



**Meeting: Corporate Governance Committee**

**Date/Time: Friday, 19 February 2016 at 10.00 am**

**Location: County Hall, Glenfield**

**Contact: Mr E Walters (tel: 0116 305 6016)**

**Email: [euan.walters@leics.gov.uk](mailto:euan.walters@leics.gov.uk)**

### **Membership**

Mr. A. M. Kershaw CC (Chairman)

Mr. G. A. Boulter CC    Mr. T. J. Richardson 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 17 November 2015.	(Pages 3 - 10)
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. External Audit Plan 2015/16.	(Pages 11 - 28)
7. Treasury Management Strategy Statement and Annual Investment Strategy 2016/17.	(Pages 29 - 50)
8. Quarterly Treasury Management Update.	(Pages 51 - 54)



9. Risk Management Update.

(Pages 55 -  
102)

*As part of this item a presentation on Business Intelligence will be provided.*

10. Internal Audit Service Progress Report.

(Pages 103 -  
110)

11. Date of next meeting.

The next meeting of the Committee will take place on 13 May 2016 at 10:00am.

12. 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 Tuesday, 17 November 2015.

PRESENT

Mr. A. M. Kershaw CC (in the Chair)

Mr. G. A. Boulter CC  
Mr. G. A. Hart CC  
Mr. K. W. P. Lynch CC

Mr. T. J. Richardson CC  
Mr. S. D. Sheahan CC  
Mr. R. J. Shepherd CC

77. Minutes.

The minutes of the meeting held on 25 September 2015 were taken as read, confirmed and signed.

78. Question Time.

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

79. Questions asked by members.

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

80. Urgent Items.

There were no urgent items for consideration.

81. 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: Annual Audit Letter 2014/15 Statement of Accounts, as a member of the teachers' pension scheme. Mr Lynch CC also declared a personal interest in item 6: Annual Audit Letter 2014/15 Statement of Accounts, as his wife was a member of the teachers' pension scheme

Mr Richardson CC declared a personal interest in item 9: Quarterly Treasury Management Report as he was in receipt of a pension from Lloyds Bank.

82. Annual Audit Letter 2014/2015

The Committee considered a report of the Director of Corporate Resources which presented the Annual Audit Letter for 2014/15 for approval. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Chairman welcomed Matthew Elmer of PricewaterhouseCoopers, the County Council's external auditors for 2014/15, to the meeting.

RESOLVED:

That the Annual Audit Letter be approved and distributed to all Members of the Council.

83. New external auditors KPMG - introduction to the Committee.

The Chairman welcomed John Cornett and Daniel Hayward of KPMG, the County Council's new external auditors, to the meeting for this and other items. John Cornett and Daniel Hayward gave a presentation by way of introduction to themselves and outlined the approach to audit taken by KPMG. A copy of the presentation slides is filed with these minutes.

Arising from the presentation the following points were noted:

- (i) KPMG intended to create a close working relationship with Officers and Members of the County Council and maintain continuous dialogue so that no issues would arise at the end of the year that they were not aware of.
- (ii) The Annual Audit Plan 2015/16 would be submitted to the Corporate Governance Committee at its meeting on 19 February 2016.
- (iii) Guidance on the Value For Money (VFM) audit approach was originally provided by the Audit Commission, however the work of the Audit Commission in this area had been taken over by the National Audit Office who were yet to publish their own guidance on VFM. KPMG were of the view that when published the guidance would not greatly differ from that of the Audit Commission however they would keep the Corporate Governance Committee updated of any developments.

84. Clinical Governance Update.

The Committee considered a report of the Director of Public Health, which outlined the approach taken by Public Health in assuming oversight of clinical governance, and provide a summary of the Clinical Governance Board's work in the previous 12 months. A copy of the report, marked 'Agenda Item 8' is filed with these minutes.

It was noted that an audit carried out in February 2015 had found all providers of public health services to be either fully compliant or working towards full compliance in relation to their requirements for tackling Child Sexual Exploitation. The Director of Public Health agreed to check whether a timescale for achieving full compliance had been put in place and if it had not then implement one.

Members questioned whether the Accountability Arrangements for the Quality and Clinical Governance Board could be more streamlined and whether the hierarchical structure was necessary. The Director of Public Health agreed to give further consideration to this issue and report back to the Committee.

The Head of Internal Audit Service explained that the substantial assurance given in an audit report on the Public Health Clinical Governance was on the framework design and that future work would take place on compliance.

RESOLVED:

(a) That the contents of the report be noted and in particular that it be noted that a Leicestershire County Council internal audit report had concluded that substantial assurance could be given as to the suitability of the Framework design for Public Health Clinical Governance but that future work would take place on compliance with that Framework.

(b) That the Director of Public Health be requested to explore options for simplifying the accountability arrangements and structure of the Quality and Clinical Governance Board and report back to the Corporate Governance Committee within 6 months.

#### 85. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources, which provided an update on the actions taken in respect of treasury management in the quarter ended 30 September 2015. The Committee also considered the County Council's list of acceptable counterparties for lending of surplus funds. A copy of the report, marked 'Agenda Item 9', and the list of counterparties, are filed with these minutes.

In response to a question from a Member the Director of Corporate Resources agreed to circulate to Members the County Council criteria for lending surplus funds to other Local Authorities.

RESOLVED:

That the contents of the report be noted.

#### 86. Proposed Changes to the Contract Procedure Rules.

The Committee considered a report of the Director of Corporate Resources and the County Solicitor which reported on the operation of the Contract Procedure Rules between 1 July 2014 and 30 September 2015, brought to the Committee's attention actions being taken to continue to ensure compliance, and recommended revisions to the Rules. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

Arising from discussions the following points were noted:

- (i) With regard to the approved exceptions to the Rules, Members asked for data covering the same period in previous years to enable them to make a comparison.

- (ii) With regard to approving contract extensions where there was no provision in the contract for an extension, the Director of Corporate Resources explained that in some cases the services required redesigning or the contract was not fit for purpose and therefore it was prudent to extend the original contract for a short period of time to enable the re-procurement exercise to be undertaken.
- (iii) Members asked for the criteria for when a bond would be requested in circumstances where a contract was extended. The Director of Corporate Resources informed that part of the criteria was the level of risk and also the value of the contract. Further details of the criteria would be circulated to Members.

RESOLVED:

- (a) That the contents of the report on the operation of the Contract Procedure Rules between July 2014 and September 2015 be noted;
- (b) That the County Council be recommended to approve the proposed amendments to the Contract Procedure Rules, as set out in Appendix B to the report;
- (c) That the Director of Corporate Resources be granted delegated authority to revise the value threshold currently stated as £172,514 contained within Rule 6 (Exceptions), Rule 11 (Procurement exercise process), Rule 19 (Irregular Tenders), Rule 20 (Receipt and opening of tenders), and Rule 32 (Early termination), in the proposed Contract Procedure Rules to align with the new EU thresholds coming into force in January 2016.

87. Proposed Changes to the Standard Financial Instructions.

The Committee considered a report of the Director of Corporate Resources which recommended revisions to the Standard Financial Instructions. A copy of the report marked 'Agenda Item 11', is filed with these minutes along with Appendix A which contains the proposed amendments.

Members requested that a report come to future meetings of the Corporate Governance Committee regarding write-offs in the County Council accounts. The Director of Corporate Resources informed that write-offs were covered in the report on the Medium Term Financial Strategy which came to the Committee on an annual basis, however he could also provide information on write-offs as part of the report on the External Audit of accounts which usually came to the Committee in September. It was noted that many of the write-offs regarded very small amounts of money, for example with library fines, therefore it would be prudent to set a financial figure above which write-offs should be reported to the Committee. The Director of Corporate Resources agreed to consider the best way forward on this issue and update the Committee at a later date.

RESOLVED:

That the proposed amendments to the Standard Financial Instructions as set out in Appendix A to the report be approved.

## 88. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources which provided an overview of key risk areas and the measures being taken to address them. The report also provided an update on related risk management matters such as the Independent Inquiry into Child Sexual Abuse (Goddard Inquiry). A copy of the report marked 'Agenda Item 12' is filed with these minutes.

The Committee also received a presentation on mitigating the risks associated with fraud. A copy of the slides forming the presentation is filed with these minutes.

### Presentation

Arising from the presentation the following points were noted:

- (i) The results of the annual Fraud Risk Assessment would be considered by the Corporate Governance Committee at its meeting in February 2016.
- (ii) The e-learning module on fraud awareness which Council staff were required to undertake did contain questions about the course content which staff were required to answer before they could move onto the next section of the module, however there was not a formal test at the end which staff were required to pass. Conversations were ongoing with the Learning and Development Department of the Council about updating the e-learning module on fraud awareness and the Director of Corporate Resources agreed to explore whether a test for staff could be added.
- (iii) Discussions were taking place regarding intelligence sharing with partner organisations however the Director of Corporate Resources was seeking assurance from the County Solicitor that this would be legally compliant.
- (iv) Contracts between the County Council and service providers contained provisions to prevent fraud and therefore protect the County Council, and the Director of Corporate Resources would conduct internal audit checks of this.

### Risk Register

Arising from discussions the following points were noted:

- (i) With regard to risk 3.5 – 'Breach of Data Protection Act – retention of files longer than required', it was clarified that a decision had been made by the County Council to retain children's case files beyond Data Protection Act requirements as a result of legal advice received. This risk was under constant review.
- (ii) The Committee welcomed the additional detail included in the report regarding the County Council's response to the newly appointed national Goddard Inquiry. It was noted that initial work on a comprehensive chronological record of the County Council's role in relation to safeguarding had commenced and that this would include all departments of the County Council, including Environment and Transport. It was also noted that records may be required for periods beyond the initial start date for this record of 1973 and that this would be decided by the Inquiry team in due course.
- (iv) With regard to the insolvency of the Independent Insurance Co. Ltd. the Director of Corporate Resources informed that the precise amount of money the County Council had lost was not yet known because it depended on how many other claims were made

against the insurance company. It could take a long time for all those claims to come to light but the Director of Corporate Resources would keep the Committee updated with progress. The Director of Corporate Resources also agreed to put more detail regarding insurance issues in the report next time to explain the history.

RESOLVED:

(a) That the current status of the strategic risk, the addition of new risks facing the Council and the updated Corporate Risk Register be approved.

(b) That the Council's response to the Independent Inquiry into Child Sexual Abuse (Goddard Inquiry) be noted.

(c) That the update on business continuity and insurance be noted.

(d) That a presentation be provided at the next meeting of the Committee on Business Intelligence.

89. Quarterly Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources, which summarised the work of the Internal Audit Service since the last report to the Committee, and report where high importance recommendations had been made. A copy of the report, marked 'Agenda Item 13', is filed with these minutes.

Arising from discussions the following points were noted:

- (i) No new high importance audits had been conducted.
- (ii) The Internal Audit Service had been working with Wigston Library and Learning Centre because a request had been made by the Library for commentary on financial procedure changes that had been implemented.
- (iii) In response to a request for all Members to be able to access a library of final Audit reports the Director of Corporate Resources agreed to look into whether this was feasible but advised that some of the reports might need redacting. It was noted that details of High Importance audit recommendations were provided in an appendix to the report to the Corporate Governance Committee.

RESOLVED:

That the contents of the report be noted.

90. Regulation of Investigatory Powers Act 2000 (RIPA) - Annual Report.

The Committee considered a report of the County Solicitor, the purpose of which was to advise on the County Council's use of the Regulation of Investigatory Powers Act 2000 for the period 1 October 2014 to 30 September 2015, and to ask the Committee to make recommendations to the Cabinet on the approval of a revised Covert Surveillance and the Acquisition of "Communications Data" Policy Statement. A copy of the report marked 'Agenda Item 14' is filed with these minutes.



Arising from discussions the following points were noted:

- (i) Due to the Nicotine Inhaling Products (Age of Sale and Proxy Purchasing) Regulations 2015 the Policy Statement would need to include reference to nicotine inhaling products.
- (ii) All applications which the County Council had submitted to the Courts for obtaining investigatory powers during the period 1 October 2014 to 30 September 2015 had been approved.
- (iii) The County Solicitor did not expect the Investigatory Powers Bill 2015, if passed, to result in any changes to the rules regarding Local Authorities.

RESOLVED:

- (a) That the County Council's use of the Regulation of Investigatory Powers Act 2000 for the period 1 October 2014 to 30 September 2015 be noted;
- (b) That the Cabinet be recommended to agree to amend the County Council's Policy Statement on the use of RIPA powers to reflect legislative changes since the Policy Statement was last approved;
- (c) That the Committee continues to receive an annual report on the use of RIPA powers and reports to the Cabinet on an annual basis on both the use of RIPA powers and whether the Policy remains fit for purpose.

91. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on 19 February 2016 at 10:00am.

10.00 - 11.35 am  
17 November 2015

CHAIRMAN

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## **CORPORATE GOVERNANCE COMMITTEE – 19 FEBRUARY 2016**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **EXTERNAL AUDIT PLAN 2015/16**

##### **Purpose**

1. To present the external Audit Plan for 2015/16 for consideration.

##### **Background**

2. An update on progress on the preparation of the Audit Plan for 2015/16 was given to the Corporate Governance Committee at its last meeting on 17<sup>th</sup> November 2015.

##### **Audit Plan 2015/16**

3. The Audit Plan for 2015/16 is included in the Appendix attached to this report. Daniel Hayward from the County Council's external auditors, KPMG, will attend the meeting in order to present the Audit Plan and answer any questions.
4. Overall materiality for the audit opinion is £8.5m. This is reported on page 1 of the Appendix and is set at 1% of gross expenditure per the 2014/15 Statement of Accounts.
5. The Appendix, on page 1, also explains that auditing standards requires the Auditor to report all misstatements in the accounts unless they are 'clearly trivial', i.e. those that do not have a material effect on the financial statements. Auditing standards suggest a reporting level of £425,000 for the Authority. The Corporate Governance Committee has previously agreed a £100,000 limit. It is recommended that this working limit is retained as the financial statements are reported to the nearest £100,000.

##### **Recommendation**

6. The Committee is asked to note the update provided by KPMG.
7. The Committee is recommended to retain a reporting limit for 'trivial' misstatements of £100,000.

##### **Equality and Human Rights Implications**

8. None.

**Circulation Under the Local Issues Alert Procedure**

9. None.

**Background Papers**

Corporate Governance Committee 17th November 2015; Presentation by KPMG

**Officers to Contact**

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Judith Spence, Head of Corporate Finance, Corporate Resources Department

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**Appendix**

External Audit Plan 2015/16



# External Audit Plan 2015/16

Leicestershire County Council

February 2016

## Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

### Materiality

Materiality for planning purposes has been based on prior year gross expenditure and set at **£8.5 million**. We have set a materiality of **£31 million** for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.425 million** for the Authority and **£1.55 million** for the Pension Fund.

### Significant risks

The risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error has been identified as:

- **Asset Valuations and the implementation of IFRS 13**

### Other areas of audit focus

These are risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding. During our planning we have identified one area which is:

- Minimum Revenue Provision (MRP) policy.

**See pages 3 to 5 for more details.**

## Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
  - This overall criterion is supported by three new sub-criteria.
- Our risk assessment regarding your arrangements to secure value for money have identified the following significant risk:
- Sustainable resource development - delivery of savings plans – the Authority forecast predicts a large amount of savings is needed in the medium term.

**See pages 6 to 9 for more details.**

## Logistics



Our team is:

- John Cornett – Director
- Daniel Hayward – Manager
- Kerry Sharma – Assistant Manager
- Asim Iqbal – Assistant Manager (Pension Fund)

Our work will be completed in four phases from December 2015 to September 2016 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

Our fee for the audit is £76,950 for the Authority and £27,637 for the Pension Fund see **page 10**.

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement)*: Providing an opinion on your accounts; and
- *Use of resources*: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.





## Financial Statements Audit Planning

Our planning work takes place during December 2015 to February 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

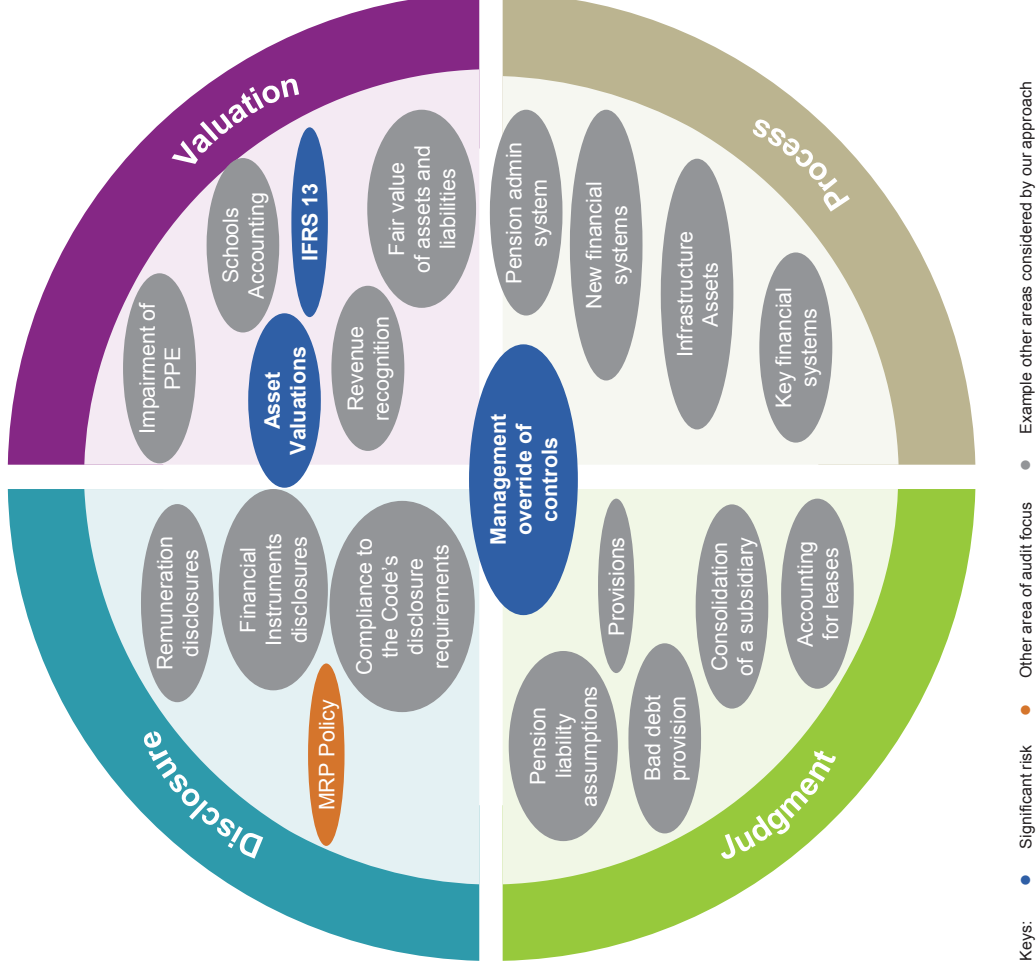
### Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.







### Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

#### Significant Risk

##### ■ Asset Valuation and IFRS 13

- Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we consider this to be a significant risk.
- We will undertake the following procedures over this significant risk:
  - Review the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies;
  - Review the revaluation basis and consider its appropriateness with CIPFA Code of Practice and the underlying IFRS accounting standards;
  - Undertake appropriate work to understand the basis upon which any impairments have been calculated; and
  - Review the Authority's preparedness for accounting for highways network infrastructure assets for implementation from 1 April 2016.

