to assess the assumptions you have applied in your MTFS. If these assumptions turn out to be false, this would have a significant impact on your ability to deliver a balanced budget over 4 years.

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**Policy:** Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

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## Appendix: Scope of Work

In our audit plan we set out our areas of focus for the year. One of these was the significant savings requirement to balance your budget over 4 year period.

We agreed to undertake a review of your Medium Term Financial Strategy (MTFS). This work will be done as part of our work on Use of Resources. In particular, this will contribute towards our assessment of you against the Audit Commission's criteria for 2013/14 which consider whether you have proper arrangements in place for:

- securing financial resilience; and
- challenging how you secure economy, efficiency and effectiveness.

Our proposed areas of focus are as follows:

Area of Focus	Proposed work.
Programme management	Review the governance structure in place to deliver your plans (including extent of Member involvement), the level and extent of accountability including escalation of issues, and how your monitoring and reporting will work.
Progress to date	<ul style="list-style-type: none"> <li>• Undertake a detailed review of how you have managed your 2013/14 savings programme;</li> <li>• Investigate the reasons behind any significant variations from the plan; and</li> <li>• Consider how this is connected with the forward-looking MTFS.</li> </ul>
Assumptions	Review the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities.
Sensitivity analysis	<ul style="list-style-type: none"> <li>• Apply sensitivity analysis to key assumptions; and</li> <li>• Consider the impact of potential changes to key assumptions and the rigour behind the MTFS.</li> </ul>
Economy, efficiency and effectiveness	<ul style="list-style-type: none"> <li>• Assess how you have prioritised resources as part of the MTFS; and</li> <li>• Update our understanding of your arrangements to review the value for money which your services provide and the actions you have taken in response.</li> </ul>
Reserves	Consider the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

We intend to undertake this work during March 2014 in conjunction with the finance team. We plan to meet with the following people to discuss the points of focus outlined above:

- Judith Spence and Chris Tambini;
- Mick Connell and Business Partner (Adults and Communities);
- Lesley Haggard and Business Partner (Children and Young People's); and
- Phil Crossland and Business Partner (Environment and Transport).

#### *Freedom of Information Act*

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
**CORPORATE GOVERNANCE COMMITTEE****12 MAY 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****RISK MANAGEMENT UPDATE****Purpose of the Report**






1. One of the key roles of the Committee is to ensure that the Council has effective risk management arrangements in place. This report assists the Committee in fulfilling that role by providing a regular overview of key risk areas and the measures being taken to address them. This is to enable the Committee to review or challenge progress, as considered necessary, as well as highlight risks that may need to be given further consideration. It covers:
  - The Corporate Risk Register (CRR);
  - Emerging Risks;
  - Outcome of the Internal Audit risk review;
  - Update on related risk management matters such as Insurance and Business Continuity.




**Corporate Risk Register (CRR)**




2. The Council maintains a CRR and departmental risk registers. These registers contain the most significant unmitigated risks which the Council is managing and are owned by Director's and Assistant Directors.
3. The key changes since the CRR was last presented to the Committee in February are:
  - i. Removal of Risk 3 "Partnerships failing to agree an integrated approach to service delivery and funding will lead to 'best services at lowest cost' not being achieved". In reviewing the updated CRR, the Corporate Management Team agreed that this risk needed to focus on specific partnerships, for example, Health & Social Care integration. A review of risks around this area will be undertaken and presented to the Committee at its meeting in September 2014;
  - ii. Addition of Risk 19 which details risks to the Council associated with an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply which could have an adverse impact on the functioning of the transport network;

- iii. Addition of Risk 20, detailing the cost of school sponsorship to the Council prior to conversion to sponsored academy status;
- 4. At its meeting on 10 February, the Committee requested that a presentation be provided on the risks associated with the delivery of savings and efficiencies through Service Redesign/Transformation as required in the MTFS. This will be undertaken as part of this agenda item.
- 5. The latest assessment of the highest ranking risks is shown in the table below.

Dept/ Function	CRR Risk No	Risk Description	Current Risk Score	Update	Direction of Travel
A&C	2	Proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council.	25	The key risks and implications to LCC were identified and included for feedback to the Department of Health through a consultation. The Government were due to publish the results of this consultation but these are still awaited. A project board has been established to respond to the emerging risks and oversee planning for the reforms. The changes to rules around annuities announced in the Budget are likely to increase the financial risks and were reported to Cabinet in April.	 Over the next 12 months the residual risk is expected to remain 'high/red'
C&F	4	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	20	The allocations process is being developed in order to link direct work more robustly to identified families. Data processes for PBR (payment by results) have been further developed to include a wider range of data sources which is being utilised to identify families.	 Over the next 12 months the residual risk is expected to remain 'high/red'
CR	6	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	The replacement SAN (Storage Area Network) gives both a more resilient infrastructure and a vastly improved position with regards to data recovery in the event of an outage. Options appraisal to re-provision current datacentre(s) is nearing completion and a programme of work on	 Over the next 12 months the residual risk score is expected to move to 'medium/'

				Disaster Recovery is underway.	amber'
CR	7	Continuing risk of failure of information security.	16	The Council has now achieved PSN (Public Services Network) compliance. A small number of actions are being completed, including the full roll-out of a mobile device management solution. Work is also underway to meet the 2014 PSN standards and to ensure that compliance is built into key business as usual processes.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
E&T	8	Impact of academy and secondary age conversion on home to school transport policy.	16	A consultation exercise on the earlier policy proposals (which were discussed at Scrutiny Commission) closed in March 2014 with over 2,000 responses received along with a number of alternative policy suggestions. In the light of the considerable public interest and the need for further consultation before a decision can be taken, the Cabinet approved a further round of consultation on the Mainstream Home to School Transport Policy with results expected in July 2014.	 Over the next 12 months the residual risk is expected to remain 'high/red'
All	12	Challenges caused by the Welfare Reform Act.	25	Work continues with service users, providing assistance to maximise income throughout the benefit changes.  A detailed update is provided below.	 Over the next 12 months the residual risk is expected to remain 'high/red'
All	13	Failure by LCC to ascertain, understand and manage increased demand for services.	20	A cross departmental review of Business Intelligence (BI) and Data Management has been conducted with an overview presented to CMT. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme.	 Over the next 12 months the residual risk is expected to remain 'high/red'
CR	14	Ability to effectively contract manage devolved	15	The Corporate Commissioning Contracts Board has been monitoring the performance of 23 of the Council's key	 Over the next

		services through new service delivery models.		contracts. Further works being initiated include identification of all key suppliers for business critical services (based on business continuity plans) and the roll-out of e-tendering (contract management module) to allow greater visibility of contract data.	12 months the residual risk score is expected to move to 'medium/amber'
CR	15	Insufficient capacity to provide Information & Technology solutions.	16	There is regular review of capacity versus demand, with further work to assess the impact on strategy of transformation activities.	 <p>Over the next 12 months the residual risk is expected to remain 'high/red'</p>
All	16	Risk around our ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS.	25	<p>In April 2014 the Cabinet was presented with a report detailing implications of the Chancellor Budget Statement 2014, in particular:</p> <ul style="list-style-type: none"> <li>•Projected austerity beyond 2017/18 requiring LCC to find additional estimated savings (increase of £27.5m);</li> <li>•The Statement did not contain any reference to costs of Care Bill and Dilnot reforms;</li> <li>•Significant changes to pensions have added further uncertainty to long term financial costs.</li> </ul> <p>As part of the wider work on transformation, the Council continues to identify savings to bridge the funding 'gap' and there will be further reports to the Cabinet and Scrutiny Commission in due course.</p>	 <p>Over the next 12 months the residual risk is expected to remain 'high/red'</p>
CE	17	Risk around achievement of funding for the Better Care Fund (BCF).	15	Following approval of the draft BCF Plan, components were subject to further analysis to assess anticipated impact and benefits. The outcome of the regional assurance review showed no major concern with the Leicestershire BCF Plan. A final BCF Plan was submitted to NHS England on 4 April	 <p>Over the next 12 months the residual risk is expected to remain 'high/red'</p>

				2014. A new Integration Executive has been established and will oversee delivery of the BCF Plan and the associated pooled budget.	
E&T	19	Impact of an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply.	15	Local Planning Authorities (i.e. district councils) need to demonstrate a 5 year supply in housing. The role of LCC is to ensure that appropriate impact assessments are being completed so that development can be properly accommodated. An increase in both the number and complexity of planning applications will make it difficult to ensure that appropriate assessments are being completed, thus impacting on our ability to secure appropriate transport improvements.	 <p>Over the next 12 months the residual risk score is expected to move to 'medium/amber'</p>
C&F	20	Cost of school sponsorship to LCC prior to conversion.	16	When LA schools are directed to become a Sponsored Academy by the DfE, there is a legal requirement, prior to conversion, for LCC to absorb any deficit budgets. As well as this, sponsors are now seeking building repairs/updates before agreeing to sponsor the school. If not addressed, both of the above will result in significant negative financial and reputational impact for LCC. The Corporate School group continues to monitor any development and agree actions.	 <p>Over the next 12 months the residual risk has the potential to diminish but will be influenced by OFSTED judgments of LA maintained schools</p>
A&C	18	Risk to the County Council surrounding transfer of nine Elderly Persons Homes.	12	In respect of the outstanding capital sum of £2.2m officers have continued to work with the provider to secure repayment of the deferred amount. Further details are provided below.	 <p>Over the next 12 months the residual risk is expected to remain 'medium / amber'</p>

6. This register is designed to capture strategic risk, which by its nature has a long time span. However, risk owners are engaged and have demonstrated a good

level of awareness regarding their risks. The full CRR is attached as Appendix 1 (shaded areas represent updates).

7. The improvements introduced to the risk management framework acknowledge that the CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be introduced to the CRR on an ongoing basis, as necessary. Equally, as further mitigation actions come to fruition and current controls are enhanced, the risk scores will be reassessed and this will result in some risks being removed from the CRR and reflected within the relevant departmental risk register.

### **Specific Updates**

8. Following meetings in September 2013 and February 2014 respectively, the Committee specifically requested further updates on the following:

#### **Welfare Reform Act**

9. The Committee received a presentation on the risks associated with the Welfare Reform Act (WRA). Following this, the Committee requested a further update on this risk area, specifically within the overall financial context of the MTFS once it had been agreed in February 2014. Key developments and financial risks are detailed below.
10. Responsibility for Local Welfare Provision (LWP) transferred to the County Council from 1<sup>st</sup> April 2013, with funding for the future of the scheme uncertain at that time. The Council has now received confirmation that there will be no central funding for LWP post April 2015. Due to a more focused eligibility criteria and reduced cash payments, claims have been lower than under the DWP scheme. Whilst not a statutory obligation, decisions will need to be made about the future provision of this service, giving due consideration to any impact on existing council services and resources available. Various mitigating options are currently being explored.
11. Under the WRA, the former Disability Living Allowance was reformed and replaced with Personal Independence Payments (PIP). National trend is showing that an increasing number of service users are experiencing difficulties in being granted care benefits, primarily due to more stringent medical checks. As an individual's benefit income decreases, there will be a direct negative impact on income for the Adults & Communities department. The PIP scheme does not grant continual funding, even for those with long term health conditions. This means service users have to keep 'reapplying' for funding and in many cases have failed or forgotten to do this, thus further exaggerating the problem above.
12. It should be noted that the overall care package offered to the service user will not be affected and they will continue to receive the care they have been assessed for. The risk to the County Council is that the contribution (income) we receive for their care will be significantly reduced, especially in the short

term.

13. As a result of reduced funding, over time there has been a notable national reduction in welfare benefit advice available to service users. Whilst the Citizen Advice Bureau remains the most readily available point of contact, their advice services have become restricted. This translates to the fact that service users will have very limited means to gain information on how they are able to help themselves.
14. The Adults & Communities department has been working to establish controls and risks have been mitigated as much as possible by:
  - Developing and communicating an 'Advice and Information Plan and Strategy' which will better inform people on how they can help themselves and direct them to self-service. The provision of advice and information will become a duty under the Care Bill from April 2015 and will encompass securing access to independent financial advice. The Department is currently exploring the market for this specialist provision;
  - The Community Care Finance Benefits Team provides help and support to service users with complex cases. This is done by completing the relevant DWP forms on behalf of service users and assisting them with other relevant paperwork to ensure they receive any funding they are entitled to;
  - The Finance team is monitoring the impact of benefit changes and completed modelling of potential changes to individual incomes and the associated effect on departmental income;
  - The MTFS has been built on these forecasted assumptions and takes into account the financial risks surrounding this change.

#### Sale of the nine Elderly Person's Homes

15. Members will recall that the transfer of the homes was expected to generate capital receipts of £3,245million, which after payment of a £100,000 deposit on the transfer of the homes left £3,145million to be paid to the County Council on a deferred payment arrangement.
16. Leicestershire County Care Limited (LCCL) has made capital payments totalling £1,025,000. The outstanding balance is £2,200,000. To date, the County Council has received interest payments of £250,000.
17. LCCL has been unable to pay the full balance due under the full deferred payment by March 2014. Therefore, in accordance with the decision of the Cabinet in February 2014, the Director of Corporate Resources and County Solicitor have negotiated and signed a new agreement which includes the following new elements:
  - i) Regular monthly Capital Payments from October 2014 to December 2016;
  - ii) Lump sum payments in September 2014, September 2015, September 2016 and December 2016, to enable full repayment of the outstanding debt by the end of 2016;

- iii) A new parent company guarantee, confirmation of an existing personal guarantee from Dr Kananda, and confirmation of a guarantee from the original parent company, Southend Care - all guaranteeing payment of the debt until such date as no further monies are due to the Council;
  - iv) Financial covenants placed on LCCL to ensure that available monies within the company are paid to the County Council and no one else;
  - v) Increased rates of interest.
18. Members are further advised that in addition to the new parent company guarantee, the following guarantees remain in force:
- i) Floating charge over the assets of LCCL and fixed charges over the nine transferred homes;
  - ii) Personal Guarantee by the owner;
  - iii) Guarantee from Southend Care Limited.

### **Emerging Risks**

#### **Universal Infant Free School Meals (UIFSM)**

19. The Children and Families Bill places a legal duty on state-funded schools in England, including academies and free schools, to offer a free school lunch to all pupils in reception, year 1 and year 2 from September 2014.
20. The School Catering service (within the Corporate Resources Department) provides the full management and provision of school meals to 75% of all schools and academies in Leicestershire. Of the numbers currently on roll, approximately 8,000 meals are provided each day to infants through the catering service. The number of extra meals that would be needed as a result of the UIFSM policy is estimated to be 13,000 meals a day.
21. The School Food and Catering Services Manager has focused activity on understanding the implications and risks, as a result of the new policy. The following has been conducted/and or work is underway:
- Production kitchens have been maintained exceptionally well;
  - Reviews of the existing service, equipment requirements, operational staffing levels and portion sizes/selling prices for Infants/Juniors;
  - An assessment of transported meals and food supply meetings;
  - Meetings and communication with schools, governors and parents.
22. As a result of the above, the key actions being undertaken to mitigate risk include:
- Offering of a single choice menu for infants (meeting Government required standards);
  - Design and communication of the menu and a leaflet highlighting key information on 'Free School Meals' and UIFSM for parents;
  - 'Dual flow service' schools identified;
  - Recruitment of 200 operational staff;



- Working with external partners such as the Food for Life Partnership (FFLP) to promote the service;
  - Children and Young Peoples Departmental Management Team to approve proposed allocation of Government capital funding to ensure schools are in a position to deliver from September 2014.
23. A review of the service area risk register shows that all identified risks are being managed within the scope of the transition and the Corporate Resources Department, with no further escalation required to the CRR at this stage. The Lead Member for Children and Young People's Services has been kept informed of developments.

Leicester and Leicestershire Enterprise Partnership Strategic Economic Plans  
(Transport implications)

24. Under previous arrangements, funding was directly allocated to the Council to support transport programmes. However, a substantial proportion of this money will, from 2015/16 onwards, be allocated via the Single Local Growth Fund (SLGF) and not ring-fenced for transport improvements. The SLGF will be managed and distributed through the Leicester and Leicestershire Enterprise Partnership (LLEP).
25. The SLGF is allocated in two ways:
- i. A proportion is automatically allocated to each Local Enterprise Partnership (LEP) by the Government, using a formula based on population;
  - ii. A proportion is allocated on a bid basis, with each LEP submitting a Strategic Economic Plan (SEP) for how they and their partners will support economic growth in their area. The LLEP submitted its SEP to the Government on 31 March 2014.
26. Transport projects form a major component of the 'Place' theme in the submitted SEP and represent a substantial call on SLGF resources. However, it is nationally known that the SLGF pot is three times oversubscribed and there is a risk that the LLEP will receive less funding than it bid for, with significant implications for the funding of transport improvement measures. In addition to this, confirmation of funding for the proposed transport schemes will be unknown until July 2014. Major transport schemes can involve extensive preparatory work, but SLGF monies have a shorter timeframe for when funds need to be spent.
27. If the above materialises, the Council's ability to invest in transport measures to support the area's economy will be severely limited and leave the Council vulnerable, as future SLGF funding will be assessed, in part, on delivery performance.
28. Risks will be mitigated as much as possible and the County Council will seek to work with the LLEP to develop its understanding and expertise on the economic importance of an effective transport system and develop processes to compare the benefits of the wide range of projects contained within the SEP to ensure

that the most appropriate projects to support economic growth are chosen.

29. Other mitigation includes:

- To develop transport projects for future annual SEP submissions (2016/17 to 2019/20) with a supporting programme for high priority schemes;
- Ensuring a supply of deliverable (shovel ready) transport schemes which can be delivered within the SLGF timeframe, should funding be approved;
- Investigating ways to accelerate the advanced planning of schemes to put the Council in a position where SEP schemes are deliverable within the SLGF timeframe and have surplus schemes available, ready to take advantage of other opportunities;
- The County and City Councils as Highways Authorities continuing to work closely with the Department for Transport (DfT), the Highways Agency and other partners to ensure transport aspects of the SEP are robust, deliverable and represent good value for money.

30. A review of the departmental area risk register shows that all identified risks are being managed within the Environment and Transport Department with no further escalation required to the CRR at this stage. The Lead Member has been kept informed of developments.

### **Internal Audit Review**

31. The County Council's revised Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of risk. The Internal Audit Service completed work on a consolidated risk management audit that provided substantial assurance on framework design and associated governance.
32. As part of the above, Internal Audit also reviewed implementation and adherence at department level for both Environment and Transport and Children and Young Peoples Service, to ensure that the Department's risk management processes demonstrate adequate compliance with the corporate framework.

### **Environment and Transport**

33. The Department's risk management processes are robust and demonstrate a good level of compliance with the corporate framework, evidenced by:
- A structured process, which ensures risks are captured at service area level;
  - Regular updates to the Departmental Management Team on the risk register in line with the corporate guidance;
  - Officers with risk management responsibilities being provided with training on the Council's approach and methodology to risk management;
  - Consistency to the framework application through use of the corporate templates and methodology.

34. Whilst a few recommendations were agreed to further strengthen the arrangements already in place, substantial assurance was given that the internal controls in place to reduce exposure to those agreed risks, currently material to the system's objectives, are adequate and being managed effectively.

#### Children and Young People's Service

35. Evidence within the Department reflected that some risk management activities were operating adequately, namely through a departmental risk register using the corporate templates and methodology, regular reporting to DMT and Strategic plans which identified key risks to delivery.
36. However, at the time of testing, there was an absence of a key control (i.e. flow of appropriate risk information from the Strategic and Business Plans to the Departmental Risk Register) and as such, the system was open to material risk exposure. This necessitated a "High Importance" recommendation, which resulted in only partial assurance that the internal controls in place to reduce exposure to those risks currently material to the system's objectives are adequate and are being managed effectively.
37. An action plan was agreed and refresher training was provided to staff with risk management responsibilities, e.g. Heads of Strategy and other staff, to ensure a consistent approach is embedded. A framework has been developed and embedded within the Department, which has resulted in significant and notable improvements within the 2014/15 service planning process.

#### **Other Risk Information**

##### Business Continuity (BC)

38. A Silver Level Resilience Planning Group (RPG) exercise took place in February, which was around a 'lock down' of County Hall due to an external threat (gas leak). The exercise proved very valuable and a post exercise report, including lessons learned, has been completed and circulated.
39. Both supplier planning and Work Area Recovery planning have progressed and to this effect a report will be discussed with the RPG and Corporate Resources Departmental Management Team. The supplier planning project is significant in size and will progress throughout the year - a full set of documentation is now complete and a pilot with one of the critical service teams (School Food) will take place prior to roll out for other critical services.
40. BC work took place to plan for the implementation of IAS (Integrated Adult Social Care System), in order to prepare for the (unlikely) event of a 'worst case scenario'. IAS went live in March and whilst there are issues to iron out, there have been no reports of significant problems.

41. There have been no major incidents for the County Council and the extreme weather between December and February was monitored carefully although there were no serious impacts in Leicestershire.

