Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 7 September 2016
:

Committee:
Audit Committee

Date: **Thursday, 15 September 2016**
Time: **9.30 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Corporate Head of Legal and Democratic Services (Monitoring Officer)

Members of Audit Committee
Tim Barker (Chairman)   Pamela Moseley
John Cadwallader (Vice Chairman)   David Turner
Chris Mellings

Your Committee Officer is:

Michelle Dulson Committee Officer
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AGENDA

1   **Apologies for Absence / Notification of Substitutes**

2   **Disclosable Pecuniary Interests**

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3   **Minutes of the previous meeting held on the 23 June 2016** (Pages 1 - 10)

The Minutes of the meeting held on the 23 June 2016 are attached for confirmation marked 3.
Contact Michelle Dulson (01743) 257719

4   **Public Questions**

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14.

5   **Management Report on IT**

The report of the Head of Human Resources and Development is **to follow** marked 5.
Contact: Paul Voogt and Michele Leith 01743 254402

6   **Management Report on Programme Controls and Risks** (Pages 11 - 72)

The report of the Director of Commissioning is attached marked 6.
Contact: George Candler 01743 255003

7   **Management Report on Housing Benefit Overpayment Performance Monitoring** (Pages 73 - 80)

The report of the Revenues and Benefits Service Manager is attached marked 7.
Contact Phil Weir 01743 256113

8   **Management Report on Sales Ledger; update on progress in implementing improved internal controls**

The report of the Head of Financial Management and Reporting is **to follow** marked 8.
Contact: Cheryl Sedgley 01743 258937

9   **Audited Annual Statement of Accounts 2015/16**

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is **to follow** marked 9.
Contact: James Walton 01743 255011

10   **Annual Treasury Report 2015/16** (Pages 81 - 96)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached marked 10.
Contact: James Walton 01743 255011

11   **Management Report Risk and Insurance Annual Report 2015/16** (Pages 97 - 110)

The report of the Risk and Insurance Manager is attached, marked 11.
Contact: Angela Beechey 01743 252073

12   **Management Report Strategic Risks Update** (Pages 111 - 116)

The report of the Risk and Insurance Manager is attached, marked 12.
Contact: Angela Beechey 01743 252073

13   **Internal Audit Performance Report and revised Annual Audit Plan 2016/17** (Pages 117 - 130)

The report of the Head of Audit is attached, marked 13.
Contact: Ceri Pilawski 01743 257739

14   **Internal Audit Charter** (Pages 131 - 148)

The report of the Head of Audit is attached, marked 14.
Contact: Ceri Pilawski 01743 257739

15   **Internal Audit Quality Assurance Improvement Programme** (Pages 149 - 152)

The report of the Head of Audit is attached, marked 15.
Contact: Ceri Pilawski 01743 257739

16   **Code of Governance** (Pages 153 - 168)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached, marked 16.
Contact: James Walton 01743 255011

17   External Audit: Shropshire Council Audit Findings 2015/16

The report of the Engagement Lead is **to follow** marked 17.
Contact: Mark Stocks (0121) 232 5437

18   External Audit: Shropshire County Pension Fund Audit Findings Report 2015/16

The report of the Engagement Lead is **to follow** marked 18.
Contact: Mark Stocks (0121) 232 5437

19   External Audit: Audit Committee update

The report of the Engagement Lead is **to follow** marked 19.
Contact: Mark Stocks (0121) 232 5437

20   Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 24 November 2016 at 9.30 am in the Shrewsbury Room.

21   Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

22   Exempt minutes of the previous meeting held on the 23 June 2016 (Pages 169 - 170)

The exempt minutes of the meeting held on the 23 June 2016 are attached for confirmation, marked 22.
Contact Michelle Dulson (01743) 257719

23   Fraud and Special Investigation Update September 2015 (Exempted by Categories 2, 3 and 7) (Pages 171 - 174)

The report of the Principal Auditor is attached, marked 23.
Contact: Barry Hanson (01743) 257737

	Committee and Date
Shropshire Council	Audit Committee 15 September 2016

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 23 JUNE 2016 9.30AM – 12.30PM

Responsible Officer: Michelle Dulson
Email: michelle.dulson@shropshire.gov.uk   Tel: 01743 257719

Present
Councillor Tim Barker (Chairman)
Councillors John Cadwallader (Vice Chairman), Chris Mellings, Pamela Moseley and David Turner

5   Apologies for Absence / Notification of Substitutes

5.1   No apologies were received.

6   Disclosable Pecuniary Interests

6.1   Members were reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

6.2   With reference to Agenda Items 7, 9, 11 and 12 Councillor Tim Barker declared that he was a Board Member of ip&e and as such he would hand the Chair over to the Vice-Chairman and leave the room prior to the commencement of the debate on these items. Councillor Tim Barker also declared that he was the Chairman of the Shropshire Housing Alliance.

6.3   As a former Employee of Shrewsbury and Atcham Borough Council, Councillor Pam Moseley declared an interest in the Shropshire County Pension Fund.

6.4   Councillor Chris Mellings declared that he was a Board Member of the Shropshire Housing Group.

7   Minutes of the previous meetings held on the 18 February 2016 and 27 May 2016

7.1   **RESOLVED:**
That the Minutes of the meetings held on 18 February 2016 and 27 May 2016 be approved and signed by the Chairman as a correct record.

8   Public Questions

8.1   There were no public questions.

9   **Council Tax and NNDR Performance Monitoring Report**

9.1 The Committee received the report of the Revenues and Benefits Service Manager – copy attached to the signed Minutes – which provided Members with performance monitoring information on the collection of Council Tax and Non Domestic Rates income for the year to 31 March 2016, and progress on the year to 31 March 2017.

9.2 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2015-16 was £153,091,967 or 98.4% which compared favourable to the previous year's collection rate of 98.3% (£149,829,554), which was an increase of £3.2m. In the year to 6 June 2016, 25.2% of council tax had been collected compared to 27.1% for the equivalent period last year. The total arrears for council tax as at 31 March 2016 stood at £9m but by 1 June 2016 this had reduced to £8.4m.

9.3 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that £78,124,707 or 99.1% had been collected between the 1 April 2014 and the 31 March 2015 which again compared favourably with the previous year's collection rate of 98.7% (£77,058,449), which was an increase of £1m. In the year to 6 June 2016, 27.9% of business rates debt had been collected compared to 31.3% for the equivalent period last year. The total arrears for Business Rates as at 31 March 2016 stood at £3.6m but by 1 June 2016 this had increased to £3.8m, due to an old year rating adjustment.

9.4 In response to a query about payments due to the Council from its own premises, The Section 151 Officer explained that bills had been issued but there may be some dispute about which services were located in which buildings, however it had been agreed that these bills be paid and any disputes be sorted out and refunds issued, if necessary.

9.5 The Revenues and Benefits Service Manager explained the Council's approach to Credit and when refunds were issued. Over £2m in Council Tax had been refunded and over £5m in Business Rates. Sometimes however these refunds were not claimed or no forwarding address was available so there inevitably would be some credit balances.