### Other areas of audit focus

Those areas with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

#### Other area of audit focus

- **MRP policy**
  - The Authority are currently considering updating its MRP policy in 2016/17.
  - We will review the current policy to ensure it is appropriate and accurately applied, as well as reviewing any proposed changes and their future impact.



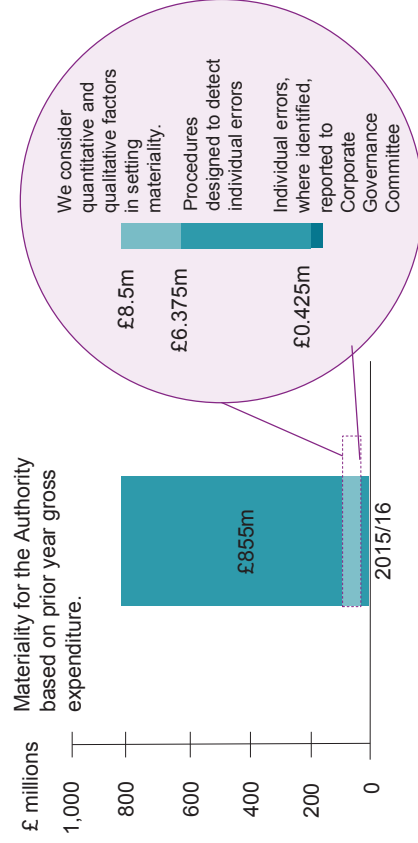
## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £8.5 million for the Authority's accounts, which equates to 1% percent of gross expenditure. For the Pension Fund, materiality for planning purposes has been set at £31 million.

We design our procedures to detect errors in specific accounts at a lower level of precision.



## Reporting to the Corporate Governance Committee

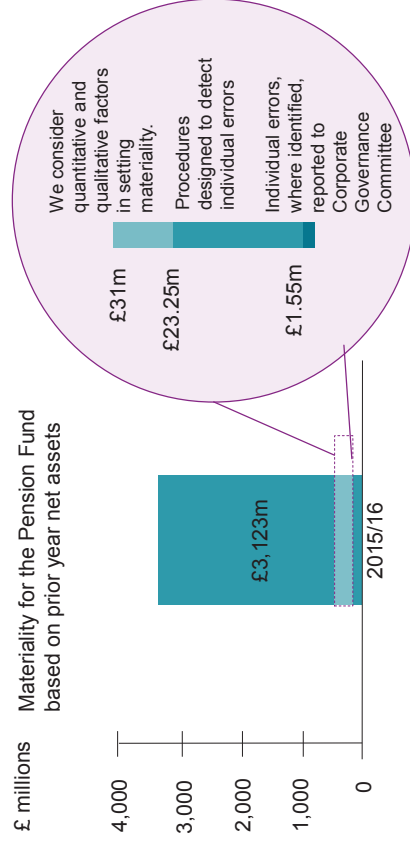
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.425 million.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.55 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

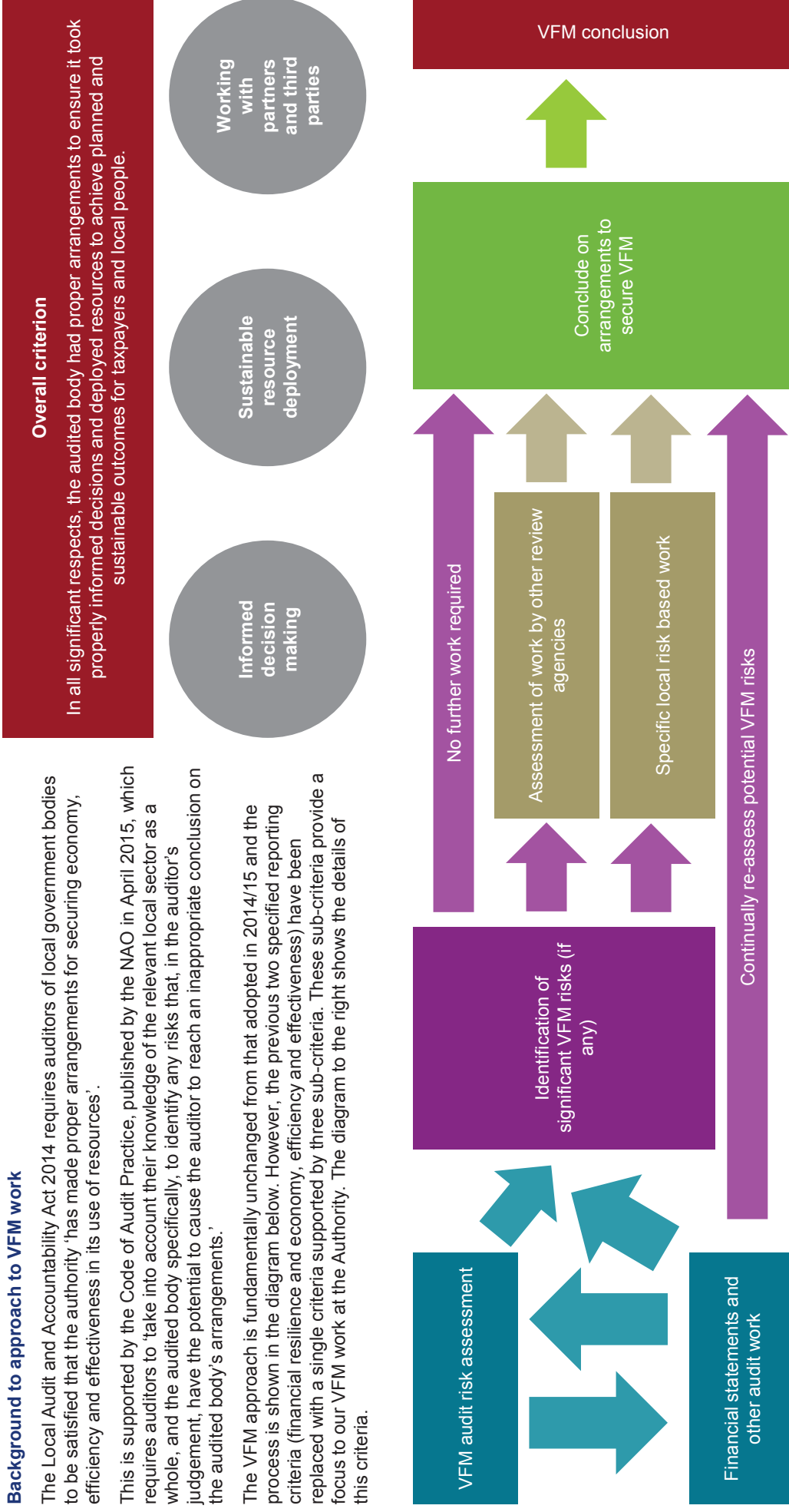


## Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/15 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.



## Value for money arrangements work (cont.)



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;</li> <li>■ Evidence gained from previous audit work, including the response to that work; and</li> <li>■ The work of other inspectorates and review agencies.</li> </ul>
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ Considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>

VFM audit stage	Audit approach
Assessment of work by other review agencies and Delivery of local risk based work	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> <li>■ Meeting with senior managers across the Authority;</li> <li>■ Review of minutes and internal reports;</li> <li>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.</li> </ul>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will also update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



### Significant VFM Risk

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

#### Significant Risk

##### ■ Delivery of Saving Plans

The Authority's budgets over recent years have delivered planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as it faces further expenditure pressures and a continued reduction in resources.

The Authority is currently refreshing its Medium Term Financial Strategy for 2016/17 – 2019/20 to take account of the impact of reduced government funding. The refreshed plan requires efficiencies of £78 million over the four year period, and the need to deliver £27 million of savings in 2016/17. The Authority has currently identified £59 million of these savings.

The Authority faces continued budget pressure arising from the demand on adult social care (£23 million) and children's social care (£8 million).

We will critically assess the Authority's financial standing to ensure that its Medium Term Financial Strategy and planning has duly taken into consideration the potential funding reduction, and that it is sufficiently robust to ensure the Authority can continue to provide services effectively.

- We will undertake the following procedures over this significant risk:
  - Review the delivery of the Authority's savings programme;
  - Review the delivery of the saving plans including any actions taken by the Authority where savings are achieved in line with the plan; and
  - Evaluate the arrangements the Authority have in place in identifying further savings for future years.



### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

### Electoral challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

### Our audit team

Our audit team will be led by John Cornett. Appendix 2 provides more details on specific roles and contact details of the team.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance Committee. Our communication outputs are included in Appendix 1.

### Independence and Objectivity

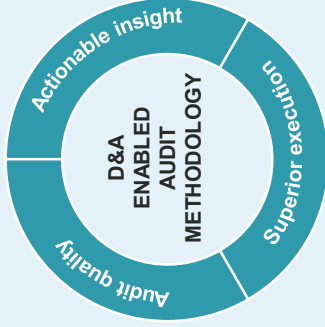
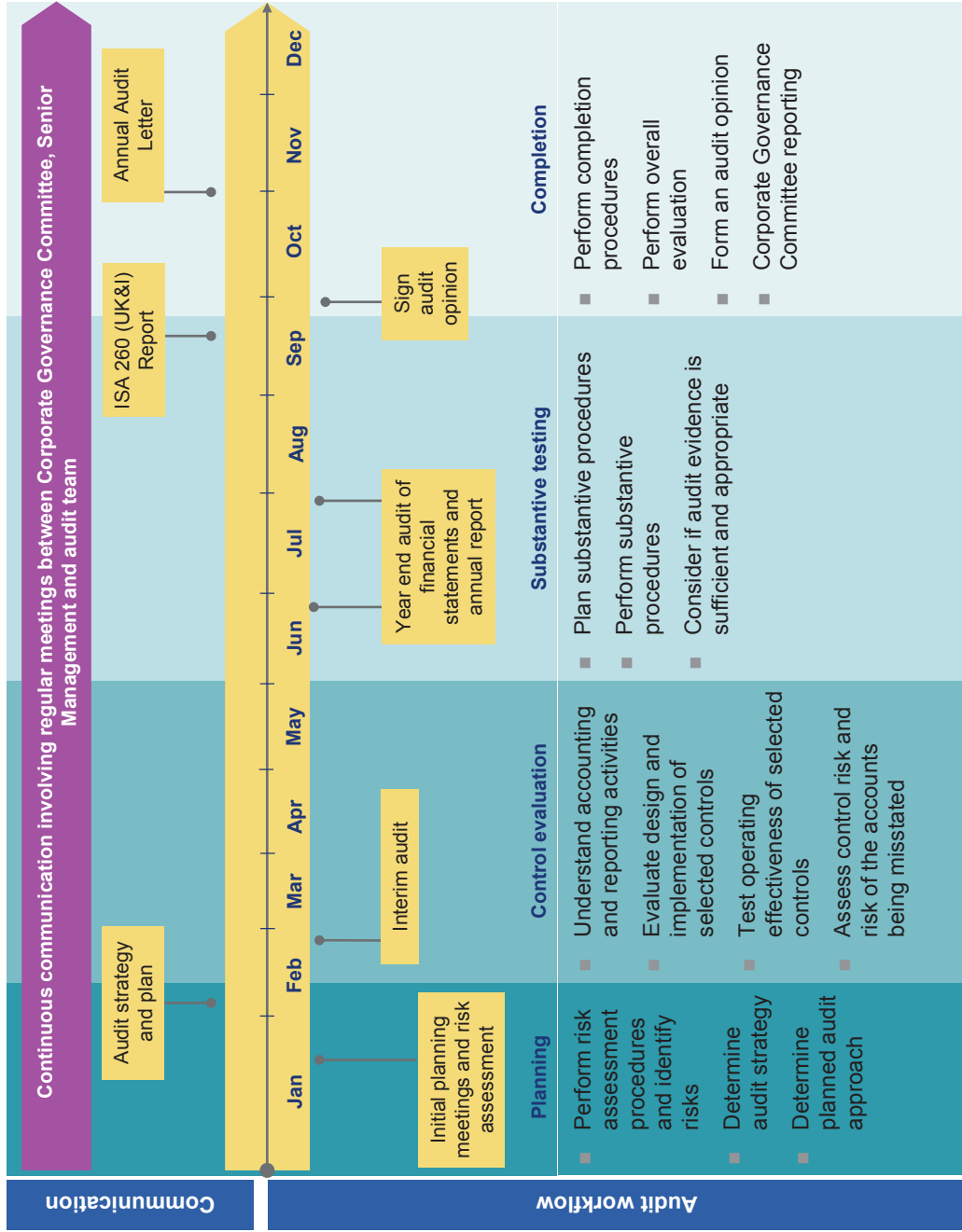
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

### Audit fee

*Our Audit Fee Letter 2015/16* presented to you our fees for the 2015/16 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £76,950. Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. The planned audit fee for 2015/16 is £27,637 for the Pension Fund.

## Appendix 1: Key elements of our financial statements audit approach



### Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

**We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.**



## Appendix 2: Audit team



Your audit team has been drawn from our specialist public sector assurance department.



**John Cornett**  
Director

Tel: 07468 749927

Email: [John.Cornett@kpmg.co.uk](mailto:John.Cornett@kpmg.co.uk)

Name	John Cornett
Position	Director
'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Corporate Governance Committee and Chief Executive.'	



**Daniel Hayward**  
Manager

Tel: 07776 101412

Email: [Daniel.Hayward@kpmg.co.uk](mailto:Daniel.Hayward@kpmg.co.uk)

Name	Daniel Hayward
Position	Manager
'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with the Director to ensure we add value. I will liaise with the Director of Finance and other Executive Directors.'	



**Kerry Sharma**  
Assistant Manager

Tel: 0791 9697377

Email: [Kerry.Sharma@kpmg.co.uk](mailto:Kerry.Sharma@kpmg.co.uk)

Name	Kerry Sharma
Position	Assistant Manager
'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'	



**Asim Iqbal**

Assistant Manager, Pension Fund

Telephone: 07825 207523

Email: [Asim.Iqbal@kpmg.co.uk](mailto:Asim.Iqbal@kpmg.co.uk)

Name	Asim Iqbal
Position	Assistant Manager, Pension Fund
'I will be responsible for the on-site delivery of our pension fund work and will supervise the work of our audit assistants.'	

## Appendix 3: Independence and objectivity requirements

### Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Corporate Governance Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

### Confirmation statement

We confirm that as of February 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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**CORPORATE GOVERNANCE COMMITTEE – 19<sup>TH</sup> FEBRUARY 2016**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL  
INVESTMENT STRATEGY 2016/17**

**Purpose of the Report**

1. To allow the Corporate Governance Committee the opportunity to review the treasury management strategy statement and annual investment strategy for 2016/17.

**Background**

2. The treasury management strategy statement and annual investment strategy form part of the Medium Term Financial Strategy and will be considered by the Council at its meeting of 17<sup>th</sup> February 2016. Any amendments made by the Council to either of these documents will be reported to the Committee.
3. The two strategies are broadly in line with those of last year. There have been no amendments to the policy in respect of acceptable counterparties.
4. It is usual for the Corporate Governance Committee to have an opportunity to comment on the treasury management strategy statement and annual investment strategy prior to it being submitted to full Council. Due to the timing of the meetings, it has not been possible to do so this year. However, the Committee will have the opportunity to influence the strategies via the use of delegated powers available to the Director of Finance. Any significant issues raised by the Committee will be reported to the Cabinet for further consideration.

**Resource Implications**

5. The interest earned on revenue balances and the interest paid on external debt (which link directly into treasury management strategy statement and annual investment strategy) will impact onto the resources available to the Council.

**Equality and Human Rights Implications**

6. There are no discernible equality and human rights implications.

**Recommendation**

7. The Committee is asked to comment on this report.

**Background Papers**

None.

**Circulation under the Local Issues Alert Procedure**

None

**Officers to Contact**

Colin Pratt - telephone 0116 3057656, email [colin.pratt@leics.gov.uk](mailto:colin.pratt@leics.gov.uk)

Judith Spence - Head of Corporate Finance  
- Telephone 0116 3055998, email [judith.spence@leics.gov.uk](mailto:judith.spence@leics.gov.uk)

**APPENDIX****TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17**

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee. The Corporate Governance Committee will consider the contents of Treasury Management Strategy Statement and Annual Investment Strategy at its meeting to be held on 19<sup>th</sup> February 2016. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code:-

<b>Area of Responsibility</b>	<b>Council/Committee/Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement	Full Council	Annually before start of financial year
Treasury Management Strategy/Annual Investment Strategy	Full Council	Annually before start of financial year
Quarterly treasury management updates	Corporate Governance Committee	Quarterly
Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year	Cabinet (following consideration by Corporate Governance Committee, wherever practical)	Ad hoc
Annual Treasury Outturn Report	Cabinet	Annually by end of September following year end
Treasury Management Practices	Assistant Director, Strategic Finance & Property	
Review of Treasury Management Strategy/Annual Investment Strategy	Corporate Governance Committee	Annually before start of financial year and before consideration by full Council, wherever practical
Review of Treasury Management Performance	Corporate Governance Committee	Annually by end of September following year end

### Treasury Management Strategy 2016/17

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

The Act therefore requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (as required by Investment Guidance issued subsequent to the Act) and this is included as paragraphs 26 – 40 of this strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2016/17 in respect of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

### Balanced Budget Requirement

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



### Treasury Limits for 2016/17 to 2019/20

4. It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax level is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit” the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years. Details of the Authorised Limit can be found in annex 2 of this report.

### Current Portfolio Position

5. The Council’s treasury portfolio position at 31<sup>st</sup> December 2015 was:

		Principal £m	Average Rate %
Fixed Rate Funding	PWLB	169.60	6.600
	Market	105.50	4.445
Other Long Term Liabilities		0.00	-
		<hr/> 275.10	5.773
Total Investments		165.20	0.933
		<hr/> 109.90	

The market debt relates to structures referred to as LOBOs (Lenders Option, Borrowers Option), where the lender has certain dates when they can increase the interest rate payable and, if they do, the borrower has the option of accepting the new rate or repaying the loan. All of these LOBOs have passed the first opportunity for the lender to change the rate and as a result they are all classed as fixed rate funding, even though, in theory, the rate could change in the future.

### Borrowing Requirement

6. It is not currently anticipated that the Council will take out any net new borrowing in the period covered by the Medium Term Financial Strategy (i.e. 2016/17 – 2019/20), and it is also expected that maturing loans will not be replaced. There are a number of reasons that no new net borrowing is expected, including the current position of having internal indebtedness (at 31<sup>st</sup> March 2016 an estimated £6.5m of historical capital spending will be financed through internal cash resources), a change by the Government to switch capital approvals to grants as opposed to borrowing approvals, no unsupported borrowing included in the

MTFS and the level of Minimum Revenue Provision (See Annex 1) that will be generated over the period.

7. The table below shows how the Capital Financing Requirement is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. Although the level of actual debt is expected to exceed the Capital Financing Requirement at the end of 2016/17 and to increase further in future years it is currently prohibitively expensive to prematurely repay existing debt. If there are cost-effective opportunities to avoid, or reduce, an overborrowed position they will be considered as long as they are in the best long-term financial interests of the Council. This will probably require long-term borrowing rates to increase meaningfully from their current level.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
<b>Opening Capital Financing Requirement</b>	<b>281,637</b>	<b>265,827</b>	<b>255,104</b>	<b>244,791</b>
New Borrowing	0	0	0	0
Statutory Minimum Revenue Provision (MRP)	(11,336)	(10,723)	(10,313)	(9,921)
Voluntary MRP	(4,475)	0	0	0
<b>Closing Capital Financing Requirement</b>	<b>265,827</b>	<b>255,104</b>	<b>244,791</b>	<b>234,870</b>
<b>Opening external debt</b>	<b>275,100</b>	<b>274,600</b>	<b>264,600</b>	<b>264,100</b>
Loans maturing	(500)	(10,000)	(500)	(500)
<b>Closing external debt</b>	<b>274,600</b>	<b>264,600</b>	<b>264,100</b>	<b>263,600</b>
<b>Overborrowed/(borrowing requirement)</b>	<b>8,773</b>	<b>9,496</b>	<b>19,309</b>	<b>28,730</b>

### Prudential and Treasury Indicators for 2016/17 – 2019/20

8. Prudential and Treasury Indicators (as set out in the tables in Annex 2 to this report) are relevant for the purpose of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management, and this was adopted in February 2010.