### Insurance

#### Current Insurance Experience

42. The insurance section is continuing to experience higher than average volumes of claims. This is particularly the case in respect of public liability claims. The average number of public liability claims received each insurance year between 2006 and 2012 was 475. In the six month period between October 2013 and March 2014, 304 public liability claims have been submitted.
43. Despite an increase in the number of claims, the value of payments has remained broadly similar, as the claims are predominantly highways claims to which the County Council continues to be able to maintain its statutory defence in most cases. It is hoped that the introduction of improvements to the claims handling process will deter and better control the numbers of claims being submitted.
44. The County Council's insurance programme is due for renewal on 1<sup>st</sup> October in a climate where market conditions continue to deteriorate. This is due to lack of market competition generally and insurer concern over local government business because of increases in the number and values of claims made. There is also insurer concern about the potential for future claims trend deterioration owing to the financial position of local authorities across the country. This introduces the risk that the County Council's insurance premium could increase significantly for the second successive year.

#### Municipal Mutual Insurance

45. Leicestershire County Council was insured by Municipal Mutual Insurance (MMI) between 1969 and 1992. MMI entered administration in 1992 and since this time has been the subject of a Scheme of Arrangement with its creditors. In November 2012 the County Council was notified that there would not be a solvent run off of claims, due to high numbers of historic abuse and mesothelioma claims.
46. In order to restore the company's balance sheet the Scheme Administrator has imposed a 15% levy on all claims paid to date and on all claims yet to be settled, requiring the County Council to make an initial payment of £2.2 million.
47. Claims trend data indicates that the numbers of claims still coming forward for the period when the MMI was writing business, in particular mesothelioma claims, continue to be ahead of the forecast long term trend. Should this pattern continue it is possible that the Scheme Administrator may have to impose a further levy, or levies, on all scheme creditors.

**Recommendation**

48. That the Committee:

- (a) Notes the current status of the strategic risks and emerging risks facing the Council and make recommendations on any areas which might benefit from further examination;
- (b) Identify a risk area for presentation at its next meeting;
- (c) Approve the updated Corporate Risk Register.

**Resources Implications**

None.

**Equal Opportunities Implications**

None.

**Circulation Under the Local Issues Alert Procedure**

Members News in Brief item covering the agreement reached with LCCL regarding payment has been circulated to all members.

**Background Papers**

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 3 February 2010

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 2 September 2013

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 25 November 2013

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 10 February 2014

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**Appendices**

## Appendix 1 – Corporate Risk Register

Updated: Apr-14		Represents updates to column since Feb 2014		APPENDIX 1		Corporate Risk Register		Current Risk Score		APPENDIX 1			
								15 to 25 = Red (R) / High 6 to 12 = Amber (A) / Medium 3 to 5 = Green (G) / Low					
								Current Risk Score			Residual Risk		
Departm ent	Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Impact	Likelihood	Risk Score	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
A&C	2	Inability to establish long term delivery strategies as a result of proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council	<ul style="list-style-type: none"><li>•Increase in LCC responsibilities and costs</li><li>•National eligibility criteria increases demand with no additional funding (reform under funded)</li><li>•All service users (existing and new) requiring a 'care account'</li><li>•Cap on total lifetime costs paid by individuals</li><li>•Leicestershire more affluent therefore more of the costs which are currently self funded will pass to tax payer</li><li>•Additional costs are hard to quantify precisely due to lack of information on service users who currently fund and manage their own care</li><li>•Uncertainty about formula used to allocate funding</li></ul>	<u>Service Delivery</u> <ul style="list-style-type: none"><li>•Double the number of service users eligible</li><li>•Concern on how well changes will be understood by service users/public</li></ul> <u>People</u> <ul style="list-style-type: none"><li>•Significant staffing and ICT resource implications</li><li>•Required additional staffing at a time where workforce planning to be reduced</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>•Major impact on substantial savings/efficiencies required</li><li>•Additional operating costs associated (increased assessment activity / care accounts)</li><li>•Significant reduction in income from charges</li><li>•More deferred payments for care costs</li></ul>	Mick Connell / Sandy McMillan	<ul style="list-style-type: none"><li>•Project Board (with senior sponsor) established to oversee development and delivery of an implementation plan</li><li>•Department is in the process of engaging with emerging national and regional support programme for the Bill</li></ul>	5	5	[R] 25	<ul style="list-style-type: none"><li>•Review of projects within A&amp;C efficiency programme</li><li>•Continue modelling exercise on scoping impact of Dilnot on service users, including obtaining best practice from other local authorities</li><li>•Careful planning to avoid potential risk of making staff redundant when future new recruitment may be required</li><li>•Review of risks as changes communicated</li><li>•Preparation for detailed analysis of draft guidance/ regulation to respond to consultation and plan for implementation</li></ul>	5	5	[R] 25
CE	3	Risk Removed											
C&F	4	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond its 2015/16	<ul style="list-style-type: none"><li>•Supporting families services not effective</li><li>•Savings arising from SLF not agreed</li><li>•Data unavailable/immeasurable on some outcomes</li></ul>	<u>Service Delivery</u> <ul style="list-style-type: none"><li>•Reduction in families supported</li><li>•Increase in reactive service demand</li></ul> <u>People</u> <ul style="list-style-type: none"><li>•Families and individuals do not achieve their potential</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>•Loss of confidence in place based solutions</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>•Related services unable to reduce budgets if demand not decreased</li></ul>	John Sinnott / Tom Purnell	<ul style="list-style-type: none"><li>•Data project underway to increase provision, quality and access</li><li>•Training for workers to achieve optimum outcomes with families at earliest opportunity</li><li>•Government announced a fourth year of funding into 2015/16</li></ul>	5	4	[R] 20	<ul style="list-style-type: none"><li>•Opportunities to nationally ring fence budgets to be discussed with partners/services</li><li>•Measuring outcomes to demonstrate reduced demand</li></ul>	5	3	[R] 15
CR	6	The County Council's services have a growing dependence on ICT systems and infrastructure. Hence maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage is vital.	<ul style="list-style-type: none"><li>•Business evolution and dependencies cause additional load on existing infrastructure, reducing resilience to failure</li><li>•Recovery plans are currently fragmented</li></ul>	<u>Service Delivery</u> <ul style="list-style-type: none"><li>•Unable to deliver critical services</li><li>•Disruption to day to day operations</li><li>•Loss of key information</li><li>•Loss of self service customer facing options / Public unable to use all access channels</li></ul> <u>People</u> <ul style="list-style-type: none"><li>•Alternate business continuity arrangements likely to result in backlogs of work</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>•Negative stories in press</li><li>•Key partners impacted may influence contract renewals</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>•Potential penalties</li><li>•Additional costs related to internal and external recovery</li></ul>	Liz Clark / Roderick O'Connor	<ul style="list-style-type: none"><li>•New SAN in place that includes functions to rapidly restore services in the event of an outage</li><li>•Resilient servers split over two sites</li><li>•Servers have been virtualised so that they can be quickly brought back into service if there is an issue with the underlying hardware.</li><li>•External review of existing resiliency completed and resiliency group setup to implement recommendations</li></ul>	5	3	[R] 15	<ul style="list-style-type: none"><li>•Programme of work on Disaster Recovery underway</li><li>•Options appraisal to re-provision current datacentre(s) nearing completion</li><li>•Development of Disaster Recovery strategy, policy and plans underway</li><li>•Notification of all planned changes that may impact infrastructure</li></ul>	4	3	[A] 12
CR	7	The responsibility to protect the confidentiality, integrity, availability data and transparency and accountability of information means there is a continuing risk of failure of information security. An increase in information security incidents has resulted in the ICO requiring the Council to sign an Undertaking.	<ul style="list-style-type: none"><li>•Increased information sharing</li><li>•More hosted technology services</li><li>•Greater emphasis on publication of information and transparency</li><li>•Greater awareness of information rights by service users</li><li>•Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence.</li></ul>	<u>Service Delivery</u> <ul style="list-style-type: none"><li>•Diminished public trust in ability of Council to provide services</li><li>•Failure to comply with Public Service Network(PSN) Code of Connection standard would result in the Council being disconnected from PSN services, with possible impact on delivery of some vital services.</li></ul> <u>People</u> <ul style="list-style-type: none"><li>•Loss of confidential information compromising service user safety</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>•Damage to LCC reputation</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>•Financial penalties</li></ul>	Brian Roberts / Liz Clark	<ul style="list-style-type: none"><li>•Information Security and related policy in place to ensure compliance</li><li>•PSN compliance achieved and Project Board overseeing embedding of PSN compliance into business as usual</li><li>•Use of 2 level anti-virus software on internet and email with further control on webmail</li><li>•Regular penetration testing and enhanced IT health check as part of PSN compliance</li></ul>	4	4	[R] 16	<ul style="list-style-type: none"><li>•Continued delivery of the Information Security programme of work</li><li>•Sign-off refreshed Acceptable Use Policy by Members</li><li>•A Corporate Mobile Device Management will help control the impact of potential data loss from mobile devices</li></ul>	4	3	[A] 12

Department	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Current Risk Score			Further Actions / Additional Controls	Residual Risk		
							Impact	Likelihood	Risk Score		Residual Impact	Residual Likelihood	Residual Risk Score
E&T	8	Impact of academy conversion and secondary age range conversion on home to school transport policy	<ul style="list-style-type: none"> <li>•Age range changes for compulsory secondary education</li> <li>•Changing academy admissions arrangements from previous LA determined catchments which conflict with long standing transport arrangements not reflected in the home to school transport policy</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>•No change to existing pattern of service delivery with current transport policy</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>•Parents do not understand eligibility and/or make school choices not fully understanding current policy</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>•Potential for conflict / legal challenge leading to negative media</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>•Continuing existing transport policy is cost neutral - any transport policy changes would need financial implications assessing</li> </ul>	Phil Crossland	<ul style="list-style-type: none"> <li>•Engaging with Academies about to convert, explaining risks</li> <li>•Members understand risks through Scrutiny Commissioner briefings</li> <li>•Cabinet and Consultation Jan-March 2014</li> </ul>	4	4	[R] 16	•Further consultation on policy to minimise risk of challenge	4	4	[R] 16
All	12	LCC and partners do not have the capacity to meet expected increase in demand caused by the Welfare Reform Act	<ul style="list-style-type: none"> <li>•Decreased income</li> <li>•Continual economic climate</li> <li>•High unemployment/Reduction in wage increases</li> <li>•Changes in the benefit system</li> <li>•Introduction of Universal Credit transfers responsibility to vulnerable people</li> <li>•Inadequate information for business cases jeopardising robust decision making</li> <li>•More demand for advice services</li> <li>•No central funding for Local Welfare Provision post April 2015</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>•Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>•Families less able to maintain independence</li> <li>•Difficulty in identifying and implementing effective preventative measures</li> <li>•'Hard to reach' groups slip through the net</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>•Cases of hardship / lack of support in media</li> <li>•Potential inspection</li> <li>•Public confused as to which Agency has responsibility</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>•A&amp;C debt increases</li> <li>•Demand led budgets under more pressure</li> <li>•Risk of litigation / judicial review</li> </ul>	Mick Connell / Sandy McMillan / Tom Purnell	<ul style="list-style-type: none"> <li>•Social Fund claims are lower due to more focused eligibility criteria</li> <li>•A&amp;C finance team monitoring impact of benefit changes on departmental income and debt recovery</li> <li>•Debt strategy plan approved and being implemented</li> <li>•Information booklet on major WRA changes developed and circulated to all A&amp;C staff and shared with CYPS</li> <li>•LCC agreed contribution towards the districts hardship funds to assist people in financial difficulty</li> <li>•Additional contingency help for non collection of council tax</li> </ul>	5	5	[R] 25	<ul style="list-style-type: none"> <li>•Options to mitigate loss of Local Welfare Fund being explored</li> <li>•Maintain awareness of legislative changes and timing of WRA roll-out</li> </ul>	5	4	[R] 20
All	13	Failure by LCC to ascertain, understand and manage increased demand for services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme	<ul style="list-style-type: none"> <li>•No clearly defined corporate Business Intelligence (BI) function</li> <li>•Insufficient BI on customers and cost of services</li> <li>•Reduced research, performance and finance support for projects</li> <li>•Inadequate data quality and data sharing</li> <li>•Demand influenced by unmanageable external environment</li> <li>•Range of cultural, Information Management, technology and skills issues</li> <li>•Incorrect predictions for growth (and decline) For e.g. Waste</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>•Inadequate information for business cases</li> <li>•Jeopardise importance of robust and effective evidence based decision making</li> <li>•Transformation priorities not being met</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>•Difficulty in identifying and implementing effective preventative measures</li> <li>•Less productivity through duplication of work</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>•Inaccurate returns to central government</li> <li>•Unable to comply with increasing number of data sets required under the Transparency Agenda</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>•Risk of litigation/judicial review</li> </ul>	Liz Clark / Tom Purnell	<ul style="list-style-type: none"> <li>•Cross department review of BI and Data Management</li> <li>•Establishment and scoping of cross-organisation Programme to focus on BI</li> <li>•Business Intelligence Board and action plan, focusing on 4 key work streams is being developed</li> </ul>	5	4	[R] 20	<ul style="list-style-type: none"> <li>•Establishment of governance structures to oversee delivery of priority BI improvements</li> <li>•Programme of work to be approved</li> </ul>	5	3	[R] 15
All	14	The ability of LCC to effectively contract manage devolved services as a result of an increasing amount of expenditure through new service delivery models (E.g. outsourcing / externally commissioned)	<ul style="list-style-type: none"> <li>•Loss of direct control</li> <li>•Robustness of supply chain - For e.g., Liquidation of insurer MMI</li> <li>•Reduced funding and resources</li> <li>•Staff turnover leading to lack of continuity</li> <li>•Insufficient investment in contract management skills and competencies</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>•Business disruption due to cost and time to re-tender the contract</li> <li>•Standards/quality not met</li> <li>•Relationships with providers/suppliers deteriorate</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>•Additional workload where disputes arise</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>•Customer complaints</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>•VfM/Efficiencies not achieved</li> <li>•Increased costs as LCC has to pick up the service again</li> <li>•Unfunded financial exposure (MMI)</li> </ul>	Brian Roberts / Gordon McFarlane	<ul style="list-style-type: none"> <li>•The Corporate Commissioning &amp; Contracts Board (CCB) is monitoring the performance of the Authority's 23 'top' contracts on a quarterly basis to ensure that a robust approach is taken to managing performance.</li> <li>•Departmental and Corporate CCB ensure that sufficient consideration is given to contract and relationship management; and to managing liabilities at the outset of the procurement.</li> </ul>	5	3	[R] 15	<ul style="list-style-type: none"> <li>•Supplier continuity (based on plans for business critical services) being initiated</li> <li>•Roll out of e-tendering to help make contract KPI's and management more visible</li> </ul>	4	3	[A] 12



Department	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	Controls		Current Risk Score			Residual Risk		
						List of current controls	Impact	Likelihood	Risk Score	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
All	15	Insufficient capacity to provide Information & Technology solutions to support major change projects	<ul style="list-style-type: none"> <li>Imbalance of IT resources versus IT requirements</li> <li>Demand outweighs supply</li> <li>Loss of knowledge and lack of continuity as a result of staff turnover and/or inadequate investment in skills and competencies</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Departmental and corporate objectives not met or delayed</li> <li>Delays to project delivery</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>Failure to support delivery of efficiency programme and ICT replacement projects</li> </ul>	Brian Roberts / Liz Clark	<ul style="list-style-type: none"> <li>Forward planning for major projects</li> <li>Demand management for lower priority projects</li> <li>Workforce planning</li> <li>IT solutions that enable mobile and flexible working and improve access to information are being investigated and trialled.</li> </ul>	4	4	[R] 16	<ul style="list-style-type: none"> <li>Additional work on IT Strategy</li> <li>Regular review of capacity versus demand</li> <li>Review of workforce plans and development of 3 month rolling plan</li> <li>Further work to assess impact of strategy and transformation activities</li> </ul>	4	4	[R] 16
All	16	The County Council is unable to deliver savings and efficiencies through Service Redesign/Transformation as required in the MTFS.	<ul style="list-style-type: none"> <li>Chancellor Budget 2014 projected austerity beyond 2017/18, requiring LCC to find additional estimated savings (increase of £27.5m on current position) even though higher economic growth is predicted</li> <li>Budget statement did not contain any reference to costs of Care Bill and Dilnot reforms to Adult Social Care which could significantly impact savings gap</li> <li>Increased demand for the most vulnerable continues to increase: Adult Social Care / CYPs</li> <li>Significant change to pensions have added further uncertainty to long term financial costs</li> <li>Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Negative impact on all services as further service cuts will be required to reduce deficit</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>Loss of income</li> <li>Restricted funding from other sources</li> </ul>	John Sinnott / CMT	<ul style="list-style-type: none"> <li>Resource review undertaken</li> <li>Public consultation undertaken</li> <li>Monitoring processes in place at both departmental and corporate level</li> <li>Settlement reviewed and MTFS updated</li> <li>Progress with savings monitored and reported to Scrutiny Commission regularly during 2014/15</li> </ul>	5	5	[R] 25	<ul style="list-style-type: none"> <li>Update MTFS early 2015 to be considered by Scrutiny Commission, Cabinet and County Council</li> <li>Increase focus on A&amp;C overspend</li> <li>Further work required to agree Transformation process, resources and governance</li> <li>Assistant Director Transformation to be recruited and programme of work agreed</li> <li>Greater emphasis on commissioning, active communities and demand management</li> <li>Improved provision of management and performance information</li> </ul>	5	4	[R] 20
CE	17	The Better Care Fund (BCF) (previously referred to as the Integration Transformation Fund) was announced in the 2013 Spending Round. Failure in the delivery of plans and deployment of funds, could lead to the non-achievement of a number of national conditions and performance thresholds, leading to elements of the fund being withheld. The revised MTFS has been modelled on the assumption of these funds; with the potential for adverse repercussions on other services if not funds are reduced/not received.	<ul style="list-style-type: none"> <li>Uncoordinated working leading to inefficiencies</li> <li>Funding subject to national performance assessment with "payment by results"</li> <li>To access full allocation of the BCF by 2015/16, local government and NHS partners must ensure: a Better Care Fund Plan is developed and approved within a national timescale; Other national conditions are met; Achievement of the required performance level/progress against a combination of national and locally agreed measures by October 2015</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Failure to meet Health and Social Care Integration objectives which are a key priority for both LCC and NHS</li> <li>Increased dependency on other health services directly impacting LCC budgetary pressures</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Limited early intervention or prevention due less planning 'around the individual'</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Loss of trust in partnership working</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>If the plan does not deliver against metrics, some of the funding could be withheld (up to £10m)</li> <li>A proportion of the fund (£16m of £38m) is allocated to the protection of Social Care expenditure which is subject to agreement with the CCG's.</li> </ul>	Cheryl Davenport / Mick Connell	<ul style="list-style-type: none"> <li>Following approval, the County Council, the two County Clinical Commissioning Groups (CCGs) and the Health and Wellbeing Board finalised and submitted the BCF Plan to NHS England on 4th April 2014.</li> <li>A new Integration Executive has been established and will oversee delivery of the BCF Plan and the associated pooled budget.</li> <li>An initial BCF programme plan has been developed showing the milestones partners need to achieve within the BCF Plan</li> <li>Initial modelling work includes financial assumptions to meet the national conditions which need to be addressed in the plan which includes an element of protection for social care services</li> </ul>	5	3	[R] 15	<ul style="list-style-type: none"> <li>Continue to refine plans pending further guidance</li> <li>BCF Plan is an important element of overall strategy to transform health and care services across Leicester, Leicestershire and Rutland over next 5 years - this strategy is in the process of being developed</li> </ul>	5	3	[R] 15
E&T	19	Impact of an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply which could have an adverse impact on the functioning of the transport network.	<ul style="list-style-type: none"> <li>National and local housing shortage</li> <li>Government impetus to build new homes</li> <li>Lack of 5 year housing supply</li> <li>District level plans not in place</li> <li>Pressure on districts for early determination of planning applications</li> <li>Increased developer 'know-how'</li> <li>Shortage of expert resources</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Significant increase in both the number and complexity of planning applications received</li> <li>Increase in the number of appeals</li> <li>Negative impact on other core LCC strategies (LTP3)</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Undue pressure on staff as expert and specific knowledge required</li> <li>Safety issues/congestion/accidents for residents if schemes not properly planned and approved</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Difficulties to maintain reputation of being a quality and fair Highways Authority</li> <li>Developments in the wrong location</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>Increase in legal costs</li> <li>Loss of developer contribution</li> <li>Public funds needed to address impact of developer....</li> </ul>	Phil Crossland	<ul style="list-style-type: none"> <li>Working with district councils to help identify, prioritise and program work to establish housing plans</li> <li>Additional expertise resource recruited</li> <li>Analysing different options for the phasing, funding and delivery of transport infrastructure</li> <li>Monitoring number of applications and structuring team to ensure they can be turned around as efficiently as possible, however there is still a minimum amount of time that a transport assessment takes.</li> </ul>	3	5	[R] 15	<ul style="list-style-type: none"> <li>Continue to assist districts in formulation of planning documents to predict county wide housing requirements</li> <li>Identify pinch points on transport network early to begin design work on potential schemes so that they can be later funded by developers' in appropriate circumstances</li> </ul>	3	4	[A] 12

C&F	20	Local Authority schools that fail Ofsted/consistently under perform are directed to become a Sponsored Academy by the DfE. Under this arrangement and prior to conversion, there is a legal requirement for LCC to absorb deficit budgets, as well as potentially incur additional high costs towards building repairs.	•Sponsors are seeking building repairs/updates before agreeing to sponsor schools •Central agenda/strategy pushes for more conversion •Deficit budgets return to the Local Authority at the point of conversion. •No identified funding source to support sponsorship projects	<u>Service Delivery</u> •Local academy strategy objectives unachievable •If sponsorship projects are approved Capital programme slippage and delays to other major schemes  <u>People</u> •Displaced children needing to be relocated if school closes •Stress/pressure on pupils, parents, teachers  <u>Reputation</u> •Sponsor schools walk away from arrangements unless demands met •If the school continues to sustain underperformance (and no sponsor found) then the DfE could direct LCC to close the school.  <u>Financial</u> •Demand on limited Dedicated School Grant (revenue) resources •Diversion of capital funding from other schools •If schools closes there will be a negative impact on the transport budget as the LA will have to transport children to other schools.	Lesley Hagger / Gill Weston	•£2.5 million held in Dedicated Schools Grant reserves (Revenue). •On-going negotiations with sponsors and the Department for Education. •Updated conditions surveys prepared •Corporate School group to monitor •Property to ensure capital program delivers priority 1 and 2	4	4	[R] 16	Further develop a robust criteria to use to determine the priority on the demands on capital budget	4	4	[R] 16
A&C	18	The County Council transferred nine Elderly Persons Homes (EPH's) as going concerns to Leicestershire County Care Ltd (LCCL) in September 2012. The County Council is still awaiting payment of the capital sum for the transfer.	LCCL has been unable to pay the full balance due under the full deferred payment by March 2014.	<u>Service Delivery</u> • Adverse effect on smooth running of the EPH's  <u>People</u> • Disruption and anxiety to residents  <u>Reputation</u> • Negative media concerning treatment of elderly persons  <u>Financial</u> • £2.2m outstanding debt	Mick Connell / Sandy McMillan	• New agreement in place with greater restrictions and guarantees •LCC working closely with LCCL to ensure care priorities met and maintain high quality services • LCC officer responsible for compliance • LCCL made regular and timely payment of monthly instalments • LCC diligently considering various options: current / contingency •Cabinet approval of options presented (Feb)	4	3	[A] 12	• Officers continue to work closely with LCCL to finalise settlement of the account	4	3	[A] 12

**Department**  
A&C = Adults & Communities  
CE = Chief Executives  
CR = Corporate Resources  
C&F = Children and Families

E&T = Environment and Transport  
PH = Public Health  
All = Consolidated risk

**CORPORATE GOVERNANCE COMMITTEE****12 MAY 2014****JOINT REPORT OF THE COUNTY SOLICITOR AND DIRECTOR  
OF CORPORATE RESOURCES****EMPLOYEE CODE OF CONDUCT****Purpose of Report**

1. The purpose of this report is to present the draft revised Employee Code of Conduct for consideration and to advise the Committee of progress in revising a range of other employee related policies.