9.6 The Revenues and Benefits Service Manager answered a number of queries from Members of the Committee in relation to enforcement, write-offs and bad debt reserves. He agreed to report back to the next meeting in relation to bailiff performance.

9.7 **RESOLVED:**
     That the report be noted.

10   **Annual Whistleblowing Report**

10.1 The Committee received the report of the Head of Human Resources and Development – copy attached to the signed Minutes – which provided Members with an update on the number of Whistleblowing cases raised regarding Council employees over the previous year (excluding school based employees).

10.2 The Head of Human Resources and Development reported that in 2015/16 there had been one case reported by an employee and nine by members of the public. However, in all but two cases the outcome was that there was no case to answer or a vexatious complaint.

10.3 In response to a query it was confirmed that an employee was at risk from disciplinary action if they made a vexatious complaint. However in these cases the whistle-blowers remained anonymous.

10.4 **RESOLVED:**
That the report be noted.

11 **Revenue Outturn Report 2015/16**

11.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which provided Members with details of the revenue outturn position for Shropshire Council for 2015/16 and provided a summary of the revenue outturn for each service area with a commentary on the main variations and an outline of how the position had changed since Quarter 3; the movements in the Council's general balance and the Council's reserves and provisions.

11.2 It was noted that the final outturn for 2015/16 showed an overall net revenue expenditure of £213,027m and an underspend of £2.816m, which was a significant improvement from quarter 3, by over £3m. The Section 151 Officer drew attention to the budget variations by service area set out at paragraph 6.2 and the further analysis at Appendix 1 of the report.

11.3 The Section 151 Officer reported that the General Fund balance had increased from £15m to £18m but that this was still below the risk assessed level of £28m. The Section 151 Officer informed the Committee that a Scrutiny Working Group had been put together to look at the general fund balances and the earmarked reserves so the process had been challenged and looked at in more detail.

11.4 In response to a query, the Section 151 Officer explained the Council's vacancy management policy whereby every vacant post was being challenged before being recruited to. The Section 151 Officer confirmed that if the post was considered essential it would of course be appointed to.

11.5 Turning to the Housing Revenue Account (HRA), the outturn for 2015/16 was an underspend of £1,031m taking the closing balance on the HRA Reserve to £5.824m. This underspend was due, in part, to less being spent on planned repairs, which, in turn, had led to an increase of £2,803m in the Major Repairs Reserve. The Section 151 Officer agreed to let Members know the total amount of outstanding rent arrears as at the end of March 2016.

11.6 In response to a query, the Section 151 Officer explained that the Schools Building Maintenance Insurance Balances were held on behalf of schools, however, it was not clear what would happened to these reserves once a school become an academy. A query was raised, in relation to the level of balances for Shire Services and it was confirmed that any underspends went into the reserve. The Section 151 Officer reported that all earmarked reserves were currently being considered by Cabinet.

11.7 A brief discussion ensued in relation to the overspend in Adult Social Care. The Section 151 Officer explained that the Financial Strategy took account of a greater level of growth in Adult Social Care than previously modelled for and whilst there was significant more growth, Adult Social Care did not appear to be quite as high as first thought.

11.8 Further reports were requested for future meetings on school balances in relation to the Academisation of schools, the School Buildings Maintenance reserve and the HRA.

11.9 **RESOLVED:**

A. TO NOTE THAT THE OUTTURN FOR THE REVENUE BUDGET FOR 2015/16 WAS AN UNDERSPEND OF £2.816M, THIS REPRESENTS 0.5% OF THE ORIGINAL GROSS BUDGET OF £594M.

B. To note that the level of general balance stood at £18.370m, which was above the anticipated level included within the Financial Strategy.

C. To note that the Outturn for the Housing Revenue Account for 2015/16 was an underspend of £1.031m and the level of the Housing Revenue Account reserve stood at £5.824m (2014/15 £3.076m).

D. To note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £4.175m in 2015/16.

E. To note that the level of school balances stood at £7.173m (2014/15 £3.957m).

12 **Capital Outturn Report 2015/16**

12.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes - which informed Members of the final outturn position for the Council's 2015/16 capital programme and the current position regarding the 2016/17 to 2018/19 capital programme taking into account the slippage following the closure of the 2015/16 programme, and any budget increases/decreases for 2016/17 and future years.

12.2 The Section 151 Officer reported that the outturn capital expenditure was £44.4m, which represented 85.7% of the re-profiled budget. The Chairman raised concern about the £7.4m slippage and whether this could be used to generate capital receipts. In response, the Section 151 Officer explained that if there was a clear revenue benefit it would be prioritised and monitored quite closely.

12.3 **RESOLVED:**

A. That the net budget variations of £0.490m to the 2015/16 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2015/16 capital budget of £51.9m be approved.

B. That the re-profiled capital budgets of £70.4m for 2016/17, including slippage of £7.4m from 2015/16, £36.4m for 2017/18 and £16.2m for 2018/19 as detailed in Appendix 1/Table 4 be approved.

C. That the outturn expenditure set out in appendix 1 of £44.4m, representing 85.7% of the revised capital budget for 2015/16 be accepted.

D. That retaining a balance of capital receipts set aside of £17m as at 31st March 2016 to generate a one-off Minimum Revenue Provision saving of £377,500 in 2016/17 be approved.

13 Annual Statement of Accounts 2015/16

13.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with an overview of the Accounts and also provided details of the reasons for the most significant changes between the 2014/15 Accounts and the 2015/16 Accounts.

13.2 The section 151 Officers explained that there had been a number of changes to the way in which the accounts were reported including a new accounting standard and a Narrative Report which had replaced the Explanatory Forward. The Section 151 Officer drew attention to the Analytical Review set out in Appendix 2 of the report.

13.3 In response to a query it was confirmed that, due to the actuarial valuation, there had been a very small change (0.2%) to the Defined Benefit Liability, the figure used for discount rates.

13.4 It was noted that the debt owed by 'NHS Funds' to the Council had almost halved, however that owed by 'Other Entities and Individuals' had increased by over £2m. The amount owed by the Council to 'Other Entities and Individuals' had increased from £39K to £53K. In response, the Head of Financial Management & Reporting stated that she would have a look at these and let Members know if there were any large sums owing from a particular other entity or individual.

13.5 In response to a query in relation to Officer's Remuneration, it was confirmed that the figures reported showed the position as at the end of the year, and included schools. The Principal Accountant (Revenue) explained that some of the changes reported were due to inflationary increases.

13.6 In response to a query, it was confirmed that all but three Related Party Transaction responses had been received.

13.7 **RESOLVED:**
A. THAT THE CONTENTS OF THE DRAFT 2015/16 STATEMENT OF ACCOUNTS BE NOTED.

B. That the changes made to the Council's accounting policies in 2015/16 be noted and agreed.

C. That the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2016.

14 Internal Audit Annual Report 2015/16

14.1 The Committee received the report of the Audit Service Manager - copy attached to the signed Minutes - which provided Members with details of the work undertaken by

Internal Audit for the year ended 31 March 2016. It also reported on delivery against the approved Annual Audit Plan and included the Audit Service Manager's opinion on the Council's internal controls as required by the Public Sector Internal Audit Standards (PSIAS).