### Prospects for Interest Rates

9. UK base rates have been 0.5% since March 2009 and there have been many economists that have, over the last couple of years, predicted that the first rate rise would occur within the next 6 – 12 months, only for this time to elapse without a base rate rise. The reality is that UK economic growth is relatively strong – particularly when compared to most of the other developed economies – but inflation does not appear to be a problem in the near future. The United States has begun to increase its interest rate and economists expect them to continue the process of interest rate ‘normalisation’ in a slow, steady way; other Central Banks are, however, still loosening monetary policy.
10. The Bank of England do not appear to be in a hurry to increase interest rates, although the consensus forecast is that the first rise will occur in mid-to-late 2016 and be followed by a series of slow but steady increases in the years after that. The timing and extent of increases is highly dependent on economic growth in not just the UK but also the rest of the world – the extent of the economic slowdown in China (the world’s second largest economy) and how it deals with this may well be the most influential factor. The likelihood of reaching levels that would previously have been considered normal (4% - 6%) within the foreseeable future is very slim.
11. The range of forecasts produced by economists is relatively narrow, with very few predicting meaningful increases in bank base rates over the next 2 – 3 years. There is, of course, a possibility of economic growth accelerating more than is currently predicted and if any acceleration gains traction, base rate rises may happen more quickly and more aggressively than is currently predicted. The Governor of the Bank of England continues to issue ‘forward guidance’ which suggests that base rate rises are not imminent and will be very gradual when they commence, and in fact his most recent comments have suggested that the first base rate rise is far from imminent.

### Borrowing Strategy

12. The outlook for borrowing rates - which are linked to Government bond (gilt) yields – is difficult to predict. Currently gilt yields are close to multi-generational lows and the consensus is that they have to rise from here; this has however been the consensus for the last two years and over this period they have actually fallen. Although the government continues to try to close its budget deficit, supply of

gilts is likely to be meaningful for a number of years. Eventually there has to be an unwinding of quantitative easing which will see a further increase in gilt availability, so the demand/supply dynamic appears to point to yields rising rather than falling. Any setback in economic growth (not just in the UK, but also globally) may, however, cause investors to reassess the outlook for returns from other assets and a period of stable, or even falling, gilt yields can not be ruled out.

13. Although borrowing from the Public Works Loans Board (PWLb) is still generally the most attractive external option available to the authority, the expectation of an overborrowed position by the end of 2016/17 makes the use of external borrowing unlikely. Even if the outlook for an overborrowed position changes, which is only likely if repayment of existing debt actually happens, the use of internal borrowing using available cash flows and balances (at a cost of the interest which would otherwise have been gained by lending the money to acceptable counterparties) is a more likely option.
14. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when borrowing should be carried out (if, indeed, any borrowing is taken). Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

#### External v Internal Borrowing

15. The Council currently has significant cash balances invested, and at the end of December 2015 these stood at £165.2m. These balances relate to a number of different items – earmarked funds, provisions, grants received in advance of expenditure, money invested on behalf of schools and simple cash flow are some of them – but only a small amount of the balances relate to the General County Fund.
16. The Council has, since January 2009, repaid over £80m more of external loans than has been borrowed. There has also been no new borrowing to finance the capital programme over this period, and internal borrowing is expected to stand at £6.5m at the end of the current financial year. This internal borrowing is, effectively, being financed through the loss of interest that would otherwise have been earned by lending the money, which is currently around 0.5%. This internal borrowing has been extremely cost-effective.
17. At the end of the 2016/17 financial year it is expected that external borrowing will be higher than the Capital Financing Requirement – in other words, the level of actual borrowing will be higher than the amount that is required to fund historic capital spending. In an ideal world action would be taken to ensure that an overborrowed position does not occur, but the reality is that this could only happen by the premature repayment of existing debt and this is currently not a

cost-effective option. If an opportunity to repay debt occurs that is sensible from a financial perspective, it will be taken.

18. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs. Short-term savings which involve undue risk in respect of long-term costs will not be considered.

#### Policy on borrowing in advance of need

19. The Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. If value for money can be demonstrated by borrowing in advance this option may be taken, but only if it is felt that the money can be invested securely until the cash is required.
20. In determining whether borrowing will be taken in advance of the need the Council will;
  - ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need
  - ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered
  - evaluate the economic and market factors which might influence the manner and timing of any decision to borrow
  - consider the merits (or otherwise) of other forms of funding
  - consider a range of periods and repayment profiles for the borrowing.
21. The current position in respect of the level of actual borrowing in comparison to the Capital Financing Requirement, and a move by Central Government to replace borrowing approvals for capital projects with grants, makes it extremely unlikely that borrowing in advance of need will be used in the foreseeable future.

#### Debt Rescheduling/Premature Debt Repayment

22. Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to happen simultaneously, but would be expected to have occurred within a relatively short period of time.
23. If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is overly focussed into a single year will be avoided. Changes in recent years to the way that PWLB rates are set, and the introduction of a significant gap between new borrowing costs and the rate used in calculating premia/discounts

for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.

24. If there is meaningful increase in medium and long-term premature repayment rates, there is a possibility that premature repayment of existing debt (without any replacement) might become attractive. This type of action would only be carried out if it was considered likely to be beneficial in the medium term.
25. All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following the action.

## **Annual Investment Strategy**

### **Investment Policy**

26. The Council will have regard to the DCLG's Guidance on Local Authority Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-
  - the security of capital and
  - the liquidity of its investments
27. The Council will aim to achieve the optimum return on its investments that is commensurate with proper level of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. Borrowing money purely to invest or on-lend is unlawful and this Council will not engage in such activity.
28. The Council's policy in respect of deciding which counterparties are acceptable has always been stringent, and is one reason that the various financial organisations that have got into financial difficulties over the years (BCCI, Northern Rock, the Icelandic Banks etc.) have not been on the list of acceptable counterparties.
29. As part of the approval by the Council of the 2015/16 Annual Investment Statement, a change was made (effective from 1<sup>st</sup> April 2016) in respect of how the list of acceptable counterparties for lending is produced. In broad terms the list of acceptable counterparties now uses the list produced by Capita Asset Services (the Council's treasury management advisor) and excludes any party that is included in the Capita list with a maximum loan maturity period of 100 days or less. All counterparties are also restricted to a maximum loan period of one year. There are also other factors taken into account which dictate the maximum value of loans to any counterparty, together with limits on maximum exposure to all counterparties from the same country (with the exception of the UK, where there is no maximum country-level limit).
30. The combination of all these factors produces a counterparty list that comprises only very secure financial institutions, and a list that is managed pro-actively as new information is available. There are no recommended changes to the methods of compiling the counterparty list.
31. The investment instruments identified for use in the financial year are listed below. The limits for both maximum loan periods and amounts will be set in line with the criteria shown in annex 3.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum (1)
Term deposits with the Debt Management Office	Yes	Government-Backed	1 year	100
UK Government Treasury Bills	Yes	Government-Backed	1 year	100
Term deposits with credit-rated institutions with maturities up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100
Money Market Funds	Yes	At least as high as acceptable credit – rated banks	Daily, same-day redemptions and subscriptions	£125m
Term Deposits with UK Local Authorities up to 1 year	Yes	LA's do not have credit ratings, but high security	1 year	50
Certificates of Deposit with credit-rated institutions with maturities of up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100

(1) As the value of the investment portfolio is variable, limit applies at time of agreeing investment. Subsequent changes in the level of the portfolio will not be classed as a breach of any limits.

For the sake of clarity, if a forward deal (one where the start of the investment is at some future date) is agreed, the maximum period commences on the first date of investment.

#### Local Authority Mortgage Scheme

Under this scheme the Council has invested £8.4m, for a period of up to 5 years. This is classified as being a service investment, rather than a treasury management investment.

#### Leicestershire Local Enterprise Fund

Up to £1m has been made available for loans to small and medium-sized Leicestershire businesses via this Fund, which is administered by Funding Circle. This is classified as being a service investment, rather than a treasury management investment.



### Creditworthiness policy

32. The Council adopts the suggested counterparty list as produced by Capita Asset Services, subject to a maximum one year loan period and the exclusion of any counterparty with a suggested maximum loan period of 100 days or less. Capita's methodology includes the use of credit ratings from S & P, Fitch and Moody's, factors such as credit outlook reports from the credit rating agencies, the rating of the sovereign government in which the counterparty is domiciled and the level of Credit Default Swap spreads within the market (effectively the market cost of insuring against default). The general economic climate is also considered and will, on occasions, have an impact onto the list of suggested counterparties.
33. Capita Asset Services issue very timely information in respect of changes to credit ratings or outlooks, and changes to their suggested counterparty list are also issued. These reports are monitored within a short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical. A weekly summary of the credit ratings etc. of counterparties is also issued and this gives an opportunity to ensure that no important information has been missed.

### Country Limits

34. The Capita criteria includes a requirement for the country of domicile of any counterparty to be very highly rated. This is a requirement on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford the support. The Council's list of acceptable counterparties will include a limit on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk.

### Investment Strategy

35. The investment strategy shall be to only invest in those institutions which are included in the counterparty list, and only to lend up to the limit set for each counterparty. Periods for which loans are placed will take into account the outlook for interest rates and, to a lesser extent, the need to retain cash flows. There may be occasions when it is necessary to borrow to fund short-term cashflow issues, but there will generally be no deliberate intention to make regular borrowing necessary.

### Policy on the use of external service providers

36. External investment managers will not be used, except to the extent that a Money Market Fund can be considered an external manager.
37. The Council uses Capita Asset Services as its external treasury management adviser, but recognises that responsibility for treasury management decisions remains with the organisation at all times. Undue reliance on our external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

### Scheme of Delegation

38. (i) Full Council
- Approval of annual strategy
  - Other matters where full Council approval is required under guidance or statutory requirement
- (ii) Cabinet
- Approval of updates or revisions to strategy during the year
  - Approval of Annual Treasury Outturn report
- (iii) Corporate Governance Committee
- Mid-year treasury management updates (usually quarterly)
  - Review of treasury management policy and procedures, including making recommendations to responsible body
  - Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.
- (iv) Director of Finance
- Day-to-day management of treasury management, within agreed policy
  - Appointment of external advisers, within existing Council procurement procedures

### Role of Section 151 Officer

39. The Section 151 Officer is the Director of Finance, who has responsibility for the day-to-day running of the treasury management function.

### Pension Fund Cash

40. This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1<sup>st</sup> January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the County Council after 1<sup>st</sup> April 2010 will comply with the requirements of SI 2009 No 393.

## **ANNEX 1**

### **ANNUAL STATEMENT FOR THE DETERMINATION OF THE ANNUAL MINIMUM REVENUE PROVISION (MRP)**

Statutory regulations introduced in 2008 require local authorities to make prudent provision for the repayment of debt raised to finance capital expenditure. In addition a statement of the level of MRP has to be submitted to the County Council for approval before the start of the next financial year.

#### **Prudent Provision.**

The definition of what is prudent provision is determined by each local authority based on guidance rather than statutory regulation

#### **It is proposed that provision is made on the following basis:**

##### Government supported borrowing (through the formula grant system):

Retention of the pre 2003 arrangements whereby provision for repayment is based on 4% of outstanding debt (i.e. repayment over approximately 25 years) including an optional adjustment used in the transition to the new system in 2004 to avoid debt repayment being higher than under the previous system.

##### Prudential (unsupported) borrowing and expenditure capitalised by direction of the Secretary of State and certain other expenditure classified as capital incurred after 1<sup>st</sup> April 2008:

Provision to be based on the estimated life of the asset to be financed by that borrowing, with repayment by equal annual instalments.

The County Council will also look to take opportunities to use general underspends and one-off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs. The MTFS includes a voluntary contribution of £4.5m in 2016/17.

#### **Financial Implications**

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2016/17 totals £15.8m (including £4.5m voluntary contribution). This comprises £15.4m in respect of supported borrowing and £0.4m in respect of unsupported borrowing incurred since 2008/9.

The extent of unsupported borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 25 years has been taken as proxy for the average life of assets contained within the discretionary component of the Capital Programme.

**ANNEX 2****PRUDENTIAL AND TREASURY INDICATORS**

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	<u>2014/15</u> <u>Actual</u>	<u>2015/16</u> <u>Estimate</u>	<u>2016/17</u> <u>Estimate</u>	<u>2017/18</u> <u>Estimate</u>	<u>2018/19</u> <u>Estimate</u>	<u>2019/20</u> <u>Estimate</u>
Capital Expenditure	£52.3m	£97.5m	£107.7m	£73.2m	£37.4m	£29.2m
Capital financing requirement	£299m	£282m	£266m	£255m	£245m	£235m
Ratio of financing costs to net revenue stream	8.13%	7.90%	7.39%	5.92%	5.73%	5.65%
Impact on Band D Council Tax	£4.51	£4.40	£4.39	£4.39	£4.40	£4.41

The projected level of capital expenditure shown above differs from the total of the detailed four year programme presented in this report as an allowance has been provided to cover estimated additional resources that may become available to the authority during the course of a year, typically late notification and new government grants and new section 106 contributions arising from housing development. Capital expenditure for 2017/18, 2018/19 and 2019/20 is less than previous years as government funding for C&FS has not yet been announced.

The capital financing requirement measures the authorities need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties e.g. developer contributions. The decreasing balance in the capital financing requirement reflects the change in government resources from supported borrowing allocations to capital grant, the recognition in the Capital Strategy for no or limited unsupported borrowing and the Councils policy to make additional contributions of voluntary MRP to reduce ongoing capital financing costs.

The prudential code includes the following as a key indicator of prudence:

‘In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years’. It is anticipated this requirement will be met having taken into account current commitments, existing plans, and the proposals in the budget report. The key indicator of affordability is the impact of capital expenditure on Council Tax. The indicator is level over the periods shown reflecting the decision for no new unsupported borrowing.

In respect of external debt, it is recommended that the Council approves the following limits for its total external debt for the next four financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the County Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

#### Operational boundary for external debt

	<u>2016/17</u> <u>£m</u>	<u>2017/18</u> <u>£m</u>	<u>2018/19</u> <u>£m</u>	<u>2019/20</u> <u>£m</u>
Borrowing	274.6	264.6	264.1	263.6
Other long term liabilities	1.4	1.3	1.3	1.2
<b>TOTAL</b>	<b>276.0</b>	<b>265.9</b>	<b>265.4</b>	<b>264.8</b>

### Authorised limit for external debt

	<u>2016/17</u> <u>£m</u>	<u>2017/18</u> <u>£m</u>	<u>2018/19</u> <u>£m</u>	<u>2019/20</u> <u>£m</u>
Borrowing	284.6	274.6	274.1	273.6
Other long term liabilities	1.4	1.3	1.3	1.2
<b>TOTAL</b>	<b>286.0</b>	<b>275.9</b>	<b>275.4</b>	<b>274.8</b>

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2016/17 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

### Comparison of original 2015/16 indicators with the latest forecast

In February 2015 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	<u>Prudential</u> <u>Indicator</u> <u>Set</u> <u>2015/16</u>	<u>Latest</u> <u>Projection</u> <u>20/01/16</u>
Actual Capital Financing Costs as a % of Net Revenue Stream	7.58%	7.90%
Capital Expenditure	£84.7m	£97.5m
Operational Boundary for External Debt	£291.1m	£291.1m
Authorised Limit for External Debt	£301.1m	£301.1m
Interest Rate Exposure – Fixed	50-100%	100%
Interest Rate Exposure – Variable	0-50%	0%
Capital Financing Requirement	£284m	£282m

The latest forecast of external debt, £275.1m, shows that it is within both the authorised borrowing limit and the operational boundary set for 2015/16. The maturity structure of debt is within the indicators set. The latest projection for the actual capital financing costs exceed the indicator due to a planned increase of £2m in voluntary MRP from revenue underspends in 2015/16. The capital expenditure estimate is also higher than the indicator which is mainly due to higher than usual slippage brought forward from the previous year (£12m in total) and £5.4m (of a total £8.7m) new investments agreed by Cabinet in September 2015.

### Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as the required indicators in respect of treasury management:

- Upper limits on fixed interest and variable rate external borrowing.
- Upper and lower limits for the maturity structure of borrowings.
- Upper limit for principal sums invested for periods longer than 364 days.

After reviewing the current situation and assessing the likely position next year, the following limits are recommended:

- a) An upper limit on fixed interest rate exposures for 2016/17 to 2019/20 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2016/17 to 2019/20 of 50% of its net outstanding principal sums.
- b) Upper and lower limits for the maturity structure of its borrowings as follows:  
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	<u>Upper Limit %</u>	<u>Lower Limit%</u>
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- c) An upper limit for principal sums invested for periods longer than 364 days is 0% of the portfolio.

The County Council has adopted the CIPFA code of Practice for Treasury Management in the Public Services.

**ANNEX 3****POLICY ON APPROVED ORGANISATIONS FOR LENDING****APPROVED ORGANISATIONS FOR LENDING**

<u>Institution</u>	<u>Maximum Sum Outstanding/Period of Loan</u>
UK Clearing Banks and UK Building Societies	£20m/6 months up to £50m/12months
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Foreign Banks	£10m/6 months up to £15m/12 months
Money Market Funds	£25m limit within any AAA-rated fund. £125m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months

The list of acceptable institutions will mirror the list of suggested counterparties maintained by Capita Asset Services, except the maximum maturity period will be restricted to 1 year and no institution with a suggested maturity period of 100 days or less will be excluded.

**LIMITS FOR INDIVIDUAL FINANCIAL INSTITUTIONS****UK Banks and Building Societies**

Maximum Sum Outstanding	£50m	£30m	£20m
Maximum Loan Period	1 year	1 year	6 months
General description	'Special Institutions' (i.e. a significant element of UK-Government ownership) and included in Capita list for period of 1 year or more	Not 'special institutions' and included in Capita list for period of 1 year or more	Included in Capita List for period of 6 months

**Overseas Banks**

Maximum Sum Outstanding	£15m	£10m
Maximum Loan Period	1 year	6 months
Minimum Fitch Ratings	Included in Capita list for	Included in Capita List for



	period of 1 year or more	period of 6 months
--	-----------------------------	-----------------------

A maximum of £30m can be invested with all banks domiciled within a single country (note: there is no limit for total lending to UK financial institutions).

Some financial institutions have both a parent company and a subsidiary that are licensed deposit takers in the UK. Where this is the case a 'group limit' will apply, and this will be the limit that is given to the parent company.

In some cases the parent company will be an overseas institution and they will have UK-registered subsidiaries. Where this is the case the parent company limit will apply at a total group level, even if this limit is less than would be given to the UK subsidiary on a stand-alone basis. Any money invested with a UK subsidiary of an overseas institution will be classed as being invested in the country of domicile of the parent, if the parent is an overseas institution for country-maximum purposes.