**Background**

2. The Employee Code of Conduct forms Part 5B of the County Council's Constitution. It was last revised in 2006. The current Code includes a set of principles and four appendices: the policies for the register of interests, register of gifts and hospitality, whistleblowing and close personal relationships in employment.
3. In light of the recent revisions to the Members' Code of Conduct and the requirements of the Bribery Act 2010, it was considered timely to update the Employee Code of Conduct.
4. The draft revised Code is attached as Appendix 1 to this report. In revising the Code, the aim was to ensure that, as well as addressing the updated principles of public life recommended by the Nolan Committee, it incorporated all County Council policies and procedures relating to the conduct of employees.
5. It was decided that the Code would not reproduce each policy in its entirety, but would set out a brief description of their requirement as these policies will change over time and it would not be appropriate for changes to the Constitution to be made whenever such changes are made. A Guide to the Employee Code of Conduct which will include weblinks to the relevant policies or procedures is being produced to support employees in understanding the requirements of the Code. The latest version of that Guide is attached as Appendix 2 to this report.

## **Consultations**

6. The draft revised Employee Code of Conduct has been submitted to the Trade Unions, who are supportive of its contents.

## **Employment Committee**

7. The following is an extract from the minutes of the meeting of the Employment Committee held on 12 March 2014:

“The Committee considered a report of the Director of Corporate Resources presenting a draft revised version of the Employee Code of Conduct. A copy of the report, marked “Agenda Item 7”, is filed with these minutes.

The County Solicitor explained that a revised Employee Code of Conduct had been developed as a result of a lack of awareness amongst staff for the previous version of the document. It was stressed that a guidance document was being developed in order to make the latest version of the Code more accessible for staff in order that they understood how it applied to their role at the Council.

Whilst the introduction of a revised version of the Code was welcomed, it was felt that it would be necessary to see the guidance document that it sat alongside before it was possible to approve the Code for submission to Council. In addition, some members felt that the Code was lacking in detail, particularly in respect of paragraph 6.2.1 and the rules around relationships between staff and elected members. It was subsequently explained that it was intended that the Code be a stand-alone document with cross-references to a number of other protocols in the County Council’s Constitution, such as the Protocol on Member/Officer Relations. This avoided the need to have repeated content.

It was noted that, were the Code of Conduct not to be approved for submission to the County Council meeting in May, it would be necessary to bring forward the next meeting of the Committee (currently scheduled for 26 June) in order for it tie in with the timescales for submission to the following County Council meeting in July.

RESOLVED:

- (a) That an amended draft of the Employee Code of Conduct be submitted to the next meeting of the Committee;
- (b) That a copy of the latest draft of the proposed supporting guidance document be circulated to Committee members as soon as it becomes available.”

### **Corporate Governance Committee**

8. The Committee has a particular role to “monitor the effectiveness of officer arrangements for ensuring an adequate internal control environment and combatting fraud and corruption”. The Employee Code of Conduct contains provisions intended to cover these issues and for this reason, both this Committee and the Employment Committee are asked to consider its contents.
9. Policies on declarations of interest and gifts and hospitality will be brought to the Corporate Governance Committee at its next meeting, following consultation with Trade Unions. These policies will reflect the principles of the Employee Code of Conduct and provide the detail necessary to make the Code enforceable. The Whistleblowing Policy does not form part of the Employee Code of Conduct but, because of its strong links with combatting fraud and corruption and the principles of public accountability, will also be brought to the Committee for consideration.

### **Timetable for Decisions**

10. The Employee Code of Conduct will be considered again by the Employment Committee on 12 June 2014. As it forms part of the Constitution it will then be considered by the County Council on 2 July 2014.

### **Recommendation**

11. That:
  - (a) the Corporate Governance Committee recommends the County Council to approve the proposed Employee Code of Conduct as set out in Appendix 1 to this report;
  - (b) it be noted that a further report will be presented to the Corporate Governance Committee in relation to procedures on declarations of interest, gifts and hospitality and whistleblowing.

### **Background Papers**

The Constitution of Leicestershire County Council.

### **Circulation under the Local Issues Alert Procedure**

None

**Officers to Contact:**

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**List of Appendices**

Appendix 1 – Employee Code of Conduct;

Appendix 2 – Guide to the Employee Code of Conduct

## PART 5B - EMPLOYEE CODE OF CONDUCT

### Part 1 General Provisions

#### Purpose

- 1.1 This Code of Conduct defines the responsibilities, standards and behaviour required of you as a Leicestershire County Council employee. It reflects the fact that members of the public expect you, as a public servant, to demonstrate the highest levels of integrity and professionalism at all times. This is necessary to enable the County Council to deliver services of high quality which are value for money and reflect the Council's organisational values.
- 1.2 It is your responsibility to read this Code and to make sure your conduct meets its provisions at all times.
- 1.3 Breaches of this Code will be investigated and may result in disciplinary action being taken which could lead to dismissal. You must engage in any investigations about actual or potential breaches of this Code.

#### Scope

- 1.4 This Code of Conduct applies to all County Council employees, apprentices and casual workers. Volunteers, agency workers and others who work, whether paid or unpaid, for and on behalf of Leicestershire County Council are expected to comply with this Code.
- 1.5 You are required to comply with this Code when carrying out your duties as an employee or representative of Leicestershire County Council.
- 1.6 This Code of Conduct is not an exhaustive account of all the expectations upon you and should be read in conjunction with the Council's Disciplinary Policy and Procedure.
- 1.7 This Code does not apply to employees, workers or others based in schools and colleges with delegated budgets.

### Part 2 Principles

The Code of Conduct reflects the key principles of public life recommended by the Committee on Standards in Public Life (The Nolan Committee). You must act in accordance with these principles, as set out below, and observe the following rules of behaviour:-

#### Principle 1 - Selflessness

You should act solely in terms of the public interest.

#### Principle 2 - Integrity

You must avoid placing yourself under any obligation to people or organisations that might try inappropriately to influence you in their work. You

should not act or take decisions in order to gain financial or other material benefits for yourself, your family, or your friends. You must declare and resolve any interests and relationships.

### **Principle 3 - Objectivity**

You must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

### **Principle 4 - Accountability**

You are accountable to the public for your decisions and actions and must submit yourself to the scrutiny necessary to ensure this.

### **Principle 5 - Openness**

You should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

### **Principle 6 - Honesty**

You should be truthful.

### **Principle 7 - Leadership**

You should exhibit these principles in your own behaviour. You should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

## **Part 3 Standards**

### **3.1 You are required to:-**

- 3.1.1 Always act in the interests of Leicestershire County Council;
- 3.1.2 Behave at work in line with this Code of Conduct and the Council's Organisational Values;
- 3.1.3 Attend work in accordance with your contractual requirements, carry out all of the requirements of your job and any reasonable instructions given by your manager or supervisor effectively and to the standard that is needed;
- 3.1.4 Conduct yourself, in your official or private capacity, in a way which could not reasonably be regarded as bringing the Council into disrepute or engage in any conduct that is harmful to the Council or its interests.
- 3.1.5 Be aware that actions in your off-duty hours can impact on your employment with the Council as it may result in disciplinary action being taken against you. Examples include, but are not limited to, involvement in racist incidents, criminal actions and acts of violence.



3.1.6 Whilst at work and/or on official Council business, dress appropriately for the role you are undertaking and wear your official Leicestershire County Council identity card;

### 3.2 Health and Safety

3.2.1 You have a responsibility to present yourself fit for work and be capable of carrying out your duties fully in a competent and safe manner. In addition you have a duty to take care of your own health and safety and that of others who may be affected by your actions and to co-operate with the Council and co-workers to help everyone meet their legal requirements;

3.2.2 If you have a specific query or concerns about health and safety in your workplace you should in the first instance talk to your line manager.

## **Part 4 Adherence to Council Constitution, Policies, Procedures, Operating Guidelines and Service Standards**

4.1 You have an individual responsibility to work within Leicestershire County Council's Constitution, service requirements, policies, procedures, operational guidelines and standards, legislation and other professional standards which may apply to your role from time to time and to be aware of and keep up to date with those requirements and standards. Adherence to these ensures that:

- The Council meets its statutory requirements;
- Service standards are maintained;
- Proper monitoring and auditing processes can be applied.

4.2 If you do not follow these (whether intentionally or inadvertently) it will be regarded as a disciplinary matter. Whilst managers will assist you, you have a personal responsibility to make sure that you are familiar with your responsibilities under the Council's Constitution and other policies, procedures and guidelines, in particular:-

- HR Policies;
- Equalities Policies;
- Financial Procedure Rules;
- Contract Procedure Rules;
- Departmental operational policies, procedures and codes.

4.3 When using facilities and equipment, provided as part of your work, belonging to the Council you must;

- Take care of County Council property or equipment, keeping it secure and reporting any breakages or breaches in security;
- Use equipment and facilities for authorised purposes only.

4.4 You must act in accordance with the Council's Smoke Free policy.

## Part 5 Public and Social Media

5.1 Unless you are acting as a spokesperson for the Council as part of your duties, or you are authorised to act as a spokesperson about a particular situation, or are acting as spokesperson for one of the Council's recognised trade unions in pursuit of legitimate industrial relations activities, you must not:-

- Speak, write or give interviews about the business of the Council to the media;
- Make a public statement which concerns the business of the Council.

To do so may result in reputational damage to the Council.

5.2 You should be aware of the risks you could potentially face when sharing information about your working and personal life through Social Media and the potential for disciplinary action being taken against you..

## Part 6 Relationships

6.1 The County Council expects that you:-

6.1.1 Treat all co-workers (whether paid or unpaid) equally, fairly and with dignity and respect regardless of their circumstances or personal characteristics;

6.1.2 Are supportive, co-operative and maintain good working relationships;

6.1.3 Assist the Council achieve its aim of making the work environment free of harassment and/or bullying, discrimination or other unacceptable behaviours.

6.1.4 Always remember your responsibilities to the community the County Council serves and make sure you are polite, efficient and provide impartial service delivery to all groups and individuals within that community, regardless of their circumstances or personal characteristics and as defined by the policies of the Council.

6.1.5 Develop effective co-operative and professional working relationships with organisations (including in a voluntary capacity with the local community), agencies, contractors, suppliers, and service partners, without offering or inferring any advantage to any external suppliers or contractors;

6.2 Elected Members

6.2.1 Mutual confidence and trust between employees and elected members is essential to the effective operation of the County Council. Any close personal relationships which develop between you and an elected member should be declared in the same way as a relationship with another employee.

More information is contained within the [Protocol on Member/Officer Relations](#), Part 5C of this Constitution.

## **Part 7 Personal, Business, Financial or Other Interests**

- 7.1 For the most part, your off-duty hours are your personal concern; however you should not subordinate your employment relationship with the Council to your private interest or put yourself in a position where there is a conflict of interests.
- 7.2 The County Council and the public must be confident that decisions of whatever nature you make are made for good and proper reasons and are not influenced by your interests or the interests of your family, relatives or friends.
- 7.3 You are required to declare and register any potential or actual personal, financial, business, other employment or interest which may impact on your work, conflict with the impartial performance of your duties, put you under suspicion of improper behaviour or that would cause damage to the Council's reputation or services.
- 7.4 Appointment and other employment matters
  - 7.4.1 Applicants for any County Council post are asked to declare any relationship with a member or employee of the Council. In order to avoid any possible accusation of bias, you should not be involved in an appointment where you are related to an applicant, or have a close personal relationship outside work with them;
  - 7.4.2 In the same way, you must not be involved in decisions about discipline, promotion or pay for any employee you have a close personal relationship with.
- 7.5 Relationships which develop during the course of Employment
  - 7.5.1 You are responsible for declaring, in writing to your line manager, any personal relationships that develop with another Council employee, which may conflict with the impartial performance of your duties.

## **Part 8 Bribery, Fraud and Corruption**

- 8.1 Bribery
  - 8.1.1 Bribery is defined as “an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage”.
  - 8.1.2 Under the Bribery Act 2010, both individuals and organisations are liable for conviction in court, imprisonment and/or fines if found guilty of an offence.
  - 8.1.3 It is useful for all employees to remember that it is unacceptable to:
    - Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given;
    - Give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to ‘facilitate’ a routine procedure;

- Accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them;
- Accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return;
- Take any action against or threaten a person who has refused to commit a bribery offence or who raises any concerns.

8.1.4 The responsibility to control the risk of bribery occurring should reside at all levels. If you have a concern regarding a suspected instance of bribery please speak up.

## 8.2 Fraud and Corruption

8.2.1 Fraud is defined as “deliberate deception intended to provide a direct or indirect personal gain”.

8.2.2 Corruption is defined as the “deliberate use of one’s position for direct or indirect illegitimate personal gain”.

8.2.3 The Council’s general belief and expectation is that all those associated with it will act with honesty and integrity. In particular, officers will lead by example and be accountable for their actions.

8.2.4 As an employee of the County Council you are expected to:

- Take the risk of fraud seriously;
- Secure all passwords, information, documents, money and equipment in your control which can be stolen or used to perpetrate fraud;
- Make yourself aware of corporate and departmental documented procedures, regulations or other instructions and ensure, where possible, that they are adhered to;
- Strive to achieve value for money in your use of the Council’s financial resources;
- Only incur costs to the Council in accordance with your authorised limits;
- Declare any conflicts of interest that arise;
- Only accept gifts and hospitality in accordance with the County Council’s Policy;
- Bring any concern you have on the adequacy of control measures to the attention of your line manager;

8.2.5 Concerns raised will be treated in accordance with the Council’s Whistleblowing policy.

## Part 9 Protecting the Council's Business Interests

9.1 The Council retains the intellectual property rights for work created in the course of your normal duties e.g. research, reports, designs, drawings, software developments or similar work. No property of the Council should be removed from Council premises or passed on by you or another person acting on your behalf to a third party, without the express consent of the Council.

- 9.2 Similarly, you are not permitted to use any work which you or others have created, whilst in the employment of County Council, for personal or financial gain without the express consent of the Council.

## **Part 10 Whistleblowing**

- 10.1 The County Council is committed to achieving high standards of integrity and accountability and expects the same commitment from those working for the Council. Experience shows that employees are often the first to realise that there may be something seriously wrong within the Council or often have worries or suspicions and could, by reporting their concerns at an early stage, help put things right and stop potential wrongdoing.
- 10.2 The Council's Whistleblowing Policy provides a framework for you to raise concerns which you believe are in the public interest and may relate to illegal, improper or unethical conduct. You are encouraged to bring to the attention of management, knowledge of any such activity. You should be able to do so without fear of victimisation.

## **Part 11 Disclosure of Information**

- 11.1 You have a contractual responsibility to maintain confidentiality and to comply with the Council's guidance on Data Protection and Information Security and Acceptable Use Policy.
- 11.2 Confidential information includes, but is not limited to, any information regarding staff, service users, financial information, information regarding business plans or other commercially sensitive information and any information or matter which relates to the affairs and/or services of the County Council that should not be in the public domain and information about County Council Service Users and Customers.
- 11.3 You must:
- 11.3.1 Not disclose information (oral, written or electronic) given to you in confidence by anyone, or information acquired which you believe is of a confidential nature, without the consent of a person authorised to give it, or unless you are needed to do so by law, or until it becomes public in the course of the Council's business;
  - 11.3.2 Not prevent another person from gaining access to information to which that person is entitled by law;
  - 11.3.3 Not use any information received during your employment for personal gain or benefit, or pass it on to others who might use it in a way other than might reasonably be expected in the normal course of their duties;
  - 11.3.4 Where applicable, be aware of the guidance on when you make confidential information available to Elected Members. [Part 4B - Access to Information Procedure Rules](#)
  - 11.3.5 Respect political confidences as provided for in the protocol on Member/Officer Relations, Part 5C of this Constitution.
- 11.4 If you are unsure if an individual has the right to receive the information they have asked for, you must seek advice from your line manager.

## Part 12 Political Neutrality

- 12.1 Employees serve the whole County Council as a single, statutory corporate body and not simply the political administration in power. It follows, therefore, that you must provide support to all members of the Council, regardless of the political party they represent. This is particularly important in relation to their local or representational role.

This is explained in more detail in the Protocol on Member/Officer Relations, [Part 5C of this Constitution](#).

### 12.2 Politically Restricted Posts

12.2.1 Some employees hold posts that have been designated as politically restricted. If you hold this type of post you are prevented from taking an active political role either in or outside work. You must not stand as a candidate, or hold, elected office (other than to a Parish Council), canvass at elections, speak, or write publicly demonstrating support for a political party.

12.2.2 The restrictions which apply to Political Assistants are slightly different.



## Employee Code of Conduct

### Purpose

This Code of Conduct defines the responsibilities, standards and behaviour required of you as a Leicestershire County Council employee. It reflects the fact that members of the public expect you, as a public servant, to demonstrate the highest levels of integrity and professionalism at all times. This is necessary to enable the County Council to deliver services of high quality which are value for money and reflect the Council's organisational values.

It is your responsibility to read this Code and to make sure your conduct meets its provisions at all times.

Breaches of this Code will be investigated and may result in disciplinary action being taken which could lead to dismissal. You must engage in any investigations about actual or potential breaches of this Code.

### Scope

This Code of Conduct applies to all County Council employees, apprentices and casual workers. Volunteers, agency workers and others who work, whether paid or unpaid, for and on behalf of Leicestershire County Council are expected to comply with this Code.

You are required to comply with this Code when carrying out your duties as an employee or representative of Leicestershire County Council.

This Code of Conduct is not an exhaustive account of all the expectations upon you and should be read in conjunction with the Council's [Disciplinary Policy and Procedure](#).

This Code does not apply to employees, workers or others based in schools and colleges with delegated budgets.

### Principles

The Code of Conduct reflects the key principles of public life recommended by the Committee on Standards in Public Life (The Nolan Committee). You must act in accordance with these principles, as set out below, and observe the following rules of behaviour:

- **Principle 1 - Selflessness**  
You should act solely in terms of the public interest.
- **Principle 2 - Integrity**  
You must avoid placing yourself under any obligation to people or organisations that might try inappropriately to influence you in their work. You should not act or take decisions in order to gain financial or other material benefits for yourself, your family, or your friends. You must declare and resolve any interests and relationships.

- **Principle 3 - Objectivity**

You must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

- **Principle 4 - Accountability**

You are accountable to the public for your decisions and actions and must submit yourself to the scrutiny necessary to ensure this.