14.2 The Audit Service Manager reported that the revised plan had been delivered in excess of the 90% delivery target. 2,050 days had been provided in the original plan, this figure had been revised to 1,932 days to reflect changing risks and resources. In total, 103 final reports were issued in 2015/16. Fifty one good or reasonable assurances were made (49%), which was a reduction of 15% on the previous year. This was offset by a 15% increase in limited (43) and unsatisfactory (9) opinions which accounted for 51% in total compared to 36% last year.

14.3 The Audit Service Manager explained that lower level assurances had been awarded in mainly two areas, Children's Services (mainly schools) and Chief Executives (ICT infrastructure). The lower levels of assurance within the ICT Infrastructure were still a cause for concern as there had been little or no change, which had resulted in the Audit Service Manager qualifying her overall opinion. The Chairman requested a report to the next meeting of the Audit Committee to ensure the Direction of Travel was more focused and driven and that management were prioritising implementation plans to address the matters raised. The Section 151 Officer agreed to raise Members 'concerns at a future Directors meeting.

14.4 The Audit Service Manager drew attention to the assurance levels given for the eleven Fundamental Systems set out at Appendix A, Table 3. All fundamental systems showed a static or improved direction of travel with all areas providing reasonable or good assurance, except for Sales Ledger which was showing a lower level of assurance, mainly due to issues around debt collection rates. A further paper was requested in relation to the lower level of assurance given for the Sales Ledger.

14.5 1,568 recommendations had been made in the 103 final audit reports issues with the fundamental recommendations falling from six to four. Forty nine recommendations (3.2%) had been rejected by management (36 by one School). Where the reasons for rejection were not accepted and it was considered that the identified risks were not being managed or mitigated, this had been highlighted to the managers concerned. No fundamental recommendations had been rejected.

14.6 Turning to the Direction of Travel in relation to the control environment, the Audit Service Manager reported a weakening control environment over the last four years with over a quarter of the lower level assurances relating to IT systems/processes which further supported qualification of the Audit Service Managers' opinion.

14.7 **RESOLVED:**

A. That performance against the Audit Plan for the year ended 31 March 2016 be noted.

B. To note that Internal Audit had evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which could be used when considering the internal control environment and the Annual Governance Statement for 2015/16.

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C. To note the Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2015/16 on the basis of the work undertaken and management responses received.

15   Review of the Code of Corporate Governance 2015/16

15.1 The Committee received the report of the Engagement Auditor - copy attached to the signed Minutes - which clearly identified how the Council achieved effective Corporate Governance in 2015/16.

15.2 The Council's Code of Corporate Governance had been reviewed against the six core principles identified in the CIPFA/SOLACE guidance and set out at Paragraph 5.5 of the report. The Engagement Auditor drew attention to Appendix A which set out how the Council achieved these principles.

15.3 **RESOLVED:** To note that the Council has very strong compliance with the Code of Corporate Governance.

16   Annual Governance Statement and a Review of the Effectiveness of the Council's System of Internal Control 2015/16

16.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls. An addition to paragraph 20 of the Annual Governance Statement was reported as follows:

'The Council will review the close down of ip&e and the separate external audit of ip&e yet to be completed and will identify opportunities for learning arising therefrom. This will be reported as appropriate to the Audit Committee and, as far as is relevant and necessary, in the 2016/17 Annual Governance Statement of the Council.'

16.2 The Section 151 Officer highlighted the six core principles set out in paragraph 5.3 of the report and briefly took Members through the Statement. He drew attention to the overall assurance levels which were all good or reasonable, as set out at paragraph 5.8 of the report. The strategic risks/governance issues identified were set out at paragraph 71 of the report.

16.3 It was requested that the words 'and Members' be added to the last sentence of Paragraph 15, so that it read as follows: 'Training and awareness sessions are provided for officers and Members…'.

16.4 **RESOLVED:**
That the Annual Governance Statement for 2015/16 be approved.

17   Annual review of Internal Audit - Quality Assurance and Improvement Programme (QAIP) 2015/16

17.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit

Standards (PSIAS), compliance against which demonstrates an effective Internal Audit service.

17.2 The Section 151 Officer drew Members' attention to paragraphs 5.7 to 5.9 of the report which set out areas of potential non- or partial conformance.

17.3 **RESOLVED:**
To note the conclusion that the Council employs an effective Internal Audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards full compliance where appropriate.

18   **Annual Assurance Report of Audit Committee to Council 2015/16**

18.1 The Committee received the report of the Section 151 Officer - copy attached to the signed Minutes - which provided the Council with an independent assurance of an adequate and effective governance, risk management and internal control framework; internal and external audit functions and financial reporting arrangements that could be relied upon and which contributed to the high corporate governance standards expected by the Council and which had been consistently maintained.

18.2 An amendment was reported to Paragraph 9 of Appendix A, which should read 'Substitutes who were invited'.

18.3 **RESOLVED:**
That the Draft Annual Assurance Report be approved and that Council be recommended to accept the contents of the report, subject to the above amendment.

19   **Changes to Arrangements for Appointment of External Auditors**

19.1 The Committee received the report of the Section 151 Officer – copy attached to the signed Minutes – which summarised the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

19.2 **RESOLVED:**
To recommend that Council support the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to "opt-in".

20   **External Audit: Pension Fund Audit Plan 2015/16**

20.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out the details of the planned audit work in relation to the Council's Pension Fund.

20.2 **RESOLVED:**
That the contents of the report be noted.

21   **External Audit: Audit fee letter 2016/17**

21.1 The Committee received the report of the External Auditor - copy attached to the signed minutes - which set out details of the audit fee for the Council for 2016/17

along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2016/17, which had been set by the Public Sector Appointments Limited at the same level as the scale fees applicable for 2015/16, at £133,845.

21.2 **RESOLVED:**
That the contents of the report be noted.

22 **External Audit: Audit Committee Update**

22.1 The Committee received the report of the External Auditor - copy attached to the signed Minutes - which provided members with a report on progress.

22.2 The External Audit Manager drew attention to the progress to date. She reported that the final account audit had begun and would start on site in August. It was aimed to complete this by 31 August 2016, one month earlier than previously.

22.3 The Engagement Lead updated the Committee in relation to the Value for Money conclusion. He reported that the guidance from the National Audit Office now required External Audit to satisfy themselves that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by looking at three areas; informed decision making, sustainable resource deployment and working with partners and other third parties.

22.4 The Engagement Lead gave examples of the areas they would be looking at in more detail which included the Council's governance arrangements, its finances and strategies going forward, service delivery and partnership working, particularly in relation to Adult Social Care. In response to a query the Engagement Lead explained how the effectiveness of the Council's governance arrangements would be tested.

22.5 **RESOLVED:**
That the contents of the report be noted.

23 **Date and Time of Next Meeting**

23.1 Members were reminded that the next meeting of the Audit Committee would be held on the 15 September 2016 at 9.30am.

24 **Exclusion of Press and Public**

24.1 **RESOLVED:**
That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations and paragraphs 2, 3 and 7 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

25 **Exempt Minutes of the previous meetings held on 18 February 2016**

25.1 **RESOLVED:**
That the Exempt Minutes of the meetings held on 18 February 2016 be approved and signed by the Chairman as a correct record.