If the credit rating of an individual financial institution decreases to a level which no longer makes them an acceptable counterparty the Director of Finance will make a decision on what action to take. Similar actions will be taken if a counterparty is downgraded to a level which allows them to remain on the list of acceptable counterparties, but where the unexpired term of any loan is longer than the maximum period for which a new loan could be placed with them.

In the event that the circumstances highlighted in the above paragraph occur, the Director of Finance will report his decision to the Cabinet and/or Corporate Governance Committee when it is deemed significant enough to do so. If there is considered to be no meaningful risk involved, relative to agreeing a new loan of the outstanding maturity period to the same counterparty, the decision will not be reported.

It should be noted that there will be no legal right to cancel a loan early, and any premature repayment can only be made with the approval of the counterparty and may include financial penalties.

**ANNEX 4****TREASURY MANAGEMENT POLICY STATEMENT (TMPS)**

1. This organisation defines its treasury management activities as:  
  
“ The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

## **CORPORATE GOVERNANCE COMMITTEE – 19<sup>TH</sup> FEBRUARY 2016**

### **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> December 2015.

##### **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. The UK economy grew by a provisional estimate of 0.5% during the December quarter, which was slightly above the previous quarter’s growth of 0.4%. Over the calendar year 2015 growth was an estimated 1.9%, which is a good result relative to most other areas of the world. There were increasing signs during the quarter, and since the quarter end, that the world economy is struggling and if this continues there will be an inevitable impact on UK growth.
5. UK inflation remained low, with Consumer Price Inflation – the Bank of England’s target measure – standing at 0.2% in the year to December 2015. Although inflation is expected to tick up in the quarters ahead as some of last year’s large decreases in fuel and energy costs drop out of the annual calculation, these increases are likely to be relatively modest. The Governor of the Bank of England has recently made it clear that he sees no prospects of increases to base rates for some time to come.
6. The biggest current concern to global growth is the significant slowdown that is occurring in China, as it adapts from an export-led economy to one based more on consumption. China is not the only emerging economy to be suffering a slowdown, so one of the potential engines of growth is definitely faltering. In December 2015 the US Federal Reserve raised interest rates for the first time since 2006, albeit by a small amount of 0.25%, in what was seen as a first move towards ‘normalisation’ of interest rates. It is possible that they will not raise rates any further for some time, given the lack of economic certainty elsewhere.

##### **Action Taken during December Quarter**

7. The balance of the investment portfolio decreased from £185.5m to £165.2m, although £7.5m of this decrease came as a result of an investment into a pooled property fund. After adjusting for this investment, the £12.8m reduction in the balance is normal and reflects the fact that fewer precepts and government grants were received in the third quarter of the financial year.
8. Activity during the quarter related mainly to the reinvestment of maturing loans with acceptable counterparties, and there was an attempt to lengthen the maturity profile as it appeared that the market was placing a higher-than-justified probability of a UK base rate rise in the middle of 2016. The £20m investment with Santander UK (in £15m and £5m tranches) was renewed with the same counterparty, but within a notice account rather than in money market loans. Using the 6 month notice account, and giving notice immediately, gave a substantial premium (1.15% vs. 0.75%) relative to a cash loan.
9. The impact of the action taking during the quarter was to increase the average rate of interest from 0.81% to 0.93%. Most of the increase came as a result of the new loans being at higher rates than the ones that matured although the reduction in the balance of cash held in Money Market Funds (from £20.5m to £10.2m) also had a meaningful impact, given that this cash earns a below-average rate within the portfolio of c.0.49%. How much money is held in Money Market Funds is a function of cash flows, availability of counterparties at attractive rates of interest and views on how future interest rates will change.
10. The loan portfolio at the end of December was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	45.0
Royal Bank of Scotland	50.0
Santander UK	20.0
Landesbank Baden-Wuerttemberg	10.0
Landesbank Hessen Thuringen	10.0
Close Brothers	10.0
Toronto Dominion Bank	10.0
Money Market Funds	<u>10.2</u>
	<u>165.2</u>

11. 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%
12. The Leicestershire Local Enterprise Fund has been making financing available to small and medium sized Leicestershire companies, via an association with Funding Circle, since December 2013. 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 December 2015 there had been 50 loans made totalling £492,400 and the average interest rate on these loans was 8.5%.

### **Resource Implications**

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

### **Equality and Human Rights Implications**

14. There are no discernible equality and human rights implications.

### **Recommendation**

15. The Committee is asked to note this report.

### **Background Papers**

None

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

None

### **Officers to Contact**

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## **CORPORATE GOVERNANCE COMMITTEE**

**19 FEBRUARY 2016**

### **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 necessary, as well as highlight risks that may need to be given further consideration. This report covers:
  - a) The Corporate Risk Register (CRR) – an update against risks
  - b) Update on related matters:
    - Explanation of how the risk of significant cost arising from uninsured claims has arisen
    - The review and revision of the Risk Management Policy and Strategy
    - Counter Fraud Initiatives

##### **Corporate Risk Register (CRR)**

2. The Council maintains departmental risk registers and a Corporate Risk Register (CRR). These registers contain the most significant risks which the Council is managing and which are owned by Directors and Assistant Directors.

The CRR is designed to capture strategic risk that applies either corporately or to specific departments, which by its nature has a long time span. Risk owners are engaged and have demonstrated a good level of awareness regarding their risks and responsibilities for managing them. The full CRR is attached as Appendix A.

3. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be added to the CRR as necessary. Equally, as further mitigation actions come to fruition and current controls are embedded; the risk scores will be reassessed and this will result in some risks being removed from the CRR and reflected back within the relevant departmental risk register.
4. The key changes since the CRR was last presented to the Committee on 17<sup>th</sup> November 2015 are detailed below :

i. Removal of risk

Risk 5.2 (Environment & Transport) – Leicester and Leicestershire Enterprise Partnership (LLEP) -insufficient funding for transport schemes to deliver economic growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council.

The above risk has been downgraded from red to amber as the likelihood has reduced from 4 to 2 following the confirmation of future local growth funding in the Autumn 2015 Statement (further details to follow in the New Year).

As the risk score has been revised from 20 to 10, this risk has been removed from the Corporate Risk Register but it will continue to be monitored through the Environment & Transportation Departmental Risk Register.

5. At its meeting on 17 November 2015, the Committee requested that a presentation be provided on the following :


- Business Intelligence - Failure by LCC to provide effective business intelligence to services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme (Risk 3.3).

This will be undertaken as part of this agenda.



6. The most up-to-date position of the risks on the CRR is shown in the table below. The risks are numbered within each category. To maintain a full history of all risks, details of any risks removed are shown with their original risk reference number, at the end of the Corporate Risk Register (Appendix A).





The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that: -






- A horizontal arrow shows a there's not much movement expected in the risk;
- A downward pointing arrow shows there's expectation that the risk will be mitigated towards 'medium' and would likely be removed from the register;
- An upwards pointing arrow would be less likely but is possible, since it would show that the already high scoring risk is likely to be greater.

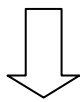

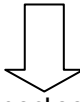

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl changes)	Update Based on risks discussed at department's management teams during January 2016	Direction of Travel (Residual Risk Score over the next 12 months)
<b>1. Medium Term Financial Strategy (MTFS)</b>					
All	1.1	Risk around the MTFS including the ability to deliver savings	25	The Local Government financial settlement confirmed the extremely challenging financial position faced by the Council. Achievement of	 Expected to




		through service redesign and Transformation as required in the MTFS, impact of the living wage and other demand and cost pressures		savings and demand management are essential components of the MTFS. A revised governance model including the creation of a 'Design Authority' (a small group of key people who will evaluate projects to ensure strategic alignment and the robustness of business cases before entry into the Transformation Programme) has now been implemented. A review of the Transformation Programme Design (constituent projects) will be undertaken following the MTFS update and a proposal setting out a re-baselined Programme was presented to Transformation Delivery Board on 28 January.	remain high/red
CE	1.3	Funding and reputation risks: Community Infrastructure Levy (CIL) Regulations (1 April 2015) are now in force which restrict the pooling of section 106 contributions	15 (revised from 20)	The Infrastructure and Development Oversight Group met in November and has established a work programme to address issues around better coordination and management of developer contributions within the County Council. The next meeting is in February where the programme and timetable should be agreed.	 Expected to move to medium/amber
CR	1.4	The cost arising from uninsured risks increases	16	<p>The Council currently holds a reserve of £7.0m to pay for the costs of claims in periods that were either not covered by insurance or the original insurer has failed. An actuarial assessment of the Council's financial liability for these periods recently concluded, and provided a likely liability range of between £4.7m and £9.3m, with the largest proportion relating to the MMI period. Due to recent experience of MMI estimates tending to worsen rather than improve, the intention is to increase the reserve from the 2015/16 underspends.</p> <p>Further detail is provided below in paragraphs 7 to 19.</p>	 Expected to remain high/red

C&FS	1.5	Significant pressures on the children's social care placement budget, which fund the care of vulnerable children.	15	Number of processes are in place including: a) Revised decision making processes for children's cases are now in place to strengthen management controls b) Engagement with the Courts and Health commissioners about the most expensive placements to seek co-commissioned placements and reduce costs	 Expected to move to medium/amber
<b>2. Health &amp; Social Care Integration</b>					
A&C	2.1	Care Act 2014 – Funding risk for 2016/17 and beyond	20	The overall allocation will be lower for 2016/17 and beyond. The final position will be clarified when Better Care Fund (BCF) guidance is received in January 2016. Nevertheless, there is a significant reduction in funding, as there are permanent posts currently being funded from the Care Act monies, and any reduction will have implications on achieving outcomes	 Expected to remain high/red
A&C	2.2	Better Care Together (BCT) - there are a number of strategic risks associated with the health and social care economy's 5 year plan and strategic outline  Sub risk: Impact on Adults & Communities Department as a result of the BCT left shift initiative	16	Full consultation on the BCT plan that was scheduled to commence in November 2015 following which final proposals would be developed has been delayed until March 2016  No change to previously reported position	 Expected to move to medium/amber
All	2.3	Challenges caused by the Welfare Reform Act 2012.	25	Government announced in November 2015 an intention to consult on transferring responsibility for Attendance Allowance to LA's. Current spending on Attendance Allowance nationally is £5bn	 expected to remain high/red

3. ICT, Information Security					
CR	3.1	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	<p>Second 2015 test postponed until Feb 2016 to allow further consideration of what can be included in the bubble (this is a logically isolated part of the network that allows us to bring up a virtual "copy" of a large part of the infrastructure (in isolation) which is then capable of being tested for data completeness and functionality).</p> <p>Once the new data centre is up and running a full Disaster Recovery test will be undertaken. This will also provide an appropriate opportunity for departmental users to get involved in testing.</p>	 Expected to move to medium/amber
CR	3.2	Continuing risk of failure of information security.	16	New 3rd party software patch automation tool in place. This gathers information about patches and bundles them ready for testing (if appropriate) and deployment.	 Expected to move to medium/amber
All	3.3	Failure by LCC to provide effective business intelligence to services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme.	15	A Business Intelligence pilot is underway. The residual risk and the approach to mitigation will be reviewed in light of the findings of the pilot.	 Expected to remain high/red
CR	3.4	Insufficient capacity to provide Information & Technology solutions.	16	Note : No change to previous reported position	 Expected to remain high/red
C&FS	3.5	Retention of children's case	16	Risk reviewed 23.10.15 with Caldecott Guardian. This risk will	

		files beyond Data Protection Act (DPA) requirements (as a result of legal advice)		continue to be reviewed.	Expected to remain high/red
<b>4. Transportation</b>					
E&T	4.1	Impact of an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply which could have an adverse impact on the functioning of the transport network.	15	Note : No change to previous reported position	 Expected to move to medium/amber
<b>5. Partnership Working</b>					
C&FS	5.1	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond 2015/16.	15	Note : No change to previous reported position	 Expected to remain high/red
<b>6. Commissioning &amp; Procurement</b>					
CR	6.1	The Authority does not obtain the required value and level of performance from its providers and suppliers	15	Note : No change to previous reported position	 Expected to move to medium/amber
<b>7. Safeguarding</b>					
C&FS	7.1	<u>Historic</u> : Evidence of previously unknown serious historic issues of child sexual exploitation (CSE) or abuse is	25	Two reports have been made to Corporate Governance Committee. Goddard to investigate Janner allegations, resulting in focus on the Council, increasing risk of reputational damage, and	 Expected to remain high/red

		identified.  <u>Current:</u> The Council does not have the capacity to meet the demand on the CSE resources		significant financial impact  Successful bid for funding from Office of the Police and Crime Commissioner (£1.3m). Improvement Programme being developed.	 Expected to remain high/red
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### **The risk of significant cost arising from uninsured claims**

7. At the meeting on 17 November, Members of the Committee asked the Director of Corporate Resources for more detail and to explain the history regarding insurance issues.

To meet the cost of claims that arise in periods where the County Council's insurer has either failed or no cover was in place, an uninsured loss fund was established. This fund is reviewed regularly to ensure that it is sufficient to meet the estimated cost of future liabilities. These liabilities are expected to arise from three separate periods in time, as detailed below.

#### **Municipal Mutual Insurance**

8. Leicestershire County Council was insured by Municipal Mutual Insurance (MMI) between 1969 and 1992. MMI entered administration in 1992 and since January 1994 has been the subject of a Scheme of Arrangement with its creditors. The solvency position of MMI has deteriorated since 1992, largely because of continued and higher than expected reporting of industrial disease type claims, particularly mesothelioma, and abuse claims. An adverse judgement in the Supreme Court on mesothelioma claims in March 2012 led to a pessimistic outlook for the company's future. In November 2012 the County Council was notified that there would not be a solvent run off of claims.
9. In order to restore the company's balance sheet, in April 2013, the Scheme Administrator imposed a 15% levy on all claims paid to date and on all claims yet to be settled. This required the County Council to make an initial payment of £2.2 million and meet 15% of the cost of new claims being paid out.
10. MMI's latest accounts show a significantly worsening position with actual claims exceeding the forecast made when the 15% levy was calculated. The balance sheet showed net liabilities of £114.6 million as at 30th June 2015 compared with £76.2 million the previous year and £28.9 million in June 2013.
11. In January 2016 MMI wrote to its' creditors to advise that, based upon the trend of new claims, the final levy is expected to be in the range of 15% to 34%. The County Council will be informed in April of the actual percentage for the second levy.
12. The County Council's actuarial review indicated that the expected levy is likely to be at the top end of the range. A 34% levy would require an immediate

payment of £2.9 million, with potentially another £3.8 million in contributions to future claims. Although this second amount will depend upon the level of claims actually arising relating to the County Council.

#### Independent Insurance Company Limited

13. Leicestershire County Council was insured with the Independent Insurance Company (IICL) between 1993 and 1997. In June 2001 IICL was placed in provisional liquidation and declared insolvent. Since this time legal liability claims have continued to be registered with the company, but payments for claims have been made by the County Council.
14. A scheme of arrangement was sanctioned by the High Court on 9th July 2015. In contrast to the MMI scheme, the IICL scheme will entail the payment of a final settlement to creditors rather than an on-going management and clawback levy approach employed by MMI.
15. PricewaterhouseCoopers LLP has established the Scheme as a means of making dividend payments to creditors in respect of their claims against the company. Initial indications are that Leicestershire County Council could receive up to 15 pence in the pound in respect of all outstanding claims. Once payment has been received Leicestershire County Council will have no further call on the company in respect of claims that have been incurred, but not reported.
16. To date the County Council has paid claims of £0.6 million that should have been met by IICL, equating to an expected loss of £0.5 million. The County Council's actuarial review highlighted the potential for further significant claims, but on a 'best estimate' basis there was not sufficient evidence to justify increasing the claim against the IICL. The ultimate level of loss under this scheme is likely to be significantly less than for MMI, as the County Council has always been responsible for paying the first £100k of claims.

#### Prior Periods

17. Prior to July 1964 there is no evidence that Leicestershire County Council had liability insurance, hence the County Council is responsible for paying claims.
18. The Local Government Act 1972 created the existing two tier system of counties and districts. Where the County Council took on responsibility for the relevant function it also took on the liabilities of the precursor authorities. Frequently no corresponding insurance cover was in place; hence any claims that do arise have to be met by the County Council in full.
19. The County Council's actuarial review estimated the value of claims that could still arise is likely to be in the range £0.9 million to £1.4 million.

#### **Risk Management Policy and Strategy**

20. The Council's Risk Management Policy and Strategy has been reviewed, and revised and was submitted as an appendix to the report on the Medium Term

Financial Strategy which was to be considered at Cabinet on 12 February and full Council on 17 February.

21. Within its Terms of Reference, this Committee has a responsibility to monitor the arrangements for the identification monitoring and management of strategic and operational risk within the Council. Therefore, the recommendation to Cabinet is to approve the Risk Management Policy and Strategy subject to consideration by the Corporate Governance Committee with delegation to the Director of Corporate Resources to amend it if necessary. A copy of the revised Policy and Strategy is included in Appendix B.

## **Other Risk Information**

### **Counter Fraud Initiatives**

#### **Fraud Risk Assessment 2015/16**

22. The principles of the CIPFA Code of Practice – Managing the Risk of Fraud Corruption (the Code) were adopted by the Committee at its meeting in November 2014. The Code recommends that local authorities identify and assess the major risks of fraud and corruption to the organisation. Our approach is to perform an annual fraud risk assessment and to use the results to direct anti-fraud resources and strategies accordingly. The County Council does not provide those services that have historically been considered to be at high risk of fraud, such as revenue and benefits. However, the change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More ‘at arm’s length’ delivery of services by third parties, for example, the voluntary/not for profit sector and personal control of social care budgets, means that more public money is entrusted externally, which may impact on the wider control environment. All of these changes are happening against a backdrop of continued depressed economic activity in which the general fraud risk (both external and internal) tends to increase.
23. Whilst publications such as Protecting the Public Purse (PPP) outline the main areas of fraud risk across local government, each authority’s risk profile will be different. Therefore a thorough fraud risk assessment for the County Council has been conducted taking into account areas identified in PPP, reports from the biennial National Fraud Initiative (NFI), and other risk areas identified through other intelligence and through benchmarking with other authorities.
24. Appendix C contains a summary level of the fraud risk assessment, with a corresponding risk score for each, based on the Council’s overall potential exposure (impact on service delivery, finance and reputation) and actual reported frauds of this kind. Scoring has been derived through discussions with individual service leads to give them the opportunity, annually, to consider whether scores remain reasonable or whether there have been any changes during the previous year that may lead to necessity to amend scores, e.g. known frauds, additional controls introduced, and increased or decreased metrics/values. For this year, new areas have been added to the Fraud Risk Assessment, for example Deprivation of Income (Residential and Non-

Residential Adult Social Care), Cyber Fraud / Crime, both highlighted nationally as emerging fraud areas. It is important to recognise that the assessment also captures non-financial fraud, an example being that a new category this time around surrounds the risk of theft of stock from the Registration Service (e.g. birth certificates) which could facilitate identity theft and subsequently other fraud, e.g. benefit fraud, immigration fraud.

25. Recognising fraud in this manner ensures there is a comprehensive understanding and knowledge about where potential fraud and bribery / corruption is more likely to occur and the scale of potential losses. This in turn will direct the Council's overall Anti-Fraud and Corruption Strategy and further allow the Council to direct counter-fraud resources accordingly. Consequently, this influences the internal audit annual planning process.