- **Principle 5 - Openness**

You should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

- **Principle 6 - Honesty**

You should be truthful.

- **Principle 7 - Leadership**

You should exhibit these principles in your own behaviour. You should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

## Standards

You are required to:

- Always act in the interests of Leicestershire County Council;
- Behave at work in line with this Code of Conduct and the Council's [Organisational Values](#);
- Attend work in accordance with your contractual requirements, carry out all of the requirements of your job and any reasonable instructions given by your manager or supervisor effectively and to the standard that is needed;
- Conduct yourself, in your official or private capacity, in a way which could not reasonably be regarded as bringing the Council into disrepute or engage in any conduct that is harmful to the Council or its interests;
- Be aware that actions in your off-duty hours can impact on your employment with the Council as it may result in disciplinary action being taken against you. Examples include, but are not limited to, involvement in racist incidents, criminal actions and acts of violence;
- Whilst at work and/or on official Council business, dress appropriately for the role you are undertaking and wear your official Leicestershire County Council identity card.

## Health and Safety

- You have a responsibility to present yourself fit for work and be capable of carrying out your duties fully in a competent and safe manner. In addition you have a duty to take care of your own health and safety and that of others who may be affected by your actions and to co-operate with the Council and co-workers to help everyone meet their legal requirements;



- If you have a specific query or concerns about health and safety in your workplace you should in the first instance talk to your line manager.

## **Adherence to Council Constitution, Policies, Procedures, Operating Guidelines and Service Standards**

You have an individual responsibility to work within Leicestershire County Council's [Constitution](#), service requirements, policies, procedures, operational guidelines and standards, legislation and other professional standards which may apply to your role from time to time and to be aware of and keep up to date with those requirements and standards. Adherence to these ensures that:

- The Council meets its statutory requirements;
- Service standards are maintained;
- Proper monitoring and auditing processes can be applied.

If you do not follow these (whether intentionally or inadvertently) it will be regarded as a disciplinary matter. Whilst managers will assist you, you have a personal responsibility to make sure that you are familiar with your responsibilities under the Council's [Constitution](#) and other policies, procedures and guidelines, in particular:

- [HR Policies](#);
- [Equalities Policies](#);
- [Financial Procedure Rules](#);
- [Contract Procedure Rules](#);
- Departmental operational policies, procedures and codes.

When using facilities and equipment, provided as part of your work, belonging to the Council you must:

- Take care of County Council property or equipment, keeping it secure and reporting any breakages or breaches in security;
- Use equipment and facilities for authorised purposes only.

You must act in accordance with the Council's [Smoke Free Policy](#).

## **Public and Social Media**

Unless you are acting as a spokesperson for the Council as part of your duties, or you are authorised to act as a spokesperson about a particular situation, or are acting as spokesperson for one of the Council's recognised trade unions in pursuit of legitimate industrial relations activities, you must not:

- Speak, write or give interviews about the business of the Council to the media;
- Make a public statement which concerns the business of the Council.

To do so may result in reputational damage to the Council.

You should be aware of the risks you could potentially face when sharing information about your working and personal life through Social Media and the potential for disciplinary action being taken against you.

Further information is available within the [Personal Use of Social Media Sites Policy](#).

## **Relationships**

The County Council expects that you:

- Treat all co-workers (whether paid or unpaid) equally, fairly and with dignity and respect regardless of their circumstances or personal characteristics;
- Are supportive, co-operative and maintain good working relationships;
- Assist the Council achieve its aim of making the work environment free of harassment and/or bullying, discrimination or other unacceptable behaviours;
- Always remember your responsibilities to the community the County Council serves and make sure you are polite, efficient and provide impartial service delivery to all groups and individuals within that community, regardless of their circumstances or personal characteristics and as defined by the policies of the Council;
- Develop effective co-operative and professional working relationships with organisations (including in a voluntary capacity with the local community), agencies, contractors, suppliers, and service partners, without offering or inferring any advantage to any external suppliers or contractors.

## **Elected Members**

- Mutual confidence and trust between employees and elected members is essential to the effective operation of the County Council. Any close personal relationships which develop between you and an elected member should be declared in the same way as a relationship with another employee.

More information is contained within the Protocol on Member/Officer Relations, [Part 5C of the Constitution](#).

## **Personal, Business, Financial or Other Interests**

For the most part, your off-duty hours are your personal concern; however you should not subordinate your employment relationship with the Council to your private interest or put yourself in a position where there is a conflict of interests.

The County Council and the public must be confident that decisions of whatever nature you make are made for good and proper reasons and are not influenced by your interests or the interests of your family, relatives or friends.

You are required to declare and register any potential or actual personal, financial, business, other employment or interest which may impact on your work, conflict with the impartial performance of your duties, put you under suspicion of improper behaviour or that would cause damage to the Council's reputation or services.

Further information is available within the [Guidance on the Declaration of Personal Interests](#).

## **Appointment and other employment matters**

Applicants for any County Council post are asked to declare any relationship with a member or employee of the Council. In order to avoid any possible accusation of bias,

you should not be involved in an appointment where you are related to an applicant, or have a close personal relationship outside work with them;

In the same way, you must not be involved in decisions about discipline, promotion or pay for any employee you have a close personal relationship with.

### **Relationships which develop during the course of Employment**

You are responsible for declaring, in writing to your line manager, any personal relationships that develop with another Council employee, which may conflict with the impartial performance of your duties.

Further information is available within the [Guidance on the Declaration of Personal Interests](#).

## **Bribery, Fraud and Corruption**

### **Bribery**

Bribery is defined as “an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage”. Under the Bribery Act 2010, both individuals and organisations are liable for conviction in court, imprisonment and/or fines if found guilty of an offence.

It is useful for all employees to remember that it is unacceptable to:

- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given;
- Give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to ‘facilitate’ a routine procedure;
- Accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them;
- Accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return;
- Take any action against or threaten a person who has refused to commit a bribery offence or who raises any concerns.

The responsibility to control the risk of bribery occurring should reside at all levels. If you have a concern regarding a suspected instance of bribery please speak up.

Further information is available within the [Guidance on the Receipt of Gifts and Hospitality](#).

### **Fraud and Corruption**

Fraud is defined as “deliberate deception intended to provide a direct or indirect personal gain”. Corruption is defined as the “deliberate use of one’s position for direct or indirect illegitimate personal gain”.

The Council’s general belief and expectation is that all those associated with it will act with honesty and integrity. In particular, officers will lead by example and be accountable for their actions.

As an employee of the County Council you are expected to:

- Take the risk of fraud seriously;
- Secure all passwords, information, documents, money and equipment in your control which can be stolen or used to perpetrate fraud;
- Make yourself aware of corporate and departmental documented procedures, regulations or other instructions and ensure, where possible, that they are adhered to;
- Strive to achieve value for money in your use of the Council's financial resources;
- Only incur costs to the Council in accordance with your authorised limits;
- Declare any conflicts of interest that arise;
- Only accept gifts and hospitality in accordance with the County Council's Policy;
- Bring any concern you have on the adequacy of control measures to the attention of your line manager.

Concerns raised will be treated in accordance with the Council's [Whistleblowing Policy](#).

### **Protecting the Council's Business Interests**

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Similarly, you are not permitted to use any work which you or others have created, whilst in the employment of County Council, for personal or financial gain without the express consent of the Council.

### **Whistleblowing**

The County Council is committed to achieving high standards of integrity and accountability and expects the same commitment from those working for the Council. Experience shows that employees are often the first to realise that there may be something seriously wrong within the Council or often have worries or suspicions and could, by reporting their concerns at an early stage, help put things right and stop potential wrongdoing.

The Council's [Whistleblowing Policy](#) provides a framework for you to raise concerns which you believe are in the public interest and may relate to illegal, improper or unethical conduct. You are encouraged to bring to the attention of management, knowledge of any such activity. You should be able to do so without fear of victimisation.

### **Disclosure of Information**

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Confidential information includes, but is not limited to, any information regarding staff, service users, financial information, information regarding business plans or other commercially sensitive information and any information or matter which relates to the affairs and/or services of the County Council that should not be in the public domain and information about County Council Service Users and Customers.

You must:

- Not disclose information (oral, written or electronic) given to you in confidence by anyone, or information acquired which you believe is of a confidential nature, without the consent of a person authorised to give it, or unless you are needed to do so by law, or until it becomes public in the course of the Council's business;
- Not prevent another person from gaining access to information to which that person is entitled by law;
- Not use any information received during your employment for personal gain or benefit, or pass it on to others who might use it in a way other than might reasonably be expected in the normal course of their duties;
- Where applicable, be aware of the guidance on when you make confidential information available to Elected Members. [Part 4B - Access to Information Procedure Rules](#);
- Respect political confidences as provided for in the protocol on Member/Officer Relations, [Part 5C of the Constitution](#).

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### **Politically Restricted Posts**

Some employees hold posts that have been designated as politically restricted. If you hold this type of post you are prevented from taking an active political role either in or outside work. You must not stand as a candidate, or hold, elected office (other than to a Parish Council), canvass at elections, speak, or write publicly demonstrating support for a political party.

The restrictions which apply to Political Assistants are slightly different.

Further information is available within the [Guidance on the Condition of Service for Politically Restricted Posts](#).

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**CORPORATE GOVERNANCE COMMITTEE****12 May 2014****REPORT OF THE COUNTY SOLICITOR****COVERT SURVEILLANCE AND REGULATION OF INVESTIGATORY  
POWERS ACT 2000 – QUARTERLY UPDATE****Purpose of the Report**

1. The purpose of this report is to provide the Committee with a quarterly update on the use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

**Background**

2. At its meeting on 25 November 2013, the Committee agreed to receive quarterly reports on the use of RIPA powers. The relevant RIPA Code of Practice suggests that quarterly reports should be made to members as a means of ensuring that RIPA has been used consistently and the policy remains fit for purpose. The Code specifically states that elected members should not be involved in making decisions on specific authorisations.

**Use of RIPA**

3. For the period from 1 January to 31 March 2014, authorising officers in the Chief Executive's Department received the following:
  - 3 applications for directed surveillance;
  - 1 application to use a covert human intelligence source;
  - 3 applications to obtain communications data.
4. Magistrates approved all seven authorisations and were satisfied that the County Council's submissions met all the necessity and proportionately requirements.
5. These surveillance authorisations were required to enable the Trading Standards Service to:
  - Establish the identities of persons engaged in the online distribution of counterfeit and illicit tobacco products;
  - Undertake age restricted test purchases of alcohol and tobacco products from retailers within the County;
  - Gather evidence relating to the alleged supply of unsafe vehicles.

### **Sale of Knives and Butane**

6. The Cabinet agreed at its meeting on 13 December 2013 that covert investigatory techniques may be adopted to prevent and detect illegal sales of butane, knives and fireworks to children. The Councils' policy statement recognises that such covert activity does not attract the protections of RIPA and agreed that, when necessary and proportionate, covert surveillance relating to this area of age restricted sales, enforcement should be undertaken. A corporate authorisation process is now fully implemented to ensure that surveillance in this area of enforcement is compliant with human rights principles.
7. For the period from 1 January to 31 March 2014, four covert test purchases using child volunteers were authorised. Two traders made a sale, one supplying a knife and the other a canister of butane.

### **Recommendation**

8. The Committee is recommended to note the contents of this report and the use of RIPA powers for the period from January to March 2014.

### **Equal Opportunities Implications**

None.

### **Background papers**

Report to the Corporate Governance Committee on 25 November 2013

Report to the Cabinet on 13th December 2013– Regulation of Investigatory Powers Act 2000 (RIPA).

Covert Surveillance and the Acquisition of "Communications Data" Policy Statement

### **Circulation under the local issues alert procedure**

None.

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**CORPORATE GOVERNANCE COMMITTEE**  
**12<sup>TH</sup> MAY 2014**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**ANNUAL TREASURY MANAGEMENT REPORT 2013/2014**

**Purpose of Report**

1. To report on the action taken and the performance achieved in respect of the treasury management activities of the Council in 2013/14.

**Policy Framework and Previous Decisions**

2. Under the CIPFA Code of Practice it is necessary to report on treasury management activities undertaken in 2013/2014 by the end of September 2014. This report will be considered by the Cabinet before the end of September.

**Background**

3. The term treasury management is defined as:-  
  
“The management of the organisation’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”.
4. The Director of Corporate Resources is responsible for carrying out treasury management on behalf of the County Council, under guidelines agreed annually by the County Council.

**Treasury Management 2013/2014**

5. There were no departures from the Treasury Management Policy Statement which was agreed by full Council on 20<sup>th</sup> February 2013 in relation to the sources and methods of borrowing and approved organisations for lending temporarily surplus funds.
6. The list of available counterparties to whom surplus funds can be lent is based on credit ratings assigned to each institution by independent agencies. The ratings required to become an acceptable counterparty for the authority are very high and as a result there are very few acceptable counterparties. During the year the sale of part of the Government’s stake in Lloyds Banking Group (to below the 1/3<sup>rd</sup> level previously required) meant that they were removed from the list on 17<sup>th</sup> September 2013. A revised policy in respect of the required level of state ownership (to 20%)

was approved by the Cabinet on 13<sup>th</sup> December 2013 and Lloyds Banking Group was reinstated following this decision.

7. The action taken in respect of lending during 2013/14 was relatively subdued, mainly as a result of the low number of acceptable counterparties. Market rates of interest remained low as a result of the benign outlook for any increase in the base rate and the plentiful supply of cheap liquidity that has been injected into the financial system, as a result of the Government's Funding for Lending Scheme.
8. On the debt portfolio, no new loans were taken and one loan of £12m matured in June 2013. It continues to be considerably more advantageous to finance some of the historic capital expenditure by using internal cash resources, at a cost of the loss of interest that would be earned (c. 0.5%), than it is to 'externalise' this debt by taking further borrowing.

### **Position at 31<sup>st</sup> March 2014**

9. The Council's external debt position at the beginning and end of the year was as follows:

	Principal	31 <sup>st</sup> March 2014 Average Rate	Average Life	Principal	31 <sup>st</sup> March 2013 Average Rate	Average Life
<b>Fixed Rate Funding</b>						
- PWLB	£188.1m	6.17%	31 yrs	£200.6m	5.96%	28 yrs
-Market	£ 2.0m	8.12%	3 yrs	£ 2.0m	8.12%	4 yrs
<b>Variable Rate Funding:</b>						
- Market (1)	£103.5 m	4.37%	1 yr	£103.5 m	4.37%	1 yr
<b>Total Debt</b>	£293.6m	5.55%	20 yrs	£306.1m	5.44%	19 yrs

- (1) The lenders all have an option to increase the rates payable on these loans on certain pre-set dates, and if they exercise this option we can either repay or accept the higher rate. The average life is based on the next option date.

10. The position in respect of investments varies throughout the year as it depends on large inflows and outflows of cash. Over the course of the year the loan portfolio (which includes cash managed on behalf of a large number of schools with devolved banking arrangements) varied between £141m and £247m and averaged £192m.

### **Debt transactions in 2013/2014**

11. The Council began the year with approximately £33.5m of internal debt – in other words, money that would otherwise have been available to lend on the money markets was being used to fund the historic capital programme. During the year, debt of £12.5m matured and was not replaced. Minimum Revenue Provision (MRP) – a charge that is intended to ensure that loans raised to finance capital expenditure is paid off over the longer term – of £13.6m was charged to the revenue account, which left £32.4m of internal debt at the year end. There is a possibility that a further, voluntary, amount of MRP will be charged to the revenue account before the closure of the 2013/14 financial year, so the final level of internal debt may be lower than the current level of £32.4m.
12. Internal debt remained a very attractive option, as it was funded at the loss of interest that would otherwise be earned on lending the extra cash if it had been available – this 'cost' averaged around 0.45% in 2013/14. Most of the internal debt

comes as a result of previous premature repayments of loans, where the average rate of debt being paid was 4.44%.

13. Holding internal debt will become less attractive as the interest rates available for lending cash in the money markets rise. The current medium-term outlook for the bank base rate, in comparison to the interest rates payable on raising new loans, does not make external borrowing an attractive option at present, although a proactive stance in managing this position will continue. If it is considered attractive to borrow externally – either from a cost or a risk management perspective – then the internal debt position will be reduced.
14. The savings made by the proactive management of the debt portfolio in recent years have been substantial but will only be able to be fully quantified when the internal debt position has been fully closed out. It is entirely possible that this will not happen for a number of years, as opportunities will be taken to raise external debt only if it is felt to be appropriate. Bank base rates (and hence the interest lost by not having the cash available to lend) will not remain at ultra-low levels for ever, although it currently looks as if they will be lower than would have previously been considered 'normal' for a further extended period, and the debt portfolio will be managed on a medium/long term view and not with the aim of maximising short-term savings.
15. Although proactive management of the debt portfolio had been carried out for many years (and had generated significant on-going savings) prior to 2009, the transactions had always involved the replacement of debt that matured in a specific period with new debt of a different maturity, and the repayment and replacement was generally simultaneous or within a relatively short period of time. In early 2009 there were two separate repayments, for a total of £99.2m, where some of the loans were not replaced with new debt and some were replaced with debt with a relatively short maturity (between 2 and 8 years) period and a much lower interest rate; it is the non-replacement of some of the loans (and the fact that some of the replacement loans have now matured) that has created the internal debt position. Approximately £15.2m in interest had been saved in the period between the 2009 repayments and the end of the 2013/14 financial year.

#### **Investment Undertaken in 2013/14**

16. Bank base rates reached 0.50% in March 2009 and have stayed at this level since. The global economic outlook has improved in the last year, but an increase in UK base rates is not generally expected for at least another 12 months. Even when base rates do start to rise, the market considers it probable that the increases will be relatively modest and that the increases will be gradual over a protracted period of a number of years.
17. The future outlook for base rates, combined with the extra cash injected into the financial system by the Funding for Lending Scheme, has impacted negatively on the rates available when lending. By the end of the financial year there was only one acceptable counterparty (Bank of Scotland – part of the Lloyds Banking Group) to whom it was possible to lend at rates that were higher than the historically low base rate.
18. The loan portfolio produced an average return of 0.67% in 2013/14, compared to an average base rate of 0.50% and the average 7 day LIBID index (representative of

what could be achieved if only short-term loans within the money market were made) of 0.35%. This level of out performance is mainly the result of a single counterparty – Bank of Scotland – who offer above-average rates of interest for longer term (i.e. 1 year) loans, but use of money market funds and loans to local authorities at rates that became attractive for a short period (due to a demand/supply imbalance of available funds) also added a modest degree of value.

### **Longer Term Performance of Portfolios**

19. The loan portfolio has achieved out performance of both the average base rate and the local authority 7 day deposit rate in every one of the last 19 years, which is when the figures started to be produced. The level of the out performance is flattered somewhat by the significant out performance achieved both during and in the immediate aftermath of the credit crunch, but even without this, the record is impressive. The average rate of interest earned in the last 19 years is 4.68%, which compares to an average base rate of 3.95% and an average LIBID index return of 3.94%.
20. The variability of balances makes it difficult to calculate the excess interest that the out performance has achieved over the whole of the 19 year period for which performance records are available, but it is estimated to be at least £24.0m. Over half of this added value came in the five financial years from 2008/09 to 2012/13, which can be categorised as the start of the financial crisis and the period in which a number of loans placed during the financial crisis were earning interest that (relative to base rates) were extraordinary.
21. The action taken on the debt portfolio, or rather the lack of action, increased the average rate of external debt over the course of the year, as the maturing loan was at a lower rate (2.80%) than the portfolio average. In reality the maturity of this loan was actually positive to the Authority, as instead of paying 2.80% in external debt, it was effectively refinanced at 0.45% (the cost of not having the cash available for lending).

### **Summary**

22. Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium/long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in significant savings, but there are risks associated with having internal debt and these need to be rigorously assessed and action taken if deemed appropriate. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.
23. The loan portfolio has produced an exceptional level of out performance in the period since performance figures were calculated. At present it is difficult to 'add value' to any great extent as a result of the combination of the lack of acceptable counterparties, a financial system that has lots of cheap liquidity and the fact that there is a very broad consensus about what the immediate outlook for base rates is.

### **Recommendation**

24. The Committee is asked to note this report.

**Resource Implications**

25. Treasury management is an integral part of the County Council's finances. Interest generated by treasury management activities of approximately £1.3m was earned in 2013/14 and the interest paid on external debt was c. £16.3m.

**Equal Opportunities Implications**

26. None.

**Background Papers**

Report to County Council on 20<sup>th</sup> February 2013 – 'Medium Term Financial Plan':  
Appendix L 'Treasury Management Strategy Statement and Annual Investment Strategy 2013/14'.

Report to the Cabinet on 13 December 2013 – Sale of part of Lloyds Banking Group Shareholding by UK Government – Impact on List of Acceptable Counterparties.

**Circulation under local issues alert procedure**

None.

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**CORPORATE GOVERNANCE COMMITTEE**  
**12 MAY 2014**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**QUARTERLY TREASURY MANAGEMENT REPORT**

**Purpose of the Report**

1. To update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 31<sup>st</sup> March 2014.

**Background**

2. Treasury Management is defined as:-

“The management of the organisation’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”.

3. A quarterly report is produced for the Corporate Governance Committee to provide an update on any significant events in the area of treasury management.