26 **Fraud, Special Investigation and RIPA Updates (Exempted by Categories 2, 3 and 7)**

26.1 The Committee received the exempt report of the Engagement Auditor – copy attached to the exempt signed Minutes - which provided an update on the current fraud and special investigations undertaken by Internal Audit together with an update on the RIPA activity since the last meeting.

26.2 **RESOLVED:**
That the contents of the exempt report be noted.

Signed   .... (Chairman)

Date: ....

	Committee and Date	Item
Shropshire Council	Audit Committee 15 September 2016	**6** <u>Public</u>

Management Report on Programme Controls and Risks

Responsible Officer George Candler – Director of Place & Enterprise
e-mail: George.Candler@shropshire.gov.uk Tel: 01743 255003

1. Summary

This report provides a further update on the existing and emerging assurance and management controls and risk management arrangements within the council. It includes the work undertaken to develop strong governance around commissioning, and also provides an update on the Commissioning Support Unit.

The report gives assurance on the robustness of governance arrangements for all commissioning activity arising from the Council's 2014-2017 business plan and financial strategy.

With the business plan coming to an end in 2017 the Council is developing the Corporate Plan 2016/17 – 2018/19. The Corporate Plan and Financial Strategy are linked; the Corporate Plan will set out how the Financial Strategy will be delivered and the council's high-level outcomes and medium term outcomes and objectives (next 12 to 18 months) achieved at a strategic level. The medium term outcomes and objectives will be reviewed every 12 months alongside the Financial Strategy starting in the spring 2018. The medium term outcomes and objectives will be underpinned by more complete Strategic Action Plans which will also be reviewed every 12 months.

The Corporate Plan provides the direction that the Council is taking, informing the shape and design of services directly delivered by the Council or commissioned from others. This direction therefore runs through the Council and shapes the work being delivered at directorate, service area and team levels, as well as providing the basis for staff work planning and appraisals.

The Council is also developing how it uses information and evidence of what works and what is needed to identify targeted priorities and ensure that plans, strategies and actions are based on intelligence and will achieve the expected impact.

2. Recommendations

A. Members are asked to consider and endorse with appropriate comment the contents of this report.

1

Report

3. **Risk Assessment and Opportunities Appraisal**

    The Corporate Plan is an essential component of the Council's Strategic Planning, Governance Assurance Framework and the Opportunity Risk Management Strategy. The plans need to link up, and together support and provide direction for the Council to achieve its outcomes and objectives, including delivering a balanced budget. Failure to do so and fully implement the changes required will put the Corporate Plan at risk.

    Regular performance reporting against delivery of the Council's outcomes and objectives established in the Corporate Plan, including through Strategic Risk Reporting will in turn provide assurance to Members and Officers that the Council is achieving against its plan and that strategic risks are being monitored and managed, or on an exception basis activity for improvement is identified. This in turn will provide reflection on and assurance as to the strength of the governance environment.

    All Committee reports to Members will continue to report on opportunities and the associated risks and these in turn should be linked to the delivery of the Council's outcomes as set out in the Corporate Plan.

4. **Financial Implications**

    The delivery of actions within the Financial Strategy that need to be delivered over the next three years are monitored on a monthly basis and reported to the Council's Senior Management Team. To ensure consistency and robustness of the approach, any figures reported in relation to the achievement or non-achievement of savings will be directly reflected within the Council's revenue monitoring reports.

    Financial monitoring reports are approved by Cabinet on a quarterly basis. Supporting this are monthly reports which are produced and are considered in a timely manner by the Council's Director's Team. Furthermore, to ensure Cabinet Members are able to fulfil their roles in their respective Portfolio areas, regular informal Cabinet meetings take place and these are supplemented by individual meetings with the portfolio holders to specifically review and monitor progress against the delivery of the Council's savings plans in their respective areas.

5. **Commissioning Governance arrangements**

    Management control arrangements at Shropshire Council are based on clear consistent governance structures and reporting, assuring that the right people make the right decisions based on the right information. This approach is based on national 'best management practice principles' and is applied elsewhere in the public and the private sector.

2

5.1 Programme management

The Council's Director's team lead on programme management and any service re-design. This involves close liaison with the council's members, service managers and their teams to support them in their achievement of business change and outcomes, whilst ensuing that their project activities are consistent with the overall direction and ambitions of the council.

Since the last update to the audit committee in September 2015 the governance and assurance around commissioning activity has further developed and improved.

5.2 Commissioning Governance and the Commissioning Directors Group

The overall Commissioning governance structure for commissioning activity across the council is attached at Appendix 1 The Commissioning Directors Group takes overall responsibility for all strategic commissioning activity and as appropriate report into full council, cabinet and audit committee. The objectives of the group have been previously circulated to this committee.

6.0 The Commissioning Support Unit

As Shropshire Council progresses as a commissioning organisation it is increasingly important to ensure that the commissioning decisions are based on robust information and intelligence, and that it is possible to ensure that commissioned services and contracts can be managed in a consistent way and that the impact of the commissioning decisions is understood. In response to this and following a review of how the Council uses information, work was undertaken to research what functions were required to support and challenge commissioners within a Commissioning Organisation.

The Commissioning Support Unit has since been established and includes the following functions:
- Performance Management
- Research and Intelligence
- Feedback and Insights (from customers, communities, partners and providers)
- Data Acquisition and Management
- Policy and Strategy
- Strategic Contract Management
- Procurement
- Market Management
- External funding opportunities
- Commissioning Development and Advice
- Equalties

It will also draw on Financial Analytics, Risk Management and Insurance when these are required.

The members of the Unit work closely with Commissioners in the first instance ensuring that they have access to the right data, information and intelligence to

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identify need and demand and commission the right outcomes. This will include actively challenging commissioners on their conclusions.

The unit also provides advice and support to Commissioners on their overall approach to commissioning and ensures that the procurement aspects of the commissioning cycle are completed in line with legal requirements and the Council's Contract Rules.

The provision of strong assurance around contract management is an essential role of the unit, working with the commissioners who will be the contract managers to identify issues and concerns with the progress of contract delivery, drawing on a wide range of information. This work starts before procurement has taken place, with the Unit helping to advise on the outcomes and related measures that need to be in the Contracts to enable a robust view to be taken.

7.0 Intelligence Led Organisation

Effective commissioning, as with all service design and planning, requires accurate information and intelligence to identify need and with evidence of what works, set out the outcomes that need to be delivered.

In order to ensure consistency a framework has been developed bringing together existing council and best practice to help guide commissioners through the process. The emphasis is on making the intelligence available, ensuring that the intelligence is used in the way that will achieve the greatest benefit, and that intelligence is used as the starting point.

Commissioners work with the Commissioning Support Unit and the Public Health Specialist Intelligence to define their objectives. The appropriate information is then identified, gathered and brought together to identify trends, patterns and knowledge. This is considered against available evidence such as examples of approaches and interventions that work, national and local policy, and local environmental factors.

