

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 16 March 2015

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor G Fazackarley (Vice-Chairman)

Councillors P J Davies
Miss T G Harper
D L Steadman
P W Whittle, JP
N R Gregory

Deputies: L Keeble
D J Norris



1. Apologies

2. Minutes (Pages 1 - 4)

To confirm as a correct record the minutes of the Audit and Governance Committee meeting hold on 9 February 2015.

3. Chairman's Announcements

4. Declarations of Interest and Disclosures of Advice or Directions

To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. Deputations

To receive any deputations of which notice has been lodged.

6. Variation to the External Audit Final Fee 2013/14 (Pages 5 - 8)

To consider a report by the Director of Finance and Resources on the variation to the External Audit Final Fee 2013/14.

7. External Audit Certification Report (Pages 9 - 20)

To consider a report by the Director of Finance and Resources on the External Audit Certification Report.

8. Business Continuity (Pages 21 - 24)

To consider a report by the Director of Environmental Services on Business Continuity.

9. Treasury Management Strategy and Prudential Indicators 2015/16 (Pages 25 - 44)

To consider a report by the Director of Finance and Resources on the Treasury Management Strategy and Prudential Indicators 2015/16.

10. Internal Audit Strategy and Annual Plan (Pages 45 - 58)

To consider a report by the Director of Finance and Resources on the Internal Audit Strategy and Annual Plan.

11. Quarterly Internal Audit Report (Pages 59 - 70)

To consider a report by the Director of Finance and Resources on the Quarterly Internal Audit Report.

12. Corporate Risk Register Update (Pages 71 - 82)

To consider a report by the Director of Finance and Resources on an update of the Corporate Risk Register.

13. Office of Surveillance Commissioners Inspection Report 2014 (Pages 83 - 98)

To consider a report by the Director of Finance and Resources on the Office of Surveillance Commissioners Inspection Report 2014.

14. Annual Audit and Governance Committee Report and Work Programme
(Pages 99 - 104)

To consider a report by the Director of Finance and Resources on the annual report and work programme.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk
6 March 2015

**For further information please contact:
Democratic Services, Civic Offices, Fareham, PO16 7AZ
Tel:01329 236100
democraticservices@fareham.gov.uk**

FAREHAM

BOROUGH COUNCIL

Minutes of the Audit and Governance Committee (to be confirmed at the next meeting)

Date: Monday, 9 February 2015

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor T G Knight (Chairman)

Councillor G Fazackarley (Vice-Chairman)

Councillors: L Keeble (deputising for P J Davies), Miss T G Harper,
D L Steadman, N R Gregory and D J Norris (deputising for P W
Whittle, JP)

Also Present: Councillors T M Cartwright, MBE (item 6) and N J Walker.



1. APOLOGIES

Apologies of absence were received from Councillors P J Davies and P W Whittle, JP.

2. MINUTES

RESOLVED that the minutes of the Audit and Governance meeting held on 24 November 2014 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman thanked all the members who had attended the meeting, especially given the short notice of it. He explained that the purpose of this special meeting is to ensure full consideration of proposals referred from the Planning Committee to change the Scheme of Delegation to Officers in respect of the Planning Committee and the Planning Committee Deputation Scheme. The existing schedule of meetings had the next A&G Committee on 16 March 2015, meaning that the proposed changes would not be able to be considered by Council until 23 April 2015. This would have meant that the three Planning Committee meetings would not have been able to adopt the new proposals.

As both the Scheme of Delegations and the Deputation Scheme are included in part 4 of the Council's Constitution, the proposed changes must be considered by the Audit and Governance Committee before being recommended to Council for approval.

The Chairman announced that further to his announcement at the last meeting on 24 November 2014, that there had been a suspected breach of the Member's Code of Conduct and he could now provide the following update to members:

A complaint was received on 14 October 2014 by the Council's Monitoring Officer in relation to the conduct of a Council Member at the Planning Committee meeting of 24 September 2014.

The complaint concerned the allegation that a member of the Committee, when considering an application, was discussing and raising objection issues with a representative opposed to the application after all formal representations had been made. This was seen by the complainant as undermining natural justice as the Councillor appeared to be favouring the representative opposing the application.

A full investigation by the Monitoring Officer, including consultations with the Solicitor to the Council, concluded that a breach of the Members' Code of Conduct had occurred.

A formal letter of censure was sent by the Monitoring Officer to the Councillor in question, who admitted that an error constituting a breach of the code had occurred. The Councillor was requested to attend further training on probity in planning when this could be arranged.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. PROPOSED CHANGES TO THE SCHEME OF DELEGATION TO OFFICERS IN RESPECT OF THE PLANNING COMMITTEE AND THE PLANNING COMMITTEE DEPUTATION SCHEME

The Committee considered a report by the Monitoring Officer on the proposed changes to the scheme of delegation to officers in respect of the Planning Committee and the Planning Committee Deputation Scheme.

The report was presented by the Head of Development Management. He explained to the Committee that Appendix A is a copy of the report that was presented to the Planning Committee on 28 January 2015, and that the Committee's proposed amendments to the report have been listed in paragraph 5 of this report.

Councillor Gregory expressed concern over the number of notification letters that are sent out regarding a planning application and asked what would happen if less than 5 were issued due to the area containing only a few properties, and even if all objected there would not be enough to reach the required 5 letters of representation to bring the application before the Planning Committee. The Head of Development Management confirmed that this is unlikely to be a common problem, but reminded Members that Ward Councillors still have the right to call an application to the Committee and recommends should such a situation occur that this the Ward Councillor takes this action.

Councillor Gregory then enquired as to whether information would be provided on the Council's website to encourage residents to contact their Ward Councillor with any issues or concerns they may have with a planning application. The Head of Development Management informed the Committee that this information is already included with the notification letters sent out to residents and that they will continue to provide this information in the future.

Councillor Knight addressed the Committee regarding the proposal in that Members of the Planning Committee can (through the Chairman) ask for clarification on proposals or comments, and stated that it does not include Ward Councillor's in the list of people members could ask clarification from. Councillor Keeble informed the Committee that under the current scheme the Chairman of Planning Committee does offer Ward Members the opportunity to speak and where needed asks them for clarification on points. Councillor Walker confirmed this was correct and he would continue to do so.

At the invitation of the Chairman, Councillor Cartwright addressed the Panel on this item.

RESOLVED that the Committee:-

- (a) notes the comments of the Planning Committee; and
- (b) recommends to Council that proposed changes to the Scheme of Delegation to Officers in respect of the Planning Committee and the Planning Committee Deputation Scheme as set out in paragraphs 38 and 48 of the report at Appendix A, along with the minor amendments and clarifications recommended by the Planning Committee in paragraph 5 of the report be agreed.

7. REVIEW OF THE CONSTITUTION

The Committee considered a report by the Monitoring Officer on a review of the Constitution.

The report was presented by the Head of Democratic Services who explained that the purpose of the report was to agree on a way forward to the updating and reviewing of the Council's Constitution. She explained that they are keen for members to have an input into these changes at an early stage and therefore recommends that a Member Officer Working Group be formed.

Councillor Keeble asked if this review of the Constitution would take place after all departments have been through the Vanguard Intervention as this could lead to several further changes needed. The Head of Democratic Services explained that the review of the Constitution is a work in progress and can only be done in small stages and therefore will be able to incorporate any changes brought about by the Vanguard Interventions.

Councillor Knight addressed the Committee, and stated that whilst he is aware that Group Leaders will be nominating members for the Working Group, he had received a request from Councillor Davies who has requested to be included on the Working Group. He also suggested that Councillor Keeble and himself be considered for this Working Group.

RESOLVED that the Committee:-

- (a) agrees with the proposal to set up a Member and Officer Working Group to assist with the review and update of the Council's Constitution before consideration by the Scrutiny Board and the Executive and approval by Council;
- (b) recommends to Council that a Member Officer Working Group be established and that the Group Leaders be requested to nominate members to the group; and
- (c) also suggests that the following members be nominated for the working group; Councillors T G Knight, L Keeble and P J Davies.

(The meeting started at 6.00 pm
and ended at 6.30 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 16 March 2015

Report of: Director of Finance and Resources

Subject: VARIATION TO THE EXTERNAL AUDIT FINAL FEE 2013/14

SUMMARY

The External Annual Audit Letter for 2013/14 was presented to members in November 2014. Included in the letter was a statement of the final fee for this work.

This report brings to members' attention a letter received from the Council's external auditors, Ernst & Young llp, which sets out the reasons why this fee needs to be varied by £900.

RECOMMENDATION

That the Committee notes the content of Appendix A to this report.

Appendix A – [Scale Fee Variation \(Business Rates\) Letter](#)

Background Papers: None

Reference Papers: None

Enquiries:

For further information on this report please contact Andrew Wannell, Director of Finance and Resources (Ext 4620)

Mr A Wannell
Director of Finance and Resources
Fareham Borough Council
Civic Offices
Civic Way
Fareham
Hampshire
PO16 7AZ

25 November 2014

Ref: FBC/KH/SFV NDR
Your ref:

Direct line: 02380 382043

Email: KHandy@uk.ey.com

Dear Andrew

Fareham Borough Council - 2013/14 Audit Scale Fee – late variation

We issued our 'Annual Audit Letter' on the 30 October 2014, to formally report the outcome from our work in respect of the 2013/14 audit year. Within our 'Annual Audit Letter' we set out the 'final' audit fees, as required by the Audit Commission.

However, the Audit Commission has recently consulted on a supplement to the 2014/15 audit scale fees. In that consultation, the Audit Commission applied a permanent variation of £900 to the base scale fee. This reflects the additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund.

This additional work is required because the certification work on Business Rates (the NNDR3 grant claim) is no longer within the Audit Commission's grant regime - it was withdrawn for 2013/14. Auditors were previously able to use the certification work on the NNDR3 claim as the required assurance for the audit opinion on the financial statements (including the Collection Fund). As a result, the 2013/14 grant certification scale fee was reduced by £980, to reflect this.

The Audit Commission has now acknowledged that auditors were required to undertake these additional audit procedures to be able to gain assurance for the 2013/14 financial statements opinion. Indeed, business rates were included as an audit risk within our Audit Plan. In recognising that this applies equally to 2013/14, the Audit Commission has asked us to agree a scale fee variation of £900 to that audit fee with you.

The revised final scale fee in respect of the 2013/14 audit is set out in the table below.

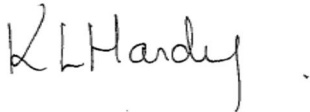
	2013-14	2013-14
	Reported final fee (within Annual Audit Letter)	Amended final fee (revised and final)
	£	£
Audit Code Scale Fee	63,407	64,307

I appreciate that any increase to the audit scale fee is unwelcome news, but I hope that the narrative above sets out the Audit Commission's rationale for the increase. I think that this increase should be seen in the context of the Audit Commission reducing the 2015/16 scale fee by a further 25%, as a result of its latest procurement exercise.

If you wish to discuss this in more detail please do let me know, so we can arrange a call or a meeting. Otherwise, I would be grateful if this letter could be included on the agenda for the next Audit and Governance Committee, as we are required to report the final audit fee to 'those charged with governance' of the Council.

I look forward to catching up with you in due course.

Yours sincerely



Kate Handy
Director
Ernst & Young LLP

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 16 March 2015
Report of: Director of Finance and Resources
Subject: EXTERNAL AUDIT CERTIFICATION REPORT

SUMMARY

This report presents the External Auditor's Annual Certification Report 2013-14 which summarises the findings from the 2013-14 certification work.

RECOMMENDATION

That the Committee consider and comment on the information contained in the Annual Certification Report 2013-14 submitted by the Council's external auditors.

Appendix A: [Annual Certification Report 2013-14](#) (Draft)

Background Papers: None

Reference Papers: [Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns – March 2013](#)

Enquiries:

For further information on this report please contact Andrew Wannell. (Ext 4645)

Certification of claims and returns annual report 2013-14

Fareham Borough Council

February 2015

Ernst & Young LLP



The Members of the Audit and Governance Committee
Fareham Borough Council
Civic Offices
Civic Way
Fareham
Hampshire
PO16 7AZ

February 2015
Ref: FBC/Claims/2013-14

Direct line: 02380 832043
Email: KHandy@uk.ey.com

Dear Members

Certification of claims and returns annual report 2013-14 Fareham Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Fareham Borough Council's 2013-14 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and the submission deadlines.

Certification work is not an audit. It involves executing prescribed tests designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2013-14, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2013-14 certification work and highlights the significant issues.

We checked and certified two claims and returns with a total value of £20,315,921. We met all submission deadlines. We issued one qualification letter for the Housing Benefit subsidy claim. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the subsidy due.

The Council has implemented all of the recommendations from last year and has improved arrangements. We have made one recommendation this year, set out in section 4.

Fees for certification work are summarised in section 2. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed, and the fees for certification of housing benefit subsidy claims have been reduced by 12 per cent. This is to reflect the removal of council tax benefit from the scheme.

We welcome the opportunity to discuss the contents of this report with you at the 16 March 2015 Audit and Governance Committee.

Yours faithfully

Kate Handy
Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

1. Summary of 2013-14 certification work	1
2. 2013-14 certification fees.....	3
3. Looking forward.....	4
4. Summary of recommendations.....	5

1. Summary of 2013-14 certification work

We certified 2 claims and returns in 2013-14. Our main findings are shown below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£19,438,457
Limited or full review	Full
Amended	Amended – subsidy reduced by £9,416
Qualification letter	Yes

Recommendations from 2012-13:	Findings in 2013-14
The Council should continue to focus on reducing the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy.	In 2013-14 we continued to find errors which required us to ask the Council to carry out additional testing. These errors did not cause the Council to breach the error threshold but the Council needs to maintain an ongoing focus here. The main issues detected are set out below.
The Council should ensure that all actions arising from the software provider's exception reports are addressed.	All actions were addressed. No issues arising.
The Council should complete work reconciling the value of unrepresented cheques between the general ledger and the benefits software,	Reconciliation completed. No issues arising.