**Economic Background**

4. Economic growth in the UK continues to be relatively strong and forward-looking surveys are very encouraging. Unemployment has fallen much more quickly than anticipated and the Bank of England’s Monetary Policy Committee has made it clear that it would be looking for satisfactory readings in a much broader range of indicators than just the unemployment rate before it would start to consider an increase in base rate. Markets are now expecting the first base rate increase to occur in mid-to-late 2015, followed by a series of small increases over a prolonged period of time.
5. The Consumer Price Index (CPI) has fallen to below the target level of 2.0% and looks likely to remain at (or below) the target in the months ahead. This follows a number of years that, despite slow economic growth, CPI remained stubbornly above the target.
6. In the United States, the Federal Reserve continued to moderate its asset purchase (i.e. quantitative easing) activity by \$10bn a month which started in December 2013. If the US economy remains strong it is expected that asset purchases will have ended before the end of 2014.

**Action Taken during December Quarter**

7. The balance of the investment portfolio decreased marginally to £149.2m at the end of March 2014, from £150.5m at the end of the previous quarter.

8. During the March quarter four loans of £5m each, all for an original period of 1 year and at a rate of 1.1%, matured with Lloyds Banking Group. These loans were renewed for a further 1 year period at a rate of 0.95%. A loan of £8m for 1 year was made to Exeter City Council at a rate of 0.64%, although this loan had actually been agreed (with a forward start date) in the previous quarter.
9. The loan portfolio's exposure to local authorities is high, which partly reflects the lack of available counterparties and is partly the result of a period in which a number of different local authority borrowers were trying to secure cash at the same time. This demand pushed up the rates that they were willing to pay from below 0.5% to levels that were attractive to us as a lender. Rates have subsequently settled down again to around 0.5%, which compares to the average rate of 0.61% that we achieved for loans of one year. Given the front-end loading of various income sources that is common to most local authorities, it is likely that this particular market segment will become unattractive to lenders again for a number of months to come.
10. The average rate of interest rate of the investments at the end of March was 0.66%, which was marginally below the average rate (0.67%) at the end of December 2013. The average rate is likely to continue to trend downwards on a gradual basis, until it is clear that base rate increases are looking more likely.
11. The loan portfolio at the end of March was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local authorities	63.0
Money Market Funds	<u>21.2</u>
	<u>149.2</u>

12. At the quarter end, the loans to local authorities were amounts of £10m to Birmingham City Council and Sandwell, £8m to Exeter City and £5m to each of The Highland Council, North Tyneside, Isle of Wight, Blackpool BC, Exeter City, The Cornwall Council and Peterborough City.
13. The current list of acceptable counterparties is very short and comprises:
  - Lloyds Banking Group (£40m, for up to 1 year)
  - HSBC (£25m, for up to 2 years)
  - Local Authorities (£10m per Authority, for up to 1 year)
  - Money Market Funds (£25m limit per fund, maximum £125m in total)
  - UK Debt Management Office (unlimited, for up to 1 year)
  - UK Government Treasury Bills (unlimited, for up to 1 year)



14. There are also five further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS). These do not form part of the treasury management portfolio, but are listed below for completeness:
- 5 year loan for £2m, commenced 5<sup>th</sup> September 2012 at 2.72%
  - 5 year loan for £1.4m, commenced 27<sup>th</sup> November 2012 at 2.19%
  - 5 year loan for £2m, commenced 12<sup>th</sup> February 2013 at 2.24%
  - 5 year loan for £2m, commenced 1<sup>st</sup> August 2013 at 2.31%
  - 5 year loan for £1m, commenced 31<sup>st</sup> December 2013 at 3.08%
15. In mid-December 2013 the 'Leicestershire Local Enterprise Fund' was launched, which makes financing available to small and medium-sized Leicestershire companies via an association with Funding Circle. There are a number of hurdles that companies must clear before being able to access this funding and any loans made will be classed as 'service investments'. As such, these loans are not covered within the Treasury Management Policy, but at the end of March 2014 there had been 8 loans made totalling £68,600 and the average interest rate on these loans was 8.7%.

### **Resource Implications**

16. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council.

### **Equal Opportunities Implications**

17. There are no discernable equal opportunity implications.

### **Recommendation**

18. The Committee is asked to note this report.

### **Background Papers**

None

### **Circulation under the Local Issues Alert Procedure**

None

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**CORPORATE GOVERNANCE COMMITTEE**  
**12 MAY 2014**

**JOINT REPORT OF THE DIRECTOR OF CORPORATE**  
**RESOURCES AND THE CHIEF EXECUTIVE**

**ANNUAL GOVERNANCE STATEMENT 2013/14**

**Purpose of the Report**

1. The purpose of this report is to:
  - (i) Outline the background and approach taken to produce the County Council's 2013/14 Annual Governance Statement (AGS);
  - (ii) Present the draft AGS for comment by the Committee prior to sign off by the Chief Executive and Leader of the Council.

**Background**

2. The Framework 'Delivering Good Governance in Local Government', published by CIPFA in association with SOLACE in 2007, sets the standard for local authority governance in the UK and the requirement to produce an Annual Governance Statement (AGS). The AGS is an important means of ensuring public reporting of governance matters.
3. A review of the Council's 2012/13 AGS was conducted by Grant Thornton and presented to the Committee at its meeting in September 2013. In summary, Leicestershire's AGS was among the best for:
  - (i) concluding on the level of assurance that the current system is actually delivering;
  - (ii) reporting progress on prior year significant governance issues;
  - (iii) describing current governance issues;
  - (iv) the process for reviewing the effectiveness of the governance framework.
4. Taking into account the Grant Thornton review and its recommendations for improvement, the 2013/14 AGS has:
  - (i) Better described the purpose and components of the governance framework;
  - (ii) Included an action plan for identified significant governance issues;
  - (iii) Included additional information on future challenges for the County Council.

5. To ensure that the AGS reasonably reflects the Committee's knowledge and experience of the Council's governance and control framework and that suggested areas for improvement are appropriate, CIPFA guidance requires consideration by the Committee into the AGS. The draft 2013/14 AGS is attached as Appendix 1 and any comments by the Committee will be duly considered and incorporated as appropriate.
6. The draft Statement has already been considered by the Director of Corporate Resources, the Monitoring Officer and the Head of Internal Audit Service. The 'areas of improvement' element of the Statement has also been circulated to owners of the relevant actions.

### **Approach**

7. There is a statutory requirement in England, for a local authority to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the County Council relies on, to be brought together and reviewed, from both a departmental and corporate view.
8. To ensure the AGS presents an accurate picture of the governance arrangements for the whole Council, each Director was required to complete a 'self-assessment' based on the six principles of good governance described in the revised CIPFA / SOLACE framework. This assessment is designed to provide details of the measures in place (systems, process, documents etc.) within their departments during the financial year 2013/14, to ensure compliance (or otherwise) with the Council's Code of Corporate Governance. The assessment also allowed for the recognition and recording of areas where improvements or developments are required.
9. The departmental self-assessment contained a set of compliance statements under each core principle, which required a corresponding score based on criteria described within the draft AGS. The application of a more quantitative approach to assessing compliance against the Code allows the Committee and public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the six core principles and best practice.
10. A Corporate Assurance Statement was also completed to capture evidence to gain an overall organisational perspective of processes in place, as described by the six core principles. This statement also allowed for the recognition and recording of areas where improvements or developments are required and was signed by the Director of Corporate Resources and the Monitoring Officer.

11. The completed statements were analysed along with various other sources of evidence to determine whether there are any significant governance issues that should be reported in the AGS. Some of these sources include:
  - Reports provided by internal and external audit and other assurance sources and the implications of these reports for the overall governance of the Council;
  - The Head of Internal Audit Service's annual opinion on the overall adequacy and effectiveness of the Authority's internal control environment;
  - Analysis of negative media articles.
12. In order to assist the Head of Internal Audit Service's annual opinion on the adequacy and effectiveness of the Authority's governance arrangements, sample checking of the returns and supporting evidence was undertaken by Internal Audit.

### **Outcome of the 2013/14 review of the Governance Framework**

13. Guidance states that the 'Significant Governance Issues' are those that:
  - a. Seriously prejudice or prevent achievement of a principal objective of the authority;
  - b. Have resulted in the need to seek additional funding to allow to be resolved, or has resulted in the significant diversion of resources from another aspect of the business;
  - c. Have led to a material impact on the accounts;
  - d. The Corporate Governance Committee advises should be considered significant for this purpose;
  - e. The Head of Internal Audit Service reports on as significant in the annual opinion on the internal control environment;
  - f. Have attracted significant public interest or have seriously damaged the reputation of the organisation;
  - g. Have resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer.
14. The 2013/14 review of the Governance Framework identified one significant governance issue that has been included within the Annual Governance Statement - Fraud committed at Leicestershire Highways Operations.
15. The Committee can gain more in depth information on the background and subsequent action taken through the Quarterly Internal Audit Service Progress Report appearing later on the agenda for this meeting (and the Internal Audit Annual Members Report 2013/14 to be presented to the Committee in September 2014).
16. For the AGS to have its intended benefit, it is important that it is open and honest about areas for improvement, thus giving a balanced view of

the organisation. The assurance gathering process identified areas of improvement and implementing actions to address these will ensure that identified gaps within the Council's current control environment will be filled, further enhancing overall governance arrangements. To this effect, the draft AGS describes identified areas for improvements during the review period 2013/14 to carry forward for monitoring within 2014/15.

17. The Code of Practice in Local Authority Accounting states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. Therefore, in the event of the above occurring, the AGS presented as Appendix 1 would change. Details would, of course, be reported to members of the Committee for information.
18. The Head of Internal Audit Service has issued a provisional opinion for Leicestershire. Should any changes be required, these will be reflected in the finalised and approved Annual Governance Statement in September.
19. Approval and ownership of the Governance Statement has been reflected at corporate level and the statement will be signed on behalf of the Council by the Chief Executive and Leader of the Council and published on the County Council's website.

### **Recommendations**

20. The Committee is requested to:
  - a) Review the draft AGS (Appendix 1);
  - b) Consider whether it is consistent with the Committee's own perspective on internal control within the Authority;
  - c) Consider the governance issue and confirm whether the proposed actions and improvement areas detailed in section 6 of the AGS are acceptable;
  - d) Approve the County Council's 2013/14 Annual Governance Statement, noting that this may be subject to such changes as are required by the Code of Practice in Local Authority Accounting and detailed in paragraph 17 of this report.

### **Resource Implications**

None.

**Equal Opportunities Implications**

None.

**Background Papers**

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 2 September 2013

Delivering Good Governance in Local Government: Framework – issued by CIPFA / SOLACE, 2007 and 2012;

The 2013/14 Corporate and Departmental Assurance Statements;

**Circulation Under the Local Issues Alert procedure**

None

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**List of Appendices**

Appendix 1 – Draft Annual Governance Statement 2013/14

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## **Draft - Annual Governance Statement (AGS) 2013/14**

### **1. INTRODUCTION**

Leicestershire County Council (LCC) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those working for and with the Council. This ensures that the services provided to the residents of Leicestershire are properly accounted for and delivered economically, efficiently and effectively. In discharging this responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs.

### **2. WHAT IS GOVERNANCE?**

Corporate Governance is defined as 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. The LCC governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

LCC has adopted a Code of Corporate Governance, which is consistent with the six core principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The Accounts and Audit (England) Regulations 2011, require the Council to prepare and publish an Annual Governance Statement (AGS).

### **3. WHAT THE AGS TELLS YOU**




The AGS provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Code and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any improvements made, and any weaknesses or gaps in our current arrangements that require addressing. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

### **4. HOW THIS STATEMENT HAS BEEN PREPARED**



There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the Council relies on, to be brought together and reviewed – from both a departmental and corporate view.

To ensure this AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with the Council's Code of Corporate Governance.



The departmental self-assessment contained a set of compliance statements under each core principle, which required a corresponding score of 1, 2 or 3 based on the criteria below:


Score	Definition	Description	Evidence (all inclusive)
1	Good 	Compliance against the majority of the areas of the benchmark is good, although there may be minor weaknesses with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor and performance is generally on track.	<ul style="list-style-type: none"> <li>Many elements of good practice to a high standard and high quality;</li> <li>Coverage of this 'area of control' is extended to most/all services areas within the department</li> </ul>
2	Some weaknesses/ areas for improvement 	There are some weaknesses against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent and performance is variable across the department.	<ul style="list-style-type: none"> <li>Some elements of good practice to a high standard and high quality;</li> <li>Coverage of this 'area of control' is only extended to certain service areas, with omissions in others;</li> <li>Proposal/Plans are in place to address perceived shortfalls</li> </ul>
3	Key weaknesses/ many areas for improvement 	Compliance against many/all areas of the benchmark is weak and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.	<ul style="list-style-type: none"> <li>There is little good practice to a high standard and high quality;</li> <li>Coverage of this expectation is omitted amongst most areas;</li> <li>Proposal/Plans to address perceived shortfalls are in early stages of development</li> </ul>


The application of a more quantitative approach to assessing compliance against the Code will allow the Corporate Management Team, Members and public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the six core principles and best practice. Within each principle we have identified the sources of assurance and areas for improvement.



<b>PRINCIPLE A</b> <b>Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area</b>	
How we meet this Principle (key facts)	Conclusions based on Corporate and Departmental Assessment
<ul style="list-style-type: none"> <li>We set out the overall Council vision in the Sustainable Community Strategy Outcomes, the Council Strategic Plan (to 2018) and the Transformation Plan which is supported by specific departmental service/business Plans and strategies</li> <li>We take account of service user feedback to review outcomes so they reflect progress and wider changes</li> <li>We publish our plans and our performance in the Annual Report and Statement of Accounts</li> <li>We communicate with, and publish results of our consultations with stakeholders</li> <li>We have developed a Medium Term Financial Strategy that has been endorsed by External Auditors for its ability to manage financial risks and achieve Value for Money</li> <li>We have consistently been at or near the top of the Pricewaterhouse Coopers 'benchmarking club' for delivering value for money</li> <li>We work in partnership where it is beneficial to do so and ensure appropriate arrangements are in place to safeguard us against unacceptable levels of risk</li> <li>We have various channels to raise formal complaints and procedures that inform systematic service improvement</li> </ul>	<p><b>Average Score: 1.5</b></p>  <ul style="list-style-type: none"> <li>The role of the department in helping to deliver the Council's key priorities and values is clearly identified and communicated to staff and stakeholders</li> <li>Departmental Management Teams receive regular reports on the status of performance indicators and have a process in place to address poor performance</li> <li>Regular communication is in place so that all staff are kept informed of key operational, departmental and corporate issues.</li> </ul>  <ul style="list-style-type: none"> <li>Value for money is better understood through benchmarking and comparison of unit costs, aided by improved Business Intelligence.</li> </ul>

<b>PRINCIPLE B</b> <b>Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>	
How we meet this Principle (key facts)	Conclusions based on Corporate and Departmental Assessment
<ul style="list-style-type: none"> <li>We adhere to a Constitution that clearly defines the Council's political structure, roles and responsibilities of the</li> </ul>	<p><b>Average Score: 1.4</b></p>



<p>Executive, Committees, Members and Officers and the rules under which they operate</p> <ul style="list-style-type: none"> <li>• We comply with the Statement on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit</li> <li>• Our Employment Committee is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice</li> <li>• We have developed protocols to ensure effective formal communication between members and officers by providing regular reports on progress and performance in relation to their respective committee and functions; and informal briefings on key topics</li> <li>• We conducted and published the results of an extensive public consultation and involvement exercise to inform the MTFS, and continue to communicate with stakeholders on future plans and proposals</li> <li>• We have gained understanding of the performance of partnerships we are involved in through a governance self-assessment of various benchmarks</li> </ul>	 <ul style="list-style-type: none"> <li>• Overview &amp; Scrutiny support the work of the Council by: reviewing and scrutinising decisions; considering aspects of performance; assisting in research, policy review and development; and promoting collaborative working.</li> <li>• Robust pay and condition policies for staff and a published scheme of Member remuneration and allowances</li> <li>• Self- assessment shows that partnerships in Leicestershire are well led, managed and clearly accountable for decisions made.</li> </ul>  <ul style="list-style-type: none"> <li>• Awareness of, and regular inclusion of partnership working governance issues and risks at departmental management teams</li> </ul>
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<p align="center"><b>PRINCIPLE C</b></p> <p align="center"><b>Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</b></p>	
How we meet this Principle (key facts)	Conclusions based on Corporate and Departmental Assessment
<ul style="list-style-type: none"> <li>• We have adopted a revised Code of Conduct for Members, with training provided for all new Members following local elections in May 2013</li> <li>• We maintain records of, and publish Members' Register of Interests on our website</li> <li>• The Corporate Governance Committee supports and promotes the</li> </ul>	<p align="center"><b>Average Score: 1.1</b></p>  <ul style="list-style-type: none"> <li>• Departmental arrangements ensure that all staff are aware of, understand and comply with key procedures, protocols and requirements within the Code of Conduct</li> </ul>



<p>maintenance of high standards of conduct by Members and have agreed criteria for assessing complaints against Members, which is published on our website</p> <ul style="list-style-type: none"> <li>• We have adopted an Employee Code of Conduct with regular communication to staff and our extended HR policies provide examples of both acceptable and non-acceptable behaviour</li> <li>• We assess ourselves against the Audit Commission's 'Protecting the Public Purse' to gain better knowledge of fraud exposure and direct potential improvement. We have a 'zero tolerance' approach to fraud or corruption perpetrated against us</li> <li>• We have arrangements in place to enable staff to raise issues of concern and report wrongdoing</li> </ul>	 <ul style="list-style-type: none"> <li>• Review of the Employee Code of Conduct and Whistleblowing Policy with awareness communication for all staff.</li> </ul>
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<b>PRINCIPLE D</b> <b>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>	
How we meet this Principle (key facts)	Conclusions based on Corporate and Departmental Assessment
<ul style="list-style-type: none"> <li>• We publish all Committee agendas, meeting papers and minutes on our website</li> <li>• We promote transparency by transmitting and archiving live webcasts of County Council, Cabinet, Scrutiny and Development Control and Regulatory Board meetings</li> <li>• Scrutiny Commissioners produce and publish a report on the activities of Overview and Scrutiny over the year</li> <li>• We are committed to publishing as much information as we can and make available a large amount through our website, including our FOI Act publication scheme</li> <li>• We consult widely on our plans and proposals to inform our decisions. 74% of residents' surveyed feel well informed about local public services.</li> </ul>	<p><b>Average Score: 1.2</b></p>  <ul style="list-style-type: none"> <li>• Budgets are regularly monitored at departmental level and reallocated in line with revised risk/operational needs</li> <li>• Departmental Management Teams take full ownership of risks within their area and agree mitigating actions</li> <li>• There are up to date Business Continuity plans in place for critical services that are communicated to staff and subject to periodic review and testing</li> <li>• Results/findings of internal and external assurance are reported to management teams with processes in place to track the status of corrective actions</li> </ul> 

<ul style="list-style-type: none"> <li>• We have gained 'substantial assurance' on the operation and processes within our risk management framework</li> <li>• Corporate Governance Committee actively engage and conduct detailed scrutiny of the Corporate Risk Register and emerging risks</li> <li>• The adequacy and effectiveness of our internal control environment is tested throughout the year as a result of the approval and implementation of a risk based Internal Audit Annual Plan.</li> <li>• We participate in a range of external audits, inspections and accreditations to ensure we remain accountable for the quality of services we deliver as well to support continuous improvement of these services</li> </ul>	<ul style="list-style-type: none"> <li>• Further enhancing organisational business intelligence to aid accurate decision making</li> </ul>
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<b>PRINCIPLE E</b> <b>Developing the capacity and capability of members and officers to be effective</b>	
How we meet this Principle (key facts)	Conclusions based on Corporate and Departmental Assessment
<ul style="list-style-type: none"> <li>• Our Learning &amp; Development priorities are based upon having the knowledge, skills and expertise to meet our current and future service priorities</li> <li>• Learning &amp; Development plans are informed by the: MTFS; Strategic Vision and Imperatives; Departmental key aims; Service area plans; and individual Performance and Development Reviews(PDR)</li> <li>• A 'golden thread' approach ensures that all staff understands and can make the links from their own team and individual objectives through to the departments and Council's overarching priorities</li> <li>• An established competency framework that yields behaviours to support the direction of the Authority, with all middle and senior managers completing a 'Leading for High Performance' programme</li> <li>• We develop workforce plans and set targets that are in line with Council wide</li> </ul>	<p><b>Average Score: 1.3</b></p>  <ul style="list-style-type: none"> <li>• All staff have annual performance appraisals with individual objectives being aligned with both departmental and corporate priorities</li> <li>• Induction training is provided for all new staff appropriate to their role and responsibilities, with access to on-going Learning &amp; Development activities to enhance skills</li> </ul>  <ul style="list-style-type: none"> <li>• Succession planning for key posts and spread of skills to avoid over reliance on any particular individual</li> </ul>

workforce targets	
<ul style="list-style-type: none"> <li>We continue to provide opportunities to elected councillors in accordance with our agreed Member Learning &amp; Development Strategy</li> </ul>	

<b>PRINCIPLE F</b> <b>Engaging with local people and other stakeholders to ensure robust public accountability</b>	
How we meet this Principle (key facts)	Conclusions based on Corporate and Departmental Assessment
<ul style="list-style-type: none"> <li>We publish an Annual Report which include information on outcomes, achievements, satisfaction and progress against key priorities and plans</li> <li>We use a variety of mediums to conduct dialogue with our residents ranging from a wide spread consultation on budget proposals resulting in 7200 responses; to more focused, individual service user groups</li> <li>Our communication strategy is based on an audience-led approach which has allowed us to better target residents who use or need our services, examples include our website, Leicestershire Matters, the Council Tax Leaflet</li> <li>We have extended our communication to social media, which includes a Facebook Page and an increase of Twitter followers of 81% year on year</li> <li>We have robust Freedom of Information practices in place which enable us to meet our obligations and publish our responses to requests.</li> </ul>	<p><b>Average Score: 1.5</b></p>  <ul style="list-style-type: none"> <li>Departmental Freedom of Information champions ensure that all enquiries are handled in accordance with corporate standards</li> <li>Services are supported to conduct robust consultation and engagement with local people and stakeholders</li> </ul>  <ul style="list-style-type: none"> <li>Information for the Council's external website is routinely checked with updates made and communicated.</li> </ul>

## 5. REVIEW OF EFFECTIVENESS

The CIPFA Governance Framework details the key sources of typical systems and processes that an authority can adopt to ensure it has an effective system of internal control. Using this guidance, the County Council can provide assurance that it has effective governance arrangements, which have been established through the following:

### Internal Audit Service

#### *The Control Environment of Leicestershire County Council*

The Council's Internal Audit Service Annual Plan for 2013/14 was developed using a risk based approach, aligned to the contents of Corporate and department risk registers to ensure current and emerging risks were adequately covered. Internal Audit Service reports may contain

recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are suitably designed and applied effectively, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained, allows the Head of Internal Audit Service (HoIAS) to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment).