#### Assessment Tool - Managing the Risk of Fraud and Corruption

26. To enable organisations to assess and understand their performance against recognised good practice as set out in the aforementioned Code, during the last quarter, the CIPFA Counter Fraud Centre published an Assessment Tool. The outcomes from an assessment enable organisations to inform counter fraud development plans and support governance statements.
27. The outcome of Leicestershire's assessment was positive and reflects well on the significant work undertaken within the Council, and in conjunction with this Committee in particular, over the past 18 months to further develop its fraud strategies and resilience. The Assessment concludes that:

*The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The leadership has acknowledged its responsibilities for managing the risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements in place to carry it out. The organisation is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the organisation and meeting the standards of the counter fraud code contributes to good governance. Whilst no organisation is 'fraud proof', the organisation has taken robust steps to ensure its resilience. This high level of performance should be acknowledged within the organisation's annual governance report.*

The Assessment has identified a number of further areas for development and these will be addressed accordingly. These include the development of a Loss Recovery Strategy. A summary of outcomes and recommendations coming out of the Assessment can be found at Appendix D.

#### Loss Recovery Strategy

28. At its meeting of 20 February 2015, the Committee approved the Council's Anti-Fraud & Corruption Strategy and a number of supplementary counter fraud policies. Benchmarking against recommended practice gives assurance that the Council's policies are comprehensive and fit-for-purpose. One area,



however, where policy is inadequate is that there is no formal loss recovery strategy in place. A Loss Recovery Strategy has been drawn up in conjunction with the County Solicitor and agreed with the Director of Finance and will become an appendix to the existing Anti-Fraud & Corruption Strategy. The Strategy sets out the range of actions that the Council might take to recover financial loss in the event of fraud, corruption or financial irregularity. In particular the Strategy seeks to distinguish between criminal action (retribution) and civil recovery action (restitution), and discusses the relative advantages of each. Whilst each case would be judged on its own merits, and the need to be proportional and pragmatic in approach, the Strategy nevertheless provides a pathway for further action in line with the Council's zero-tolerance approach to all forms of fraud, corruption and theft.

### Other

29. Work has taken place during the last quarter alongside the Corporate Commissioning & Procurement Support Unit to assess procurement risk within the Council using the CIPFA Counter Fraud Centre's - Managing the Risk of Procurement Fraud guidance as a benchmark. This process has identified both existing good practice and areas for improvement. An action plan has been drawn up, owned by the Corporate Commissioning & Procurement Support Unit, to address any areas of vulnerability and therefore to improve the Council's resilience to the risk of procurement fraud.
30. As part of a successful joint bid by the County Council, the City Council and Leicestershire's districts for DCLG funding for counter fraud initiatives, a counter fraud application (app) for smartphones has now been developed. This app enables the Council to convey fraud information to the general public, for example success stories, but, more importantly, enables the general public, through the app, to make fraud referrals through to the Council. The success of the app relies on effective publicity and the intention is to do this through press releases and other outlets such as Leicestershire Matters. Whilst Leicestershire's app is ready to go live, some neighbouring councils are not so far advanced with their fraud apps and therefore the County Council will delay the go live so as to have a joined up approach with other partners, including a co-ordinated media strategy, at an appropriate time.

### **Recommendation**

31. That the Committee:
  - a) Approves the current status of the strategic risks, facing the Council and the updated Corporate Risk Register;
  - b) Make recommendations on any areas which might benefit from further examination and identify a risk area for presentation at its next meeting;
  - c) Notes the :
    - explanation of how the risk of significant cost arising from uninsured claims has arisen

- content of the revised Risk Management Policy and Strategy
- results of the 2015/16 Fraud Risk Assessment;
- results of the Counter Fraud Assessment Tool and that the organisation is judged to be meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption;
- development of a Loss Recovery Strategy and its inclusion as an appendix to the published Anti-Fraud & Corruption Strategy;
- other counter fraud initiatives that have taken place during the last quarter.

### **Resources Implications**

None.

### **Equality and Human Rights Implications**

None.

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

None

### **Background Papers**

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 20 February, 12 June, 25 September and 17 November 2015

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### **Appendices:**

Appendix A - Corporate Risk Register  
Appendix B - Risk Management Policy & Strategy  
Appendix C - Fraud Risk Assessment 2015-16  
Appendix D – Summary of Outcomes and Recommendations from CIPFA Counter Fraud Centre Assessment Tool

							Current Risk Score			Risk Response; Tolerate Treat Terminate Transfer		Residual Risk			Action Owner / (Date)	Action Complete (Yes or No)
Dept.	Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	I	L	Risk Score		Further Actions / Additional Controls	I	L	Risk Score		
1. Medium Term Financial Strategy (MTFS)																
All	1.1	Risk around the MTFS including the ability to deliver savings through Service Redesign/ Transformation as required in the MTFS, impact of the living wage and other demand and cost pressures	<ul style="list-style-type: none"><li>Reducing government funding</li><li>Increased demand for the most vulnerable continues to increase: Adult Social Care / CYPS</li><li>Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings</li></ul>	<u>Service Delivery</u> <ul style="list-style-type: none"><li>Negative impact on all services as further service cuts will be required to reduce deficit</li></ul> <u>Reputation</u> <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> <u>Financial</u> <ul style="list-style-type: none"><li>Loss of income</li><li>Restricted funding from other sources</li></ul>	Chief Executive/ All Directors	<ul style="list-style-type: none"><li>MTFS approved</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</li><li>Reporting of Transformation Programme aligned with Corporate Finance reporting</li><li>Design Authority operational following review of Transformation Programme governance.</li></ul>	5	5	25	Treat	<ul style="list-style-type: none"><li>Increased understanding of recent announcement to localise business rates</li><li>Assessment of impact of specific grant allocations including Public Health, Education Services Grant and various capital grant once known</li><li>Further work on the Council's low funding position to make the case for increased funding to government</li><li>Further focus on in year budget monitoring demand management, delivery of savings and strong financial control</li></ul> <u>Transformation Programme</u> <ul style="list-style-type: none"><li>Transformation Programme Design (constituent projects) to be reviewed and baselined following MTFS update – proposal will be presented to Transformation Delivery Board on 28<sup>th</sup> January 2016</li></ul>	5	5	25	Chief Executive / All Directors  Ongoing	67
CE	1.3	Funding and reputation risks: CIL Regulations (1 April 2015) are now in force which restrict the pooling of section 106 contributions	<ul style="list-style-type: none"><li>No CIL in place by District Councils Regulations now in force (6th April 2015)</li></ul>	<u>Financial</u> <ul style="list-style-type: none"><li>Failure to secure funds putting LCC at financial risk</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>Possible need for challenge / defend challenge in high court</li></ul>	County Solicitor/  Head of Planning, Historic & Natural Environment	<ul style="list-style-type: none"><li>Agreed positions established with District Councils</li><li>Infrastructure and Development Oversight Group in place</li></ul>	5	3	15	Treat	<ul style="list-style-type: none"><li>Analyse data of s106 contributions since 2010</li><li>Re Categorisation and agreement reached with LPAs</li><li>Work Programme and timelines to be agreed by Infrastructure and Development Oversight Group</li></ul>	4	3	12	Head of Planning, Historic & Natural Environment (April 2016)	
CR	1.4	The cost arising from uninsured risks increases	<ul style="list-style-type: none"><li>Latest estimates from MMI indicate an increasing liability</li><li>Proposed settlement from the Independent only 15p per £1 of claims</li><li>Independent insurance company close to agreement, which means LCC will be effectively self-insured for new claims in this period</li></ul>	<u>Reputation</u> <ul style="list-style-type: none"><li>Amounts involved are large and LCC is currently the MMI's largest creditor</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>MMI's 14/15 final results show a significantly worsening position due to an increase in abuse and mesothelioma claims the cost to LCC will be £1.2m</li><li>LCC will suffer some of the financial consequences if a school is under-insured and fails following a major incident</li><li>The policy excess sets the amount of each claim that LCC must meet. These are currently</li></ul>	Assistant Director – Strategic Finance & Property/ Finance Manager	<ul style="list-style-type: none"><li>Detailed review of MMI claims undertaken before payments made</li><li>Significant uninsured loss fund created has been increased (£2.2m) using 14/15 underspend to mitigate against the consequences MMI and similar situations</li><li>Risk management work continues to minimise claim numbers, education to departments regarding maintenance of controls</li></ul>	4	4	16	Treat	<ul style="list-style-type: none"><li>Fund audit due this year to establish if reserve holding is sufficient and deductible level appropriate</li><li>Review reserve levels in light of future claims</li><li>Strengthen claims notification procedure to reduce possibility of insurers declining claims</li></ul>	4	4	16	Assistant Director – Strategic Finance & Property / Finance Manager  April 2016	

				<ul style="list-style-type: none"><li>- Property damage £500k</li><li>- Public Liability £250k</li><li>- Professional indemnity £25k</li><li>- Fidelity Guarantee £100k</li><li>- Money self-insured</li></ul>		<ul style="list-style-type: none"><li>• New process for checking insurance cover for high risk Property contracts</li><li>• Academies only expected to be insured by LCC or FA scheme in future</li><li>• Deductible increased to £250k to reduce premiums payable</li></ul>										
C&FS	1.5	Significant pressures on the children's social care placement budget, which fund the care of vulnerable children.	<ul style="list-style-type: none"><li>• High cost placements increasing especially in relation to behaviour &amp; CSE issues</li></ul>	<ul style="list-style-type: none"><li>• <u>Financial</u> High cost and overspending of budget</li></ul>	Assistant Director- Children's Social Care	<ul style="list-style-type: none"><li>• T3 Project being closely performance managed by Departmental Transformation Board</li><li>• Placements Commissioning Board established</li><li>• Weekly tracking of admissions and discharges of Children in Care</li><li>• Working with Impower to increase foster carer numbers</li></ul>	3	5	15	Treat	<ul style="list-style-type: none"><li>• T3 placement commissioning strategy is in progress</li><li>• Cohorts of children being targeted for lower cost measures</li><li>• Changed decision making processes to be put in place</li><li>• Monthly high level DMT reviews to be introduced</li></ul>	3	4	12	Assistant Director- Children's Social Care  April 2016	
2. Health & Social Care Integration																
A&C	2.1	Care Act 2014 - Funding risk for 2016/17 and beyond	<ul style="list-style-type: none"><li>• Care Act Phase 2 implementation delayed by Ministers until April 2020.</li><li>• The funding allocation for Phase 1 has been cut entirely in the local government settlement leaving the only potential source of funding the BCF (£1.4m in 2015/16)</li></ul>	<ul style="list-style-type: none"><li>• Staffing resources and contracts that were expected to be funded will need to be reduced or funded from savings elsewhere.</li></ul>	Assistant Director – Strategy & Commissioning	<ul style="list-style-type: none"><li>• Significant use of fixed term contracts. Recruitment now ceased.</li><li>• Assessment of expenditure justified directly by Phase 1 of the Care Act</li><li>• Un-spent Care Act funding in 2015/16 to be used in 2016/17 to allow time to transition to the lower level of funding.</li></ul>	4	5	20	Treat	<ul style="list-style-type: none"><li>• Staffing being reviewed for the savings to be made if funding withdrawn. Staffing being reviewed for the savings to be made alongside the existing staff savings targets for the department. Mitigate redundancies through usual Council Policies.</li></ul>	3	5	15	Assistant Director – Strategy & Commissioning  April 2016	68
A & C	2.2	Better Care Together - There are a number of strategic risks associated with the health and social care economy's 5 year plan and strategic outline (investment) case.	<ul style="list-style-type: none"><li>• Breakdown in maintaining a strong vision and joint partnership working across LLR</li></ul>	<u>Service Delivery</u> <ul style="list-style-type: none"><li>• BCT programme outcomes are not delivered and the programme fails leading to reputational risks, partnership breakdown and financial instability within the health and care economy</li><li>• BCT care pathway changes fail to maintain safe, high quality clinical care</li><li>• The shift of care from acute to community settings is not modelled or implemented effectively leading to unforeseen pressure in other parts of the health and care economy</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>• The investment case within the SOC is not fully supported, leading to gaps in the financial</li></ul>	Director- Adults & Communities	<ul style="list-style-type: none"><li>• Representation from the LA on the LLR Partnership Board and BCT Delivery Board and workstreams where appropriate.</li><li>• Programme has been reshaped to define the outcomes to be achieved by each workstream within the BCT. Business Justification templates completed to outline benefits, costs and risks of each workstream within the BCT programme</li><li>• The majority of the Leics BCF deliverables are aligned to the urgent care and frail older people's work streams</li><li>• Further modelling work is in</li></ul>	4	4	16	Treat	The following additional controls have been provided by BCT: <ul style="list-style-type: none"><li>• As the Programme progresses from the design to implementation phase, further clarity is needed on the detail of governance arrangements between BCT programme and HWBs. Meeting with BCT Independent Chair and BCT programme Director being arranged to progress this.</li><li>• The Programme is strengthening its programme controls by undertaking a task and finish exercise that will closely triangulate BCT programme planning, risk management, performance management, communications and engagement. The BCT programme is currently developing an outcome and milestones document which will</li></ul>	4	3	12	Director- Adults & Communities  &  Assistant Director – Strategy & Commissioning  Ongoing	

A & C	2.2 (i)	Impact on A&C - BCT left shift initiative	<ul style="list-style-type: none"> <li>Transferring patients early from UHL to ICRS 2 community services</li> </ul>	<p>plan/assumptions for delivering the programme</p> <ul style="list-style-type: none"> <li>The savings from BCT are not achieved, leading to gaps in the financial plan/assumptions for delivering the programme.</li> <li>A notional figure of £5m impact on ASC has been highlighted within the Strategic Outline Case.</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Partners are unable to provide sufficient staffing resource to deliver the programme leading to failure to deliver at the required pace and scale</li> <li>Lack of LLR integrated workforce plans</li> </ul> <p><u>Reputational</u></p> <ul style="list-style-type: none"> <li>The communication and engagement plan for BCT is ineffective leading to lack of public support or opposition to the plans</li> </ul>	Director- Adults & Communities & Assistant Director – Strategy & Commissioning	<p>progress led by the BCT programme office on the bed reconfiguration proposals</p> <ul style="list-style-type: none"> <li>BCT update included in all-member briefings on a regular basis.</li> <li>BCT reports to HWBB and Cabinet approving the 5 year plan and the Strategic Outline Case.</li> <li>BCT Scheme of Delegation has been shared with the council for comment, feedback given.</li> <li>Social care/prevention strategies for each LA have been drafted to inform the BCT delivery plan .The Chief Executive, (Rutland County Council, SRO, and Social Care), have been consolidated into one overarching document.</li> </ul>	4	4	16	Treat	<p>set out the detail of delivery plans for the next 12-18 months.</p> <ul style="list-style-type: none"> <li>Public consultation planned in the Spring 2016 to be led by the BCT programme.</li> </ul>	4	3	12	Director- Adults & Communities & Assistant Director – Strategy & Commissioning	69
				<p><u>Financial</u></p> <ul style="list-style-type: none"> <li>Initially this will increase the number of service users requiring assessment and services and potentially increase in demand on social care and providers.</li> </ul>		<ul style="list-style-type: none"> <li>Senior Officers from LCC fully engage with Better Care Together work streams.</li> </ul>					<ul style="list-style-type: none"> <li>Working closely with Health to identify the potential increase in demand, impact on social care and actions to mitigate</li> </ul>					
All	2.3	LCC and partners do not have the capacity to meet expected increase in demand caused by the Welfare Reform Act 2012	<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</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> </ul>	Director of Adults & Communities / Assistant Director – Strategy & Commissioning/ Assistant Chief Executive	<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	25	Treat	<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	20	Director of Adults & Communities / Assistant Director – Strategy & Commissioning / Assistant Chief Executive	April 2016



			<p>Local Welfare Provision post April 2015</p> <ul style="list-style-type: none"><li>PIP migration for new and existing service users including appointee and deputyship in receipt of DLA who were under 65 on 8 April 2013 commences 13/7/15</li></ul>	<ul style="list-style-type: none"><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><li>Increased risk due to the migration from Disability Living Allowance to Personal independence Payments locally effective from 13 July 2015 over the following 2 years. The longer term risk has also now increased in relation to the Governments roll-out timetable that most existing benefit claimants will be moved over to Universal Credit during 2016 and 2017. However, it has now been acknowledged that at least 700,000 claimants will not be on Universal Credit by the end of 2017.</li><li>Government announced Nov 15 an intention to consult on transferring responsibility for Attendance Allowance to LA's current spending on Attendance Allowance nationally is £5bn</li></ul>		<ul style="list-style-type: none"><li>Plan in place for CCF to deal with PIP for all LCC appointeeship / Deputyship cases.</li></ul>																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											</
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				<ul style="list-style-type: none"> <li>Additional costs related to internal and external recovery</li> </ul>		<ul style="list-style-type: none"> <li>DR recovery processes</li> <li>Service BC plans developed for all critical services.</li> <li>Completion of first year of planned DR tests</li> </ul>					<ul style="list-style-type: none"> <li>2016).</li> <li>Full DR test including user testing – post new data centre go-live</li> </ul>				May 2016  Autumn 2016	
CR	3.2	The responsibility to protect the confidentiality, integrity, availability and accountability of information means there is a continuing risk of failure of information security.	<ul style="list-style-type: none"> <li>Increased information sharing and direct access to systems across partnerships</li> <li>Increased demand for flexible working increases vulnerability of personal, sensitive data taken offsite.</li> <li>More hosted technology services</li> <li>Greater emphasis on publication of data 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>	Director – Corporate Resources & Transformation/ Assistant Director – Information & Technology	<ul style="list-style-type: none"> <li>New, simplified Information Security and Acceptable Use policy signed off</li> <li>PSN compliance achieved</li> <li>Regular penetration testing and enhanced IT health checks in place</li> <li>Improved guidance about data transfer tools</li> <li>Simplified Security and Acceptable Use Policy approved</li> <li>Communication plan re information security</li> <li>Mobile device management implemented</li> <li>New security governance arrangements put in place</li> </ul>	4	4	16	Treat	<ul style="list-style-type: none"> <li>PSN compliance requirements built into BAU</li> <li>Actions from external tests build into BAU</li> <li>Personal responsibility for information security to be built into new staff terms and conditions</li> <li>Ongoing implementation of relevant policies</li> <li>Solution Analysis Framework and Risk Assessments to ensure consistency and adherence to policy/standards</li> <li>Patching policy and process reviewed updates will follow</li> </ul>	4	3	12	Assistant Director – Information & Ongoing  Head of ICT Operations Ongoing	71
All	3.3	Failure by LCC to provide effective business intelligence to 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>	<u>Service Delivery</u> <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> <u>People</u> <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> <u>Reputation</u> <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> <u>Financial</u> <ul style="list-style-type: none"> <li>Risk of litigation/judicial review</li> </ul>	Assistant Director – Information & Technology / Assistant Chief Executive	<ul style="list-style-type: none"> <li>Data and BI Enabler Programme underway</li> <li>Data and BI Board established</li> <li>New Head of BI appointed</li> <li>TOM for Centre of Excellence for Data and BI agreed</li> <li>Data and BI Strategy approved</li> <li>New mode for engagement with Transformation projects embedded</li> <li>DBI Enabler Leadership Group established</li> <li>Technology roadmap developed to support establishment of a corporate approach to BI</li> <li>Development of Data Framework completed</li> </ul>	5	3	15	Treat	<ul style="list-style-type: none"> <li>Development of a business case for a corporate reporting platform</li> <li>New BI service established and review of service is underway</li> </ul>	5	3	15	Head of Business Intelligence June 2016	