Councils run the Government's housing benefits scheme for tenants. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim, reducing subsidy by £9,416. We have reported underpayments and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

- ▶ From an initial sample of 20 rent allowance cases we identified two errors totalling £1,108 whereby benefit had been overpaid as a result of eligible rent being incorrectly calculated. Errors ranged from £37 to £1071. Testing of a further 80 cases identified no errors of this type. The extrapolated error of benefit overpaid in our qualification letter was £27,719; and

- ▶ From a sample of 60 cases we identified one error of £132 whereby benefit had been overpaid as a result of earnings being incorrectly calculated. The extrapolated error of benefit overpaid in our qualification letter was £3,544.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	886,880
Limited or full review	Full
Amended	Yes
Qualification letter	No

Recommendations from 2012-13:	Findings in 2013-14
None	<p>One amendment was made.</p> <p>The Council has entered into a section 11(6) retention agreement with the DCLG. The Council must spend the receipts retained under this agreement within 3 years. While the first deadline under the three year condition will not occur until 30 June 2015, the DCLG requested that authorities report their cumulative expenditure to 31 March 2014 now to ensure that an audit trail is in place.</p> <p>This 'information purposes only' disclosure was amended reducing the Council's recorded expenditure between the coming into force of the section 11(6) retention agreement and 31 March 2014 from £65,000 to zero.</p>

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards then redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and 'right to buy' discount repayments.

2. 2013-14 certification fees

From 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fees for 2013-14 are based on actual certification fees for 2011-12 (including a proportion of the cost of the annual report), reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The 2013-14 fee for certification of housing benefit subsidy claims has been reduced by a further 12% to reflect the removal of council tax benefit from the scheme.

Claim or return	2011-12	2012-13	2013-14	2013-14
	Actual fee £	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	42,255	17,141	21,278	21,278
Pooling of Housing Capital receipts	1,398	440	921	921
Other schemes no longer requiring certification	3,542	1,810	-	
Certification of claims and returns – annual report	4,000			
Total	51,195	19,391	22,199	22,199

There was an increase in fees in 2013-14 compared to 2012-13. This is because the Audit Commission set 2013-14 scale fees based on actual fees charged in 2011-12 while 2012-13 scale fees were set based on actual fees charged in 2010-11. The actual fees charged in 2011-12 were higher than those in 2010-11. This higher baseline resulted in the increase.

3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-15 is £15,080. The actual certification fee may be higher or lower if we need to undertake more or less work than in 2012-13 on individual claims or returns. Details of individual indicative fees are available at the following link:

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-work-programme-and-scales-of-fees/>

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2012-13 fee.

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission (due April 2015).

The Audit Commission currently expects that auditors will continue to certify local authority claims for housing benefit subsidy from the Department for Work and Pensions (DWP) under the arrangements developed by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014-15. Arrangements for 2015-16 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016-17, when Universal Credit is expected to replace housing benefit.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Action agreed	Responsible officer
Housing benefits subsidy claim			
<p>The Council should continue to focus on reducing the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy. In particular the Council should focus on:</p> <ul style="list-style-type: none"> <li data-bbox="352 723 903 752">▶ reducing errors in calculating income; and <li data-bbox="352 801 903 831">▶ reducing errors in calculating eligible rent. 	Medium	Yes	Systems and Support Manager

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **16 March 2015**

Report of: **Director of Environmental Services**

Subject: **BUSINESS CONTINUITY**

SUMMARY

Councils are required to maintain adequate business continuity arrangements to ensure their critical services are maintained during and following any disruption that impacts upon service delivery.

The Committee has received previous reports that provided updates on the work that has been undertaken, progress that has been made and the arrangements that are in place for responding to and managing any disruption. This report provides a further update for members of the work that has been undertaken.

Part of this process has also involved a review of the Business Continuity Management Policy, which sets out the framework for the development, implementation, testing and review of the Council's Business Continuity Plans (BCP).

RECOMMENDATION

The Committee is requested to:

Note the progress to date and the ongoing work that is being undertaken in the development and implementation of the Council's business continuity arrangements.

INTRODUCTION

1. The Civil Contingencies Act 2004 (CCA)¹ classifies local authorities as a Category 1 responder. This gives the authority a number of duties in relation to planning for civil emergencies, which are summarised below:
 - **Assess the risk of emergencies** occurring and use this to inform contingency planning;
 - Put in place **emergency plans**;
 - Put in place **Business Continuity Management** arrangements;
 - Put in place arrangements to make information available to the public about civil protection matters and maintain arrangements to **warn, inform and advise the public** in the event of an emergency;
 - **Share information with other local responders** to enhance co-ordination;
 - **Co-operate with other local responders** to enhance co-ordination and efficiency; and
 - **Provide advice and assistance to businesses and voluntary organisations about business continuity management**
2. The inclusion of local authorities in the CCA recognises the role they have to play, both in direct operational response and in support of the 'blue light' emergency services during emergencies, which impact on their communities.
3. The duty to plan for business continuity ensures that the authority can continue to provide its critical services when it is involved in an emergency response and also when any of those critical services are faced with a disruptive challenge, for example, a power cut affecting the Civic Offices.
4. The process of business continuity planning, in simple terms, involves the following steps:
 - Identify the risks faced, and the impacts of those risks;
 - Identify the critical services the authority provides; and
 - Make plans to ensure those critical services are resilient to the risks faced.
5. Good business continuity planning requires a detailed understanding of the services provided, and the resources required to deliver those services. It should therefore be viewed as a process which enhances everyday business, as well as one which provides emergency procedures.
6. Business Continuity is not a one off process; it is an ongoing process which should account for changes to statutory responsibilities, service delivery, restructuring, and the risk assessment. The process needs to be reviewed and tested regularly to ensure plans are fit for purpose when activation is required.

¹ See <http://interim.cabinetoffice.gov.uk/ukresilience/preparedness/ccact.aspx> [external website] for more information

BACKGROUND

7. Over the years the Audit and Governance Committee has received a number of reports on the Council's approach to business continuity, one of which reviewed the arrangements the Council has in place and reported on the development of a business continuity policy. The policy set out the framework for the development, implementation, testing and review of the Council's Business Continuity Plans (BCP) and this was approved by the Committee in April 2008.
8. In September 2011, the Committee received a report that provided information on the progress in respect of the work that had been undertaken in the development, implementation and testing of the Council's business continuity arrangements. At this meeting the Business Continuity Policy was presented to the panel and approved and has been in place since this date.
9. This report provides a further update on the work that has been undertaken.

BCP REVIEWS

10. A report was presented to the Chief Executive's Management Team in October 2012 by the Director of Regulatory and Democratic Services, where all critical services were reviewed. Following this review the Head of Parking and Enforcement met with all Heads of Service who are required to have a BCP for their identified critical service. It is the responsibility of Individual Directors/Heads of Service to ensure their BCP's remain up to date and fit for purpose.
11. Following the review, work has also been undertaken to refine and further simplify the business continuity process, templates have been changed and guidance on completion of plans have been provided to assist in the review process.
12. In December 2014 The Head of Parking and Enforcement again met with all Heads of Service responsible for BCP's to be assured that they had all been reviewed and where required all had been updated to ensure they are fit for purpose. As stated above in paragraph 6 these will be reviewed on a regular basis to ensure they are fit for purpose.
13. Each service the council provides will be reviewed as part of the development of BCP's to ensure the development of procedures and information is maintained in readiness for use in an incident to enable the Council to continue to deliver its critical services and functions at an acceptable pre-defined level. A critical service/function is defined as that which has to be performed in order to deliver the key services for the council in order to meet its most important service objectives. The Head of Parking and Enforcement will continue to ensure that all BCP's are reviewed on an annual basis.

BCP ACTIVATION/TESTING

14. BCP's should be tested on a regular basis to ensure they are fit for purpose; this is carried out by the BCP owner. There are occasions when during an emergency the BCP is activated, this was tested in December 2012 when a severe flood warning was issued for Wallington which could have affected the depot services in Broadcut.

15. The BCP was invoked and the depot evacuated as part of the plan, all employees were re-located to the Civic Offices, grounds maintenance, street cleansing and refuse and recycling operatives and vehicles were already out in the borough and were not immediately affected by this. The problem that could have arisen was at the point when all vehicles and operatives were due to return to the depot.
16. The BCP had already identified this as a potential problem and therefore had made arrangements for the vehicles to be diverted to Lysses car park upon returning from their duties, which they did and it worked very well.
17. Whenever there is an emergency planning exercise, within the scenario it is always intended to test a BCP from a Department within the Council to ensure they are fit for purpose.

RISK ASSESSMENT

18. There are no significant risk considerations in relation to this report.

CONCLUSION

19. Over the next year the Council will review all BCP's and will also continue to develop all Corporate BCP's that relate to the loss of the Civic Offices and other major assets of the council including the Depot and those specific BCP's for the delivery of the Council's critical services.
20. The Council's Business Continuity Management Policy will also be reviewed and brought back to the committee for approval when the review has been completed. It is anticipated that this review will refine and make the process of business continuity management more streamlined, while it continues to be fit for purpose.

Background Papers: None

Reference Papers: None

Enquiries:

For further information on this report please contact Kevin Wright. (Ext 4359)

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 16 March 2015

Report of: Director of Finance and Resources

Subject: TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2015/16

SUMMARY

Regulations require the Council to prepare and formally approve both an annual treasury management strategy and Prudential Indicators. The document for 2015/16 is attached as Appendix A for consideration by the Audit and Governance Committee before being submitted to Council for approval.

RECOMMENDATION

That the draft Treasury Management Strategy and Prudential Indicators for 2015/16, attached as Appendix A to this report, be endorsed and submitted to the Council for approval.

Background Papers: None

Reference Papers: None

Enquiries:

For further information on this report please contact Caroline Hancock. (Ext 4589)

TREASURY MANAGEMENT STRATEGY 2015/16**SECTION 1 - INTRODUCTION****BACKGROUND**

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

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

REPORTING REQUIREMENTS

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. The responsibility for the implementation and monitoring of these reports is the Executive's with the Audit and Governance Committee responsible for the effective scrutiny of the treasury management strategy and policies.
5. The three reports are:
 - (1) Treasury Management Strategy and Prudential Indicators, covering:
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy;
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - the investment strategy (the parameters on how investments are to be managed).
 - (2) Mid-Year Treasury Management Report - updating members with the progress of the capital position and investment activity, amending prudential and treasury indicators as necessary and whether the treasury strategy is being met or requires revision.

- (3) Annual Treasury Report - This provides details of the actual prudential and treasury indicators and actual treasury activity compared to the estimates within the strategy.

TREASURY MANAGEMENT STRATEGY FOR 2015/16

6. The strategy for 2015/16 covers two main areas:
 - (1) Capital Issues
 - capital plans and the prudential indicators;
 - the minimum revenue provision (MRP) policy.
 - (2) Treasury Management Issues
 - current treasury position;
 - treasury indicators which will limit the treasury risk and activities of the Council;
 - prospects for interest rates;
 - borrowing strategy;
 - policy on borrowing in advance of need;
 - investment strategy;
 - investment counterparty selection criteria; and
 - policy on use of external service providers.
7. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG Investment Guidance.

TRAINING

8. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.
9. The training needs of treasury management officers are periodically reviewed.

TREASURY MANAGEMENT CONSULTANTS

10. The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
11. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2014/15 - 2017/18

12. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.
13. A summary of all prudential and treasury indicators can be found in Annex A.

Capital Expenditure (Aff.3)

14. This prudential indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle.

Capital Expenditure £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	Un- allocated
Public Protection	0	0	0	0	429
Streetscene	185	134	0	0	309
Leisure & Community	3,921	7,147	974	0	513
Health & Housing	722	560	480	480	60
Planning & Development	74	84	15	15	720
Policy & Resources	10,818	3,303	655	540	3
Total General Fund	15,720	11,228	2,124	1,035	2,034
HRA	7,351	11,232	3,207	2,240	0
Total	23,071	22,460	5,331	3,275	2,034

15. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	Un- allocated
General Fund	15,720	11,228	2,124	1,035	2,034
HRA	7,351	11,232	3,207	2,240	0
Total	23,071	22,460	5,331	3,275	2,034
Financed by:					
Capital receipts	5,307	2,255	1,080	230	60
Capital grants	6,850	6,927	250	250	309
Capital reserves	2,176	1,200	254	15	516
Revenue	8,738	9,113	3,747	2,780	1,149
Net financing need for the year	0	2,965	0	0	0

The Council's Borrowing Need (Capital Financing Requirement) (Aff.5)

16. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.
17. The CFR does not increase indefinitely, as the minimum revenue provision (MRP)

is a statutory annual revenue charge which broadly reduces the borrowing in line with the assets life.

18. The CFR projections are as follows:

£'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
General Fund	-2,754	211	211	211
HRA	53,805	53,805	53,805	53,805
Total CFR	51,051	54,016	54,016	54,016

19. The movement from a negative General Fund CFR to positive is due to the proposed borrowing of £2,965,000 for the Daedalus development. The previous negative CFR is a result of the Council under borrowing to finance capital schemes in earlier years.

Minimum revenue provision (MRP) policy statement

20. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. Local Authorities are required to 'have regard' to guidance on Minimum Revenue Provision (MRP) issued by the Secretary of State. This guidance suggests a number of options for calculating MRP but does not preclude other prudent methods that the Council may wish to adopt.
21. The Council does not currently have an MRP policy statement as it does not have any long term General Fund borrowing. Any decisions on borrowing will be reported to the Executive and at this stage an MRP policy statement will be set based on the nature of the borrowing and the capital scheme the borrowing is for.

Affordability Prudential Indicators

22. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Financing costs as a percentage of net revenue stream (Aff.1)

23. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.
24. The positive percentage for the HRA for 2014/15 to 2017/18 reflects the net borrowing costs for the HRA settlement. The 'Total' is not a sum of the figures quoted for General Fund and HRA but an aggregate of the elements.