This provides the intelligence that can be used by commissioners to identify targeted priorities, outcomes and related measures for the commissioning activity and subsequent contract. In turn this clarity enables progress and impact to be monitored, and managed when necessary with the provider.

8.0 Commissioning Approach Update

The Commissioning Approach has been developed to enable services to be commissioned out of Shropshire Council in a consistent and robust way. The Commissioning Approach applies to services being commissioned out to an alternative provider. Due to the demise of ip&e Ltd and the lessons learnt and also the new Corporate Plan and Strategies, a new approach and guidance is currently being developed, the current draft of which is attached as Appendix 2 – 'Transitioning Services out of the Council our Approach`. This provides a step by step guide to the service transition process as summarised in the diagram below:

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Shropshire Council – Service Transition Process
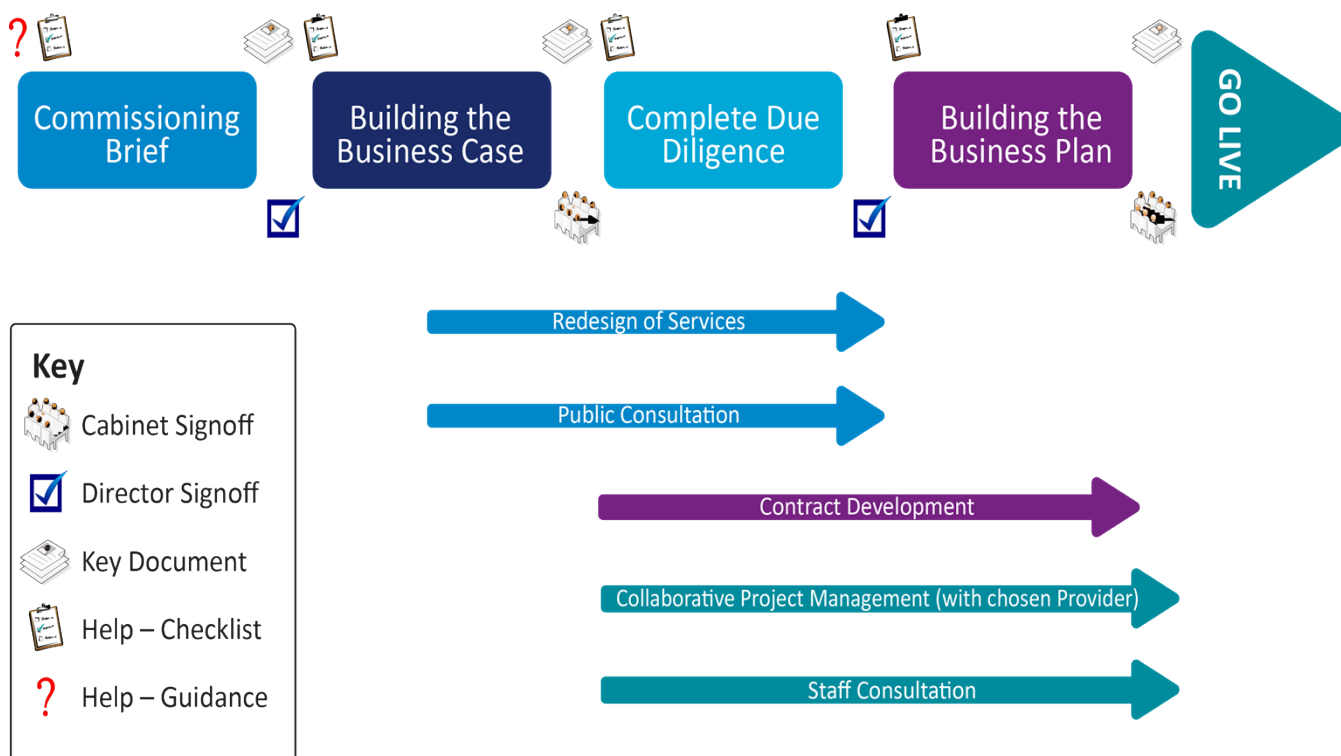
This approach allows services within the Council to put forward proposals for new service models which might include externalisation or transformation of existing services. In order to ensure consistency a process for determining such a request has been developed along the same lines as the Commissioning Approach which includes development of a brief, a business case, a business plan and decision-making points.

The Commissioning Development team are also now finalising an extensive series of guidance and supporting documentation for Commissioners to use duly aligned to the Council's new strategies, Commissioning Strategy and Corporate Plan. A summary of the guidance is attached in Appendix 3 and includes guidance for example on Strategies, Engagement and Consultation, Market Position Statements, Social Value, Contract Monitoring and Decommissioning.

9.0 Procurement and Contract Management update

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9.1 New Contract Reference System

A new contract reference system has recently been introduced after approval by Directors. This followed analysis work undertaken by the Commissioning Development and Procurement team of annual expenditure with contractors which attempted to match expenditure with contract arrangements that had been captured on the existing Contract Register. The analysis looked at Contractors with highest expenditure and representing 80% of the annual spend. This work undertaken had been previously reported on to this committee in 2015.

This analysis work identified the following:-

- The previous process for the allocation of contract references only covered contract arrangements over £50k in value (total value over whole duration of contract).

- The retention of contract documents other than those held by Legal Services is devolved throughout the Council. There had been examples where copies of contracts are very hard to locate and this has been identified by the Information Governance Group along with need for better processes to be established.

- Records of contracts were not being consistently maintained throughout the Council.

- There are a variety of data transparency demands that the Council has to meet which amongst other requirements lead to quarterly requests for information around contracts/procurement activity between £5k and £50k in value.

- FOI requests around contract information continue to grow putting more pressure on having the right information to hand.

- Commissioners do not always have an easy overview of what contracts are in existence or the critical details about them to make informed decisions for the future.

- Contract Management throughout the Council is inconsistent in quality and good contract management requires easily accessible contract information as a starting point.

The new Contract Reference System looks to counter the above difficulties and also utilises the contract register system on Delta (our e-tendering system) as a repository for procurement and contract documents. The new system introduced in the Spring 2016 is as follows:

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- It extends the current requirements for contract references to cover all procurement activity and contracting with a value exceeding £5k.

- Officers must now apply for a contract reference before any procurement process (including the obtaining of quotations) and also before entering into any contract with a value above £5k.

- A Contract Reference is then allocated to be used on all related documents and the contract itself.

- If no procurement is undertaken (for a legitimate reason) then the officer must provide an electronic/scanned copy of the contract for placing in the central repository. The original is still held either with legal or with the service but the location of the original with details/reference/individual must be provided.

- If a procurement is undertaken then at the end of the process the details of the outcome along with a copy of the contract etc. must be provided at that stage.

- This a mandatory system for all Officers.

- New forms and guidance have been created and a communication plan put in place.

9.2 Extended use of E-tendering System

An electronic tendering system ('Delta') has been put in place which provides a full audit trail for procurement processes as well as an electronic means of managing tender processes and receiving tenders.

The system is used extensively by the procurement team and has also been rolled out for use by Premises Services. Additionally work is underway with other sections of the Council who have a high volume of tendering work to further extend its use including Passenger Transport Services and also Highways.