All	3.4	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> <li>Difficulties in recruitment and retention</li> </ul>	<u>Service Delivery</u> <ul style="list-style-type: none"> <li>Departmental and corporate objectives not met or delayed</li> <li>Delays to project delivery</li> <li>Re-work/re-planning due to clash of priorities</li> </ul> <u>Financial</u> <ul style="list-style-type: none"> <li>Failure to support delivery of efficiency programme and ICT replacement projects</li> </ul>	Director – Corporate Resources & Transformation/ Assistant Director – Information & Technology	<ul style="list-style-type: none"> <li>I&amp;T work programme provides forward visibility of demand</li> <li>Use of external contractors to fill specific skills gaps</li> <li>Analysis of likely future demand</li> <li>Improved forward planning although no single tool to support end to end planning and forecasting process -</li> <li>Identification of key skills and workforce plan to retain, develop and recruit</li> </ul>	4	4	16	Treat	<ul style="list-style-type: none"> <li>Implementation of Information and Technology Strategy</li> <li>Development of demand management approaches</li> </ul>	4	4	16	Assistant Director – Information & Technology  April 2016	
C&FS	3.5	Breach of Data Protection Act - retention of files longer than required	Decommissioning of Adult Case management System (SSIS) C&F Management Team has accepted advice from Legal Services to retain all data recorded on the former case management system (SSIS), as it is not practical to physically go through thousands of children's records on the system and make a judgement on what should or should not be retained, given the limited resource of staff that are 'qualified' to make such decisions.	<u>Service Delivery</u> <ul style="list-style-type: none"> <li>Service delivery adversely affected by out of date data</li> </ul> <u>People</u> <ul style="list-style-type: none"> <li>Details of Vulnerable people at risk of disclosure</li> </ul> <u>Reputation</u> <ul style="list-style-type: none"> <li>Potential adverse media attention and public lack of confidence</li> </ul> <u>Financial</u> <ul style="list-style-type: none"> <li>Potential financial penalties</li> </ul>	Assistant Director – Commissioning & Development / Head of Strategy – Business Support	<ul style="list-style-type: none"> <li>Legal Services' view is that any fines for not retaining data when it should be retained for example in litigation, would be greater than if data is kept securely for longer than legally required.</li> <li>Data securely held</li> </ul>	4	4	16	Tolerate	<ul style="list-style-type: none"> <li>Review policy annually to see if position has changed</li> </ul>	4	4	16	Assistant Director – Commissioning & Development / Head of Strategy – Business Support  October 2016	72
4. Transportation																
E&T	4.1	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 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>	<u>Service Delivery</u> <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> <u>People</u> <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> <u>Reputation</u> <ul style="list-style-type: none"> <li>Difficulties to maintain</li> </ul>	Director – Environment & Transport	<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	15	Treat	<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> <li>Review of planning responses across the authority</li> </ul>	3	3	9	Head of Service Transport Policy & Strategy,  Head of Planning, Historic & Natural Environment  Ongoing	



				reputation of being a quality and fair Highways Authority <ul style="list-style-type: none"><li>Developments in the wrong location</li></ul> <u>Financial</u> <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 developers</li></ul>													
5. Partnership Working																	
C &FS	5.1	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond 2015/16	<ul style="list-style-type: none"><li>New phase two outcomes frameworks requires large data collection</li><li>New framework includes much broader measures to achieve in order to pull down TFU monies</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>	Director – Children & Family Services / Assistant Director-Children’s Social Care	<ul style="list-style-type: none"><li>Data project underway to increase provision, quality and from a range of services</li><li>Training for workers to achieve optimum outcomes with families at earliest opportunity</li><li>Leicestershire has now completed phase one of PBR and pulled down additional funding into the pooled budget</li><li>SLF Service is now fully up and running and merged into C&amp;F Services</li><li>Whole family working is being rolled out across a range of Services</li></ul>	5	3	15	Treat	<ul style="list-style-type: none"><li>Measuring outcomes to demonstrate reduced demand.</li><li>Cost benefits analysis to be shared with partners to progress further conversation around future funding</li><li>Discussions with partner organisation to secure ongoing funding</li><li>Leicestershire to enter PBR phase two early therefore enabling us to draw down additional money into the pooled budget</li></ul>	5	3	15	Assistant Director-Children’s Social Care / Head of Supporting Leicestershire Families  May 2016	73	

6. Commissioning & Procurement															
All	6.1	The Authority does not obtain the required value and level of performance from its providers /suppliers	<ul style="list-style-type: none"><li>Lack of robust contract management /performance measures for in-house services</li><li>Robustness of supply chain</li><li>Reduced funding and resources</li><li>Staff turnover leading to lack of continuity in contract management</li><li>Insufficient investment in contract management skills and competencies</li></ul>	<u>Service Delivery</u> <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 resulting in reduced customer satisfaction</li><li>Relationships with providers/suppliers deteriorate</li></ul> <u>People</u> <ul style="list-style-type: none"><li>Additional workload where disputes arise</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>Customer complaints</li></ul> <u>Financial</u> <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>	Director – Corporate Resources & Transformation / Assistant Director – Corporate Services & Transformation	<ul style="list-style-type: none"><li>Departments currently undertake management and monitoring of contracts</li><li>New Commissioning &amp; Procurement Strategy in place with reporting framework developed and agreed to measure progress against Key Principles</li></ul>	5	3	15	Treat	<ul style="list-style-type: none"><li>Approach to Supplier continuity assurance (based on plans for business critical services) underway</li><li>Contract Management Toolkit and training interventions being developed as part of the Effective Commissioning Enabler (Transformation Programme)</li><li>New governance arrangements to be developed as part of Effective Commissioning Enabler (Transformation Programme)</li><li>Roll out of e-tendering to help make contract KPI's and management more visible.</li><li>Commissioning support model is being developed with specific focus on establishing a contract management function to help strengthen arrangements.</li></ul>	4	3	12	Head of Commissioning and Procurement Support  Ongoing
7. Safeguarding															
CFS	7.1	<u>Historic</u>  Evidence of previously unknown serious historic issues of child sexual exploitation or abuse is identified  <u>Current</u>  The Council does not have the capacity to meet the demand on the CSE resources	<u>Historic</u>  Concerted effort to explore historic exploitation and abuse in response to the Goddard Inquiry and Police Operations  <u>Current</u>  Concerted effort in response to the Goddard Inquiry and Police Operations result in the significant increase in identified cases	<u>Service Delivery</u> <ul style="list-style-type: none"><li>Need to review and redesign current service in the light of lessons learnt</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>Potential adverse media and political risk</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>Increased cost of settling claims and service redesign</li></ul> <u>Service Delivery</u> <ul style="list-style-type: none"><li>Increase in the volume of work beyond the capacity of the planned service</li></ul> <u>People (Public)</u> <ul style="list-style-type: none"><li>The Council fails to support victims and those at risk</li></ul> <u>Reputation</u> <ul style="list-style-type: none"><li>Loss of public confidence in the Council and political instability</li></ul> <u>Financial</u> <ul style="list-style-type: none"><li>Increased cost of settlement and service delivery</li></ul>	<u>Reputation</u> Chief Executive  <u>Reputation &amp; Service Delivery</u> Director - Children & Family Services  <u>Legal</u> County Solicitor  <u>Financial</u> Director - Corporate Resources	<ul style="list-style-type: none"><li>Established Goddard Inquiry Strategic Governance Group to oversee planned investigation and information gathering</li><li>Pro-active engagement with the Goddard Inquiry</li><li>Refreshed Communication Strategy and Implementation Plan</li><li>CSE team embedded in the police specialist response team</li><li>New operational guidance and governance arrangements in place. Programme Board established to oversee delivery</li><li>LSCB CSE Co-Ordinator in place</li></ul>	5	5	25	Treat	<ul style="list-style-type: none"><li>Further planning for known events e.g. National Inquiry</li><li>Procurement of legal support</li><li>Strengthen Leicester and Leicestershire Partnership governance</li><li>Establish close working relationships with other authorities</li><li>Understand fully the emerging care costs</li><li>Develop effective Council wide approach</li><li>Implementation of additional services and controls following successful funding bid to Office of the Police &amp; Crime Commissioner (£1.3m)</li></ul>	5	5	25	<u>Reputation</u> Chief Executive  <u>Reputation &amp; Service Delivery</u> Director - Children & Family Services  <u>Legal</u> County Solicitor  <u>Financial</u> Director - Corporate Resources  Ongoing &

**Department**  
A&C = Adults & Communities  
CE = Chief Executives  
CR = Corporate Resources

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

C&FS = Children and Families Services

Risk Removed from the Corporate Risk Register

Dept.	CRR Risk No	Risk Description	Current Risk Score	Reason	Date of Removal
C&FS	1.2	Local Authority legal requirements to meet deficit budgets from maintained schools becoming sponsored academy, and pressure from Sponsors to meet repair costs.	16	Agreed by Corporate Governance Committee	17 November 2015
E&T	5.2	LLEP-insufficient funding for transport schemes to deliver economic growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council	20	<div>The above risk has been downgraded from red to amber as the likelihood has reduced from 4 to 2 following the confirmation of future local growth funding in the Autumn 2015 Statement (further details to follow in the new year).</div> <div>As the risk score has been revised from 20 to10, this risk has been removed from the Corporate Risk Register but it will continue to be monitored through the Environment &amp; Transportation Departmental Risk Register.</div>	

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**APPENDIX B****Leicestershire County Council Risk Management Policy**

1. All organisations face risk. Those which stimulate effective and efficient risk management and strive to create an environment of 'no surprises' should be in a stronger position to deliver objectives, sustain services and achieve better value for money.
2. Local government's purpose and relationship with its stakeholders is being redefined. Continuing and escalated austerity, increased expectations and rising demand alongside concerns about councils having the capacity and capability to respond are creating a lasting change. The movement from being service providers to service commissioners and strategic partners in order to facilitate outcomes, adds new layers of complexity and risk, but also opens up new opportunities for innovation, collaboration, transformation, community engagement and new approaches to service delivery. These include increasing health and social care integration, embracing digital technology exchanges and decentralising government powers to newly formed and jointly governed combined authorities. Leicestershire County Council (the Council) is also venturing into more commercial approaches and income generating activities.
3. The Council recognises that in order to successfully manage its own fundamental transformation, effective risk management is vital. The Council will develop a culture where managers are encouraged and supported to be innovative but also required to have a good understanding of risk and the implications of their decisions. Risk management is about taking informed decisions in order to achieve objectives and deliver results. By being risk aware, reviewing its risk appetite and tolerance, the Council will be better placed to both take advantage of opportunities and manage threats.
4. This Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of its risk. In implementing the framework, we will provide assurance to our stakeholders, partners and customers that the identification, assessment, evaluation and management of risk, plays a key role in the delivery and achievement of the Council's vision contained in its Strategic Plan 2014-18 and all of its other plans, strategies and programmes. In order for risk management to be most effective, and become an enabling tool, we must ensure we have a robust, consistent, communicated and formalised framework across the Council.
5. This Policy has the full support of Members and the Chief Executive, who are committed to embedding risk management throughout the Council and it requires the co-operation and commitment of all employees to ensure that resources are utilised effectively.

Signed: 

Title: Chief Executive

Date: 14 January 2016

Review Date: December 2016

## **Leicestershire County Council Risk Management Strategy**

### **1.0 Defining Risk and Risk Management**

Under ISO31000 'Risk management – Principles and guidelines' –

Risk is defined as:

*'The effect of uncertainty on objectives'*

This recognises that there are positive possibilities as well as negative ones

Risk Management is defined as:

*Coordinated activities to direct and control an organisation with regards to risk*

The effect of uncertainty on achieving an organisation's objectives is risk. Risk management is the process of ascertaining what might go wrong, what the potential consequences may be, what could trigger the occurrence and deciding how best to minimise the risk materialising. If it does go wrong, as some things inevitably will, proactive risk management will ensure the impact is kept to a minimum.

This Risk Management Strategy outlines how Leicestershire County Council (the Council) will use risk management to successfully deliver corporate, departmental and service, objectives and priorities.

### **2.0 Why undertake risk management?**

#### **Statutory requirements**

Part 2 of the Accounts and Audit Regulations 2015 (Internal Control) places explicit requirements on the Council around risk, that is: -

- Paragraph 3(c) - the Council must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk;
- Paragraph 4.4(a - iii) – the Chief Financial Officer must determine, on behalf of the Council financial control systems which must include measures to ensure that risk is appropriately managed;
- Paragraph 5(1) the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management processes

### **Constitutional requirements**

Principle D (Decision-making) of the Council's Code of Corporate Governance requires that the Council will take informed and transparent decisions which are subject to effective scrutiny and managing risk. In order to achieve this, the Council will ensure that an effective risk management system is in place.

The Corporate Governance Committee has a delegated function to ensure that an adequate risk management framework and associated control environment is in place.

### **3.0 Benefits of risk management**

Risk management is a tool that forms part of the governance system of the organisation. When applied appropriately it can bring multiple benefits:

- Helps the Council achieve its stated objectives and improves the likelihood of delivering its intended outcomes.
- Helps managers to demonstrate good governance, better understand service, project or partnership risk profiles and better mitigate risks (particularly uninsurable ones).
- Helps the Council to anticipate and respond to changing social, environmental and legislative requirements.
- Helps to enhance political and community support and satisfy stakeholders', partners' and customers confidence and trust.
- Better informed strategic decisions leading to increased effectiveness of transformation projects and programmes and improved efficiency of operations.
- Protection of budgets from unexpected financial losses.
- Protection of assets, reputation and people
- Reduces the risk of fraud and corruption
- Can gain a competitive advantage

### **4.0 Risk Management Strategy objectives**

The objectives of the Risk Management Strategy are to:

- Integrate risk management fully into the culture of the Council and into its corporate and service planning processes;

- Improve the framework for identifying, assessing, controlling, reviewing and reporting and communicating risks across the Council;
- Improve the communication of the Council's approach to risk management;
- Improve the coordination of risk management activity across the Council;
- Ensure that the Corporate Management Team (CMT), Corporate Governance Committee and external stakeholders can obtain necessary assurance that the Council is mitigating the risks of not achieving key priorities and thus complying with corporate governance practice;
- Manage risk in accordance with best practice and ensure compliance with statutory requirements

## **5.0 Risk Appetite and Risk Tolerance**

The Council recognises that only by taking risks can it achieve its aims and deliver beneficial outcomes to its stakeholders.

The Institute of Risk Management (IRM) defines risk appetite as “the amount of risk an organisation is willing to seek or accept in the pursuit of its long term objectives” and is about looking at both the propensity to take risk; and the propensity to exercise control. Risk tolerance is defined as the boundaries of risk taking outside of which the organisation is not prepared to venture in the pursuit of its long term objectives.

Risk appetite and risk tolerance help an organisation determine what high, medium and low risk is. In deciding this, the organisation can:

- More effectively prioritise risks for mitigation
- Better allocate resources
- Demonstrate consistent and more robust decision making
- Clarify the thresholds above which risks need to be escalated in order that they are brought to the attention of senior management and/or Members.

The CMT has collectively agreed that the Council currently exists in a ‘riskier’ environment and that this is likely to continue. In reality this will mean continuing to develop an understanding of acceptable risk levels (high, medium or low), depending on their impact and likelihood. Defining levels allows risks to be prioritised and appropriate actions assigned so that the management of identified risks will be proportionate to the decision being made, or the size of the impact on service delivery.



The Council will take risks in a controlled manner, thus reducing exposure to a level deemed acceptable. In order to take advantage of opportunities, the Council will support innovation and the imaginative use of resources. However, the Council will seek to control all highly probable risks which have the potential to:

- Cause significant harm to service users, staff and the public;
- Severely compromise the Council's reputation;
- Significantly impact on finances;
- Jeopardise the Council's ability to undertake its core purpose;
- Threaten the Council's compliance with law and regulation
- Create opportunity for fraud and corruption

Taking the above into consideration, the Council's current overall risk appetite is defined as 'Moderate'. This means that the Council is tending towards exposure to moderate levels of risk in order to achieve acceptable outcomes. However, the Council's risk appetite is determined by individual circumstances. There will be areas where greater risk will be taken in supporting innovation in service delivery. These occasions will be offset by times when it maintains a lower than cautious appetite for example, in matters of compliance with law and public confidence in the Council. Risk appetite can therefore be varied for specific risks, provided this is approved by appropriate officers and/or Members.

The Council will review risk appetite and tolerance annually to ensure risks are being managed adequately.

## **6.0 Risk Management Maturity**

Across all industries, sectors and organisations different levels of risk management maturity exist. Risk management maturity refers to the journey an organisation goes through when managing risk. Mature risk management arrangements are vital to achieve organisational transformation.

The Association of Local Authority Risk Managers (ALARM) has developed and published a National Performance Model for Risk Management in Public Services to illustrate what good risk management looks like in a public service organisation. There are 5 levels.

A detailed maturity review<sup>1</sup> was last undertaken and reported in January 2015. This scored the Council's level of risk maturity as between levels 3 ("Working") and 4 ("Embedded and Working"). A number of recommendations were made to further develop risk management processes and an action plan was produced to address the recommendations.

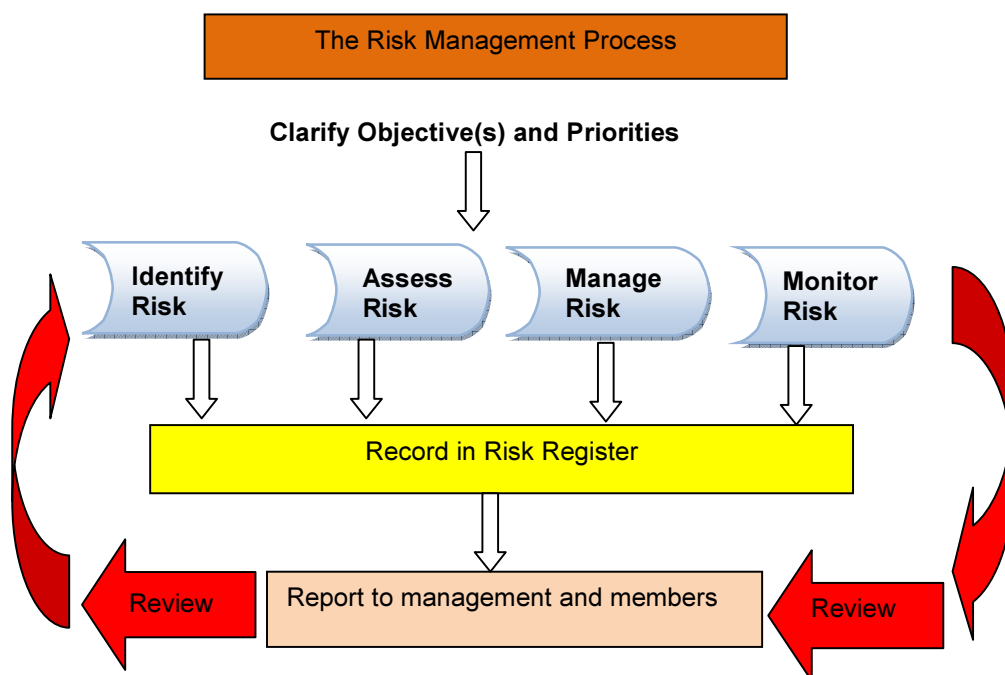
During 2015, significant progress was made to implement the recommendations. Nevertheless, the maturity level remained at Level 3/4

– Between Working and Embedded & Working and further development is necessary in some of the core areas. See Action Plan in Appendix 2. The Council will evaluate its risk maturity against ALARM guidance on a three-yearly frequency (maximum<sup>2</sup>) with the next review planned for December 2017.