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
General Fund	-12%	-11%	-11%	-12%
HRA	14%	14%	14%	14%
Total	3%	3%	3%	3%

Incremental impact of capital investment decisions on council tax and housing rents (Aff.2)

25. This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support (which are not published over a three year period).
26. Similar to the council tax calculation, the housing rents indicator identifies the trend in the cost of proposed changes in the HRA capital programme compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax band D	£2.70	£2.24	£0.43	£0.83
Weekly housing rent levels	£0.56	£0.77	£0.22	£0.15

27. HRA Ratios

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268
HRA revenues £'000	12,120	12,268	13,277	13,222
Number of HRA dwellings	2,389	2,389	2,443	2,439
Ratio of debt to revenues %	4.06:1	4.02:1	3.71:1	3.72:1
Debt per dwelling £	£20,622	£20,622	£20,167	£20,200

SECTION 3 - TREASURY MANAGEMENT STRATEGY 2015/16

28. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

CURRENT PORTFOLIO POSITION

29. The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any under or over borrowing.
30. The "expected change in borrowing" is the repayment to Hampshire County Council of £200,000 per annum, in respect of the interest free loan to finance the new Portchester Community Centre, plus the proposed loan of £2,965,000 to part finance the Daedalus development.

£'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing at 1 April	41,830	41,630	44,395	44,195
Expected change in borrowing	(200)	2,765	(200)	0
Other long term liabilities	0	0	0	0
Borrowing at 31 March	41,630	44,395	44,195	44,195
The Capital Financing Requirement	51,051	54,016	54,016	54,016
Under/(over) borrowing	9,421	9,621	9,821	9,821

31. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
32. The Director of Finance and Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary (Aff.4)

33. This is the limit beyond which external borrowing is not normally expected to

exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational Boundary £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	48,000	48,000	46,000	45,000
Other long term liabilities	2,000	4,000	4,000	4,000
Total	50,000	52,000	50,000	49,000

The Authorised Limit for External Borrowing

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

Authorised Limit £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	69,000	73,000	73,000	77,000
Other long term liabilities	4,000	6,000	6,000	6,000
Total	73,000	79,000	79,000	83,000

37. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt cap	56,851	56,851	56,851	56,851
HRA CFR	53,805	53,805	53,805	53,805
HRA headroom	3,046	3,046	3,046	3,046

PROSPECTS FOR INTEREST RATES

38. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary gives the Capita Asset Services central view on interest rates and economic update.

Annual Average %	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
March 2015	0.50	2.20	3.40	3.40
June 2015	0.50	2.20	3.50	3.50
Sept 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
March 2016	0.75	2.60	4.00	4.00
June 2016	1.00	2.80	4.20	4.20
Sept 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
March 2017	1.25	3.20	4.50	4.50
June 2017	1.50	3.30	4.60	4.60
Sept 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
March 2018	2.00	3.60	4.80	4.80

39. UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established.
40. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015.
41. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.
42. The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.
43. The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:
- Greece: the general election on 25 January 2015 brought an anti EU and anti austerity political party to power. If this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece.

- However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
 - Investment returns are likely to remain relatively low during 2015/16 and beyond;
 - Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015.
 - The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
 - There will remain a cost of carry for any new borrowing which causes an increase in investments, as this will incur a revenue loss between borrowing costs and investment returns.

BORROWING STRATEGY

44. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
45. Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Director of Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
 - *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - *if it was felt that there was a significant risk of a much sharper RISE in long*

and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

46. Any decisions will be reported to the Executive at the next available opportunity.

Treasury Management Limits on Activity (Pru.3 and 4)

47. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

48. The Council is asked to approve the following treasury indicators and limits:

Upper limits on interest rate exposures	2014/15	2015/16	2016/17	2017/18
	%	%	%	%
- Upper limit on variable interest rate exposures	25	25	25	25
- Upper limit on fixed interest rate exposures	100	100	100	100
Maturity structure of borrowing	Upper Limit			
	%	%	%	%
- Loans maturing within 1 year	25	25	25	25
- Loans maturing within 1 - 2 years	25	25	25	25
- Loans maturing within 2 - 5 years	25	25	25	25
- Loans maturing within 5 - 10 years	50	50	50	50
- Loans maturing in over 10 years	100	100	100	100

POLICY ON BORROWING IN ADVANCE OF NEED

49. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

50. Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting

mechanism.

DEBT RESCHEDULING

51. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
52. The reasons for any rescheduling to take place will include:
 - the generation of cash savings and / or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
53. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
54. All rescheduling will be reported to the Council at the earliest meeting following its action.

SECTION 4 - ANNUAL INVESTMENT STRATEGY 2015/16

INVESTMENT POLICY

55. The Council's investment policy has regard to DCLG's Guidance on Local Government and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.
56. The Council's investment priorities will be security of capital first, liquidity second and then the return.
57. In accordance with the above guidance from DCLG and CIPFA, and in order to minimise the risk to investments, the Council has clearly stipulated below the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. Using the Capita Asset Services ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
58. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
59. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
60. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.
61. The intention of the strategy is to provide security of investment and minimisation of risk.

INVESTMENT COUNTERPARTY SELECTION CRITERIA

62. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:
 - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the sections below; and
 - It has sufficient liquidity in its investments. For this purpose it will set out

procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

63. The Director of Finance and Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
64. Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.
65. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.
 - if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings, the Council will be advised of information in movements in Credit Default Swap and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
66. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information (for example Credit Default Swaps, negative rating watches/outlooks). This additional information will be applied to compare the relative security of differing investment counterparties.
67. The following internal measures are also in place:
 - Investment decisions formally recorded and endorsed using a Counterparty Decision Document; and
 - Monthly officer reviews of the investment portfolio and quarterly reviews with the Chief Executive Officer.
68. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:
 - Banks 1 - good credit quality. The Council will use banks which are UK banks and/or are non-UK and domiciled in a country which has a minimum

sovereign rating of AA and have as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

	Fitch	Moody's	Standard and Poor's
Short Term	F1	P-1	A-1
Long Term	A	A2	A

- Banks 2 - Part nationalised UK banks (Lloyds Banking Group and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Bank 3 - The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building Societies - Building societies have formed the basis of the UK's savings culture and are under strict FSA directives in regard to their borrowing and lending criteria. The Council will use all societies which meet the ratings for banks outlined above and/or have assets in excess of £5bn.
- Other investment counterparties:
 - i. UK Government (including gilts and the Debt Management Account Deposit Facility)
 - ii. Local authorities
 - iii. Money market funds
 - iv. Enhanced cash funds

COUNTRY AND SECTOR CONSIDERATIONS

69. The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.
70. The Council will limit the amount of investments with building societies to 25% of the portfolio.
71. As far as possible, the Council will aim to maintain at least 25% of investments maturing within 1 year, and have no more than 50% of investments that have a maturity date of more than 1 year.

TIME AND MONETARY LIMITS APPLYING TO INVESTMENTS

72. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating	Money Limit	Time Limit
Banks 1 - good credit quality	A	£6m	5 years
Banks 2 - part-nationalised	N/A	£8m	3 years
Building societies - Assets over £5bn	N/A	£2m	1 year
Debt Management Account Deposit Facility	AAA	Unlimited	6 months
Local Authorities	N/A	Unlimited	5 years
Money Market Funds	AAA	£6m per fund	Liquid
Enhanced Cash Funds	AAA	£6m per fund	Liquid

INVESTMENT STRATEGY

73. The Council's in-house managed funds are mainly existing resources earmarked to finance future capital expenditure and resources derived from favourable cash flow with a core balance of £10 - £15 million available for investment over a year.
74. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
75. The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. The Bank Rate forecasts for financial year ends (March) are:

Year	Bank Rate
2015/16	0.75%
2016/17	1.25%
2017/18	2.00%

76. There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

Investment Treasury Indicator and Limit (Pru.5)

77. Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Principal sums invested > 364 days	£16m	£15m	£11m	£11m

78. For its cash flow generated balances, the Council will seek to utilise its call accounts, money market funds and short-dated deposits (overnight to three months).

External Fund Managers

79. Up to £13 million of the Council's investments are externally managed on a discretionary basis by Tradition. This level is based on the core balance of £10-15 million and is reviewed periodically as the core balance changes.
80. Tradition will comply with the Annual Investment Strategy and their performance is reviewed quarterly by the Director of Finance and Resources.
81. The agreement between the Council and Tradition additionally stipulate guidelines and duration and other limits in order to contain and control risk.

OTHER ISSUES

82. Where cash flows determine it necessary, the Council's bankers - NatWest (part of the RBS group) will be used on an unlimited basis. If their credit quality is reduced, the Council will continue to use their banking services but no investments will be placed with them.
83. The unprecedented changes in the economy and the financial sector are such that this Strategy Statement provides a framework within which Officers will operate. The Director of Finance and Resources will take further precautionary steps to manage the investment portfolio within the framework, responding to the economic conditions as they evolve throughout the year.

SCHEME OF DELEGATION

(i) Full Council

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

(ii) Responsible body - Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Responsibility for scrutiny - Audit and Governance Committee

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

SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator	Description	2014/15	2015/16	2016/17	2017/18
<u>Aff.1</u>	Affordability Measure: Financing Costs as a percentage of net revenue stream				
	Overall Position	3%	3%	3%	3%
1a	General Fund	-12%	-11%	-11%	-11%
1b	Housing Revenue Account	14%	14%	14%	14%
<u>Aff.2</u>	Affordability Measure: Incremental impact of capital investment on Council Tax and Housing Rents				
2a	Council Tax increases, borrowing costs only	£2.70	£2.24	£0.43	£0.83
2b	Housing Rent increases, borrowing costs only	£0.56	£0.77	£0.22	£0.15
<u>Aff.3</u>	Affordability Measure: Capital Expenditure (£'000s)	Estimate	Estimate	Estimate	Estimate
	General Fund	£15,720	£11,228	£2,124	£1,036
	Housing Revenue Account	£7,351	£11,232	£3,207	£2,240
	Total Capital Expenditure	£23,071	£22,460	£5,331	£3,276
<u>Aff.4</u>	Affordability Measure: External Debt Level (£'000s)				
	Authorised limit, comprising	£73,000	£76,000	£79,000	£83,000
	- borrowing	£69,000	£70,000	£73,000	£77,000
	- other long term liabilities	£4,000	£6,000	£6,000	£6,000
	Operational boundary, comprising	£50,000	£49,000	£50,000	£49,000
	- borrowing	£48,000	£45,000	£46,000	£45,000
	- other long term liabilities	£2,000	£4,000	£4,000	£4,000
<u>Aff.5</u>	Affordability Measure: Capital Financing Requirement (CFR) (£'000s)				
	General Fund CFR closing balance in the year	£51,051	£54,016	£54,016	£54,016
		-£2,754	£211	£211	£211
	HRA CFR closing balance in the year	£53,805	£53,805	£53,805	£53,805
<u>Pru.1</u>	Prudence Measure: Gross Debt and Capital Financing Requirement (CFR) (£'000s)				
	Gross Debt	£41,630	£44,395	£41,230	£41,230
	CFR (for last, current and next 2 years)	£210,134	£213,099	£216,064	£216,064
	Has measure been achieved?	Achieved	Achieved	Achieved	Achieved
	Memorandum Item : Prudence margin	£165,530	£168,504	£174,834	£174,834
<u>Pru.2</u>	Prudence Measure: Adoption of the CIPFA Treasury Management Code of Practice				
	Has the Code been adopted in its entirety?	Yes	Yes	Yes	Yes
<u>Pru.3</u>	Prudence Measure: Upper Limits to fixed and variable interest rate exposure				
	Upper limit to variable interest rate exposures	25%	25%	25%	25%
	Upper limit to fixed interest rate exposures	100%	100%	100%	100%
<u>Pru.4</u>	Prudence Measure: Maturity structure of borrowing	<u>Upper Limit</u>	<u>Upper Limit</u>	<u>Upper Limit</u>	<u>Upper Limit</u>
	Loans maturing within 1 year	25%	25%	25%	25%
	Loans maturing within 1 - 2 years	25%	25%	25%	25%
	Loans maturing within 2 - 5 years	25%	25%	25%	25%
	Loans maturing within 5 - 10 years	50%	50%	50%	50%
	Loans maturing in over 10 years	100%	100%	100%	100%
<u>Pru.5</u>	Prudence Measure: Total Principal sums invested for periods of more than 364 days (£'000s)				
	Upper Investment Limit for the year	£16,000	£15,000	£11,000	£10,000

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **16 March 2015**

Report of: **Director of Finance and Resources**

Subject: **INTERNAL AUDIT STRATEGY AND ANNUAL PLAN**

SUMMARY

This report presents a revised Internal Audit Strategy for approval. This document sets out the proposed nature and the extent of work that the Internal Audit Service will deliver in order to support the Annual Head of Audit Opinion.

A draft plan of Audit work for 2015/16 has also been prepared using the principles set out in the Strategy.

RECOMMENDATION

That the Internal Audit Strategy and draft plan for 2015/16, as attached as [Appendix A](#) and [Appendix B](#) be approved.

INTRODUCTION

1. The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. They are recognised as the professional standards for Local Government Internal Audit Services. The Standards require us to set out the nature of assurance services that will be provided to the Council in order to support the Annual Audit Opinion and how the work will be resourced.
2. This report therefore presents an Internal Audit Strategy for approval, which sets out this information and a draft plan of work for 2015/16 using the principles in the Strategy. The Strategy supplements the Internal Audit Charter which sets out the purpose, authority and responsibilities of the service.

INTERNAL AUDIT STRATEGY

3. The proposed new Strategy is attached as [Appendix B](#). It seeks to deliver the maximum assurance and value added work within current budget constraints. The headline proposals contained in the Strategy are as follows:
 - (a) The Strategy gives more transparency to the assurances being provided by the In-house audit team as well as the Audit Contractor.
 - (b) **3 Groups of Assurance Work** – The Annual Head of Audit's Opinion will now take into account the findings from: 1) individual audit opinion work, 2) wider audit work and, 3) the assurances available from other providers.
 - (c) **Increasing Wider Audit Work** – More resources will be allocated to *wider audit work* which seeks to get to the root cause of issues and help develop a solution.
 - (d) **Minimum Audit Level** – The amount of individual audit opinion work carried out is not to fall below 173 days a year, and at least 20 discrete pieces of opinion or wider work will be delivered a year.
 - (e) **High Risk Audits** – The opinion on all fundamental financial systems will be refreshed every 3 years. Audit areas that are considered to be inherently High Risk will be given an audit opinion at least every 5 years. The plan each year will also include computer audit work and corporate level audit work.
 - (f) **Resourcing** – Bought in resources will be used to deliver the individual opinion work to maintain independence. However, the in-house team will support the delivery of this work. In-house resources will also be used to deliver the wider audit work.