The Delta system is now also used as Contract Register and repository for procurement and contract documents and such documents under the new contract reference system. Many such documents have now been added to register and this will grow with time.

| |
|---|
| **List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)** |
| **Cabinet Member (Portfolio Holder)**

Michael Wood, Portfolio Holder Corporate Support |
| **Local Member**
All |
| **Appendices**

Appendix 1 – Commissioning Governance Structures - overview

Appendix 2 - Transitioning Services out of the Council our approach

Appendix 3 – Commissioning Strategy Supporting Documents Summary |

9

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Appendix 1 - Commissioning Governance Structure
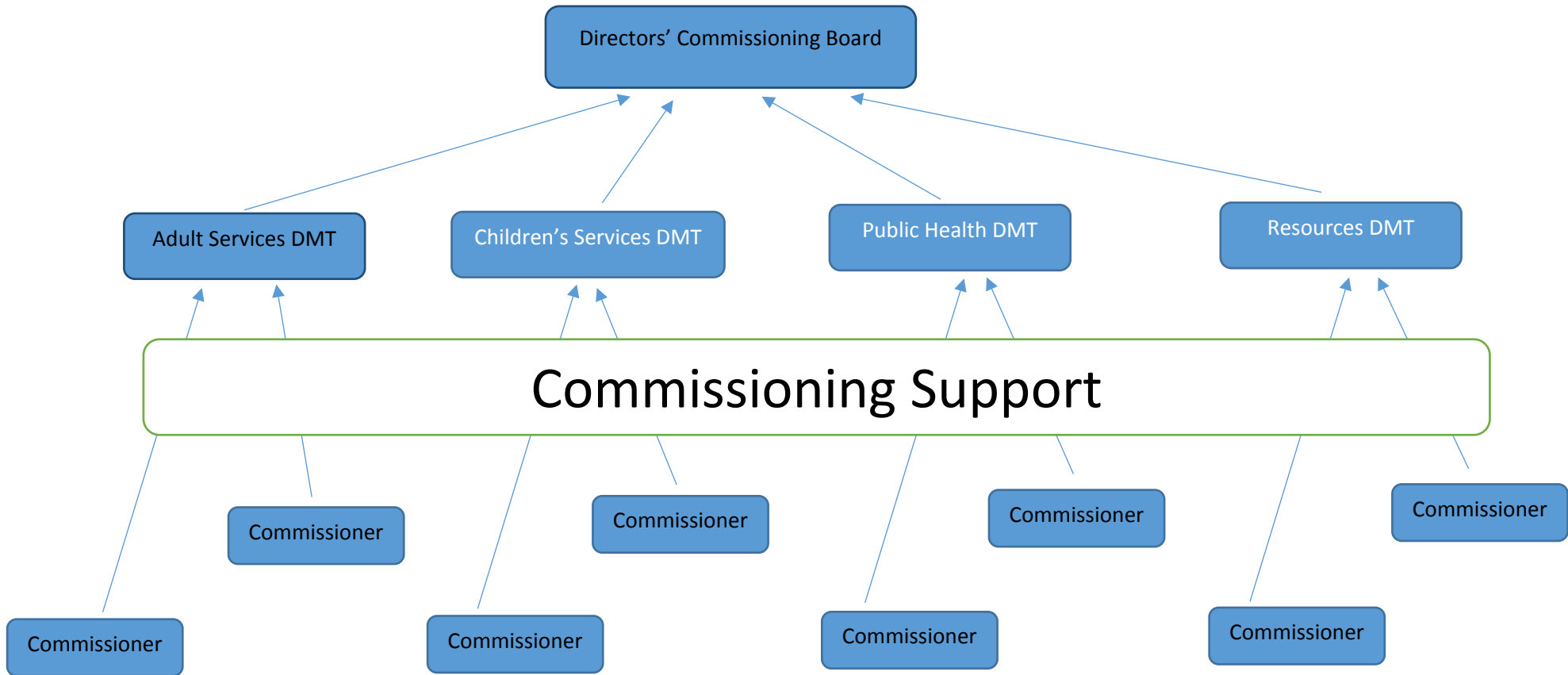
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Transitioning Services Out of the Council – Our Approach

Guidance

V 3.2 21.7.2016
Draft for Review

GUIDANCE

Version	Date	Purpose	Reviewed By:	Sign-Off:
1	01.08.2014		Daniel Brockley	George Candler
2	01.08.2015	Annual review to reflect emerging practice	Daniel Brockley	George Candler
3.1	20.06.2016	Draft update following closure of ip&e	Neil Evans	N/A
3.2	21.07.2016	Updated draft review	Neil Evans	

Our Approach

for Transitioning Services Out Of Shropshire Council

This guidance is intended for Shropshire Council Service Managers, Commissioners and other staff involved in making decisions about and leading on the transfer of services out of the Council. Use of the words 'you' or 'yours' throughout this document indicate that the guidance is aimed at Shropshire Council officers.

This guidance provides a number of factsheets that can be used to help guide you through the process of how to transfer your service outside of the Council. The factsheets are broken down to cover how you can assess your options, how to use the guidance and checklists, understanding the process, managing the process, and background legal reading. You should also be aware of the content of a number of other documents outlined in the guidance to provide you with additional knowledge throughout the process.

This guidance has built on previous support documentation and has been developed in collaboration with operational teams and the key support areas of **Commissioning Support**, **Finance**, **Information Governance**, **Risk Management**, **ICT**, **Audit**, **Legal**, **Procurement**, **Employment Services** and **Human Resources**. You will need to work closely with these areas throughout the process. The guidance will be further developed as services use and test the approach and documentation. Scheduled review points will enable the continuous development of this document.

Content Page

Factsheet 1:
The Guidance

This guidance has been created to help support Directors, Commissioners and Service Managers to follow Shropshire Council's adopted process for transitioning services out of the Council and to ensure consistency of approach. The very nature of the process will challenge you to think about your service differently and whether it is possible for your service to operate more effectively and sustainably through a different delivery vehicle. You should also use this process as an opportunity to understand the value that your service creates and whether a commercial approach would benefit your customers and the Council and secure the long-term sustainability of your service. The process will be different depending on the choice of delivery model and vehicle, and will also vary in length of time and complexity depending on the service currently delivered.

As a service manager or commissioner, it is likely that you will be asked to manage the process. The guidance will give clarity on what process to follow and what work needs to be undertaken to ensure that the appropriate due-diligence has been undertaken when commissioning out a service area. You should seek specialist support at the outset, including business advice.