#### *Governance and Risk Management (Provisional opinion)*

During 2013-14 there was a small increase in the number of key risk audits that returned only 'partial' assurance ratings and is most likely an indicator of the increasing pressures and strains on staff, processes and systems during a time of unprecedented change. Management continue to accept the need for remedial action but there will be a need to monitor improvements, especially where there has been slippage in implementing some 'high importance' recommendations. On the whole, reasonable assurance can be given that the Council's control environment is sound and that governance, risk and control frameworks are adequate and effective.

#### *Effectiveness of Internal Audit Service*

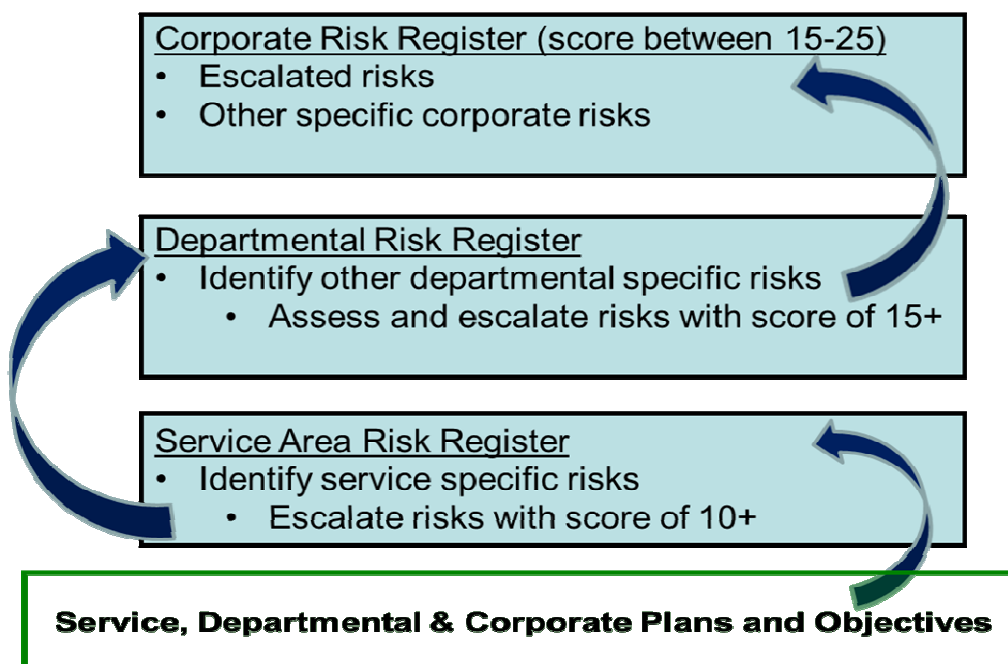
New Public Sector Internal Audit Standards (PSIAS) were introduced from April 2013 and require the HoIAS to develop and maintain a Quality Assurance and Improvement Programme (QAIP) so that internal audit activity can be assessed against it. The QAIP itself is subject to internal and external assessments and the results, together with a progress update against prior improvement plans, will be reported in the HoIAS's annual report. The annual report will incorporate any instances of non-conformance that may be warrant inclusion in the AGS and will be presented to the Corporate Governance Committee.

In order to assist the HoIAS annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework, sample checking of the self-assessments and supporting evidence was conducted. Lead Members confirmed that the processes in place to inform and update them on the key risks and issues within their specific portfolio were satisfactory and staff surveys showed that the majority of employees have sound knowledge of the areas tested.

<b><u>Risk Management</u></b>
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The Council's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid bold decision making relating to the development of services and the transformation of the wider organisation. The Council's Risk management guidelines and Policy provide the framework within which these risks can be managed:





#### Service Area Risk Registers

Each major service area has their own Service Plans and contained within these, is a set of risks specific to that service. The service area risk register will include those risks that relate to current workloads, new developments, projects and partnerships being led by individual teams and is regularly reviewed by Assistant Directors. Service area risks with a current risk score of 10 or above will be escalated to the overall Departmental Risk Register for further consideration by Departmental Management Teams.

#### Departmental Risk Register

These registers incorporate those risks which have been identified by service areas as potentially having the most significant impact on the achievement of departmental priorities and forms part of the department's Performance Management Framework. Within this register, any risks with a current risk score of 15 or above are assessed for inclusion in the Corporate Risk Register and escalated where appropriate. On a quarterly basis, Departmental Management Teams will formally review their departmental register to ensure it: accurately reflects the risk profile of the department; provides assurance for the corporate risks which are owned by the department; and identify other emerging departmental risks.

#### Corporate Risk Register

This register captures strategic risk, which by its nature has a long time span. This register is reviewed by corporate owners and presented to the Corporate Management Team and Corporate Governance Committee regularly.

This structure enhances the effectiveness of the Council's framework to managing risks by applying a more quantitative approach to decision making processes throughout. In implementing a management of risk system, the Council seeks to provide assurance to stakeholders that the identification, evaluation and management of risk play a key role in the delivery of strategy and related objectives.

<b>Corporate Governance Committee</b>
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The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and will receive many reports that deal with issues that are paramount to good governance.

During 2013/14 the Committee has provided assurance that: an adequate risk management framework in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The Committee receives regular reports on the: progress of internal audit work; treasury management; Regulation of Investigatory Powers Act (RIPA); anti-fraud initiatives; and extended risk management information on business continuity and insurance. The table below provides summary information of other key business considered by this Committee to support the above.

<b><u>March to May 2013</u></b>	<b><u>June 2013</u></b>	<b><u>September 2013</u></b>	<b><u>November 2013</u></b>	<b><u>February 2014</u></b>
Presentation & endorsement of the revised Member Code of Code	External Review of the Medium Term Financial Strategy (2013/14 to 2016/17)	Consider External Auditors 2012/13 'report to those charged with governance' and approving the 2012/13 Annual Statement of Accounts and Annual Governance Statement	Considered External Auditors Annual Audit Letter for 2012/13 and reviewed the External Audit Plan 2013/14	Review External Audit Grant Certification for 2012/13 and consider report covering the use of overseas Service Delivery Centres by the auditor.
Member 'risk workshop' to inform the revised Corporate Risk Register	Approval of the revised Corporate Risk Register and the draft 2012/13 Annual Governance Statement	Update on the Corporate Risk Register including a specifically requested presentation on the risks to the Authority associated with the Welfare Reform Act.	Update on the Corporate Risk Register including consideration of a Fraud & Bribery risk assessment	Update on the Corporate Risk Register including a specifically requested presentation on the risks to the Authority associated with the Better Care Fund
Training for new Committee Members including overview of the Internal Audit Service and Risk Management Framework	Approve the 2013/14 Internal Audit Plan and consider 'Annual Members Report'	Received Local Government Ombudsman Annual Review & Corporate complaints handling	Note progress against key improvement areas highlighted in the 2012/13 Annual Governance Statement	Presentation of key facts from 'Protecting the Public Purse 2013' including an updated checklist for the benefit of those 'responsible for governance' detailing the Authority's progress in each area
	Updated on the investigation into allegations concerning Member conduct	Considered the Code of Conduct for co-opted Members of Health & Wellbeing Board and the Annual Report on the operation of the Members Code of Conduct 2012/13	Considered impact on treasury management activity as a result of updates to the list of acceptable loan counterparties	Support of the draft Treasury Measurement Strategy Statement and Annual Investment Strategy
	Considered governance and finance issues at East Midlands Councils	Received presentation on the Local Government Governance Review		

### **External Audit**

The Council's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council which contribute to the production of the Annual Statement of Accounts. The Council's external auditors PricewaterhouseCoopers (PwC) review these arrangements and detail findings from their planned audit work to those charged with governance.

Key conclusions from work undertaken during 2013/14 can provide the public with assurance that the Council has:

- Applied a number of prudent assumptions in setting its MTFS, which will help manage financial risks, with robust programme management arrangements in place to ensure that saving targets will be achieved;
- Demonstrated value for money on a number of key areas when compared with other County Councils and has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Incorporated significant Member involvement in the development of the MTFS and has set aside an appropriate level of earmarked reserves and contingency to manage future cost pressures;
- No significant audit or accounting issues and no material deficiencies in internal control and that the Annual Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

### **The Role of the Chief Financial Officer (CFO)**

From 1st March 2014, the Assistant Director Strategic Finance & Property took over responsibilities of the CFO for the Council. To ensure continuity, the new CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The new CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council. The Director of Corporate Resources (former CFO) has supported the transition and will continue to oversee the role, thus ensuring that the Councils' financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

### **The Role of the Head of Internal Audit**

The Council's Internal Audit Service arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010)*. The Head of Internal Audit Service (HoIAS) works with key members of the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the County Council's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal audit across the Authority.

## 6. **GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT**

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that the Council's overall financial management and corporate governance arrangements during 2013/14 are sound.

Details of a fraud committed at Leicestershire Highways Operations (LHO) were identified in 2010. The Council has been prudent in providing details of this issue in the AGS, during investigation stages and in anticipation of an outcome following court proceedings:

Governance Issue	Update on position
<ul style="list-style-type: none"> <li>Two employees and two external associates created a new company that was used to defraud the Council.</li> <li>Neither employee declared personal interests in the Company.</li> <li>Goods were provided to the Council but at excessive prices.</li> <li>The fraudulent activity existed between December 2004 and August 2010.</li> </ul>	<ul style="list-style-type: none"> <li>An internal investigation commenced in November 2010 and concluded with a disciplinary hearing in May 2011.</li> <li>A review of control processes was undertaken with actions implemented to strengthen any gaps identified. Key improvements have included the implementation of an electronic purchase order system and a resource allocation process which aids detection of any irregularities in purchasing activities.</li> <li>Internal Audit Service has conducted three separate audits of processes; giving overall reasonable assurance that control has been re-established.</li> <li>Two former officers were found guilty at Leicester Crown Court in March 2014 regarding 5 charges related to conspiracy to defraud the County Council.</li> <li>Ex-employees due to be sentenced in May 2014</li> </ul>

### Progress on issues previously identified:

The table below describes the governance issue identified during 2012/13 and the progress made against addressing this during 2013/14:

Issue	Update on position	Carry forward for 2014/15
<p>The County Council was subject to adverse publicity from January 2012 regarding the use of County Council resources by the former Leader. The County Council has responded positively in that:</p> <ul style="list-style-type: none"> <li>The Corporate Governance Committee received regular and detailed reports allowing Members to ensure that issues had been properly</li> </ul>	<ul style="list-style-type: none"> <li>The former Leader is no longer a Member of the Council;</li> <li>Following local elections in May 2013, all Members received training on the revised Code of Conduct for Members;</li> <li>The Monitoring Officer has also issued a guide on the Code and copies were circulated to all members;</li> <li>Progress on debt recovery is reported to the Corporate Governance Committee.</li> </ul>	Complete

addressed; • Complaints were addressed through Standards procedures; • Action was taken to address the matter by the controlling Conservative Group; • The three Political Groups have all taken steps to strengthen their conduct and behaviour procedures		
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#### Key Improvement Areas – 2014/15

Whilst the review of effectiveness concluded the Council's overall financial management and corporate governance arrangements are sound, the assurance gathering process identified some areas of improvement. Implementing actions to address these will ensure that gaps within the County Council's current control environment will be filled, strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2013/14 to carry forward for monitoring within 2014/15:

Key Improvement Areas – Principle B	Lead Officer	Deadline
<u>Partnership Working</u> Partnership working and the investment of County Council funding is becoming potentially more complex meaning that partnership protocols and governance arrangements need to be reviewed. To this effect, a self-assessment of existing partnerships has been carried out and this provides intelligence on how partnerships perform in relation to the various governance benchmarks. Department's need to ensure they are aware of the partnerships /joint working arrangements within their areas and have duly considered any risks to the Authority.	Departmental Management Teams	December 2014

Key Improvement Areas – Principle C	Lead Officer	Deadline
<u>Whistleblowing</u> The County Council's current Employee Code of Conduct and Whistleblowing Policy needs to be revised taking into account recent best practice. To this effect the County Solicitor has commissioned a team to review the Council's existing policy and procedures.	Monitoring Officer	September 2014

Key Improvement Areas – Principle D	Lead Officer	Deadline
<u>Business Intelligence (BI)</u> Actions to improve BI will enhance the effectiveness of decision making at both departmental and corporate level aiding the forthcoming transformation agenda. A cross department review of BI and Data Management has been conducted. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme and will deliver a focused programme of work to bring improvement and mitigate risk.	Assistant Director Strategic Information & Technology and Acting Assistant Chief Executive	December 2014

Key Improvement Areas – Principle E	Lead Officer	Deadline
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<u>Succession Planning</u> The County Council recognises that there is a need to focus on improving succession planning. The People Strategy Board has agreed a pilot approach to 'Talent Management' and Succession Planning which is due to commence in April 2014 with 3 areas within the Council. A report on this will be taken to Corporate Management Team once the pilot has taken place and the outcome and future proposal is known.	Learning & Development Manager	December 2014
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Key Improvement Areas – Principle F	Lead Officer	Deadline
<u>External Website</u> The County Council recognises that engagement with officers and the public is vital to achieving objectives and is committed to publishing information for both internal and external customers. To this effect, an Online Services Project is underway which will radically overhaul technology, content, approach and governance of the website to make it customer-focussed and evidence based.	Assistant Director Strategic Information & Technology	December 2014

## 7. FUTURE CHALLENGES

### Transformation

In order to deliver the priorities and to meet the significant financial challenges facing the Council there is an urgent need to transform services and the way in which the Council operates. At the heart of transformation is a renewed focus on the priorities, our customers and our communities, with a determination to put people and outcomes ahead of organisational boundaries and bureaucracy. To achieve this, the Transformation Programme focuses on a number of objectives that will be used when redesigning services and will be explicit in service plans to provide a focus for innovation and change:

- **To work the Leicestershire Pound** - reducing cost and maximising funding available to the Council and other bodies.
- **To manage the demand for services through increased prevention** – reducing pressures on the front line.
- **To integrate services** and pool budgets with partners wherever possible - creating better experiences for service users and staff.
- **To recognise communities and individuals** – helping active communities deliver better results.
- **To work effectively** – in a culture that focuses on priorities, people and outcomes

The new vision states:

***“The County Council will lead Leicestershire by working with our communities and partners for the benefit of everyone”***

This statement is underpinned by six strategic imperatives that serve as the unconditional requirements to drive the Council's approach;

- Lead Leicestershire;
- Support and protect the most vulnerable people/communities;
- Enable & support communities, individuals and families;
- Make Leicestershire a better place;
- Manage public sector resources effectively;





- Have the right organisational structures and behaviours to deliver this approach.

In order to ensure the necessary transformation, new governance arrangements will be required. The overall approach to this will be overseen by the cross-party Transformation Board which comprises the leaders and deputy leaders of the three main political groups as well as the cabinet lead members for major service areas. The Transformation Programme will also be supported by a new small-scale Transformation Unit.







### Other




The other challenges faced by the County Council are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring and maintaining of the County Council.

The table below summarises risks currently on the Corporate Risk Register and the actions being taken to mitigate.

<b>Risk Description</b>	<b>Actions to Mitigate</b>	<b>Direction of Travel</b>
Proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council	The key risks and implications to LCC were identified and included for feedback to the Department of Health through a consultation. The Government were due to publish the results of this consultation but these are still awaited. A project board has been established to respond to the emerging risks and oversee planning for the reforms.	 Over the next 12 months the residual risk is expected to remain high
Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	The allocations process is being developed in order to link direct work more robustly to identified families. Data processes for PBR (payment by results) have been further developed to include a wider range of data sources which is being utilised to identify families.	 Over the next 12 months the residual risk is expected to remain high
Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	The replacement SAN (Storage Area Network) gives both a more resilient infrastructure and a vastly improved position with regards to data recovery in the event of an outage. Options appraisal to re-provision current datacentre(s) is nearing completion and a programme of work on Disaster Recovery is underway.	 Over the next 12 months the residual risk score is expected to move to medium
Continuing risk of failure of information security.	The Council has now achieved PSN (Public Services Network) compliance. A small number of actions are being completed, including the full roll-out of a mobile device management solution. Work is also underway to meet the 2014 PSN standards and to ensure that compliance is built into key business as usual processes.	 Over the next 12 months the residual risk score is expected to move to medium



Impact of academy and secondary age conversion on home to school transport policy.	A consultation exercise on the earlier policy proposals (which were discussed at Scrutiny Commission) closed in March 2014 with over 2,000 responses received along with a number of alternative policy suggestions. In the light of the considerable public interest and the need for further consultation before a decision can be taken, the Cabinet approved a further round of consultation on the Mainstream Home to School Transport Policy with results expected in July 2014	 Over the next 12 months the residual risk is expected to remain high 
Challenges caused by the Welfare Reform Act.	Work continues with service users, providing assistance to maximise income throughout the benefit changes.	Over the next 12 months the residual risk is expected to remain high
Failure by LCC to ascertain, understand and manage increased demand for services.	A cross departmental review of Business Intelligence (BI) and Data Management has been conducted with an overview presented to the Corporate Management Team. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme.	 Over the next 12 months the residual risk is expected to remain high
Ability to effectively contract manage devolved services through new service delivery models.	The Corporate Commissioning Contracts Board has been monitoring the performance of 23 of the Council's key contracts. Further works being initiated include identification of all key suppliers for business critical services (based on business continuity plans) and the roll-out of e-tendering (contract management module) to allow greater visibility of contract data.	 Over the next 12 months the residual risk score is expected to move to medium
Insufficient capacity to provide Information & Technology solutions.	There is regular review of capacity versus demand, with further work to assess the impact on strategy of transformation activities.	 Over the next 12 months the residual risk is expected to remain high
Risk around our ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS	In April 2014 the Cabinet was presented with a report detailing implications of the Chancellor Budget Statement 2014, in particular: •Projected austerity beyond 2017/18 requiring LCC to find additional estimated savings (increase of £27.5m); •The Statement did not contain any reference to costs of Care Bill and Dilnot reforms; •Significant changes to pensions have added further uncertainty to long term financial costs.	 Over the next 12 months the residual risk is expected to remain 'high/red'

	As part of the wider work on transformation, the Council continues to identify savings to bridge the funding 'gap' and there will be further reports to the Cabinet and Scrutiny Commission in due course.	
Risk around achievement of funding for the Better Care Fund (previously referred to as the Integration Transformation Fund)	Following approval of the draft BCF Plan, components were subject to further analysis to assess anticipated impact and benefits. The outcome of the regional assurance review showed no major concern with the Leicestershire BCF Plan. A final BCF Plan was submitted to NHS England on 4 April 2014. A new Integration Executive has been established and will oversee delivery of the BCF Plan and the associated pooled budget.	 Over the next 12 months the residual risk is expected to remain 'high/red'
Impact of an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply.	Local Planning Authorities (i.e. district councils) need to demonstrate a 5 year supply in housing. The role of LCC is to ensure that appropriate impact assessments are being completed so that development can be properly accommodated. An increase in both the number and complexity of planning applications will make it difficult to ensure that appropriate assessments are being completed, thus impacting on our ability to secure appropriate transport improvements.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
Cost of school sponsorship to LCC prior to conversion.	When LA schools are directed to become a Sponsored Academy by the DfE, there is a legal requirement, prior to conversion, for LCC to absorb any deficit budgets. As well as this, sponsors are now seeking building repairs/updates before agreeing to sponsor the school. If not addressed, both of the above will result in significant negative financial and reputational impact for LCC. The Corporate School group continues to monitor any development and agree actions.	 Over the next 12 months the residual risk has the potential to diminish but will be influenced by OFSTED judgments of LA maintained schools

## 8. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 6. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the

need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

John Sinnott  
Chief Executive

Nicholas Rushton  
Leader of the Council

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**CORPORATE GOVERNANCE COMMITTEE****12 MAY 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****INTERNAL AUDIT SERVICE PROGRESS REPORT****Purpose of Report**

1. The purpose of this report is to:
  - (a) Give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work finalised since the last report to the Committee and highlight audits where high importance recommendations have been made to managers;
  - (b) Provide an update on the County Solicitor's report on the investigation into allegations concerning the conduct of the former Leader of the County Council, Mr David Parsons, regarding his use of County Council resources and action to be taken to recover costs incurred;
  - (c) Provide information on a fraud case that was recently heard at the County Court;
  - (d) Provide a brief update on the implementation of the Public Sector Internal Audit Standards;
  - (e) Provide a provisional annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework;
  - (f) Provide a brief summary of LCCIAS performance during 2013-14.