1. Undertaken using the ALARM Performance Model by a Senior Internal Auditor not routinely involved in the Council's risk management framework, reporting to the Finance Manager within Strategic Finance to directly avoid any conflict of interests.

2. CMT will have the opportunity at each annual policy review to determine if, because of future events, the tri-annual risk maturity assessment should be more frequent.

## 7.0 The Risk Management Process



Risk management is a continual process involving the identification and assessment of risks, prioritisation of them and the implementation of actions to mitigate the likelihood of them occurring and impact if they did. The Council's approach to risk management will be proportionate to the decision being made or the impact of the risk, to enable the Council to manage risks in a consistent manner, at all levels.

Explanations of the stages within the risk management process: -

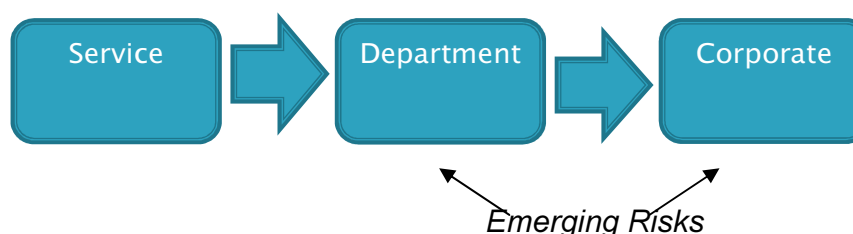
Identify risk	Clarify Objective(s) and Priorities from the Council's Departmental Service Planning process and identify risks which might create, prevent or delay achievement of the Council's objectives
Assess risk	Assess risks (Impact & Likelihood) using the Council's risk assessment criteria prior to the application of any

	existing/known controls i.e. evaluate the “Original risk score”
Manage risk	<p>Identification and assessment of the controls already in place to mitigate each risk to arrive at the “Current Risk score”. If Current Risk score is still high even with controls:</p> <ul style="list-style-type: none"> <li>• Is the score correct?</li> <li>• Determine the best way to manage the risks e.g. terminate, treat, transfer, tolerate</li> <li>• Determine whether the cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved.</li> <li>• Development of further SMART actions to achieve the desired “Target Risk score”.</li> </ul>
Monitor, Review and Report	Use the Risk Management Matrix and Risk Tolerance levels to determine the frequency of review, monitoring, risk escalation and reporting.

The Risk Management Guidance on CIS provides full details of each step within the above process. It also includes various tools and templates that can be used to aid the whole cycle.

## 8.0 Application

There is an established framework in which consistent application of the process should ensure the flow of appropriate risk information across the Council as follows:



### Department Risks:

Departments will undertake a risk identification exercise at least annually, as part of service planning. This will include:

- Risks to achieving objectives identified and assessed by managers at service area;
- Assessment will identify the risks to be managed within the service area and those that may need to be escalated to the next level i.e. Department Risk Register;
- Development of the Department Risk Register including:
  - Department specific risks

- Risks that may have been escalated up from service areas
  - Relevant risks from programmes, projects and partnerships
  - Any department horizon scanning of emerging risks
- In line with the framework, (risk matrix and risk tolerance levels), key risks should be escalated and reported to Departmental Management Team (DMT) regularly, settling clear accountability for managing risks;
- Review of department registers to identify continuing 'high scoring' risks for escalation to the Corporate Risk Register (CRR) either individually or consolidated with other risks.

This exercise will provide senior managers with a central record of departmental risks, with a clear audit trail of where the risk originates from and also provide assurance that risks are being managed.

#### High ranking and Corporate and Cross-cutting risks - Corporate Risk Register

This process will provide Directors and Members with a central record of corporate risks, to ensure consideration is given to high ranking, strategic risks that could impact the financial, political or reputational arena.

- Each quarter, Departmental Risk Champions and management teams will review Department Registers to identify and consider risks for escalation to the CRR, either individually or consolidated from Departmental Risk Registers;
- Internal Audit Service will confirm that the quarterly reviews have been consistently undertaken, and co-ordinate the production and reporting of the CRR, through to CMT and Corporate Governance Committee
- Whilst most risks are expected to come through this route they may not capture all of the strategic risks facing the Council. Therefore horizon scanning, information from relevant publications and minutes from key meetings will also provide a basis for including additional risks on the CRR.

#### Programme, Project and Partnership Risks

Risk implications relating to programmes, projects and partnerships will be assessed and considered for inclusion within the relevant Transformation Change Programme /Project Risk register and/or Departmental Risk Registers as appropriate. This process will also recognise that partnership working and the investment of Council funding in that context is becoming potentially more complex.

### Business Continuity & Insurance

The Business Continuity Team co-ordinates the preparation of business continuity plans at a corporate level and for each department. Such plans aim to minimise the likelihood and/or impact of a business interruption by identifying and prioritising critical functions and their resource requirements. Critical risks will be captured through the service and departmental risk reporting framework. Progress against business continuity and insurance activities will also be regularly reported to the Corporate Governance Committee.

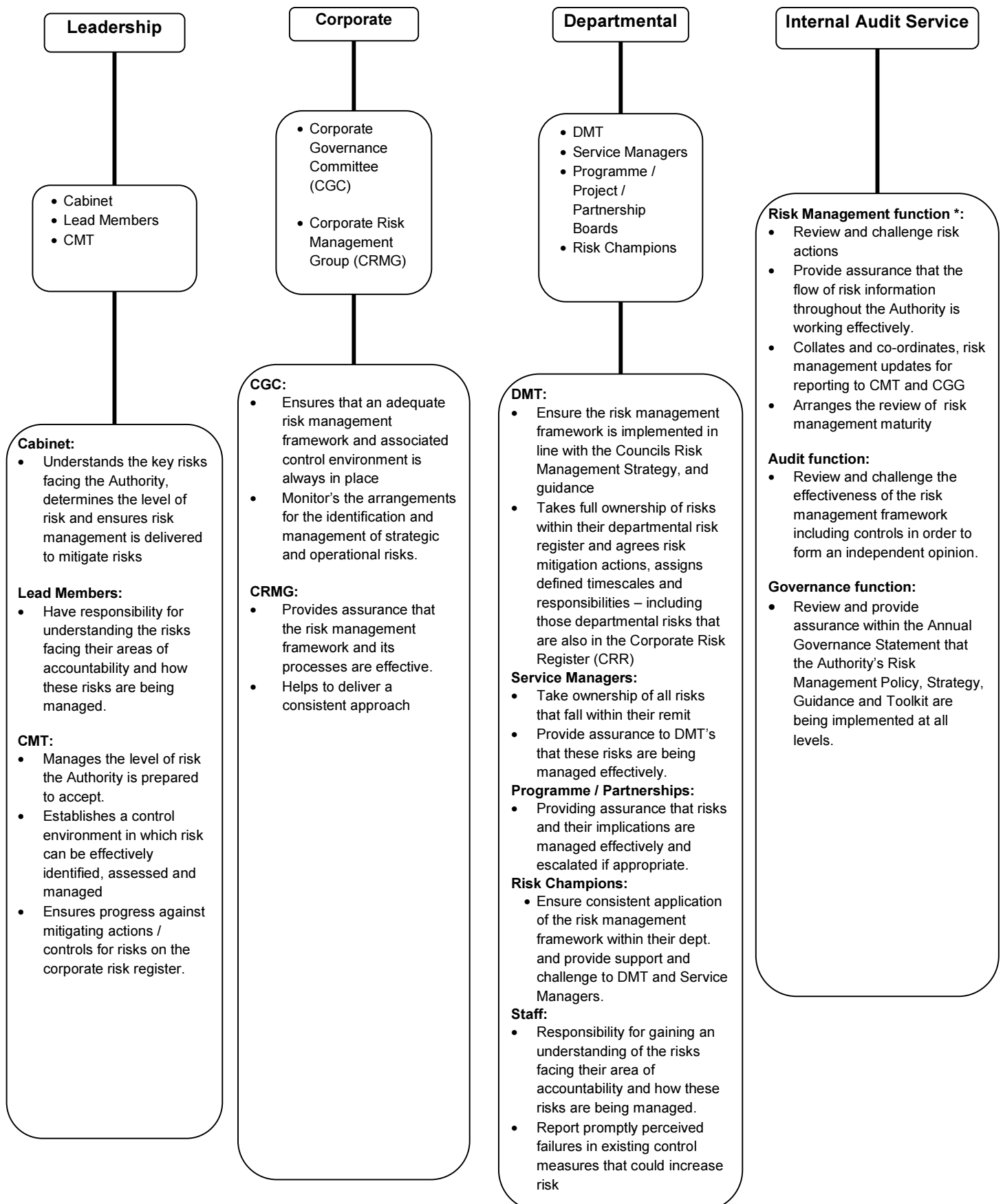
### **Support**

The above process will be supported by the following:

- Ownership of risks (at appropriate levels) assigned to Directors, managers and partners, with clear roles, responsibilities and reporting lines within the Council;
- Incorporating risk management into corporate, service and business planning and strategic and partnership working;
- Use of the Risk Management Toolkit throughout the Council
- Providing relevant training on risk management to officers and Members of the Council that supports the development of wider competencies;
- Learning from best practice and continual improvement;
- Seeking best practice through inter-authority groups and other professional bodies e.g. the Association of Local Authority Risk Managers (ALARM).

## **9.0 Risk Management Roles and Responsibilities**

The following structure is unique to the Council and is influenced by its risk management maturity, resource capacities, skills sets, internal operations and existing operating structures. The Council's risk management framework aligns to existing structures and reporting lines. **Full details** of risk management roles and responsibilities can be found in Appendix 1.



\* The Head of Internal Audit Service (HoIAS) is responsible for the administration and development of, and reporting on, the Council's risk management framework. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that this 'impairment' to independence and objectivity is recorded in the Internal Audit Charter (approved by CMT and CGC in November 2014) and (to avoid any conflict of interests) any audits of the risk management framework are overseen from a manager outside of the Service.

## **10. Continuous Improvement**

Regulators and risk management professionals indicate that good practice is to continuously improve risk management methodologies in line with recommendations from regular assessments and adapt to changing economic conditions.

To this effect, the LCC Risk Management Policy, Strategy, Guidance and related documents will be reviewed annually or after the release of new legislation or government guidance that affects risk governance, internal controls, financial management or the regulatory regime for public service organisations. They will also be reviewed following the results of any audit /review by Internal Audit Service or an external third party.

**Risk Management Roles & Responsibilities****Leadership:****Cabinet**

Understands the key risks facing the Council, determines the level of risk and ensures risk management is delivered to mitigate risks by:

- Ensuring that a risk management framework has been established and embedded;
- Approving the Council's Risk Management Policy and Strategy as part of the Medium Term Financial Strategy;
- Ensuring relevant risk considerations (if relevant) are included within reports which may have significant strategic policy or operational implications

**Lead Members**

- Responsibility for gaining an understanding of the risks facing their area of accountability and how these risks are being managed

**Corporate Management Team (CMT)**

Leading and ensuring effective management, monitoring and review of risk management across the Council by:

- Establishing a control environment and culture in which risk can be effectively assessed and managed;
- Directing the level of risk the Council is prepared to accept (appetite and tolerance levels);
- Encouraging the promotion of risk awareness, rather than risk avoidance;
- Reviewing and, approving the Council's corporate and strategic risks on the CRR quarterly and their importance against the Council's vision and priorities;
- Assisting with the identification of significant new and emerging risks as they become known - for consideration and addition to the CRR;
- Following the review and approval of the CRR, CMT to determine whether a potential reputation or consultation matter needs to be forwarded to the Communication Unit
- Providing challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control) ;
- Ensuring that risk assessments (if appropriate) are detailed in Cabinet or Scrutiny reports upon which decisions are based;
- Reviewing annually the Council's Risk Management Policy and Strategy.



**Corporate:**Corporate Governance Committee (CGC)

Provides assurance for the Council that risk management is undertaken and effective by:

- Receiving regular progress reports on the CRR and other risk management related initiatives;
- Reviewing, scrutinising and challenging the performance of the Council's risk management framework; including reviewing progress against planned actions from the previous quarter;
- Receiving presentations on specific areas of risk;
- Receiving reports from Internal and External Audit to determine the extent to which they indicate weaknesses in control, risk management and governance arrangements.

Corporate Risk Management Group (via Departmental Risk Champion)

Provides assurance that the risk management framework and its processes are working as intended and are effective by:

- Acting as the main contact for their department and its management on risk matters;
- Representing their department at the Corporate Risk Management Group;
- Encouraging the promotion of risk awareness, rather than risk avoidance;
- Assisting in the implementation of any revisions to the risk management framework and promoting use of the Risk Management Toolkit;
- Providing support and training on risk management to Directors, Heads of Service and other managers within their service/department;
- Providing support to the other departments' Risk Champions;
- Maintaining on behalf of the service Directors and Heads, a departmental risk register that complies with corporate guidelines;
- Providing regular risk updates to DMT's as per the agreed reporting criteria and risk timetable;
- Providing challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control)
- Ensuring that corporate risk information and requirements are communicated to the Department;
- Assessing the relevance of corporate, other departmental service, programme, project and partnership risks and their impact on their department;
- Reviewing cross cutting risk areas where risks of one department impacts on the risks of another;

- Providing regular updates to the Internal Audit Service for corporate risks to enable reporting to the CMT and Corporate Governance Committee;

### **Departmental:**

#### Departmental Management Teams (DMT)

Ensuring that risk management is implemented in line with the Council's Risk Management Strategy by:

- Appointing a Risk Champion /Representative for the department and authorising him/her to progress effective risk management that adheres to corporate guidelines, across their services;
- Ensuring that risk management is integrated within the annual service planning process;
- Taking full ownership of risks within their departmental risk register and agreeing risk mitigation actions, with defined timescales and responsibilities – including those departmental risks that are also in the CRR;
- Adhering to the corporate risk reporting timetable so that DMT meetings and risk monitoring tasks are aligned;
- Ensuring that the CRR accurately reflects only those key strategic risks facing the Council. The DMT scrutiny process should encompass a review of all departmentally identified corporate risks (new and those already identified), to critically evaluate the following:
  - Whether the risk is an ongoing corporate risk
  - Are all mitigating actions identified, SMART (i.e. Current Controls in place) and working adequately or are additional actions necessary.
  - The current risk score (Impact and Likelihood) is accurate and is not 'over-scored' in terms of likelihood particularly if a range of current controls have been identified as embedded and working adequately
  - Only add any further actions/ additional controls after determining whether any cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. If required, further actions should be SMART and record 'expected timeframe/due date' which should improve the robustness of the Target Risk impact and likelihood scores
- Receiving reports on risk management activity and review key risks regularly;
- Undertaking regular departmental horizon scanning for new or emerging risks, ensuring communication of these through appropriate channels and incorporation within the Departmental Risk Register if appropriate;
- Suggesting recommendations for the removal of current corporate risks that are considered as lower levels of risk;
- Ensuring that risk management considerations are included in all Cabinet, Scrutiny and Regulatory bodies reports in respect of strategic policy decisions;
- Providing assurance on the effectiveness of risk management within their department as part of the Annual Governance Statement process;

- Following the review and approval of the Departmental Risk Register, DMTs to determine whether a potential reputation or consultation matter needs to be forwarded to Communication Unit

### Service Managers

Providing assurance to DMT's that risks within their service are being managed effectively by:

- Ensuring that risk management within their area of responsibility is implemented in line with the Council's Risk Management Strategy;
- Managing risks on a day to day basis;
- Adhering to the risk scoring mechanism (original, current and target risk scores) outlined in the Strategy to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control)
- Communicating the results of their service risk assessment to the DMT via their Risk Champion, demonstrating effectiveness of controls in place to mitigate/reduce service risks;
- Reviewing risks from their areas of responsibility that have been included within the departmental risk register and prioritising and initiating action on them and ensure they are completed by the planned completion date;
- Identifying new and emerging risks or problems with managing known risks and escalating to the Risk Champion where appropriate;
- Ensuring that they and their staff are aware of corporate requirements, seeking clarification from their Risk Champions when required;
- Identifying risk training needs of staff and informing this to Risk Champions;
- Using the Risk Management Toolkit and guidance.

### Programme/Project/Partnerships

Providing assurance that project and partnership risks and their impact are managed and communicated effectively by:

- Ensuring risk management is a regular item on Partnership / Programme/Project Board agendas;
- Reviewing and monitoring risks identified on programme/project/partnerships risk registers, ensuring that suitable controls are in place and working, or that plans are being drawn up to strengthen further controls;
- Identifying new and emerging risks or problems with managing known risks, ensuring communication of these through appropriate channels, to inform affected service/department.

### Risk Champions

- See Corporate section

Staff

- Taking responsibility for gaining an understanding of the risks facing their area of accountability;
- Report promptly perceived failures in existing control measures that could increase risk.
- Take due care to understand and comply with the risk management processes and guidelines of the Council.

**Internal Audit Service**Risk Management (Head of Internal Audit Service in conjunction with the Director of Corporate Resources):

Provide assurance that the flow of risk information throughout the Council is working and effective to produce and maintain the Corporate Risk Register by:

- Leading in the implementation of the revised risk management framework and promoting use of the Risk Management Toolkit;
- Meeting with departments as per the risk management timetable to review risk registers and emerging risks;
- Coordinating risk management activity across the Council with the support of Departmental Risk Champions/Representatives
- Collating the changes to departmental risks and ensure that the Corporate Risk Register is amended to reflect current position;
- Regular horizon scanning (in conjunction with CMT, DMT Risk Champions and Head of Internal Audit) of information from relevant publications and minutes from key meetings to provide a basis for including additional risks on the Corporate Risk Register;
- Reporting progress on the Corporate Risk Register and other risk management related initiatives to the CMT, Corporate Governance Committee and Cabinet as per the risk management timetable;
- Supporting Departmental Risk Champions/Representatives in their risk management role;
- Communicating corporate risk management information and requirements;
- Reviewing the Risk Management Policy and Strategy at least annually to reflect best practice and initiate improvements;
- Arranging for the review of risk management maturity;
- Establishing links with external groups and organisations in order to gain knowledge and share best practice on risk management issues;
- Agreeing mechanisms for identifying, assessing and managing risks in key partnerships;
- Supporting the development and delivery of relevant risk training

### Assurance

Review and challenge the effectiveness of the risk management framework, providing independent assurance about the quality of controls that managers have in place, by:

- Creating a risk-based audit plan that is aligned to the Corporate Risk Register and the Departmental Risk Registers;
- Testing and validating existing controls, with recommendations for improvement on identified control weaknesses;
- Reporting outcomes to Chief Officers and Corporate Governance Committee;
- Monitoring changing risk profiles based on audit work undertaken, to adapt future audit work to reflect these changes;
- Conduct relevant audits of the risk management framework and maturity but overseen by a manager independent to the Service

**Appendix 2****Action Plan**

This Strategy sets out the developments / actions the Council proposes over the short term future to further improve risk management maturity. These developments include the following actions: -

Action	Target Implementation Date
To review and revise the Council's Risk Management Policy and Strategy and related guidance with endorsement from Corporate Management Team and Corporate Governance Committee.	January/ February 2016
Assist Update of Departmental Service Planning Guidance 2016/17: <ul style="list-style-type: none"> <li>• Alignment of Risk Registers to the Service Planning Process - 2016/17. To ensure risks recorded link back to departmental and service planning objectives.</li> <li>• Inclusion of the revised Risk Register Templates (2016/17)</li> </ul>	January 2016
Update and communicate through Manager's Digest, the Council's intranet Risk Management pages to include; <ul style="list-style-type: none"> <li>• Revised Risk Management Policy &amp; Strategy</li> <li>• All relevant guidance on methodologies and processes, including the revised Risk Assessment Criteria and Map</li> <li>• Risk Management Toolkit containing the revised risk register templates with guidance</li> <li>• Who to contact: details of the risk management "network",</li> <li>• Links to further information and guidance e.g. ALARM web-site</li> </ul>	February/March 2016
Provision of support to Departmental Risk Champions if necessary with the implementation of the revised Risk Register Template.	February – April 2016
Develop and introduce key performance indicator(s) for risk management activity to maintain and improve the maturity rating.	April 2016 and ongoing
Develop a training matrix to identify the levels of training that need to be attained by staff at different levels in the organisation. Explore differing options E.g. Face to face, CIS, external training. Explore the free training offering from the Council's Insurance providers - Gallagher Bassett's risk management consultancy service.	June 2016

To ensure that risk management awareness is given adequate prominence in the Council's staff induction procedures.	August 2016
To develop an e-learning module on risk management and to promote its uptake by all relevant officers.	September 2016
To liaise with Chief Executive's Department on any corporate guidance to ensure risks associated with partnerships are captured, particularly where the Council is the lead accountable body. CIS to be updated accordingly.	September 2016
Maintain effective horizon scanning process and communication of new/emerging risks to Risk Champions for assessment and consideration.	Ongoing 2016

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## Appendix C- Fraud Risk Assessment - 2015/16

Under the 'Identify risks' principle of the CIPFA Code of Practice on Counter Fraud (2014) there are recommendations that fraud risks are routinely considered as part of the organisation's risk management arrangements and that the organisation identifies the risks of bribery and corruption and the importance of behaving with integrity in its governance framework.