PROVISIONAL PLAN FOR 2015/16

4. A provisional plan has been prepared for 2015/16 using the principles in the Strategy, and is attached as [Appendix A](#). The following should be noted:
 - (a) **Level of Opinion Audit** – There is provision in the plan for 190 days of individual audit opinion work plus an additional contingency of 50 days for the in-house team to support the work and provide the wider service requested by managers.
 - (b) **Number of Assignments** – There are 20 discrete pieces of work included in the plan covering a variety of audit types and departments in the Council. There will also be reactive pieces of work completed in the year which will also be used to support the Annual Audit Opinion.

- (c) **Vanguard Reviews** - Two of the areas of work in the plan relate to services or systems that have recently been the subject of an audit intervention.

RISK ASSESSMENT

5. There are no significant risk considerations in relation to this report

CONCLUSION

6. The proposed Internal Audit Strategy should address the requirements of both the Public Sector Internal Audit Standards and the managers of this Council.

Background Papers: None

Reference Papers:

Chartered Institute of Public Finance and Accountancy (CIPFA) 2013 – Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.

Report to Audit and Governance Committee on the Public Sector Internal Audit Standards and Internal Audit Charter on 25th November 2013

Appendices:

Appendix A – [Draft Internal Audit Plan for 2015/16](#)

Appendix B – [Draft Internal Audit Strategy](#) (separate attachment)

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

Draft Internal Audit Plan for 2015/16

Part A – Level and Source of Resources

	No of days		Bought In	In-House
OPINION WORK				
Fundamental Systems	55		55	
Corporate Specialist, Governance , Risk	15		15	
Computer	30		30	
Services and Systems - High Risk	45		45	
Services and Systems - Other	25		25	
Contingency	20		20	
In-House Support	50			50
TOTAL	240		190	50
WIDER WORK SUPPORTING ANNUAL REPORT				
Themed Assignments	30		15	15
Follow Ups	15			15
Other Recommendation Work	35			35
Horizon Scanning	5			5
Reactive Work	40			40
TOTAL	125		15	110
COMPILATION OF OTHER SOURCES OF ASSURANCE	10			10
TOTAL AUDIT PLAN	375		205	170

Part B – Proposed Lists of Audit Assignments in the Plan

	Type	Title	Days	Reason for Inclusion in Plan
	OPINION WORK			
1	Fundamental Systems	Payroll and Employee Expenses	10	Annual Audit under agreement with External Audit
2	Fundamental Systems	Accounts Payable	10	Annual Audit under agreement with External Audit
3	Fundamental Systems	Capital Expenditure & Accounting	10	Fundamental System - Cyclical Coverage. Last opinion given in 2012/13
4	Fundamental Systems	Fixed Assets	10	Fundamental System - Cyclical Coverage
5	Fundamental Systems	Local Tax Collection	15	Fundamental System - Cyclical Coverage
6	Corporate, Specialist, Governance, Risk	Recruitment and Selection	15	Fraud risk area last audited 2007/8 and has been the subject of a Vanguard intervention.
7	Computer	Disaster Recovery	15	Significant system for governance with some outstanding recommendations. Change of approach being taken in our arrangements.
8	Computer	Express Application	5	Significant application not reviewed since 2004/5. Changes due to the introduction of Individual Electoral Registration.
9	Computer	Software Control	10	Last audited 2003/04 with recommendations that are awaiting audit sign off.
10	Services and Systems - High Risk	Parking Enforcement	15	High Risk Service on the basis of expenditure. Has been the subject of a Vanguard intervention.
11	Services and Systems - High Risk	Recycling	10	High Risk Service on the basis of income. Last audited 2011/12
12	Services and Systems - High Risk	Household Waste Collection	10	High Risk Service on the basis of that it is a critical service with high reputation risk. Last audited 2011/12.
13	Services and Systems - High Risk	Land Charges	10	High Risk Service on the basis on the high level of High risk income. Last audited 2011/12
14	Services and Systems - Other	Right to Buy	10	Managers Preference as no audit coverage of the enhanced scheme.
15	Services and Systems - Other	Protection of Trees	8	Achieves some coverage of the Planning and Development department - no previous audit opinion given.
16	Services and Systems - Other	Individual Electoral Registration	7	Significant change to the service provision in 2014/15.
	Contingency		20	
	In-house support		50	
	Total Opinion Work			240
	WIDER WORK			
17	Thematic Review	Contract Deeds Management	15	Policy compliance testing of aspect of Contract Procurement Rules.
18	Thematic Review	Effectiveness of Ethics related activities	15	Audit standards stipulate that internal audit provide a specific opinion on this
19	Follow Up	Data Protection Part 3	7	Significant system for governance which warrants greater coverage.
20	Follow Up	Vehicle Repairs Procurement	8	Change of responsibility in 2015/16 and recommendations waiting sign off.

FAREHAM

BOROUGH COUNCIL

INTERNAL AUDIT STRATEGY

1. Introduction

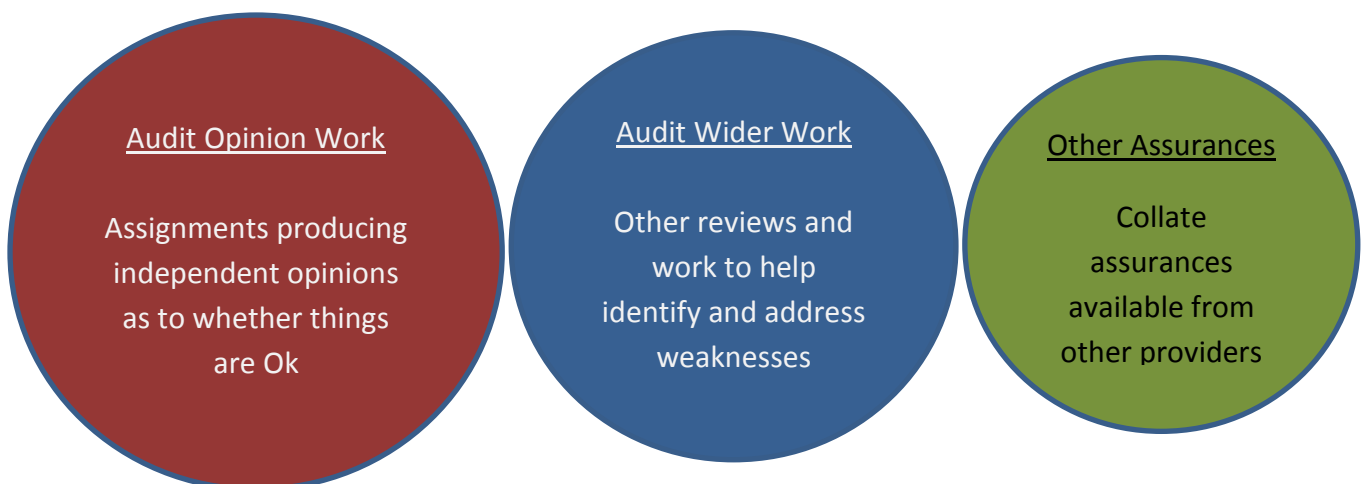
The Internal Audit Service, along with other assurance providers, forms the “third line of defence” for the Council after the controls and oversight processes established by management.

This is achieved by carrying out a programme of work which results in an Annual Audit Opinion on the ‘*overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control*’.

This Strategy sets out the nature and extent of work proposed for this Council to support the Annual Audit Opinion. It supplements the Internal Audit Charter which sets out the purpose, authority and responsibilities of the service.

2. Nature of Audit Work

This Strategy recognises 3 groups of work carried out by the Internal Audit Service, which can be used to support the Annual Audit Opinion. These are summarised in the diagram below. [Appendix 1](#) gives a further breakdown of the work involved in these groups and shows how they support the provision of the different parts of the Annual Audit Opinion.



Other Assurances

This Strategy seeks to maximise the use of the assurances which are available from other sources and avoid duplication where possible. In particular where services are provided jointly with **other councils**, agreements will be sought with their internal audit teams to rotate and share internal audit coverage.

ISA610 makes it harder for **external audit** to place reliance on internal audit work to meet their responsibilities. Instead arrangements will be explored to maximise the use that can be made of their work as a source of assurance for the internal audit opinion.

3. Quantity of Audit Work

The amount of audit work needed to support the Annual Audit Opinion is left to the discretion of each organisation. In determining the level of work needed the following have been considered:

Trends in the Profession

The CIPFA audit benchmarking club calculated that on average members were delivering 3 days of mainline audit per £m of Gross Revenue Turnover in 2014/15. The analysis was based on 65 councils of all types. A similar level for this Council would be **173 days** of mainline audit work.

An analysis has been carried out of the annual opinions given by 51 (25%) district council audit teams in 2013/14. The table below summarises how many pieces of work were used to support the opinion.

Number of opinion audits	Number of Councils
Up to 15	9
16-20	12
21-25	19
26 and more	11
	51

On average the annual audit opinions were based on **22** individual opinion audits, although there was a significant variation on levels of coverage and the nature of the audit assignments.

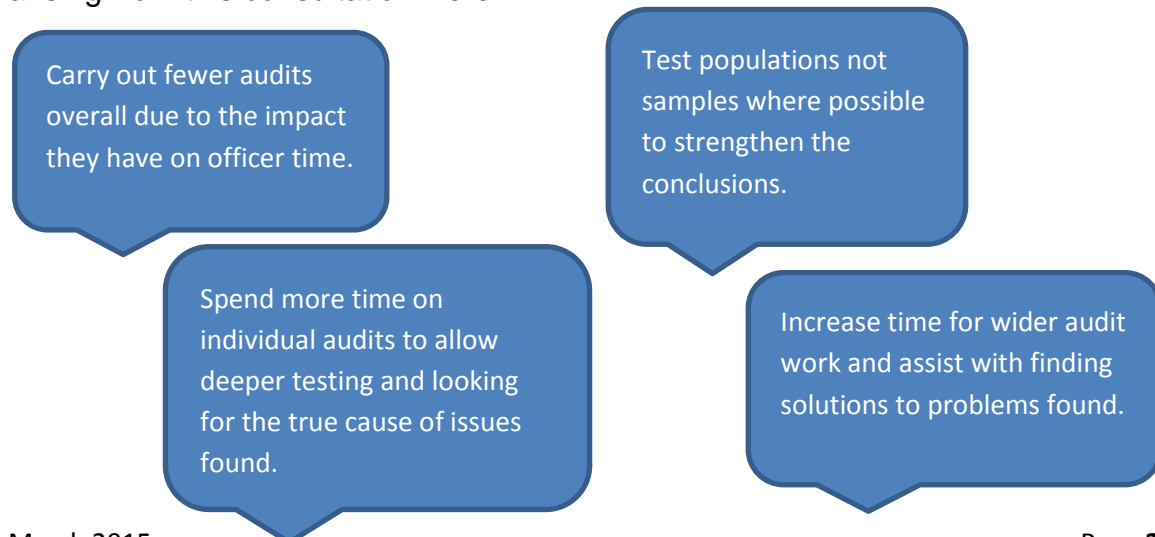
Local Factors affecting the Level of Work needed

There are local factors which affect the level of audit work needed at any organisation. The South West Audit Partnership (SWAP) have piloted a model to allow Senior Managers to consider where their organisation sits within the model and ultimately the effect on the level of audit work needed. The table below gives an assessment of where Fareham Borough Council sits in relation to these factors and other local factors.

	SWAP Model	Other factors
FBC Factors decreasing the need for audit	<p>There is a corporate plan which sets out clear aims and objectives. The council has a sustained track record of achieving its objectives, on time and within budget.</p> <p>There is a mature, council-wide, risk management framework in place.</p> <p>Financial management is strong with both internal and external audit finding nothing significant to report for at least three years. Financial challenges are met robustly, positively and effectively with a clear and achievable medium-term financial plan.</p> <p>The Counter fraud framework is strong with effective counter fraud measures in place. Action is taken where incidents of fraud occur.</p> <p>No significantly adverse report, by an outside agency has been received by the council in the last three years (e.g. external audit, local government ombudsman, information commissioner)</p> <p>Staff turnover is low to moderate, with most senior and middle managers remaining in post for at least three years.</p> <p>Internal audit rarely offer 'no' or 'very limited' assurance at the end of their reviews.</p>	
FBC Factors increasing the need for audit	<p>The council is in a state of flux, with regular restructures and reorganisations taking place.</p>	<p>Funding of the Council has been significantly reduced and the risk appetite has had to increase as a consequence.</p> <p>Structures and processes of the council are undergoing a significant period of change (Vanguard reviews)</p>

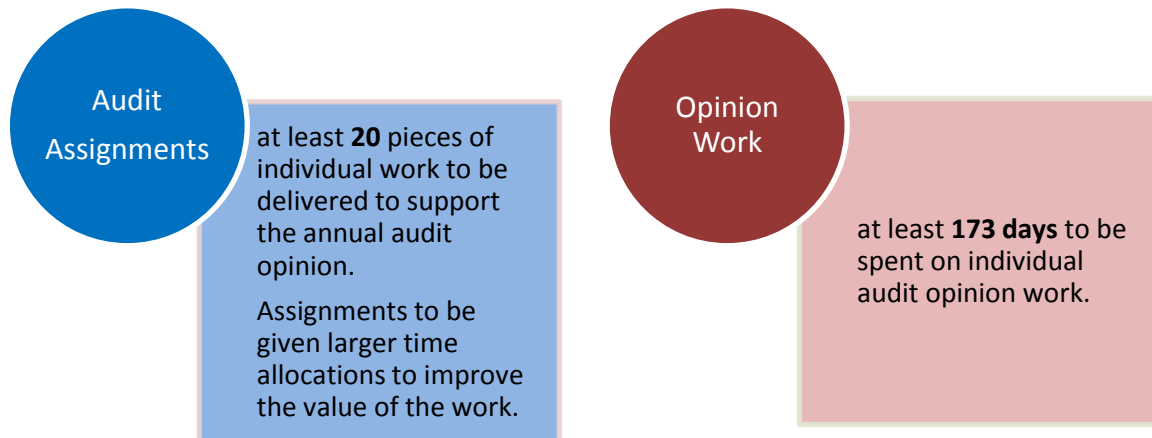
Consultation with Managers

The views of the FBC Council managers have also been sought as to the nature and level of work they would like to see, and how the Audit Service fits into the “Systems Thinking” approach being adopted by the Council. The key messages arising from this consultation were:



Proposed Quantity and Type of Audit Work

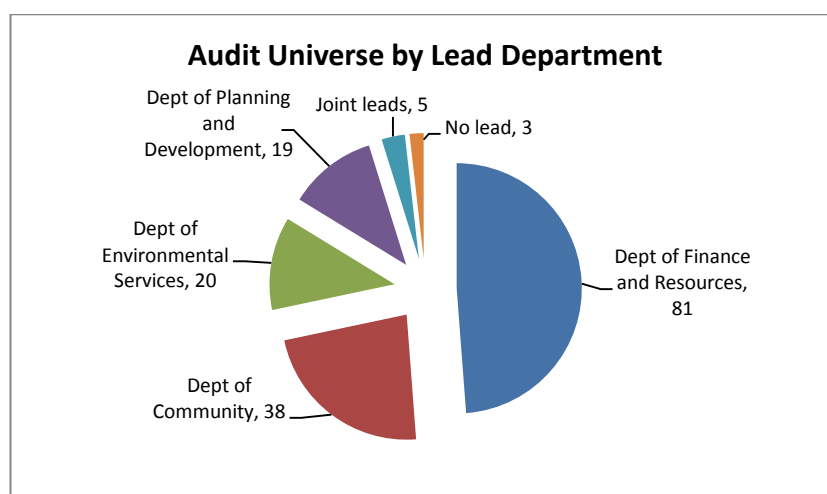
This Strategy therefore seeks to maximise the value of the Audit Service to the organisation by delivering a balance of **audit opinion work** and **wider audit work**. However, in setting the audit plan each year the following rules will be applied to ensure the plan is in line with trends in the profession, managers' requests and the factors affecting the local control framework:



4. Audit Opinion Work Priorities

Individual audit opinion work culminates in a service or system being assigned an audit assurance rating. This is based on the adequacy and effectiveness of controls found during the audit. The scale of opinions being used is set out in the Internal Audit Charter.

An **audit universe** is maintained of the services delivered by the Council plus the governance arrangements and systems in place which support the delivery of the services. The universe was last updated in January 2015 and captured **166** potential audit subjects. The split of these subjects by the lead department is shown below:



This Strategy requires a mix of audit types and departments to be included in the programme of work each year in order to support all the components of the Annual Audit Opinion. The table below shows a breakdown of the audit universe by type of audit and how these will feature in the programme of work.

Treatment of Types of Audit when Setting the Annual Programme of Work			
Type of Audit	Number in the FBC audit universe	Minimum Number to cover each year	Notes
Fundamental Systems	12	5	All to be covered in a 3 year cycle. Payroll and Accounts Payable to be subject to some annual testing.
Corporate, Specialist, Governance & Risk	28	1	One subject to be covered each year to support the governance opinion.
Computer	36	2	
Services and Systems – High Risk	16	3	All subjects to be covered in a 5 year cycle.
Services and Systems – Other	74	2	Selected each year on the basis of: ~ When last looked at and previous assurance opinion ~ Whether the service has been subject to a vanguard intervention ~ Other recent changes or issues arising ~ Managers preferences
	166	13	

Fundamental Systems

The fundamental systems are those which are critical to the expenditure and income controls of the council and therefore will have an impact on the reliability of the Council's Statement of Accounts. Twelve of these have been identified, as listed in [Appendix 2](#). In agreement with External Audit two of the audits will be carried out each year and the rest on a 3 yearly cycle.

High Risk Audits

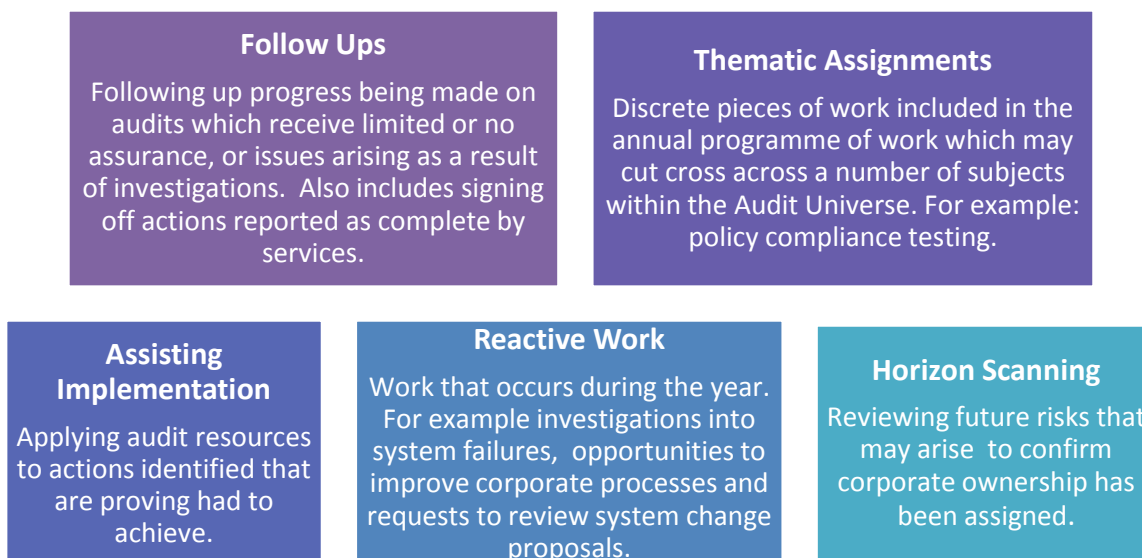
It is not possible with the current level of resources to audit all the subjects in the audit universe. Therefore a risk assessment has been carried out to identify those subjects which are considered to be of high risk to the Council and therefore warrant a fresh audit opinion every 5 years.

Sixteen of these have been identified as listed in [Appendix 2](#) along with the reason for them being considered high risk. It should be noted that this is based on *inherent risk* and is not a reflection of the control environment of those services. This list will be reviewed annually in light of budget and service changes and findings arising from thematic work.

5. Wider Work Priorities

This Strategy requires that time be included in the annual programme of work to complete work which is relevant to the overall Annual Audit Opinion but which will not itself result in an individual audit opinion.

The focus of this work in particular is to use the Internal Audit Service to assist with finding proportionate solutions to weaknesses identified and confirming these are in place. The diagram below gives a description of the types of activity that falls into this group of work.



6. Resourcing the Strategy

The Head of Audit and Assurance will be responsible for setting a programme of work each year in accordance with this Strategy and reporting on the progress and findings on the programme to the Audit and Governance Committee. The programme will include contingency time which can be added to the allocation for individual assignments if issues are found during the course of the audit.

Resources from the In-house Audit, Fraud and Assurance team will be used to deliver the majority of the **Audit Wider work** and **Other Assurances work**.

Bought in resources will be used for the **Audit Opinion** work in order to provide an independent opinion on processes which the in-house team may have been involved in setting up. It will also help ensure delivery of this work if a major investigation occurs. However, the in-house team will provide day to day support for the delivery of this work including help determine any actions that are needed.

Summary of how the Audit Work Activities will be Resourced		
	Bought In Services	In-House Resources
Audit Opinion Work	Delivery of programme of assignments in consultation with Head of Audit and Assurance	Support the programme of assignments including providing data extractions for testing, and liaising with service on appropriate action to be taken.
Audit Wider Work	Assist with Thematic reviews and follow ups when required.	Lead on recommendation management, horizon scanning and reactive work. Carry out thematic reviews and follow ups as time allows.
Other Assurances		Compile the other assurances

Appendix 1

Mapping of the Groupings of Audit Work to the Elements of the Annual Head of Audit's Opinion

	Audit Opinion Work	Audit Wider Work	Other Assurances
Control Opinion	Fundamental System audits Services and Systems audits Computer- systems audits	Recommendation Survey Assisting implementation Audit Follow Ups Investigation Follow Ups Reactive work	External Assurances Section 151 Group Assurances External audit testing outcomes Partnership coverage by neighbouring councils
Governance Opinion (including information technology governance and ethics objectives)	Corporate, specialist and Governance audits Computer-strategy audits	Themed Assignments Horizon Scanning	Annual Governance Statement assurances Scrutiny Board Minutes
Risk Management Opinion (including fraud)	Risk Management audits		External audit identification and assurance of risks Council risk registers Fraud risk profiling CXMT Assurances

Public Sector Internal Audit Standards requirements from the Annual Audit Opinion:

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of **governance, risk management and control**. (2450)

The internal audit activity must assess whether the **information technology governance** of the organisation supports the organisation's strategies and objectives. (2110.A2)

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's **ethics-related** objectives, programmes and activities. (2110.A1)

The Fundamental and High Risk Audits

Fundamental System Audits

Payroll and Employee Expenses
Accounts Payable
Banking
Income Management
Accounts Receivable
Main Accounting System and Budgetary Control
Capital Expenditure & Accounting
Treasury Management
Fixed Assets
Housing Rents
Local Tax Collection
Benefits

High Risk Audits

	Reason Assessed as High Risk
Tenancy Management	Gross Expenditure budget for 2014/15 (less support services) is over £1million
Property Maintenance and Inspections - Council Housing	
Parks and Open Spaces	
Ferneham Hall	
Parking Enforcement	
Recycling	Gross Income budget for 2014/15 is over £500,000
Trade waste and recycling	
Parking Strategic Management	
Commercial Estates	
Building Control	Higher Risk Spend is over £500,000
Sheltered Housing	
Land Charges	Higher Risk Income is over £250,000
Planning Applications	
Disabled Facilities Grants	High inherent risk of fraud
Household Waste Collection	Critical service with high reputational risk
Developers Contributions	Potentially high income process with high reputational risk and risk of penalties

Classification of Higher Risk Spend - Gross Expenditure less employee costs, capital charges and support services costs.

Classification of Higher Risk Income - Gross income less government grants and other grants.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **16 March 2015**

Report of: **Director of Finance and Resources**

Subject: **QUARTERLY INTERNAL AUDIT REPORT**

SUMMARY

This report provides the Audit Committee with the information arising from the latest internal audit work to be finalised and gives an update on progress being made with the delivery of the audit plans.

RECOMMENDATION

That the Committee notes the progress of the Contractor Internal Audit Plan, attached as Appendix A to this report.

[Appendix A](#) – Contractor Quarterly Audit Progress Report

Background Papers: None

Reference Papers:

Report by the Director of Finance to the Audit Committee on 11 March 2013 on Contractor Annual Audit Plan 2013/14

Report by the Director of Finance to the Audit Committee on 10 March 2014 on Contractor Annual Audit Plan 2014/15

Enquiries:

For further information on this report please contact Suzanne Smith, Audit Manager, Mazars (Ext 4419)



Fareham Borough Council

Audit & Governance Committee

Quarterly Audit Progress Report

February 2015

This report has been prepared on the basis of the limitations set out on page 10.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 13 April 2010 and subsequent Letter of Extension dated 01 April 2013 between Fareham Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Fareham Borough Council. This report must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

1. Introduction and background

- 1.1 This report has been prepared for the Members of the Audit & Governance Committee at Fareham Borough Council. This report highlights the progress made to date for delivery of the 2013/14 and 2014/15 Internal Audit Plans.

2. Promoting internal control

- 2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:
- An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;
 - Report back on the specific audits finalised since the last meeting of the Audit & Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Three of this report; and
 - Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

3. 2013/14 & 2014/15 Progress

- 3.1 The work on the 2013/14 plan has been delivered. There is just one audit, "Data Protection Follow Up", which has not been finalised as it is now intended that a combined report will be produced following additional work planned for 2014/15.
- 3.2 The current status of the agreed 2014/15 Internal Audit Plan is detailed in Annex One along with the number of days delivered. Audits have been completed in accordance with the timings agreed with the Head of Audit & Assurance, and as approved by the Audit & Governance Committee.
- 3.3 As at 31st January, progress against the 2014/15 plan is as follows:

2014/15 Plan	Last Committee	This Committee
Number of audits in plan	19	21
Number of audits finalised	0 (0%)	3 (14%)
Number of reports issued at draft	2 (13%)	0 (0%)
Number of audits commenced	8 (50%)	13 (62%)
Number of planned audit days delivered	25.9/223 (11.6%)	83.7/223 (37.5%)

- 3.4 At the time of this report, 37.5% of the allocated days from the 2014/15 Internal Audit Plan have been completed against the planned days.

4. Changes to the 2014/15 plan

4.1 The following changes have been made to the plan since it was reported to Committee in November 2014:

- A further three audits on PAYE, VAT and Virtual Procurement Cards have been added to the plan using 27 days from the contingency.
- Ten additional days have been added to the planned time for the Benefits audit to allow adequate time for the establishment and testing of processes for this service which has changed following the recent Vanguard intervention;
- The Revenues audit has been removed from the plan by the Head of Audit & Assurance releasing 12 days as part of the new cyclical approach to fundamental systems. This work is now scheduled to be carried out as part of the 2015/16 plan.
- The balance of unallocated planned audit time is therefore now reduced to 10 days.

5. Detailed progress since the last Audit and Governance Committee

5.1 Since the previous Audit & Governance Committee, three reports have been issued in final version as listed below with the opinions given and level of recommendations made:

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2014/15 Plan				
Community Parks & Open Spaces	Strong	-	-	-
Foreshore (Beach Hut Income)	Strong	-	1	-
Legionella & Gas Safety Risks Follow Up	Reasonable	-	3	-

The above presents the key highlights; however, to enable Management and Members to focus on the areas of concern, we have provided a summary of all finalised reports since the last Committee, as detailed within Annex Three.