**Background**

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, which is provided by LCCIAS. To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan. The Committee is also tasked with monitoring the implementation of internal audit high importance recommendations by managers.

3. Most planned audits undertaken (including those at maintained schools and locality sites) are of an 'assurance' type, which requires an objective examination of evidence to be undertaken so that an independent opinion can be given on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and allow for guidance to be provided to management. These are intended to add value, for example, by providing commentary on the effectiveness of controls designed before a new system is implemented. Also, unplanned 'investigation' type audits may be undertaken.

### **Summary of progress against the Internal Audit Plan 2013-14**

4. This report covers audits finalised during the period 1 January to 31 March 2014.
5. Only one maintained school was audited in the last quarter and that was given an opinion on its financial management arrangements of '...well above the pre-set standard', based on the Service's 'MOT' process.
6. The individual opinions are found on the LCCIAS web page. The web link is:- [http://www.leics.gov.uk/audit\\_schools\\_colleges.htm](http://www.leics.gov.uk/audit_schools_colleges.htm)
7. The outcome of all other audits completed since the last progress report to the Committee is shown in **Appendix 1**. For assurance audits, the 'opinion' is what level of assurance can be given that material risks are being managed. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance recommendation would not normally get a classification above partial.
8. **Appendix 2** details high importance (HI) recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some movement has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.
9. To summarise movements within Appendix 2: -
  - a. Four new HI recommendations have been added;
  - b. Three HI recommendations have been closed (Operational risk management in Children and Young People's Services, Integrated Adults System and Partnership Risk);
  - c. Implementation dates for four HI recommendations were further 'extended' to allow for stabilisation or progression of arrangements (Capital Maintenance Programme; Pension Fund Contribution Banding (2) and Employee Annual Leave Recording).

**Update on the County Solicitor's report on investigation into allegations concerning a former Member's conduct**

10. At the Committee meeting held on 10 February 2014, members were informed that a settlement for Mr Parsons' inappropriate use of the official car and chauffeur had been agreed at £2,385.93. An initial sum of £285.93 had been paid by the date of that Committee meeting.
11. Members requested regular updates at each future meeting of the Committee until such time as the total amount due had been repaid in full. At the time of writing this report, two of the remaining seven equal instalments of £300.00 had been paid (1 March and 1 April) leaving a balance outstanding of £1,500.00. The final instalment is due on 1 September. A further update will be provided to the Committee at its meeting scheduled for 22 September 2014.

**Fraud committed at Leicestershire Highways Operations**

12. Within its Terms of Reference, one of the Committee's responsibilities is to monitor the effectiveness of officer arrangements for ensuring an adequate internal control environment and combating fraud and corruption. Members may have become aware that two former officers (who were previously employed in the General Engineering Group of the Highways Branch) were found guilty at Leicester Crown Court on Friday 28 March 2014 of 5 charges related to conspiracy to defraud the County Council. The fraudulent activity existed between December 2004 and August 2010. At the time of writing this report, the ex-employees are due to be sentenced on 9 May.
13. The case concluded that the ex-employees and two external associates had created a new company (the Company) which was used to defraud the Council. One ex-employee (a stores controller) created, authorised and placed orders for required goods from the Company. The other ex-employee (his wife) was a director of the Company for part of the period during which the Company was used. Neither of the ex-employees ever declared personal interests in the Company.
14. Goods were provided to the Council but at excessive prices and between 40% and 50% of stores purchases were 'off-contract'. The stores controller abused the trust placed in him. On the occasions that he sought subsequent authorisation by line managers, as part of the order review process, his deception was aided by those managers being less vigilant than they ought to have been.
15. Once financial irregularity had been identified, Leicestershire Constabulary was notified but the Police required the County Council's own investigations to be concluded before acting. In November 2010, the two ex-employees were suspended and the internal investigation continued until their disciplinary hearing in May 2011, at which allegations were considered regarding their failure to: disclose the link with the Company; follow reasonable management

instructions; adhere to permitted procurement limits; and only use approved contractors/suppliers. Both ex-employees were dismissed in May 2011 without either attending the disciplinary hearing, as both had resigned shortly beforehand. No managers were disciplined in respect of this matter, but the line managers involved are no longer employed by the County Council.

16. Since the discovery of the fraud a range of control processes were either re-established or implemented:
  - a. A 'Resource Allocation System' now assigns goods to schemes and so is better able to track the individual orders placed and the prices paid for goods.
  - b. The IT business and financial management system has been changed
  - c. I-procurement (including the need to 'approve' orders) now applies
  - d. Environment and Transport Department's Commissioning and Contracts Board undertook a separate review and ensured that, by the end of 2012, the extent of departmental off-contract spend was reduced to 3% for orders over £500
  - e. Internal Audit Service conducted three separate audits of processes and, overall, gave reasonable assurance that control had been re-established. Now that the Court case has been concluded, an in-depth audit of the ordering process within Leicestershire Highways Operations is to be conducted.
17. Management is confident that there are now far better controls in place to detect irregularities in purchasing activities. These, combined with focused internal audits, are expected to ensure against any other form of repetition. In addition there will be a stark warning to other members of staff of the consequences of taking any similar action, the need to abide strictly to the code of conduct and to promptly and accurately declare any personal interests.

#### **Update on the adoption of the Public Sector Internal Audit Standards (PSIAS)**

18. Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1<sup>st</sup> April 2013, provide a consolidated approach across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass not only the mandatory elements of the Global Institute of Internal Auditors (IIA), including a standard definition of internal auditing, a Code of Ethics and International Standards for the Professional Practice of Internal Auditing, but also further UK public sector requirements and interpretations.
19. The PSIAS mandate that the purpose, authority and responsibility of the County Council's internal audit activity must be formally defined in an internal audit charter (the Charter). A draft of the Internal Audit Charter for Leicestershire County Council is currently being reviewed by the Chief Financial Officer (i.e. the Assistant Director of Corporate Resources (Strategic



Finance and Property) and the Monitoring Officer. The draft Charter:

- a. recognises the mandatory nature of the PSIAS and relevant legislation;
  - b. defines the scope of internal audit activities;
  - c. establishes responsibilities, objectives & organisational independence;
  - d. establishes accountability, reporting lines and relationships;
  - e. sets out the arrangements for anti-fraud and anti-corruption policies;
  - f. establishes rights of access to all records, assets, people & premises;
  - g. define the terms 'board' & 'senior management';
  - h. covers the arrangements for appropriate resourcing;
  - i. defines the role of internal audit in any fraud-related work;
  - j. includes arrangements for avoiding conflicts of interest.
20. Once it has been reviewed by officers, final approval of the Charter rests with 'the Board'. The PSIAS allow for an organisation's audit committee (in Leicestershire's case the Corporate Governance Committee) to fulfil the role of the Board since it is likely to be the governance group charged with obtaining independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
21. A further requirement of the PSIAS is for the HoIAS to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit activity's conformance against the standards to be assessed. The QAIP for LCCIAS is still being designed, but it is recognised as a service priority since the results of the assessment have to be reported in the HoIAS' annual report. The report must identify any instances of non-conformance. Should there be more significant deviations, they may be included in the finalised Annual Governance Statement. The Corporate Governance Committee (in its role as 'the Board' for the purposes of PSIAS), is responsible for receiving the HoIAS annual report.

**Provisional annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework**

22. A public sector requirement within the PSIAS is that the HoIAS must provide an annual report to the Board timed to support the annual governance statement. The report must include an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies). The PSIAS definition of the control environment is included at appendix C.
23. Each internal audit report may contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches their objective opinion on the level of assurance that can be given, that controls are suitably designed and applied effectively, and that material risks will likely not arise. The combined sum of individual audit opinions and

other assurances gained, allows the Head of Internal Audit Service (HoIAS) to form the annual internal audit opinion. The overall opinion is the professional judgement of the HoIAS based on the results of a number of individual engagements and other activities for a specific time interval.

24. The annual internal audit report will be delayed to the Committee's September's meeting, pending the HoIAS' assessment against the QAIP (see paragraph 21). In addition, at the time of writing this report, colleagues at Nottingham City Council Internal Audit Service (NCIAS) will not have concluded their audits on the key financial systems at East Midlands Shared Service (EMSS).
25. For those two reasons, it's prudent that the HoIAS issues a provisional opinion for Leicestershire. Should any changes be required, there is time to reflect this in the finalised and approved Annual Governance Statement in September.

### **Provisional opinion**

26. In 2013-14 there was a small increase in the number of key risk audits that returned only 'partial' assurance ratings. This applied to governance, risk management and internal control functions. This is most likely an indicator of the increasing pressures and strains on staff, processes and systems during a time of unprecedented change, since all but one of the audits were in areas of new development or transition and hence controls and practices hadn't fully bedded down. Whilst management continued to accept the need for remedial action, there has been slippage in implementing some 'high importance' recommendations. There will be a need to monitor improvements to these areas as they move to 'business as usual', so that they do not slip off the radar behind further transformation. Nevertheless, the governance and level of attention paid by members and management to such issues is a comfort.
27. On the whole, reasonable assurance can be given that the Council's control environment is sound and that governance, risk and control frameworks are adequate and effective.

### **2013-14 LCCIAS Performance**

28. The PSIAS advise reporting the Service's key performance measures in the annual report. However, because the report will be considered in September, it's felt prudent to report them now at the end of the financial year. The results below cover Leicestershire County Council, Leicestershire Pension Fund, East Midlands Councils and Bradgate Park Trust. Performance against the ESPO audit plan will be reported to its Finance and Audit Subcommittee in June.

Measure	Target	Actual	Reason
The amount of the Internal Audit Plan	Less than 10% of the total original planned	24% (400	Overheads incurred was greater than

not achieved during the year	jobs time	days)	planned, especially unplanned sickness, implementing a new MIS and developing traded services.
The number of audits completed	At least 90% of those planned	83%	As above, plus: A number of audits (for a variety of reasons) exceeded budgeted time which impacts on completion of other planned jobs. There were a number of 'postponements' pending forthcoming significant change programmes that meant it was not an appropriate time to audit.
The timeliness of reporting issues	Maintained school audit reports – 95% issued within three weeks of the conclusion of the visit. Assurance audits - 90% of draft reports issued within three months of the agreed field work start date.	100%  89%	Only 1% below target.
Return rate of client questionnaires	50% return	37%	Returns continue to dwindle, but of those returned customer satisfaction remains very high.
Performance against budget	Balanced budget	Surplus	Mostly a result of additional income generated trading with academies, including unforeseen teachers pensions audits and also additional work for a District Council.

29. Given the competing demands on the Service, including the need to extend trading to sustain service levels, performance was adequate and there was

sufficient resource input to allow the HoIAS to be able to form an annual opinion on the adequacy and effectiveness of the control environment.

### **Resource Implications**

30. None

### **Equal Opportunities Implications**

31. There are no discernible equal opportunities implications resulting from the audits listed.

### **Recommendation**

32. That the contents of the report be noted.

### **Background Papers**

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 14 June 2013 - Internal Audit Plan for 2013-14

Report to the Corporate Governance Committee on 13 February 2013 – East Midlands Shared Service Internal Audit Plan Update

Reports to the Corporate Governance Committee on 15 May and 29 June 2012 – Response to a request for an audit by Mr G.A. Boulter c.c. and reports to the Corporate Governance Committee on 14 June, 23 September and 25 November 2013 – Investigation into allegations concerning Members' conduct

Report to the Corporate Governance Committee on 26 November 2012 – Annual Review of Effectiveness of the System of Internal Audit and 13 February 2013 – Internal Audit Service Progress Report

### **Circulation under the Local Issues Alert Procedure**

None.

### **Officer to Contact**

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**Appendices**

- Appendix 1 - Summary of Final Internal Audit Reports issued during the period 1 January to 31 March 2014
- Appendix 2 - High Importance Recommendations
- Appendix 3 - The Public Sector Internal Audit Standards (PSIAS) definition of control environment

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Appendix 1 Summary of Final Internal Audit Reports Issued 20.01.2014 - 31.03.14

Company	Sub-Function	Name	Final Issue	Audit Opinion	HI Recommendation
Adults & Communities	Operational	Disaster Recovery - Operational Delivery	13-Mar-14	Other - Complete	No
Adults & Communities	Operational	Effective Support Project	29-Jan-14	Partial	No
Adults & Communities	Governance	Personal Budgets	20-Feb-14	Substantial	No
Adults & Communities	Operational	Residential Care Debt	25-Mar-14	Substantial	No
Adults & Communities	Payables	Direct Payments	24-Jan-14	Substantial	No
Chief Execs	Grants, Funds, Forms, Precepts	Grant Claim 2 Supporting Leicestershire's Families	10-Feb-14	Other - Complete	No
Chief Execs	Operational	New Remuneration Arrangements	07-Apr-14	Substantial	No
Chief Execs	Developments	Multi Agency Information Sharing Hub	18-Feb-14	Substantial	No
Children & Young Peoples	Governance	Commissioning - Operational Delivery	18-Feb-14	Other - Complete	No
Children & Young Peoples	Operational	Risk Management - Operational Delivery	04-Feb-14	Partial	Yes
Consolidated Risk	Governance	Procure to Pay Process	24-Mar-14	Advice	No
Consolidated Risk	Governance	ICT Policies	31-Mar-14	Advice	No
Consolidated Risk	Operational	LCC Financial Workarounds incl CHAPS payments	31-Jan-14	Advice	No
Consolidated Risk	Operational	Design & Control EMSS Phase 2	21-Feb-14	Advice	No
Consolidated Risk	Operational	NCC Resiliency and Restoration	28-Feb-14	Advice	No
Consolidated Risk	Operational	Financial inputs/outputs EMSS	28-Jan-14	Other - Complete	No
Consolidated Risk	Governance	Disaster Recovery - Framework Design & Governance	12-Mar-14	Partial	Yes
Consolidated Risk	Governance	Business Continuity - Framework Design & Governance	27-Jan-14	Substantial	No
Consolidated Risk	Governance	FOI Requests - Framework Design & Governance	30-Jan-14	Substantial	No
Consolidated Risk	Governance	Code of Connection	03-Feb-14	Substantial	No
Corporate Finance	Financial Asset	Asset Management System	31-Mar-14	Advice	No
Corporate HR	Human Resources	Absence Management Data Quality	04-Feb-14	Advice	No
Corporate ICT	Information	emPSN	28-Mar-14	Advice	No
Corporate ICT	Information	ISRA-Birth,Deaths & Marriages online	06-Feb-14	Substantial	No
Corporate Resources	Information	National Fraud Initiative	31-Mar-14	Advice	No
Corporate Resources	Operational	Services	13-Mar-14	Other - Complete	No
Corporate Resources	Human Resources	M Star Recruitment	31-Mar-14	Partial	Yes
Corporate Resources	Governance	Teachers Pensions	31-Mar-14	Post Audit Follow Up	No
Corporate Resources	Governance	Treasury Management	13-Mar-14	Substantial	No
Corporate Resources	Operational	Fol Requests - Operational Delivery - Insurance	03-Mar-14	Substantial	No

Appendix 1 Summary of Final Internal Audit Reports Issued 20.01.2014 - 31.03.14

Environment & Transport	Information	Replace LHMS - Business Processes	17-Mar-14	Advice	No
Environment & Transport	Grants, Funds, Forms, Precepts	Local Sustainable Transport Fund	17-Mar-14	Other - Complete	No
Environment & Transport	Advice	Transformation of Highways	31-Mar-14	Other - Complete	No
Environment & Transport	Operational	Notice Processing Unit follow up progress	17-Mar-14	Other - Complete	No
Environment & Transport	Advice	LHO Court Case	28-Mar-14	Other - Complete	No
Environment & Transport	Information	Replace LHMS - Design & Configuration	07-Mar-14	Substantial	No
Public Health	Operational	Fol Requests - Operational Delivery	03-Feb-14	Full	No
Public Health	Operational	School Nursing Service	04-Feb-14	Other - Complete	No



**High Importance Recommendations**

<b><u>Audit Title (Director)</u></b>	<b><u>Summary of Finding and Recommendation</u></b>	<b><u>Management Response</u></b>	<b><u>Action Date:</u></b>	<b><u>Confirmed Implemented</u></b>
<b>Risk Management – Operational Delivery (CYPS)</b>	<p>Whilst there was evidence of some risk management activities operating adequately, the procedures for scoring and reporting key risks from strategic and business plans was inconsistent with Corporate guidance, there was some duplication in reporting, and a number of risks with potential high scores had not been included within progress reports to Management Team.</p> <p>Recommended a structured approach to risk management should be developed for the Department as whole.</p>	<b>A</b>	<p><b>May 2014</b></p> <p>Evidence received that from 14/15 there is a structured process; strategic plans are accompanied by a risk register and reporting and escalation is more aligned which should assess all key risks</p>	<b>Yes – but f/u embedded in late summer</b>
<b>Disaster Recovery – Framework Design &amp; Governance (CR)</b>	<p>The Corporate framework governing disaster recovery was inadequate, with no formalised ownership of disaster recovery requirements, inadequate documentation and limited and outdated tests.</p> <p>Recommended a robust programme of disaster recovery work with defined milestones and deliverables.</p>	<p><b>A</b></p> <p>At the time of final report good progress had been made</p>	<b>August 2014</b>	

<p><b>‘M-Star’ – Managed Service For Temporary Agency Resources (CR)</b></p>	<p><b>‘Off contract’ spend on agency staff remained high and if the levels continued then projected savings would not be achieved. In addition, the volume of agency worker timesheets that were auto-approved (i.e. if they hadn’t been approved by the relevant manager after a certain time) was high (almost 20%), increasing the risk of errors and perhaps fraud.</b></p> <p><b>Recommended: -</b></p> <ol style="list-style-type: none"> <li><b>1. Proactive periodical analysis by Procurement team and pass to business HR and Finance teams to drive more conformity</b></li> <li><b>2. Establish targets and thresholds for auto approvals and investigate those falling outside them</b></li> </ol>	<p><b>A</b></p> <p><b>At the time of final report some progress had already been made</b></p>	<p><b>July 2014</b></p>	
<p>Reported November 2013</p>				
<p><b>Integrated Adults System (A&amp;C)</b></p>	<p>A consulting/advisory style audit of current state of readiness for the implementation of the Integrated Adults System (IAS) revealed issues around: -</p> <ol style="list-style-type: none"> <li>1. Migration of data from the current management information system to the new one</li> <li>2. Shortage of time to conduct full tests</li> <li>3. The interfaces between IAS and both the Corporate Financial and Electronic Data Records Management Systems</li> </ol> <p>Recommendations made in each of the three high risk areas have been accepted by the Project Sponsor. Internal Audit Service will be undertaking a follow-up review in early December 2013 to determine the status of the project to ensure that key risks identified are either being managed or mitigated in time for a successful go-live in January 2014.</p>	<p><b>A</b></p>	<p>Original Action Date: December 2013</p> <p>Issues 2 and 3 were cleared in time to report to February 2014 Committee</p> <p>Clearance of issue 1 was extended to March 2014.</p>	<p><b>Yes</b></p> <p><b>Reviewed the test programme and re-performed small sample.</b></p>

Capital Maintenance Programme (Corporate Property)	<p>There had been a history of high value, large scale building works commencing and progressing before contracts were formally signed, with potential for risks from disputes on liability, insurance etc.</p> <p>Recommended a formal document should be introduced, to confirm the target cost and method of procurement, which when signed by LCC and the contractor would be sufficient safeguard to allow work to start whilst the detailed contract requirements were finalised.</p>	A	<p>Still awaiting a new contract to start before proof that control is embedded.</p> <p><b>Extend from March 2014 to August 2014.</b></p>	
Pension Fund contribution 'bands' (Pension Fund)	<p>Each year the Department for Communities &amp; Local Government set the contribution bandings for the Local Government Pension Fund. These come into effect each April, hence payrolls have to be revised to reflect the new bandings. EMSS payroll staff should check that the changes have properly occurred. The audit revealed that a report designed to assist this task was inadequate and also that due to work load and time constraints no checks were undertaken on one payroll and only a random sample on another. This could impact on both employee and employer contributions and have reputation damage.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> <li>1. that the report should be reconfigured</li> <li>2. a framework for sample testing should be agreed and implemented to cover future pension banding changes.</li> </ol>	A	<p><b>September 2013</b></p> <p>A meeting to co-ordinate re-implementing the new business reporting mechanism (OBIEE) for EMSS and its partners is due early February. This particular report requirement will be escalated.</p> <p>A framework has been designed but the current temporary arrangements for EMSS management has delayed implementation</p> <p><b>Extend from March 2014 to June 2014</b></p>	