#	Area	Impact	Likelihood	Risk Score
<b>COMMON FRAUD AREAS (EXCLUDING NFI)</b>				
1	Members' Allowances / Expenses	3	1	3
2	Council Tax Discount / Local Council Tax Support	2	2	4
3	Business Rate Fraud	2	2	4
4	Procurement - From initial need development through to contract award	5	2	10
5	Procurement - Contract Management Fraud - Supplier manipulating its contract with the council for financial gain- i.e. duplicate payments, inaccurate payments, claims for additional work etc.	3	3	9
6	Procurement Cards	1	3	3
7	Economic and Voluntary Sector Support Fraud / Grant Fraud	2	1	2
8	Employee Fraud - Allowances & Expenses	3	3	9
9	Employee Fraud - Recruitment	2	2	4
10	Employee Fraud - Ghost Employees	2	1	2
11	Creditor Fraud - False Payments	2	3	6
12	Mandate Fraud	3	5	15
13	Schools - LA Maintained	2	5	10
14	Residential and Non-Residential Adult Social Care - Deprivation of Income	3	5	15
15	Adult Social Care - Abuse of Service Users' Funds, Property etc.	3	3	9
16	Adult Social Care - Personal Budgets	2	5	10
<b>NATIONAL FRAUD INITIATIVE (NFI) RELATED FRAUD AREAS</b>				
17	Pension Fraud - died but still being paid - <i>NFI Report 52</i>	2	1	2
18	Pension Fraud - pensioner reemployed - <i>NFI Reports 54, 55, 78</i>	1	1	1
19	Employee Fraud - abuse / misuse of time and resources - <i>NFI Reports 65, 66, 68</i>	1	3	3
20	Employee Fraud - no entitlement to work in the UK - <i>NFI Reports 70, 73</i>	2	3	6
21	Employee / Procurement Fraud - improper employee / supplier relationship - <i>NFI Reports 80,</i>	2	3	6
22	Blue Badge Misuse - <i>NFI Reports 170, 172</i>	2	3	6
23	Concessionary Travel <i>NFI Report 172</i>	1	3	3
24	Residential Care - <i>continuing to pay care home fees etc. after a SU dies - NFI Report 173</i>	1	2	2
25	Insurance Claimants - <i>NFI Report 180</i>	1	5	5
26	Creditors - duplicate payments - <i>NFI Reports 700-703, 707-713</i>	3	2	6
27	VAT Overpayment - <i>NFI Report 709</i>	1	1	1
<b>FRAUD - OTHER - CASH &amp; ASSETS</b>				
28	Foodcourt - Cash & Stock	1	3	3
29	Libraries - Cash & Assets	1	3	3
30	Museums - Cash & Assets	2	3	6
31	Registration Service - Cash & Assets (incl. risk of identity theft)	3	1	3
32	Registration Service - Public Protection & Counter Fraud Issues, e.g. misinformation to obtain welfare/benefits, identity theft, sham marriages	3	4	12
33	Beaumanor Hall - Cash and Stock	1	2	2
34	Country Parks - Cash and Assets	1	1	1
35	Adult Learning Service - Cash	2	4	8
36	Leicestershire Highways - MOTs - Cash, fraudulent use of certificates etc.	1	2	2
37	Leicestershire Highways - Stores, Plant etc.	4	4	16
38	Central Print Service - Cash & Assets	1	1	1
39	Integrated Passenger Transport Unit - Misuse of Assets, e.g. vehicles	2	2	4
40	Misappropriation of Surplus Assets, e.g. furniture, ICT	1	2	2
41	Imprest Accounts / IRSs	1	3	3

#	Area	Impact	Likelihood	Risk Score
42	Money Laundering Activity	2	2	4
	<b>E-FRAUD</b>			
43	Cyber Fraud	3	3	9
	<b>BRIBERY &amp; CORRUPTION</b>			
44	From a prospective contractor to influence the outcome of a procurement exercise	5	1	5
45	From a member of the public in return for priority over fostering and adoption approvals	4	1	4
46	From a businesses or 'rogue traders' in return for not investigating trading standards complaints or not investigating offences/not instituting legal proceedings	3	1	3
47	From a parent in return for the allocation of a school place which they are otherwise not entitled to	3	1	3
48	Bribing an external assessment agency (e.g. OfSTED, CQC) to issue a positive report when this otherwise wouldn't be the case	4	1	4
49	Bribery with regard to matters concerning investments	4	1	4
50	Bribing an elected member, e.g. development & planning decisions	4	1	4



**CIPFA Code of Practice on Managing the Risk of Fraud and Corruption  
Assessment Tool – Summary of Recommendations**

Undertaken by Leicestershire County Council Internal Audit Service  
NOVEMBER 2015

**A) OVERALL CONCLUSION**

The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The leadership has acknowledged its responsibilities for managing the risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements in place to carry it out. The organisation is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the organisation and meeting the standards of the counter fraud code contributes to good governance. Whilst no organisation is 'fraud proof', the organisation has taken robust steps to ensure its resilience. This high level of performance should be acknowledged within the organisation's annual governance report.

**B) SUMMARY CONCLUSIONS BY INDIVIDUAL THEME / PRINCIPLE**

PRINCIPLE	%	SUMMARY CONCLUSIONS
A - ACKNOWLEDGE RESPONSIBILITY	97%	The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption for Principle A. The leadership has acknowledged its responsibilities for managing the risks and it has robust arrangements in place to identify and manage risks. The organisation's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.
B - IDENTIFY RISKS	89%	The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption for Principle B. The organisation has comprehensive arrangements for fraud risk identification and assessment and is working to actively manage those risks. The organisation's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.
C - DEVELOP A STRATEGY	80%	The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and

		Corruption for Principle C. The organisation has put in place a robust strategy to address its fraud and corruption risks and has defined responsibilities for implementation and oversight. The organisation's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.
D - PROVIDE RESOURCES	79%	The organisation has reached a good level of performance against Principle D of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The organisation has put in place appropriately skilled resources and reviews its resourcing needs. There are some areas where more could be done to ensure that its counter fraud capability is able to operate effectively across the organisation and collaborative arrangements.
E - TAKE ACTION	70%	The organisation has reached a good level of performance against Principle E of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The organisation is proactive in addressing its fraud risks and takes appropriate action to referrals. It has put in place arrangements to provide assurance and accountability over its performance and so is able to identify its strengths and weaknesses. There are some areas where improvements can be made to the effectiveness of its arrangements and to ensure they fully address the scope of the counter fraud strategy.

### C) **SUMMARY OF RECOMMENDATIONS**

#	Ref to Assessment Tool	Recommendation
1	A2/1 C3/1 C3/7	A formal Loss Recovery Strategy should be developed and published.  It is acknowledged that work is underway to publish a Loss Recovery Strategy as an appendix to the Anti-Fraud & Corruption Strategy. This will be reported to the Corporate Governance Committee in February 2016. This will set out the range of options available to the Council, criminal and civil, to seek redress / restitution / retribution in the event of fraud, corruption or other financial irregularity.
2	A3/4	The results of this internal assessment should influence the 2015/16 AGS (and beyond).  This internal assessment should be repeated on a regular basis, say three-yearly.
3	B2/3	Continue to work with the Corporate Procurement Unit to establish formal training (procurement risks) for staff involved in procurement and commissioning. The wheels have been set in motion regarding this.
4	B4/2	Consider how the message that fraud is not a victimless crime and the harm caused by fraud can be conveyed to key stakeholders, for example through the Head of Internal Audit Service endorsing an information message for CIS (staff) and Leicestershire Matters (customers).

5	C3/2 C4/2	<p>To implement the remaining actions within the AF&amp;C Strategy's two-year action plan 2015-2017:</p> <ul style="list-style-type: none"> <li>• To monitor take up of the new e-learning module.</li> <li>• To assess and address the fraud risks associated with the Council becoming greater involved as a commissioner of services.</li> <li>• To assess and address the risks associated with partnership work, particularly where the Council is the lead accountable body.</li> </ul>
6	C3/5	<p>The Council should explore ways to publicise its anti-fraud activities to staff, contractors and customers, including its commitment to tackle fraud and corruption, and the outcomes of successful cases. For example:</p> <ul style="list-style-type: none"> <li>• Head of Internal Audit Service to endorse articles for CIS (staff), Leicestershire Matters (customers) advising of counter fraud activity that routinely takes place within LCC (e.g. NFI).</li> <li>• More proactive publication of successful prosecutions and a cultural change from the past where we were perhaps relieved if the press didn't pick up on a case (for fear of the bad publicity) with a new way of thinking that promotion of successful prosecutions or of successful counter fraud activity can act as a key deterrent.</li> </ul>
7	C3/8	<p>Internal Audit Service should discuss with Legal Services whether civil loss recovery should ordinarily seek to also recover the costs of investigation, supplementary to actual fraud loss.</p>
8	D1/1	<p>The Head of Internal Audit Service should define a clear role(s) and responsibilities/boundaries for counter fraud activity within the Service.</p>
9	D2/1	<p>The Head of Internal Audit Service to begin to transfer fraud knowledge to other staff within the Service to mitigate the risk of a 'single point of failure'. This could, for example, be achieved through nominating an assistant to the operational lead who would take on the more routine duties.</p>
10	D2/2	<p>Should the Strategic HR Service decide to offer a traded investigation resource, Internal Audit Service should provide some basic training to HR Officers in areas such as file management protocol, loss recovery, criminal process, data protection etc.</p> <p>Should the Strategic HR Service decide to offer a traded investigation resource, it should consider having a member of HR staff undertake the CIPFA Accredited Counter Fraud Technician qualification.</p>
11	D2/3	<p>Delivery of actions planned to provide more in house training to:</p> <ul style="list-style-type: none"> <li>- Internal Audit Service staff (by IAS)</li> <li>- Staff routinely involved in procurement and/or commissioning (by the Corporate Procurement Unit)</li> <li>- Strategic HR staff (by IAS)</li> </ul>
12	D3/2	<p>Exploration of the adequacy of access rights that are in place covering outsourced activities, shared services (e.g. EMSS), consortia (e.g. ESPO), and partnership arrangements so that an investigator is able to conduct appropriate enquiries, if required.</p>

13	E1/1	The Council's supplementary counter fraud documents are referred to in the Anti-Fraud and Corruption Strategy (Section 11 - Further Information), but this link would be strengthened if they were directly hyperlinked to, so as to enable ready access. Recommendation, therefore, is to establish hyperlinks from the AF&C Strategy to the supplementary documents. This can be done at the same time that the Loss Recovery Strategy gets added to the AF&C Strategy as an appendix.
14	E2/4	To strengthen the link between counter fraud and risk management to ensure that considering fraud risk is an integral part of risk management within the organisation.  To consider whether the risk of fraud and corruption as an organisational whole should be included on the Corporate Risk Register.
15	E4/3	To liaise with the County Solicitor at an early opportunity to determine whether there is necessity for an annual review of whistleblowing with findings of such a review reported to the Corporate Governance Committee, e.g. number of concerns reported, type of concern, action taken etc.
16	E5/1	The Head of Internal Audit Service to consider whether there should be an annual report to the CGC, possibly (but not necessarily) replacing the quarterly counter fraud updates, discussing adherence to the Anti-Fraud & Corruption Strategy.

**CORPORATE GOVERNANCE COMMITTEE****19 FEBRUARY 2016****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****INTERNAL AUDIT SERVICE PROGRESS REPORT****Purpose of Report**

1. The purpose of this report is to: -
  - a. provide a summary of progress against the Internal Audit Plan 2015-16
  - b. report on progress with implementing high importance recommendations
  - c. report the outcome of a special investigation undertaken

**Background**

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the internal audit function, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan.
3. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken.

**Summary of progress against the Internal Audit Plan 2015-16**

4. This report covers the position as at 5 February 2016. There remains a considerable amount of work in progress.
5. The outcome of audits completed since the last progress report to the Committee is shown in **Appendix 1**. For assurance audits an 'opinion' is given i.e. what level of assurance can be given that material risks are being managed. There are usually four levels: full; substantial; partial; and little. A report with at least one high importance recommendation would normally be classified as 'partial'.

6. Where the auditor's work has been quality reviewed by an Audit Manager and there is confidence that the opinion given will be acceptable to management and is unlikely to change, then it is shown in the appendix (draft issued).
7. LCCIAS also undertakes consulting/advisory type audits. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies. Where these have incurred a reasonable amount of resource they are now also included in Appendix 1.

### **Progress with implementing high importance recommendations**

8. The Committee is also tasked with monitoring the implementation of high importance recommendations. **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. There have not been any new HI recommendations over the last three months.
  - b. E&T - SEN transport risk assessments. The proposed implementation dates for the three HI recommendations are not yet due. Nevertheless, assurances have been given that progress is already being made.
  - c. E&T - Resource Allocation System. Whilst there has been some progress, the implementation dates for the two HI recommendations have been further extended due to resourcing issues which will be addressed in the Department's reorganisation

### **Special investigation outcome**

10. An administrative employee obtained instant cash for their personal benefit from a 'money shop' but was thwarted in a second attempt. Investigations revealed a cheque book had been ordered by the employee and kept on their person. Other cash and financial records were missing and there had been only one payment into bank of monies collected. Petty cash account reconciliations had been fabricated and a bank statement forged.
11. The Police arrested the employee who was charged with (and admitted to) three 'Fraud by False Representation' and one 'Theft by Employee' offences. The employee appeared at Leicester Magistrates Court, pleaded guilty and received a community service order with an additional compensation order. After the criminal trial, a disciplinary hearing was held but the employee did not attend. They were dismissed without notice.



12. Management has reviewed processes and re-established controls. Internal Audit Service will test in the near future that they are being consistently applied.

#### **Resources Implications**

13. None

#### **Equality and Human Rights Implications**

14. There are no discernible equality and human rights implications resulting from the audits listed.

#### **Recommendation**

15. That the contents of the report be noted.

#### **Background Papers**

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 12 June 2015 - Internal Audit Plan for 2015-16

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

None.

#### **Officer to Contact**

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#### **Appendices**

- Appendix 1 - Summary of Internal Audit Service work at 5 February 2016
- Appendix 2 - High Importance Recommendations

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Department	Audit Name	Final Report Issued position @ 05/02/16) (or	Opinion	HI Rec
Children & Family Services	Burton-on-the-Wolds Primary School	Draft Issued 14/12/15	Substantial Assurance	No
Children & Family Services	Newcroft Primary School Shepshed	Draft Issued 14/12/15	Substantial Assurance	No
Children & Family Services	Newton Burgoland Primary School	15/12/15	Substantial Assurance	No
Children & Family Services	St Denys CE Primary School Ibstock	16/12/15	Substantial Assurance	No
Children & Family Services	St Margarets CE Primary School Stoke Golding	03/12/15	Full Assurance	No
Children & Family Services	Stathern Primary School	07/12/15	Substantial Assurance	No
Children & Family Services	Witherley CE Primary School	17/12/15	Substantial Assurance	No
Children & Family Services	Worthington School	17/12/15	Substantial Assurance	No
Consolidated Risk	Core financial controls – Overpayment of Salaries	08/01/16	Substantial Assurance	No
Corporate Resources	ISRA <sup>1</sup> - Direct Payment Cards	02/12/15	Substantial Assurance	No
Corporate Resources	School's Capital Programme	Draft Issued 14/01/16	Substantial Assurance	No
Corporate Resources	Treasury Management	Draft Issued 26/01/16	Substantial Assurance	No
Public Health	Leicestershire & Rutland Sports Partnership	05/02/16	Substantial Assurance	No
Public Health	Sexual Health Contract	03/02/16	Substantial Assurance	No
<b>Consulting/Advisory audits</b>				
Consolidated Risk	Property Asset Management System - Governance			
Consolidated Risk	Virtual Desktop Integration (VDI) Deliverable			
Corporate Resources	Commercial Traded Services User Group			
Corporate Resources	HR Investigations and Zero Tolerance	01/02/15		
Corporate Resources	Revised Capital Management Processes	24/12/15		
<sup>1</sup> ISRA - Information Security Risk Assessment				

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**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 (by end of)</u></b>	<b><u>Confirmed Implemented</u></b>
Reported September 2015				
SEN Transport risk assessments (E&T)	<p>The Department requested an audit of the risk assessment processes applied to transporting children with SEN. The audit found a range of issues around: -</p> <ol style="list-style-type: none"> <li>1. risk assessments including a high proportion of a sample that hadn't been completed, inconsistent processes and reactive follow up reviews</li> <li>2. not always linking travel care plans (key points on how to manage the identified risks) to transport eligibility assessment forms</li> <li>3. inadequate training records for transport escorts.</li> </ol> <p>Recommended: -</p> <ol style="list-style-type: none"> <li>1. completing risk assessments within an agreed time limit</li> <li>2. documenting processes for undertaking risk assessments and the completion of associated information to ensure consistency</li> <li>3. maintaining improved training records with regular reviews</li> </ol>	<p>Agreed</p> <p><b>2/16 – a detailed update (due to be reported to DMT) provides assurances there has been significant progress against implementing all of the recommendations.</b></p>	<p>March 2016</p> <p><b>Apr 2016 - IAS to re-test the improvements are embedded in time to report to May Committee.</b></p>	

Reported June 2015				
Resource Allocation System (E&T)	<p>An audit of the new Resource Allocation System (vehicles and plant) for highways work revealed that standing data was incomplete, there were delays in recording allocations and other key information and there was not any management information.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> <li>1. Processes and training should be reviewed and revised</li> <li>2. Information should be produced on a frequent basis and reviewed by management</li> </ol>	<p>Agreed and actions already in place including internal audit stock checks</p> <p><b>2/16 – Whilst improved reporting has been designed and implemented, data quality issues remain. These may not be fully resolved until support posts are filled in the overall restructure.</b></p>	<p>Originally July 2015</p> <p>Extend to Oct 2015; Jan 2016</p> <p><b>Review position in June 2016 – but likelihood improvements won't be finalised until September.</b></p>	