2014/15 Internal Audit Plan as at 31st January 2015

Annex One

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarters 1 and 2											
1	Legionella and Gas Safety Risks Follow Up	5	5	Final Report	Reasonable	-	3	-	6	9	-
2	Contract Completion (Final Accounts)	10	1.1	Planning							
3	Tenancy Management	10	8.8	Exit meeting							
4	Community Parks and Open Spaces	6	5.9	Final Report	Strong	-	-	1	-	-	-
5	Foreshore (Beach Hut Income)	5	5	Final Report	Strong	-	1	2	-	-	-
Quarters 3 and 4											
6	Cheque Control	6	5.5	Exit Meeting							
7	Policy Compliance Checks	12	6	In Progress							
8	Benefits	30	22.8	In Progress							
9	Payroll (Light Touch)	7	1.3	In Progress							
10	Accounts Receivable	12	1	Planning							
	Revenues			Note 1							
11	Accounts Payable (Light Touch)	7	0.6	Planning							
12	Income Collection & Banking	15		Planning							
13	Data Protection	5		HIA Briefing							

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
14	Virtual Procurement Card	3		HIA Briefing							
15/16	PAYE and VAT Audits	24	2.5	Planning							
*	Contingency remaining	10									
Computer Audit											
17	Payroll & Personnel System (CHRIS 21)	10	2	In Progress							
18	Review of Penetration Testing	10		HIA Briefing							
19	Database Administration	8		HIA Briefing							
20	Information Governance Opinion	5		HIA Briefing							
21	Follow Ups	3	2	In Progress							
Other											
Audit Committee		4	2.5								
Audit Management		16	11.7								
TOTAL		223	83.7 (37.5%)			-	4 57%	3 43%	6 40%	9 60%	0 0%


Note 1: Audit removed following review of 2014/15 by Head of Audit & Assurance.

Annex Two

Summary of Findings from Completed Audits

2014/15 Legionella & Gas Safety Risks Follow Up

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:			↔ 2009/10			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Gas Safety in Housing Stock	-	2	-	4	1	-
Legionella Safety in Housing Stock	-	As above	-	2	5	-
Gas and Legionella Safety – Community Buildings	-	1	-	-	3	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important	There isn't a clear reporting structure in place to monitor that the Gas and Legionella testing regime is being complied with for Council Housing Stock and that the defects being found have been rectified	Y
Important	There isn't a clear reporting structure in place to monitor that the Gas and Legionella testing regime is being complied with for Community Buildings and that the defects being found have been rectified	Y
Important	The nature and requirements of independent checks on the adequacy of the checking regimes need to be agreed.	Y

2014/15 Community Parks & Open Spaces

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:			No previous audit			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (▲)	Advisory (⚠️)	Implemented	Cancelled	Non Implemented
Maintenance and Inspection of Play Areas	-	-	-	-	-	-
Roundabout Sponsorship	-	-	-	-	-	-
Memorial Seats	-	-	1	-	-	-
Rents and Lease Income	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
	None	

2014/15 Foreshore (Beach Hut Income)

Audit Opinion and Direction of Travel





Strong						
😊😊						
Direction of Travel:			No previous audit			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Beach Hut Ownership Changes	-	-	2	-	-	-
Beach Hut Billing and Collection of Income	-	1	-	-	-	-
Sailing Club Licence and Lease Income governance framework	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)




Priority	Weakness	Action Agreed?
Important	Reconciliation between expected income due from all sites to invoices raised highlighted an instance where an invoice had been raised at a 50% resident's discount rate when the owner was a non-resident of the Fareham Borough and therefore should have been charged at the full rate	Yes

Summary of Assurance Opinions Used

Annex Three

Assurance Level	Symbol	Description
Strong		There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable		There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited		There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal		Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

Essential		A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the Audit Committee and implementation of proposed actions are monitored.
Important		A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the Audit Committee and implementation of proposed actions are monitored.
Advisory		A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. We will not track actions taken to address these recommendations unless at the manager's request.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

February 2015

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **16 March 2015**

Report of: **Director of Finance and Resources**

Subject: **CORPORATE RISK REGISTER UPDATE**

SUMMARY

Version 5 of the Corporate Risk Register has been produced. There are still 31 risks on the Register. 13 of these have been assessed as medium risk and 18 as low risk. None have been assessed as high risk.

RECOMMENDATION

That the Committee note the content of version 5 of the Corporate Risk Register attached as [Appendix A](#).

INTRODUCTION

1. Our policy is to update the Corporate Risk Register every 6 months. This report therefore presents the latest version of the Register for member discussion.

THE RISK ASSESSMENT PROCESS

2. The Council maintains a central risk directory which links the top corporate risks to second tier risks, managed by Heads of Service, and the corporate projects. The risk assessments of the second tier risks are all updated first as part of the risk assessment process. This includes the identification of any risks or projects that need to be added or removed.
3. Each corporate risk is assigned a Director as the risk manager. They use the information available from the Heads of Service risk assessments to help inform their latest assessment of the corporate risk. These are then given a risk assessment score from the scale High, Medium or Low.
4. The list of corporate risks forms the Corporate Risk Register which includes the risk assessment scores and the latest status for each risk. The register is challenged by the Chief Executive's Management Team before presentation to the Committee.
5. Once the Register is finalised, the risks on the Central Risk Directory are monitored by the individual managers. Any individual risks that give concern in that time can be highlighted and escalated to the Chief Executive's Management Team.

CHANGES TO THE CORPORATE RISKS

6. **List of Risks:** Version 5 of the Corporate Risk Register, as attached as [Appendix A](#), now consists of 31 generic risk themes. Since last reported there has been no risks added, merged, deleted or renamed.
7. **Risk Assessments:** The Corporate Risk Register shows the latest risk assessment given to each corporate risk along with updated information on their status. There are still no risks assessed as High and there are 13 Medium risks and 18 Low risks (compared to 14 and 17 respectively on the last register). The risk assessments have been amended for 5 risks as follows:

Risk ref and short name	Previous Score	Current Score	Reason
Increased in Assessment			
C11. Outdoor Recreation	Low	Medium	Good progress has been made in implementing the programme to provide new facilities. However, in some areas of the borough there are insufficient funds to progress any new schemes. In particular Section 106 funding for play areas has expired in some Community Action Team areas and therefore in order to continue to maintain adequate provision new sources of funding will need to be identified post 2017/18.
C26 Health and Safety - Public	Low	Medium	The role and Terms of Reference of the Health and Safety Committee and the Corporate Premises Health and Safety Group are currently under review. The Chief Executives Management Team are to discuss and comment on a report outlining

Risk ref and short name	Previous Score	Current Score	Reason
			the proposed revised arrangements for the management of Health and Safety (including insurance claims). A resolution is needed as to what action is necessary to strengthen the Council's inspection regime.
Decreased in Assessment			
C8. Coldeast excluding Swimming Pool	Medium	Low	The project is on schedule.
C9. Community Buildings	Medium	Low	The refurbishment of Fareham Leisure Centre was completed successfully in September 2014. Bath Lane Cricket Pavilion refurbishment works commenced September 2014. The Executive approved the master plan for the review of community buildings in the Autumn of 2014.
C34 Local Plan Part 2 [Failing to progress the planning framework for Fareham Borough [excluding Welborne]	Medium	Low	The examination hearing sessions on the Development Sites & Policies Plan have now concluded. During the hearing sessions a number of actions were requested by the Inspector or suggested by the Council. These are now subject to a period of consultation which will end on the 9 th January 2015.

RISK ASSESSMENT

8. There are no significant risk considerations in relation to this report

CONCLUSION

9. The revised Corporate Risk Register, attached as [Appendix A](#), has been produced in accordance with the Risk Management Policy adopted in 2012/13.

Appendices

Appendix A - Corporate Risk Register (version 5) ([separate attachment](#))

Background Papers: None

Reference Papers:

Report by the Director of Regulatory and Democratic Services to the Audit and Governance Committee on 24 September 2012 on the Risk Management Policy

Enquiries:







For further information on this report please contact Alan Gerrard. (Ext 4347)

APPENDIX A





CORPORATE RISK REGISTER V5 – March 2015






(The register is sorted in risk reference order with the medium scored risks 😊 listed above the low scored risks 😊.)






Risk Ref Corp Strategy Priority No. / (Improvement Priority Ref.)	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score [any change since Sept 2014]
HIGH RISKS 😞				
None				
MEDIUM RISKS 😊				
1 All (1)	Welborne Failing to progress the planning framework for Welborne, provide effective communication about the new community or address the infrastructure funding issues.	Richard Jolley March 2015	The examination hearing sessions on the Welborne Plan have now concluded. During the hearing sessions a number of actions were requested by the Inspector or suggested by the Council. These were subject to a two-week period of consultation which ended 4 December 2014. The Council has received a preliminary findings letter from the Inspector to allow it to proceed with main modifications to the Plan in the New Year. The project to prepare the Welborne Infrastructure Funding Strategy (IFS) completed, and the IFS approved by the Executive.	😊
4 2- Prosperity (4a and 4b)	Daedalus Failure to provide a planning framework for the Daedalus site and support the Local Enterprise Partnership in the promotion of the Enterprise Zone.	Richard Jolley March 2015	FBC are presently pursuing the opportunity to take ownership of the northern part of the Daedalus site, with the intention of unlocking Daedalus West for development and jobs creation, and establishing a long term viable solution for the airside activity. Discussions regarding the land transfer from HCA to the Borough Council are on-going and nearing completion. The runway works have largely been completed on time and on budget, to the specification agreed with the land owner and the airfield operator. The Innovation Centre is also on target to be completed in March 2015, with only a marginal cost increase (c.1%). It is envisaged that this can be recovered once the final element of the investment strategy is completed.	😊




Risk Ref <small>Corp Strategy Priority No. / (Improvement Priority Ref.)</small>	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score <small>[any change since Sept 2014]</small>
11 <i>4-Leisure (10)</i>	Outdoor Recreation Failure to fully implement the improvement programme for parks, play areas and sports facilities.	Martyn George March 2015	The revised open spaces improvement programme was approved by the Executive in November 2014. A strategic review of play areas has been completed and reported to the Leisure and Community PDR Panel on 14 January 2015. The report sets out a fully funded programme for the next 3 years and an aspirational programme for future years. The report will be considered at the Executive in March 2015.	
12 <i>5-Housing (11)</i>	Affordable Homes Failure to deliver 500 new affordable homes by 2017.	Martyn George March 2015	Successful bid made to the Health and Communities Agency (HCA) for Affordable Housing Grant 2015-18 to enable the development of 65 homes by FBC. Contracts awarded for the construction of 6 Passivhaus houses in Coldeast and 16 flats in Palmerston Avenue. Award of contract for Coldeast Sheltered Housing scheme to be considered by the Executive on 2 Feb 2015. Aspect Building Communities Ltd successfully registered and operational.	
16 <i>7-Progressive Council (15)</i>	Asset Management Failure to maximise the Council's assets resulting in missed opportunities for generating revenue and or capital receipts or delivering other corporate and service priorities.	Andrew Wannell March 2015	Commercial property acquisitions are progressing well, which have led to improved revenue streams for the Council. Corporate Assurance Management Group continues to meet regularly to identify potential further opportunities within the borough.	
17 <i>7-Progressive Council (16)</i>	Sustainable Budget Failure to minimise Council tax increases through delivery of a sustainable budget.	Andrew Wannell March 2015	Robust plans are in place for the current year's budget, and approved efficiency plans are sufficient to support a balanced budget into the medium term.	
19	Policy Changes Failure to respond to new legislation & government's changing policy agenda.	Martyn George March 2015	Restructure of fraud investigation successfully completed. Safeguarding training successfully launched on Skillgate. Section 11 (Safeguarding Audit) report positively received by Hampshire Safeguarding Board.	
22	Governance Inadequate Governance and Systems of Control.	Andrew Wannell March 2015	We are currently reviewing our ICT Strategy which may identify some new risks for targeting.	

Risk Ref <small>Corp Strategy Priority No. / (Improvement Priority Ref.)</small>	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score <small>[any change since Sept 2014]</small>
25	Service Delivery Current level of service cannot be delivered within existing budget.	Andrew Wannell March 2015	There is generally a good understanding of the services which are under pressure, and resources have been allocated to meet those demands. The Medium Term Financial Strategy for the Council reflects the emerging demands for services and plans are in place to ensure that this can be properly resourced.	
26	Health and Safety - Public Failure to meet Health and Safety responsibilities in relation to public liability.	Martyn George March 2015	The role and Terms of Reference of Health and Safety Committee and the Corporate Premises Health and Safety Group are currently under review.	
27	Income Loss of income.	Andrew Wannell March 2015	The services which present the greatest risk remain car parking, commercial estates, and Ferneham Hall. Close monitoring of these areas is carried out, and steps have been taken to generate income from alternative sources, e.g. commercial property acquisitions, to compensate. The reductions have been taken into account in setting the Medium Term Financial Strategy.	
32	Health and Safety - Employee Failure to meet Health & Safety responsibilities in relation to employees.	Martyn George March 2015	Current arrangements for the management of health and safety are under review. Health and Safety Committee continues to meet quarterly, but Corporate Premises Health and Safety Group has been suspended pending outcome of the review.	
35 <i>4-Leisure (8a)</i>	Coldeast - Swimming Pool Failure to deliver proposed provision of a Swimming Pool at Coldeast.	Martyn George March 2015	Design and Build Contractor appointed. Leisure Consultant appointed Member Steering Group in place and meets as and when necessary. Communication Plan in place. Project Plan in place. Following public consultation, detailed planning application submitted for approval. Executive to consider appointment of leisure operator in Feb 2015. Project on schedule	
LOW RISKS 😊				
2 1- <i>Environment (2)</i>	Recycling Failure to reduce the quantity of household waste and maximise the amount that is reused or recycled.	Paul Doran March 2015	As part of the national initiative Pledge for Plastics, low performing recycling rounds will be the focus for a campaign in early 2015 to increase plastic bottle recycling.	