Reported February 2013				
Employee annual leave recording (CHR)	<p>Oracle Self-Service was not being used by all eligible staff to request and record annual leave, instead they were relying on traditional and familiar methods. This was partly due to operational management not enforcing usage based on uncertainty that the module was “fit for purpose”. A range of potential risks were identified including inefficiency and inconsistency created by continuing use of traditional methods, inability to calculate total unused leave for financial reporting requirements and a risk to reputation should EMSS seek to roll out its Oracle functions and add new partners.</p> <p>Recommended a strategic decision was taken whether to instruct that the use is mandatory or defer, awaiting full confidence in the application and its accuracy.</p>	<p>Agreed in principle subject to: -</p> <p>Certain staff groups needing to be excluded;</p> <p>Development of recording leave by hours rather than days.</p>	<p>Originally March 2013 Extended to January then March 2014</p> <p><b>Changes to the annual leave self-service system were implemented from April. Supporting guidance issued applies to all employees on Leicestershire County Council conditions of service who have access to self-service. Further communications will follow but it will be some time before compliance can be checked.</b></p> <p><b>Extend to August 2014</b></p>	
Reported September 2012				
Partnerships Risks (CG)	<p>Considerable time &amp; effort had been invested to identify all types of partnerships (including those falling under Leicestershire Together) and associated governance arrangements, with a view to identifying risks associated with any key arms-length organisations/partnerships. Nevertheless, the audit concluded that existing guidance for evaluating and managing partnership risks could be strengthened.</p> <p>Recommended: - An effective framework to define and identify significant partnerships and ensure the risks from those partnerships have</p>	A	<p>February 2013</p> <p>A framework has been designed and implemented.</p>	<p><b>Yes – progress has been made but requires testing of bedding in</b></p>

	been identified, prioritised and monitored should be devised and implemented. Example content was supplied.			
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**‘On hold’ pending new internal audit work**

Reported February 2012				
Developers Contributions (Section 106) (CEx) in conjunction with all departments	<p>Departmental records have not been consistent in providing a clear trail of income and expenditure.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> <li>1. Monitoring income and expenditure to project time-spans and purpose intended</li> <li>2. validating the accuracy of individual record content as it was migrated onto the new database</li> <li>3. department 'links officers' reporting to a central coordinator</li> </ol>	A	<p>March 2012</p> <p>Agreed to extend to April 2013</p> <p><b>Suspended June 2013</b></p>	<p>1. Met</p> <p>2. Data migration errors have now been addressed. Work underway on validation checks and introducing systems to capture spending data.</p> <p>3. Not met</p>
Developers Contributions (Section 106) (CEx) in conjunction with all departments	<p>Once the S106 has been agreed the responsibilities for co-ordinating and monitoring income and expenditure relating to the administration of developers' contributions against the Section 106 are fragmented. Recommended establishing a time limited working group to produce agreed procedures.</p>	A	<p>February 2012</p> <p>Agreed to extend to April 2013</p> <p><b>Suspended June 2013</b></p>	<p>Partly met</p> <p>A group is established but await the data migration cleansing to finalise methodology.</p>
Developers Contributions (Section 106) (CEx)	<p>The Statement of Requirements for Developer Contributions clearly states how the County Council aims to ensure efficiency and transparency in the handling of developer contributions, but formal monitoring reports had not been produced to aid those aims. Recommended a review and decide on which (and to who) reports should be produced.</p>	A	<p>March 2012</p> <p>Agreed to extend to April 2013</p> <p><b>Suspended June 2013</b></p>	<p>Not yet in place</p>

Key to management response

A=Recommendation agreed; M=modified recommendation agreed; D=Assumed agreed; X=Not agreed

Audit/CGC/13-14/Feb 14/Appendix 2 HI Progress Report

Last Revised 28/1/2014

**Appendix 3****The control environment**

The Public Sector Internal Audit Standards 2013 contain the following definitions: -

**Control**

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

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**CORPORATE GOVERNANCE COMMITTEE****12 MAY 2014****REPORT OF THE COUNTY SOLICITOR****SECTION 106 DEVELOPER CONTRIBUTIONS****Purpose of Report**

1. At its meeting on 25 November 2013 the Committee considered the high importance recommendations contained in the Quarterly Internal Audit Service Progress Report relating to Developer Contributions (section 106 agreements - referred to in Appendix B to that report), and noted that, although the report stated that these audits had been 'suspended', the Internal Audit Service had begun work to test the new planning data system. Whilst there had been no indication that any income from developer contributions had been lost or that such monies were not being appropriately collected, to provide reassurance members requested that officers provide a more detailed update on this issue at its next meeting.
2. This report is to provide reassurance to members of the Committee that no opportunities have been lost to request, agree, collect or spend section 106 (s106) money as a consequence of the planning data system.

**Background**

3. The County Council is fully engaged in the process of requesting s106 monies from developments that create a net demand for County Council services.
4. Each request has to be fully justified and meet a set of legal tests if they are to be taken into account by the Local Planning Authority (LPA) in its decision making. These tests are:
  - a. Necessary to make development acceptable in planning terms; **and**
  - b. Directly related to the development; **and**
  - c. Fairly and reasonably related in scale and kind to the development.
5. Occasionally, a developer will claim that the development would be unviable if all the s106 demands were to be met. The LPA in those circumstances will need to decide whether the development would be unsustainable without those contributions or whether the need for the development would be overriding.

6. In cases where the LPA has refused planning permission the County Council normally pursues its requirement through the planning appeal process.
7. For example, in 2013, in the 8 planning appeals that involved County developer contributions, the Planning Inspector endorsed all County Council requests as being justified and meeting the legal tests.
8. Where developers have failed to pay any monies due, then these have been pursued either by negotiation or through formal action. Payments of contributions under s.106 will depend upon the completion of the planning project which is the subject of the agreement or, in some cases, milestones in the development being reached (for example: "on occupation of the 250<sup>th</sup> house").
9. Some planning permissions are not activated at all for a number of years. In cases where there is a delay, the need for the provision may have diminished; for example, there may now be places available at the local school by virtue of falling rolls or, more recently, the creation of new schools or academies. In these circumstances, s.106 agreements may be varied or may simply not be enforced. It is therefore likely that there will be a shortfall between the amount of developer contributions calculated solely by reference to the contents of s.106 agreements and what actually happens in practice.
10. Officers in the Planning Historic and Natural Environment Team in the Chief Executive's Department are proactive in checking with developers the stages which have been reached in developments and in reminding developers of their obligations.
11. That contributions received by the County Council over the last 6 years are set out below.

<b>Date</b>	<b>Amount (£million)</b>
2008/09	£1.5
2009/10	£2.2
2010/11	£1.7
2011/12	£2.6
2012/13	£2.2
2013/14	£6.4
<b>Total</b>	<b>£16.6</b>

12. A number of issues have emerged over the last few years which have made the s.106 regime more complicated. These are:
  - a. Community Infrastructure Levy (CIL)

Regulations (first introduced in 2010) have paved the way for LPA's to introduce and adopt a CIL, which is a charge on all development likely to have an infrastructure need. The CIL will not replace s106s, but will limit

the extent to which s106s are used. The CIL Regulations have set a date of April 2015 by which CIL should be introduced and after this time, whether or not LPA's have introduced a CIL, s106s will have certain limitations retrospectively applied from 2010. All LPA's in Leicestershire have been considering the introduction of a CIL, but none have embarked on the formal process (although having an adopted development plan is a pre-requisite). Blaby and Oadby & Wigston have decided not to proceed with CIL at the present time.

b. CIL Compliance Legal Tests

The Regulations have formalised the legal compliance tests for s106s (see paragraph 4 above).

c. Schools and Academies

The County Council remains the Authority responsible for ensuring that there are sufficient school places available to meet the educational needs of Leicestershire children. This enables the County Council to make the case for developer contributions towards education provision, but the advent of academy status schools and free schools makes the assessment and identification of provision shortfall more complicated, with some developers and academies seeking to negotiate independently.

d. Major Developments

Major development proposals such as the Sustainable Urban Extensions (SUEs) create particular challenges for s106 contributions given the scale and life span of the schemes (up to 10 -15 years). A balance needs to be struck between surety of delivery and flexibility to adapt to changes in circumstances during the life of the development.

### **Tracking Contributions**

13. The audit undertaken by the Internal Audit Service on developer contributions sought to ensure that the risks to requesting, collecting and spending s106 money were being properly managed. One of the key issues highlighted by the audit was the need to ensure that the system was being properly monitored. Each spending service monitors its spend from s106 money, so there is no issue of lack of data or information. The only outstanding issue is ensuring that the information from services is coordinated and recorded centrally for ease of monitoring, analysis and reporting for which a procedure has been put in place. There are some remaining technical and resource issues with finalising that central coordination, in light of the implementation of a new IT system and the need for compliance with the security requirements of the Public Services Network. However, members can be reassured that practice has improved and there is no evidence of a failure to record spending.

**Moving Forward**

14. The County Council's adopted policy on developer contributions is a key document that sets out to developers, LPA's and Planning Inspectors the County Council's approach to developer contributions to the services it requires, to make the development sustainable. It is important that the County Council's Developer Contributions Policy is kept up to date, particularly in the light of the changes that have taken place recently. A programme is currently being established to update that policy and it is anticipated that a draft policy will be presented to the Cabinet in June 2014 prior to a formal consultation period.

**Resource Implications**

15. The implementation and execution of the s106 monitoring system is limited by and contained within existing resources.

**Equal Opportunities Implications**

16. There are no discernable equal opportunity implications.

**Recommendation**

17. The Committee is asked to note this report.

**Background Papers**

Report to the Corporate Governance Committee, 25 November 2013 – Quarterly Internal Audit Progress Report.

**Circulation under the Local Issues Alert Procedure**

None

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**CORPORATE GOVERNANCE COMMITTEE**  
**12 MAY 2014**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**INTERNAL AUDIT SERVICE AUDIT PLAN 2014-15**

**Purpose of the Report**

1. The purpose of this report is to provide members with information about the contents of the Internal Audit Service Audit Plan 2014-15 for the County Council and audit resource allocated to other organisations.

**Background**

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit. One of its specific functions is to consider the annual audit plan, which is the prime document for giving details of where Leicestershire County Council Internal Audit Service (LCCIAS) will concentrate its efforts in 2014-15. Internal audit is an essential component of the Council's corporate governance and assurance framework

**Construction of the 2014-15 Plan**

3. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the County Council's agenda and priorities. The risk-based plan must take into account the requirement for the HoIAS to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment, i.e. the governance, risk management and control frameworks. The scope of internal audit activity should be wide ranging.
4. The PSIAS advise that the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. During 2013-14, LCCIAS conducted specific detailed audits of the Council's risk management framework and governance arrangements and also a range of departmental and operational risk management audits.

The outcomes provided evidence to the HoIAS that the Authority's approach to risk management continues to improve and embed, especially around consistency in scoring risks and escalating them into the strategic and governance domain.

5. The PSIAS also require that the risk-based plan should explain the HoIAS' approach to using other sources of assurance when forming his annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment, and any work required by LCCIAS to place reliance upon those other sources. To meet this requirement, for the first time when they were compiling their departments' annual assurance statements for 2013-14, Directors were specifically asked to identify where other assurance is obtained. Results have been encouraging and this should enable the HoIAS to plan and coordinate internal audit activity with other providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts. There will be some audit work planned around illustrating in more detail the full extent of the Authority's assurance framework.
6. The increasing confidence in the Authority's approach to identifying, evaluating and managing risk allows for more reliance to be placed on management's risk assessments rather than historic audit needs assessment models. This has been backed up with consultation with senior management and Chief Financial Officer (i.e. the Assistant Director of Corporate Resources (Strategic Finance and Property)). Additionally, the HoIAS has scope to plan audits that are either outside of, or 'cut across' risk register boundaries, for example:
  - a. the requirement to undertake audits each year on the key financial systems which PwC (the Council's external auditors) places reliance on to enable it to reach an opinion that there is no material misstatement in the financial accounts;
  - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Audit Commission;
  - c. certifications of returns for government departments and funding bodies;
  - d. conducting specific follow up audits where high importance (HI) recommendations have previously been made to ensure action has been taken and the risk has been mitigated;
  - e. general advice on governance, risks and controls; researching County related emerging issues, and consulting with departments and reporting back to them, the Chief Financial Officer (CFO) and the Corporate Governance Committee;
  - f. a contingency remains for any unplanned special investigations, including suspected frauds and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.

7. The 2014-15 Plan aims to give the optimum audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that the Plan can only be a statement of intent and there has to be flexibility to review and adjust the Plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree material changes with the Chief Financial Officer (i.e. the Assistant Director of Corporate Resources (Strategic Finance and Property)).

#### **Themes emerging in the 2014-15 Plan**

8. The Corporate and Departmental Risk Registers, the Council's Strategic Plan and Transformation Programme are all key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them. A large proportion of the 2014-15 Plan will be based on them and especially around the key themes of:
  - a. The increasing impact of significant financial challenges and reductions in net expenditure resulting in failure to achieve targeted savings;
  - b. The need for fundamental transformation of service delivery both front line and support services, enabling working more efficiently and effectively;
  - c. Embracing wider and more complex partnerships and devolved service delivery models, including fundamental shifts in commissioning and outsourcing;
  - d. The impact of major changes in Government policy regarding the provision of health and social care services and children's services;
  - e. Failing to plan for demographic changes which are increasing the demand for social care support;
  - f. The risks behind failure to integrate health and social care services;
  - g. Growing dependencies on information technology to support both transformational change and embedded (business as usual) processes;
  - h. Requirements to secure information and data amongst a range of partners and users;
  - i. The requirement to embrace and continuously improve good governance;
  - j. The impacts on staffing resources, including the need for learning and development, support and good management.
9. A summary Plan for 2014-15 is shown at Appendix 1. Large scale County Council 'strategic' plans and programmes contain many individual projects and it is too early to identify priorities within them so they are shown as 'bulk' allocations and specific individual audits will be determined quarterly by consultation throughout the year.

10. Detailed Terms of Engagement covering each audit's scope and any exclusions will be agreed with the relevant risk owners in advance of the audit. The Committee will continue to receive quarterly reports on progress against the plan detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.
11. The Plan contains allocation for servicing the corporate client e.g. the HoIAS professional duties and servicing the Corporate Governance Committee, liaison with external auditors, corporate meetings, generic research and advice etc.
12. Internal Audit Plans for those organisations for which Leicestershire County Council is the accountable body i.e. Eastern Shires Purchasing Organisation (ESPO), Leicestershire County Council Pension Fund and Bradgate Park Trust, will be presented to their respective governance forums.
13. LCCIAS also contracts commercially with the Fire Authority, academy schools and some Leicestershire district councils.

#### **Resource Implications**

14. The Service's budget has been reduced for 2014-15. The HoIAS has translated this into a reduction in audit days for the County Council of 200 days down to 1500 audit days. Nevertheless, improvements in working practices and the extension of computer assisted audit techniques will improve auditors' efficiency and the HoIAS is satisfied there is sufficient resource to be able to provide a rounded opinion on the control environment. The Chief Financial Officer has agreed that the 200 days will be re-allocated to 'traded services' so as to generate additional income in order to sustain a robust pool of resource.

#### **Equal Opportunities Implications**

15. There are no discernible equal opportunities implications resulting from the audits listed.

#### **Recommendation**

16. That the Committee notes the Internal Audit Plan for 2013-14.

#### **Background Papers**

The Constitution of Leicestershire County Council



**Circulation under the Sensitive Issues Procedure**

None.

**Officers to Contact**

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**Appendices**

Appendix 1 – Leicestershire County Council Summary internal audit plan 2014-  
15

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**Leicestershire County Council**  
**Summary Internal Audit Plan 2014-15**

**Corporate & Strategic Risks**

<b><u>Audit</u></b>	<b><u>Likely scope to include...</u></b>	<b><u>Days*</u></b>
Strategic Plan for Leicestershire 2014-18	Governance arrangements for achieving the overall Plan Selection of a sample of specific 'Priorities' to evaluate on target for achievement Selection of sample of performance measures/targets to evaluate accuracy	30
Transformation Programme	Governance arrangements for achieving the overall Programme objectives Selection of a sample of specific 'Projects' to evaluate they are on target for achievement Selection of sample of savings requirements to evaluate they are on target and accurate Consultancy/advisory over design of controls in key enabling projects	40
Better Care Fund including the role of the Health & Wellbeing Board	Compilation and revision of plan Pooled budget and commissioning arrangements Governance oversight	20

Delivering departmental (MTFS) savings	Savings tracking methodology Governance arrangements	25
Implementing the Care Bill	Planning for the impact Eligibility assessment and criteria Developments on care plans, personalisation etc	25
Impact of the Welfare Reform Act		25
Supporting Leicestershire's Families	Review and certification of returns to DCLG Realisation of benefits Pooled budget and accounting arrangements	25
Partnerships	Governance Use of the partnership assessment tools	25
Deficit Budgets on incorporation to Sponsored Academy	Planning to mitigate risks	15
Commissioning & new ways of service delivery	Framework design and governance Control design and application Safeguards over liabilities	25
ICT resilience and continuity	Disaster recovery Business continuity Demand management WAN replacement project NCC Resiliency	25
ICT Infrastructure & Applications	'Fit for purpose' to ensure corporate and department business objectives are met	20

Information governance and security	Adequate and robust approach to confidentiality, integrity, availability and accountability of information Key information security risks are assessed Governance over the protection of information and controls over breaches MASH & Early Help Systems, First Response, SLF	25
Home to school transport policy	Impact of academy conversions	15
	<b>Subtotal corporate risk</b>	<b><u>340</u></b>

<b><u>Asset Risks</u></b>	
Broadband UK	8
Corporate Property Management & Investment	10
Other Capital Builds & School Replacement	2
Property Asset Management System	10
	<b><u>30</u></b>
<b><u>Financial Risks</u></b>	
Debt collection changes (including external audit requirements)	20
Personal Budgets Resource Allocation System - Customer Journey Simplification Project	12
Devolving Budgets to Localities	12
Income collection procedures	8
Local Welfare Provision - Counter Fraud	6
Loss/Reduction of Developer Contributions	12
Maintained School Visits	50
Procure to Pay Process	5

Key financial systems - assurance on control functions	40
Traded Services - Revised approach to delivery	8
Payables/receivables	25
HR	15
Carbon Reduction Targets	12
National Fraud Initiative	25
Income Generation	12
Treasury Management	8
LAFARGE (Tarmac) contract draw down	12
Midlands Highway Alliance - Contract tender process	12
Contract monitoring	8
LHMIS to ORACLE + review of processes for labour, plant & materials	10
Bus Service Operator's Grant (BSOG)	6
Local Pinch Point Fund	4
Local Sustainable Capital Grant	4
Re-cycling Performance	12
Notice Processing Unit	10
Capital Programme - especially schools	12
	<b>360</b>
<b><u>Governance Risks</u></b>	
A&C Mandatory Reporting Requirements	12
Freedom of Information (Operational Delivery)	10
Planning Applications	12
Performance Management (Operational Delivery)	12
Educational Excellence	12
Risk management - Framework Design & Governance & Operational Delivery	20
Assurance framework including mapping in ICT	20

Service Planning - Framework Design & Governance	8
Annual Governance Statement	10
EMC transfer	4
ICT Policies	5
	<b>125</b>
<b><u>ICT Risks</u></b>	
IAS + migration of data	12
Assistive Technologies	5
SSIS Decommissioning CYPS Homecare	8
Development of Oracle E-Business Suite	10
Data Migration - Decommissioning of LHMIS & transfer to Oracle	5
Future Proofing ICT	15
ICT External Hosting & Associated Contractual Obligations	8
emPSN	4
Property Asset Management System - Governance	5
PSN Accreditation	8
IT General Controls	10
Project Management - operational delivery - Atrium	6
Data Quality In Key Applications	8
Software Licencing - Efficiencies angle	6
Demand Management - ICT	15
	<b>125</b>
<b><u>People Risks</u></b>	
Employee policies - operational delivery	10
Integrated SEN planning	12
Disciplinary Procedures (Operational Delivery)	5

Workforce planning	15
Employee Policies - framework design & governance	10
Oracle - Self Serve applications	10
Customer Services	10
Website Review - PM Angle	6
Health & Safety - Vehicle maintenance	12
	<b>90</b>
<b><u>Public Health Risks</u></b>	
Commissioning health services for 0-5	10
Clinical Governance Framework	10
Re-design/Transformation (MTFS requirements)	10
Validation of grant usage	10
Performance Management (Operational Delivery)	10
	<b>50</b>
<b>Brought forward from 2013-14</b>	<b>30</b>
<b>Contingency</b>	<b>150</b>
<b>Corporate Client</b>	<b>200</b>
<b>Total for Leicestershire County Council</b>	<b>1500</b>

\* Note : days planned are indicative and are subject to change once the detailed Terms of Engagement are agreed.