- **You should familiarise yourself with all of the guidance, templates and checklists to help you through the process.**

- **Factsheets and checklists have been created for each key stage. Each factsheet will include a full description of the stage and links to any further information**

- **Use the diagram outlining the process (Factsheet 2: The Process') which provides visual clarity on the recommended best practice for transitioning services out of the Council.**

FACTSHEETS

- **You will need to consider the internal and external resources you will require throughout the process and also additionally speak to the support services identified in the guidance.**

Using the Transition Checklist

The transition checklist can be used to help Directors, Commissioners, Project Managers and Service Managers through the transition process. It is a point of reference to help you consider the information, evidence and challenges you will need to consider before undertaking the transitioning process. This list is not exhaustive and other considerations may need to be taken into account throughout the process. This is in particular the case when working with advice from **Human Resources**, **Employment Services**, **Finance**, **Legal** and **Information Governance**. These areas have their own processes & checklists to be followed. The checklist is aimed to be a useful summary document to demonstrate that progress has been considered against these factors

If you have further considerations that should be added to the checklist get in touch with Neil Evans at Neil.Evans@shropshire.gov.uk

Using the Templates

Both the Commissioning Brief and Business Case Templates will help you build the appropriate level of content and detail that will be needed at different stages of the process. The templates include guidance on what to include within each section. This should be developed closely with the Director Sponsor and Portfolio Holder to ensure that information provided gives Cabinet the appropriate amount of information to make a decision.

The key documents produced throughout the process will be:-

- **Commissioning Brief**
- **Decommissioning Brief**
- **Business Case**
- **Business Plan**

Factsheet 2:
The Process

Shropshire Council – Service Transition Process

| Commissioning Brief | Building the Business Case | Complete Due Diligence | Building the Business Plan | GO LIVE |

Redesign of Services

Public Consultation

Contract Development

Collaborative Project Management (with chosen Provider)

Staff Consultation

Key
- Cabinet Signoff
- Director Signoff
- Key Document
- Help – Checklist
- ? Help – Guidance
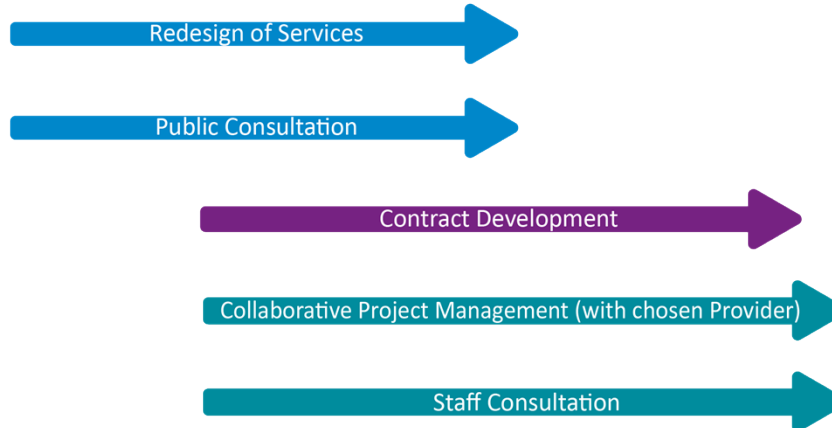
The Process (Summary)

- A Commissioning Brief will be developed that sets out the outcomes required from your service, the scope of the project, an outline options appraisal and a recommendation for next steps. The Commissioning Brief will be considered by Shropshire Council Directors.

- The process will require early clarification of who will be taking on the role of Commissioner and (where known) Provider

- The Business Case will need Cabinet approval via a Cabinet Report

- The Director Sponsor of the process may be responsible for making decisions outside of the two formal Cabinet decisions if they have delegated authority from Cabinet. Where Delegated Authority is granted throughout the process, it will be necessary to ensure that key decisions are documented appropriately. If the viability or scope of the process changes at any stage, then the Director Sponsor will again be responsible for deciding whether there is a need to review other options or stop the process.

- Appropriate due diligence will be undertaken throughout by both Shropshire Council and the potential delivery partner.

- Once due diligence has been completed, either as part of a procurement process or in preparation for a transfer which does not require a competitive process, Cabinet should give final approval for the transition to the new provider / delivery vehicle to begin.

Factsheet 3:

Service Manager's Role

As a service manager, you will be expected to take a lead role in driving this process forward. The knowledge that you have of your service area will make you the appropriate person to consider the work that needs to be undertaken to deliver the outcomes expected from each stage.

You will need to

- Ensure a Commissioner for your service area has been identified
- Ensure a project manager has been appointed – this may be you or the Commissioner or another suitable person
- Communicate progress to Director sponsor
- Identify support needed and membership of a project team
- Notify stakeholders at appropriate intervals
- Ensure decisions are documented appropriately
- Be clear on decision making processes and key documentation required

Factsheet 4:

Before Starting

The following factsheet outlines what you, as the Service Manager, may want to consider before starting the Commissioning Brief. Use the Commissioning Brief checklist to understand further some of the questions that you may need to answer throughout the process. The process of looking at externalisation of your service may have been started by yourself, your Director or your Service Commissioner.

As a starting point, you should use this factsheet to help you begin writing down what you know about your service at this moment in time and where the gaps in your knowledge are.

Understanding your market and your customer

It is important that you understand clearly who your customers are and who your competitors are before you start writing the Commissioning Brief. It will be important for you to undertake research and demonstrate that you have considered what your external competitors are doing and what the external market looks like. Whilst most of the detailed market analysis will be conducted during the Business Case stage it is important to have a view at this point in time as this will shape your next steps.

A market assessment will be conducted during the Business Case stage and will be developed further during the Business Plan. If you service is looking to trade externally, then you should to have a clear idea of who your leading competitors are, what other companies in the market are doing and how this market could generate sources of income. Start thinking about this and begin researching this before you start the Commissioning Brief. This may be developed further as the externalisation process gets under way. If you have not done market research before then you may want to seek support to guide you through the process.

Before you start the Commissioning Brief you will want to consider what evidence you have available that can help you build a thorough market assessment in your Business Case and also help define your service's vision and customer base in the Commissioning Brief. You should find out what customer data you have available and whether you would be able to use customer insight evidence to help you build a profile of your customer. This may also require a thorough needs assessment.

For more information on what tools you may want to consider using when conducting your research and evidencing your results see Factsheet 6 'Building your Business Case'. As you develop your Business Plan, it is likely that there will be a need to further develop your marketing strategy. See Factsheet 8, 'Building your Business Plan' for more information.

As you develop your Business Plan, it is likely that there may be a need to further develop your 'Marketing Mix' (Product, Promotion, Place, Pricing and People). Your chosen delivery vehicle may have an influence on opportunities for further market development.

Understanding the data and intelligence you will need during the process

Building on your market analysis, you should also ask yourself what data is required to inform development of the Commissioning Brief. You should work closely with your Commissioner at this point to access available support from the **Commissioning Support Unit** or **Public Health** (if appropriate to service area) to help develop any commissioning intentions supported by any evidence available. There may also be a need to conduct a thorough needs assessment depending on the service being transitioned.

Understanding your processes, assets and systems

It will be important to identify your business processes, information assets and physical assets during the process. It is essential at the initiation of the project to involve the **Information Governance Team**, **Audit Services**, **ICT Services** and the **Commissioning Support Unit** to help you to identify these. Audit Services can support you with ensuring that appropriate controls are put in place when considering proposed treatment of these assets.

Audit Services should be kept informed throughout the Transition Process and in advance of the submission of any documentation to Cabinet. Additionally, **Audit Services** would be able to help as a critical friend in the preparation of your Business Case or any Business Plan. Where changes to ICT requirements are envisaged the **ICT Governance Board** must be kept informed throughout the process.