Risk Ref Corp Strategy Priority No. / (Improvement Priority Ref.)	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score [any change since Sept 2014]
3 1- <i>Environment</i> (3a and 3b)	Sustainability Benefits of the Council's Environmental Sustainability Strategy and other environmental strategies are not fully delivered.	Richard Jolley March 2015	Progress in relation to Environmental Sustainability Strategy actions to be reported to CXMT and Planning & Development Policy Development & Review Panel in February/March 2015.	
5 2-Prosperity (5)	Retail areas Failure to achieve proposed improvements for retail areas in the borough.	Richard Jolley March 2015	No objections were received to the submission version of the Development Sites & Policies Plan. Further clarification was provided to the Inspector on timescales for town centre development opportunity sites in further submissions to the Plan, which are currently being consulted on. Currently commissioning GVA to undertake a high-level study to establish Fareham's retail position and scope for future development in light of the town centre development opportunity sites. Implementation of short-term measures included with Fareham Town Centre Action Plan (High Street Innovation Fund & FBC matched-funding) nearing completion with outstanding actions comprising investment in the market equipment, provision of gateway signage to Henry Cort and business mentoring support. Retailer business breakfast to be held in February 2015. Pre-application meeting with New River Retail held in October 2014 (both Officers and Members in attendance). Awaiting response from New River Retail to pre-application feedback.	
6 2-Prosperity (6)	PUSH Failure to support Partnership for Urban South Hampshire and Solent Local Enterprise Partnership to deliver economic growth and improved skills.	Richard Jolley March 2015	The Council is continuing to work with the Solent LEP, PUSH, Welborne site promoters, and HCC as appropriate on the following aspects of the Solent Growth Deal: Overall Business Case relating to Welborne and Fareham/Gosport package of strategic transport improvements; Detailed Implementation Plan for J10 M27 motorway junction improvement; Feasibility work and delivery of other strategic transport schemes. Additionally the Council is seeking to safeguard land for the delivery of both the Newgate Lane South and Stubbington Bypass transport improvements through the Development Sites & Policies Plan	
7 3-Safe and Healthy (7)	Crime and Disorder Increase in the incidents of crime, disorder and anti- social behaviour.	Martyn George March 2015	The incidents of reported crime in Fareham continue to fall and this was reported in the annual report to the Council's Scrutiny Board on the Performance of the Fareham Community Safety Partnership on 3 July 2014.	

Risk Ref Corp Strategy Priority No. / (Improvement Priority Ref.)	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score [any change since Sept 2014]
8 4-Leisure (8b)	Coldeast excluding Swimming Pool Failure to deliver proposed community facilities, excluding Swimming Pool, at the Coldeast development site or alternative location.	Martyn George March 2015	Design and build contractor appointed. Leisure Consultant appointed. Project plan and project team in place. Members Working Group in place and meeting regularly. Communication plan in place. Public consultation on design proposals completed, no adverse comments or objections raised. Full planning application submitted for leisure centre and sports pitches (to be considered on 28 Jan 2015). Negotiations on appointment of leisure operator complete, due to be reported to Executive on 2 Feb 2015. Land transfer from HCA to FBC in progress. Project on schedule.	
9 4-Leisure (9)	Community Buildings Failure to provide modern, fit for purpose community buildings in the most appropriate locations.	Martyn George March 2015	The refurbishment of Fareham Leisure Centre was completed successfully in Sept 2014. Bath Lane cricket pavilion due for refurbishment, works commence Sept 2014. Executive approved the master plan for the review of community buildings in the Autumn of 2014.	
13 5-Housing (12)	Sheltered Housing Failure to deliver and implement a programme of modernising and improving sheltered accommodation across the Borough.	Martyn George March 2015	Collingwood Court due to achieve practical completion in Feb 2015. Lettings plan currently being prepared. Award of contract for new sheltered housing scheme at Coldeast to be considered at Feb Executive. Plans in preparation for restructure of sheltered housing service following impending loss of Supporting People funding.	
14 6-Community (13)	Fareham Park Failure to tackle the underlying causes of deprivation in the Fareham Park area.	Martyn George March 2015	A range of services and opportunities are in place to support young people in the area.	
15 6-Community (14) & 7-Progressive Council (17)	Community Engagement and Customer Focus Failure to communicate and engage effectively with the local community, and deliver a customer focussed service.	Andy Wannell/Lindsey Ansell March 2015	Vanguard interventions progressing well, with excellent positive results for customers. Structure arrangements for the Corporate services team now being reviewed to ensure that resources are well placed to proactively engage with customers.	

Risk Ref <small>Corp Strategy Priority No. / (Improvement Priority Ref.)</small>	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score <small>[any change since Sept 2014]</small>
18	Mobile Working Failure to make best use of existing technology in the way that services are delivered.	Andrew Wannell March 2015	No material concerns.	
20	Partnerships Failure of a significant partnership or contract.	Andrew Wannell March 2015	No material concerns.	
21	Business Continuity Inadequate arrangements in place to respond to a critical disruption.	Paul Doran March 2015	The Head of Parking & Enforcement is liaising with all Heads of Service who need to have BCP's in place to ensure they are all up to date and fit for purpose, and have the necessary controls and arrangements in place to mitigate associated risks. At the last Emergency Planning Table Top Exercise it was stressed to all who attended the importance surrounding the need for a Business Continuity Plan to be in place and to ensure that all those that are mentioned in the plan know what they are required to do in the event of its activation.	
23	Performance Management Inadequate Performance Management Framework.	Andrew Wannell March 2015	CXMT continue to monitor performance against the corporate framework and the delivery of the Corporate Strategy, its priorities and actions as well as take account of the results of the residents survey to ensure the Council's priorities are focussed on the needs of the community of Fareham.	
24	People Management Poor people management and resourcing.	Andrew Wannell March 2015	Workforce planning is part of the day to day work undertaken by all managers at Fareham and is reflected in the Council's approach to service planning. This is being developed to reflect the priorities of the Council to ensure that employees have the appropriate skills to meet new and challenging priorities in the longer term.	

Risk Ref Corp Strategy Priority No. / (Improvement Priority Ref.)	Short Name / Risk Description	Risk Manager Latest risk sheet	Current status	Current Risk Score [any change since Sept 2014]
28	Emergency Planning Failure to provide an appropriate response in an emergency.	Paul Doran March 2015	All new volunteers to the emergency planning team have had some sort of training in various roles, the new members of the Corporate Standby Duty Officer role will undertake the Incident Liaison Officer role if called upon during their duty and as such are all receiving specialist training for this role. The annual Emergency Planning Exercise which took place in November was a learning based discussion Table Top Exercise, and the feedback from all who attended has been very positive. Training continues to occur to keep everyone up to date with the varying skills that are required as part of the emergency planning team. The emergency plan was updated earlier this year to ensure all contact details of named personnel are correct, a quick guide has also been produced for key personnel named in the emergency plan.	
29	Elections Challenge to an election process.	Andrew Wannell March 2015	Well tested procedures are in place to cover the election process, and are revised to take account of lessons learned. The introduction of Individual Electoral Registration in June 2014 resulted in changes to the way in which people register to vote at an election and the Cabinet Office's risk assessment has been used by FBC's Election Services Team in formulating its own implementation plan.	
34 All (1)	Local Plan Part 2 Failing to progress the planning framework for Fareham Borough [excluding Welborne].	Richard Jolley March 2015	Development Sites & Policies Plan approved by Council on 13 February 2014 for representation period and submission to government for independent examination. It is anticipated that significant representations will be received in relation to housing land supply issues. Additionally, large-scale planning application recently received for Newlands Farm. Revised resourcing arrangements to be put in place to progress Plan through examination and to adoption.	

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **16 March 2015**

Report of: **Director of Finance and Resources**

Subject: **OFFICE OF SURVEILLANCE COMMISSIONERS INSPECTION
REPORT 2014**

SUMMARY

The Council were inspected by the Office of the Surveillance Commissioners in December 2014 who reviewed our RIPA management arrangements and systems.

The report that we have now received following this inspection is very complementary and highlights that the Council have a good understanding and healthy approach to the use of covert surveillance powers.

RECOMMENDATION

Consideration be given to any additional training members of this Committee require in relation to the Regulation of Investigatory Powers Act 2000.

INTRODUCTION

1. The Regulation of Investigatory Powers Act 2000 (RIPA) provides a framework under which investigation activity, which might otherwise be considered to infringe article 8 of the Human Rights Act 1998, may be authorised. The activities available to a Council under RIPA are:
 - (a) Directed covert surveillance of a member of the public;
 - (b) The use of a Covert Human Intelligence Source (CHIS) to gather information from a member of the public; and
 - (c) The acquisition and disclosure of data relating to communications.
2. The Audit and Governance Committee receive monitoring reports on the activities carried out by the Council under this act every 6 months.
3. Activities a) and b) are overseen by the Office of Surveillance Commissioners who carry out a formal inspection of the Council every 3 years. The latest inspection occurred in December 2014 and the report has now been received as attached as [Appendix A](#).

INSPECTOR'S CONCLUSION AND RECOMMENDATIONS

4. The conclusion of the Inspector was that *FBC's RIPA structure and management remain in excellent good health since the last inspection in 2011* and previous recommendations have been implemented adequately.
5. One new recommendation was made to amend the policy to clarify that if a member of the public gives us information that they have obtained from a relationship that they established or maintained for a covert purpose, even if not tasked to do so by the Council, they could fall under the remit of RIPA. The Council is then required to consider the safety and welfare of the informer as a Covert Human Intelligence Source.
6. This recommendation has been incorporated into version 5 of the Council's RIPA policy which was approved by the Executive in February.

TRAINING

7. Refresher training on RIPA (and the Data Protection Act) was rolled out to employees, who may be required to carry out investigations, in the latter part of 2014. Member training on RIPA was last provided in June 2011 and covered:
 - What is RIPA and what is its purpose?
 - What investigatory procedures are governed by RIPA, and FBC use in recent years?
 - What is our Policy and what procedures do we follow?
 - What do authorisers need to consider?
 - The consequences of getting it wrong and Media interest.
 - Members' role in overseeing our use of these powers.
8. A refresher training session on RIPA, including the impact of the Protection of Freedoms Act 2012 can be provided to members of this committee if it was felt to be beneficial.

RISK ASSESSMENT

9. There are no significant risk considerations in relation to this report

CONCLUSION

10. The Council's RIPA management arrangements and systems continue to be strong and in accordance with the UK Codes of Practice.

Background Papers: None

Reference Papers: None

Appendices – A: [Office of Surveillance Commissioners Report 2014](#)

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)



Chief
Surveillance
Commissioner

OFFICIAL - SENSITIVE

7th January 2015

Dear Mr. Grimwood,

Covert Surveillance

On 11th December 2014, an Assistant Surveillance Commissioner, Sir David Clarke, visited your Council on my behalf to review your management of covert activities. I am grateful to you for the facilities afforded for the inspection.

I enclose a copy of Sir David's report which I endorse. I am pleased to see that the single recommendation made following the last inspection, 3 years ago, has been discharged. Your RIPA structure and management are in continuing good health and you have made sensible use of your covert powers. In general, high standards are maintained. For the reasons explained in paragraph 19 of the report your Council is likely to engage in a good deal less covert activity in the future.

The single recommendation is that your RIPA Policy be amended as indicated in paragraph 14 of the report.

I shall be glad to learn that your Council accepts the recommendation and will see that it is implemented. One of the main functions of review is to enable public authorities to improve their understanding and conduct of covert activities. I hope your Council finds this process constructive. Please let this office know if it can help at any time.

*Yours sincerely,
Christopher Rose*

Mr Peter Grimwood
Chief Executive Office
Fareham Borough Council
Civil Offices
Civil Way
Fareham
PO16 7AZ

Handwritten text at the top of the page, possibly a title or header.

Handwritten text in the middle of the page, possibly a list or notes.



Office of Surveillance
Commissioners

OFFICE OF SURVEILLANCE COMMISSIONERS
INSPECTION REPORT

Fareham Borough Council

11th December 2014

**Assistant Surveillance Commissioner:
Sir David Clarke.**

OFFICIAL- SENSITIVE

DISCLAIMER

This report contains the observations and recommendations identified by an individual surveillance inspector, or team of surveillance inspectors, during an inspection of the specified public authority conducted on behalf of the Chief Surveillance Commissioner.

The inspection was limited by time and could only sample a small proportion of covert activity in order to make a subjective assessment of compliance. Failure to raise issues in this report should not automatically be construed as endorsement of the unreported practices.

The advice and guidance provided by the inspector(s) during the inspection could only reflect the inspectors' subjective opinion and does not constitute an endorsed judicial interpretation of the legislation. Fundamental changes to practices or procedures should not be implemented unless and until the recommendations in this report are endorsed by the Chief Surveillance Commissioner.

The report is sent only to the recipient of the Chief Surveillance Commissioner's letter (normally the Chief Officer of the authority inspected). Copies of the report, or extracts of it, may be distributed at the recipient's discretion but the version received under the covering letter should remain intact as the master version.

The Office of Surveillance Commissioners is not a public body listed under the Freedom of Information Act 2000, however, requests for the disclosure of the report, or any part of it, or any distribution of the report beyond the recipients own authority is permissible at the discretion of the Chief Officer of the relevant public authority without the permission of the Chief Surveillance Commissioner. Any references to the report, or extracts from it, must be placed in the correct context.

OFFICIAL – SENSITIVE



Office of Surveillance
Commissioners

Chief Surveillance Commissioner
Office of Surveillance Commissioners,
PO Box 29105,
London,
SW1V 1ZU

15th December 2014

FAREHAM BOROUGH COUNCIL

INSPECTION REPORT

Inspection date 11th December 2014

Inspector Sir David Clarke
Assistant Surveillance Commissioner

Introduction

1. Fareham Borough Council (FBC) is a second tier local authority serving a mostly affluent and growing population of some 111,000 in Hampshire.
2. The last OSC inspection of FBC was conducted by Clare Ringshaw-Dowle, Surveillance Inspector,¹ on 18th August 2011. She reported in favourable terms on FBC's RIPA oversight and management systems, making a single formal recommendation.
3. The Chief Executive is still Peter Grimwood. The address for correspondence is Civic Offices, Civic Way, Fareham, Hampshire PO16 7AZ.
4. There has been some restructuring of senior management posts since the 2011 inspection. The Chief Executive is supported by four Corporate Directors, but the post of Director of Democratic and Regulatory Services has been discontinued. Legal services are provided by the Southampton-Fareham Legal Services Partnership, headed by Richard Ivory who is solicitor to both FBC and Southampton City Council.
5. Previous OSC reports show that FBC has been a more frequent user of its RIPA powers than many comparable second-tier authorities. In the three years before Mrs Ringshaw-Dowle's 2011 visit there were over 100 directed surveillance authorisations. Usage has dropped sharply since then, but remains higher than in most other borough and district councils in England. In the three years since the 2011 inspection there have been 22 directed surveillance authorisations. No CHIS authorisations have been made.

¹ Mrs Ringshaw-Dowle was appointed Chief Surveillance Inspector in 2013.

Inspection

6. I carried out the inspection on 11th December 2014 at the Civic Offices. In the course of the inspection I met the following council officers:
 - Andrew Wannell, Director of Finance and Resources;
 - Elaine Hammell, Head of Audit and Assurance;
 - Caroline Holmes, Head of Housing, Revenues and Benefits.²
7. The inspection started with a discussion of FBC's RIPA management and procedures, the roles of Senior Responsible Officer (SRO), RIPA Coordinator, designated authorising officers (AOs), RIPA usage and training. I then examined the Central Record and a sample of the RIPA authorisations themselves, before providing some feedback of my provisional findings.
8. I am grateful to the officers whom I met, particularly Mrs Hammell who had made the arrangements and provided material in advance, for their friendly welcome and engagement with my inspection. I was provided on arrival with a compendious and immaculate file of documents specially prepared for me.

Progress against recommendations

9. Mrs Ringshaw-Dowle made one formal recommendation, arising from errors and some inconsistency in the quality of authorisations which she examined. Though I detected some minor errors in those which I examined this time, it is clear that the main lessons of her report had been learned and her recommendation is discharged.

RIPA Structure

10. In March 2014, following the retirement of Mr White and the re-ordering of his post, Mr Wannell was formally designated to succeed him as SRO, to exercise the responsibilities set out in Codes of Practice.³
11. Eight officers, including the Chief Executive, are presently designated as AOs. These include Mr Wannell, but I drew attention to the Commissioners' Guidance that it is undesirable for the SRO to be himself an AO.⁴ They also include Mrs Hammell, who acts also as RIPA Coordinator and keeper of the Central Record, and is knowledgeable and competent in RIPA matters, though she has not in fact acted as an AO during the period under review.
12. All but one of the authorisations in the relevant period have been made by Miss Holmes, being made in benefit fraud investigation. FBC may wish to consider reducing the number of designated AOs, bearing in mind the need to maintain

² Mrs Hammell was in post at the time of the 2011 inspection but was on leave on the day of that inspection. Miss Holmes, however, took part in that inspection as Head of Revenues and Benefits.

³ I drew attention to the fact that revised Home Office Codes of Practice for Covert Surveillance and CHIS came into force on 10th December 2014, the day before my inspection.

⁴ This guidance presently appears in paragraph 307 of OSC Procedures & Guidance, December 2011. An updated version of this guidance is very soon to be promulgated to public authorities.

refresher training for those so designated, but I do not make this as a formal recommendation. It is not necessary to have a designated AO in each relevant department; it can be good practice to place an application before an AO working in another area of the council, to enhance the independence of the authorisation process. The list of AOs should, of course, continue to include the Chief Executive, since only the Head of Paid Service (or his Deputy in his absence) may authorise in the high-level cases referred to in Appendix A of each Code of Practice.

13. The Central Record is a spreadsheet which complies with paragraph 8.1 of the Covert Surveillance etc. Code of Practice 2010. It also contains useful additional information, as described in paragraph 4.4 of the 2011 report, and is a model of its kind. A “comments” column is used to record notes made by the Coordinator when checking the forms to provide quality assurance.
14. FBC’s RIPA *Policy* document was praised in the 2011 report, and now includes the necessary revisions made in the light of the legislative changes of 2012. I have, however, one further improvement to recommend.
 - The discussion and definition of a CHIS in 6.1 states that a member of the public providing information to the authority would **not generally** (*my emphasis*) be regarded as a CHIS. This is correct, but the text does not provide further explanation. Thus, it does not sufficiently highlight the risk that a member of the public covertly providing information to the council may in reality be a CHIS if he is obtaining it in the course of, or as a result of the existence of⁵, a personal or other relationship. If the information is acted on, a duty of care would be owed to such a person, who may be at risk of reprisals. What matters is not whether the informant has been tasked to obtain information for the council, which I am sure would never arise, but the manner in which he has obtained the information which he covertly passes on.

See recommendation

15. The authorisation forms in use in FBC are of particularly good quality, enhanced by prompts within the boxes to ensure that the applicant and AO completes all the necessary elements, including full reasoning on the essential elements of necessity, proportionality and collateral intrusion. Since 2011, cancellations have been effected on the improved forms provided by Mrs Ringshaw-Dowle, in which the AO adds relevant comments as to the outcome of the authorised activity and gives directions for the handling of the product.
16. We discussed the requirement for judicial approval and the procedure for obtaining it. I explained the Commissioners’ view, which is soon to be expressed in the reissued OSC Procedures & Guidance, that in principle it should be the AO who attends court to answer any questions the magistrate might wish to ask; this conflicts with the Home Office Guidance to Local Authorities, paragraph 43, which suggests that the investigator is the best person to do this. FBC follows the Home Office guidance and I cannot be critical of

⁵ RIPA, section 26(8)(c)

them for doing so, but in any unusual or complex future case they will wish to consider this issue afresh. In theory, of course, if the application and authorisation are fully articulated and reasoned in writing, no further questions ought to arise.

17. We also had a brief discussion of the topic of non-RIPA surveillance, which may exceptionally be considered necessary in cases which do not pass the new threshold or are outside the core functions of a local authority. Such surveillance is not necessarily unlawful, but there is all the more need to consider its necessity and proportionality and to articulate the reasoning fully, albeit not in the context of RIPA authorisation, so as to resist any challenge or argument of unfairness.

RIPA usage

18. 21 of the 22 authorisations during the period under review were made in benefit fraud investigations. As reported in paragraphs 4.2 of the 2011 report, FBC commonly takes the lead in such investigations which – in other parts of the country, including other councils in Hampshire – are more commonly led by the DWP. As stated earlier in this report, however, the number of authorisations is much smaller than in earlier years, due to reduced staffing and the increased use of less resource-intensive desk-based investigative powers.
19. From October 2014 the picture has changed again. As part of the phased roll-out of the national transfer of housing benefit fraud investigation to the DWP, officers of FBC no longer do this work, and will only be involved in fraud investigation in relation to council tax benefit. Such fraud investigation, not linked to housing or other benefits, is likely to be rare.
20. One authorisation was made in relation to theft from a council building. No authorisations were made in antisocial behaviour investigation. I was told that close partnership working with the police is effective, and that if directed surveillance were necessary it would be undertaken by the police. Licensing and environmental health enforcement is carried out entirely overtly, but the relevant officers all attend periodic RIPA training.

Training

21. Mrs Ringshaw-Dowle described FBC's RIPA training and guidance as extremely good, adding that she had rarely seen councils providing it so regularly. I was provided with a detailed schedule of training activity, including future events now being planned, and it is clear that this provision has been maintained and that FBC has not rested on its laurels.

Examination of documents

22. It was apparent from examining a sample of the benefit fraud authorisations that the power is only used when really necessary for obtaining sufficient evidence to justify taking the next step of interviewing the benefit claimant under caution. Those which I examined were all made in "living together" cases, where the alleged person was self-employed or his employment status was not known, so

that there was no scope for establishing the case through evidence from an employer.

23. I found, however, some minor discrepancies between the dates of authorisation and those recorded on the central record, apparently arising from delays of some days between authorisations and judicial approval thereof. Such discrepancies will best be avoided by not setting the expiry date until the date when judicial approval has been given. In one case (04-13/14), the AO appeared to widen the authorised surveillance times without specifying those times. I noted that the first application for judicial approval of an authorisation was rejected by a magistrate, but I was told that this was on procedural grounds; the application was re-authorised under a different URN and was then accorded judicial approval.
24. One authorisation was made for placing a covert CCTV camera overlooking a rear entrance to a public building in which repeated thefts had taken place. In this case Mrs Hammell was the applicant, and another AO authorised the surveillance but set an erroneous expiry date. The proper method of authorising a short-term surveillance operation is to set not an early expiry date but an early review date.

CCTV

25. The shared CCTV system with Gosport Borough Council, based in a control room at Gosport, remains in place.

Conclusions

26. FBC's RIPA structure and management remain in excellent good health. It is reassuring to find that in a second-tier local authority which does continue to use its RIPA powers, high standards are generally maintained, confirming the adage that practice makes perfect. But for reasons explained in paragraph 19 above, usage is now likely to decrease further.
27. I am happy to endorse, without repeating them, the words of praise contained in the last two reports of Mrs Ringshaw-Dowle in 2008 and 2011. I make the following single

Recommendation

That FBC's RIPA Policy document be amended in accordance with paragraph 14 of this report.

David Clarke
Assistant Surveillance Commissioner

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **16 March 2015**

Report of: **Director of Finance and Resources**

Subject: **ANNUAL AUDIT AND GOVERNANCE COMMITTEE REPORT AND
WORK PROGRAMME**

SUMMARY

This report summarises the work carried out by the Audit and Governance Committee during 2014/15 and proposes the programme of work for 2015/16.

RECOMMENDATION

- (a) The Council is recommended to note the report;
- (b) That the Committee work programme for 2015/16, as shown in [Appendix A](#), be approved.

INTRODUCTION

1. This annual report summarises how this Committee has performed during 2014/15 in relation to its purpose and functions set out in the constitution.

COMMITTEE ORGANISATION 2014/15

2. The Committee continued to operate this year in accordance with best practice as detailed in the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Audit Committees – Practical Guidance for Local Authorities".
3. The Committee met five times in the year and reported directly to the Council. It was comprised of seven members who reflect the political balance of the Council. The chairman of the Committee for the year had no Executive responsibilities and was not required to deputise at the Scrutiny Board during the year. The committee was supported in its work by the Director of Finance and Resources.

COMMITTEE ACTIVITY IN 2014/15

4. The work being carried out by the Committee to fulfil its responsibilities is reported as a work programme to each Committee. The following points should be noted:
 - (a) The Committee was not requested to review any issues by the Chief Executive Officer, any director or Council body during the year.
 - (b) There were no issues arising from the review of the Statement of Accounts and subsequent external audit report that the Committee felt needed to be brought to the attention of the Council.
 - (c) The Committee requested further information twice in respect of:
 - the nature of the variances noted in the audit report covering car parking income reconciliations;
 - the overall progress being made in implementing audit recommendations.
5. There were nine additional pieces of work carried out by the Committee in addition to the original work programme set in March 2014 which are listed below:

September 2014	Update to Standing Orders Following the Openness of Local Government Bodies Regulations 2014 External Audit Annual Fee Letter 2014/15
November 2014	Audit Recommendation Implementation
February 2015	Proposed Changes to the Scheme of Delegation to Officers in Respect of the Planning Committee and the Planning Committee Deputation Scheme Review of the Constitution
March 2015	Office of Surveillance Commissioners Inspection Report Treasury Management Strategy and Prudential Indicators 2015/16 External Audit Fee Variation 2013/14

6. There were two reports in the original work programme which were not presented to the Committee for the reasons summarised below.

Report Title	When Due	Reason for Non Completion
Review of the Sanctions and Redress Policy	June 2014	This has been deferred to next year so that the impact of transferring housing benefit investigations to the Department of Works and Pensions can be assessed.
Review of Contract Procedure Rules	September 2014	The work challenging the Council's policies for procurement and contracts is still in progress and no changes are yet being proposed.

TRAINING EVENTS

7. There have been no training events in the year. However, members have requested that a session on the Annual Governance Statement is delivered in 2015/16.

WORK PROGRAMME FOR 2015/16

8. The proposed work plan for the Committee for 2015/16 is attached as [Appendix A](#).

RISK ASSESSMENT

9. There are no significant risk considerations in relation to this report

CONCLUSION

10. There has been a high level of compliance with best practice in the way that the Audit and Governance Committee operates and the reports received.

Appendices

Appendix A – Proposed Work Programme for 2015/16

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2014/15

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

PROPOSED WORK PROGRAMME FOR 2015/16

Committee Function and Report Subject		Frequency	Last Reviewed	June 2015	September 2015	November 2015	March 2016
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2014-15	YES	YES	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2013-14				
Review of the Constitution		As needed	2013-14				
ETHICAL FRAMEWORK AND STANDARDS							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2013-14				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2014-15		YES		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2014-15	YES			
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2012-13				
	Annual Governance Statement	Annual	2014-15		YES		
Key Policy	Review of Financial Regulations	3 yearly	2014-15	YES			
	Review of Contract Procedure Rules	3 yearly	2013-14	YES			
	Treasury Management Policy and Strategy	Annual	2014-15			YES-implementation	YES- Policy and indicators
Risk Management	Policy and Strategy	As needed	2012-13				
	Risk Management Progress Reports	6 monthly	2014-15		YES		YES
	Business Continuity	3 yearly	2014-15				
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2013-14				
	Counter Fraud Policy and Strategy	3 yearly	2013-14				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2008-09			YES	
	Counter Fraud Progress	6 monthly	2014-15	YES		YES	

Committee Function and Report Subject	Frequency	Last Reviewed	June 2015	September 2015	November 2015	March 2016
INTERNAL AUDIT ASSURANCE						
Internal Audit Strategy	3 yearly	2014-15				
Internal Audit Annual Plan	Annual	2014-15				YES
Quarterly Audit Reports	Quarterly	2014-15	YES	YES	YES	YES
Head of Audit's Annual Opinion	Annual	2014-15	YES			
EXTERNAL ASSURANCE						
Annual Plan and Fee	Annual	2014-15	YES			
Annual Audit Letter	Annual	2014-15			YES	
Annual Certification Report	Annual	2014-15				YES
Specific reports from inspection agencies	As needed	2014-15 (RIPA)				
STATEMENT OF ACCOUNTS						
Statement of Accounts	Annual	2014-15		YES		
External Audit Annual Governance Report	Annual	2014-15		YES		
OTHER						
Updates on legal issues	As needed	2014-15				
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items			8	7	6	6