Assessing your options

There will be many factors that may influence your decision to give consideration as to whether your service could be delivered better outside of the Council. These may include a change in legislation or opportunities to deliver better outcomes, partner with another organisation which shares your vision, develop commercial opportunities or gain access to other funding which may not be available to the Council. You should understand all the influencing factors before writing the Commissioning Brief.

This commitment to explore the options available should be shared at both a strategic and political level. You will want to understand fully what position your service is currently in and where you want to be in the future. You may be considering different models or options such as those listed below; each option will have different implications and therefore legal and procurement advice should be sought immediately:

- "Arm's Length" organisations

- Social Enterprise
- Staff Spin-Out
- Joint Venture
- Outsourcing to External Provider
- Decommissioning

Seek procurement advice if the transfer is to one of these delivery vehicles as a formal procurement exercise may need to be undertaken. If the chosen structure and delivery vehicle is one which complies with the Teckal exemption (see factsheet 14 'Background Reading and Further Information') then it may be possible to complete the transfer without undertaking a full procurement exercise. If you are considering the decommissioning of a service, please read the decommissioning guidance notes and consider using decommissioning templates.

Seek business and legal advice around which legal structure(s) may suit your service's needs and which will maximise the likelihood that you will achieve the critical success factors for your customers and your service. Please see 'Legal Structures for Social Enterprise' documents for more details of your options, but it is also highly recommended legal

advice is considered before making a decision.

Beginning an options appraisal

An options appraisal will require you to consider the advantages and disadvantages of potential structures and delivery vehicles. You will want to consider:-

- Implications For Customers
- Implications For Stakeholders
- Implications For Staff

- Funding Opportunities
- Commercial Opportunities
- Future Business Development Options
- Impact On Shropshire Council
- Risks
- Legal
- Governance

The Options Appraisal will need to be developed and continually reviewed throughout the entire process as you learn more about your service and your market and is to be seen as a working document which will begin to crystallise at the time you are developing the Business Case.

Understanding how the service will be commissioned

You should be clear on who your Commissioner is at the very beginning of the process to ensure that any proposed outcomes developed are in line with the Council's future commissioning intentions. You should speak directly to your Director to understand further the commissioning intentions and to identify and agree who your Commissioner will be. Additionally, you should also consider contract management arrangements from the outset in order to make sure that any measures of success within any contract specification are relevant and fit with the Council's vision, priorities and outcomes. It is important the Commissioner is identified early and has the appropriate knowledge of the service area from a commissioning point of view. Further detail on how contract measures will be created can be found in the 'Building your Contract' checklist.

At this point you should also give consideration as to whether your service would benefit from a fresh look at how it is designed. If there is some likely benefit then often it is better to re-design prior to transferring the service out of the Council. Support is available from the Business Design Team to support this.

Understanding the support available throughout the process

A range of support exists to help guide you through the process. There are checklists available to help you build the required documentation at the appropriate stages. This guidance document can also be used to familiarise yourself with the key decision-making gateways and what you will need to consider throughout the process. There are a number of factsheets available that will give you more detail on the stages and documents. Use and read all of the documentation provided.

Contact details for available support can be found below. These named individuals have experience of supporting previous transitions.

Key support areas

Lindsey Blackall - **Legal Services & Contract Management**
Cheryl Sedgley - **Finance**
Sam Williams - **Human Resources**
Matt Powell – **ICT Governance Board / ICT Implementation**
Jane Cooper - **Risk Management**
Angela Beechey **- Insurance**
Roy Morris - **Information Governance**

Nigel Denton - **Procurement**
Tom Dodds – **Commissioning Support**
Neil Evans – **Commissioning Support**
?? – **Business Enterprise & Commercial Services**
Ceri Pilawski - **Audit Services**
Julie Arrowsmith - **Employment Services**
John Skelton – **Workforce Development**
Steve Law – **Strategic Assets**
Neil Felton – **Business Design Team**

Comment [AB1]: Name needs to be inserted

Factsheet 5:

Building the Commissioning Brief

The Commissioning Brief sets out the intentions, rationale, scope and benefits of a potential transfer of your service out of the Council. The Commissioning Brief will require a formal decision at Directors' meeting. You will have already undertaken an Options Appraisal to define the most suitable option for your service. The decommissioning of a service area may also be considered at this point. If this is the case, the decommissioning guidance should be considered and decommissioning brief used.

The Commissioner should be identified and named at the beginning of the process, as should the Project Lead. The Commissioning Brief will be signed off by the Directors' Team. The purpose of the Commissioning Brief is to ensure that Directors have a strategic view of Commissioning intentions to externalise services and for them to give approval to proceed or to request a revision to plans based on the direction of the organisation as a whole.

The Commissioning Brief will:-

- Set out the current position, including national policy, current objectives and outcomes
- Describe the internal and external factors affecting the future
- Describe the benefits/opportunities of moving out of the council
- Provide a summary of the options appraisal and why a particular option has been selected
- Set out the proposal – including the scope (what's included and what isn't)
- Consider the potential impact on service users, customers, stakeholders and other services of transferring out and consider the risks related to these

- Describe and begin developing plans for the key systems and processes affected by this transfer which will include ICT requirements, data and information flows. These plans will be refined through the commissioning and transition process
- Set out the core support functions that will be required to facilitate the commissioning and transitioning out of the service(s). These will include ICT, HR, Legal, Information Governance, Commissioning Support
- Consider the financial impacts
- Consider the potential for taking a more commercial approach such as income generation through trading activity or other sources
- Consider the liability and insurance implications
- Provide a clear action plan and timeline

The Decision Making Process

1. The lead commissioning officer will be responsible for clarifying the decision making process and timetable, ensuring that the project is factored into wider organisational priorities, and taking steps to timetable formal decision-making at Cabinet

2. Lead commissioning officer to ensure the Commissioning Brief provides sufficient rigour, detail and information to enable Directors to make a decision.

3. Director Sponsor to sponsor the Commissioning Brief and communicate the scope of the brief to Directors at Director meeting

4. Directors will make a decision whether to approve the Commissioning Brief, ask for further information or reject the Commissioning Brief

5. Directors should discuss the proposed next steps within the Commissioning Brief and ensure any changes to these next steps are documented and agreed.

Links

Building Your Commissioning Brief Checklist
Commissioning Brief Template
Decommissioning Brief Template
Options Matrix Template

Factsheet 6:

Building the Business Case

The primary aim of the Business Case is to provide a detailed statement of the service's current position and to present a fully considered case as to why the proposed option will deliver better outcomes for the customer and the Council. The Business Case will include a breakdown of the current financial position along with a 3 year projection for future income and expenditure based on your externalised model. The recommendations in the Business Case will require a decision by Shropshire Council's Cabinet.

A lead officer, normally the Service Manager or Commissioner, will be responsible for driving forward the Business Case. Where available you should also identify project support. As always you will need expertise and ad-hoc support from the following areas:

- HR,
- Commissioning Support
- Finance
- ICT
- Legal
- Procurement
- Audit
- Risk Management and Insurance

The Business Case should build the case for your proposal from a financial, strategic and operational point of view, considering risks and opportunities and explaining clearly how and why your proposal will deliver better outcomes for your customers and the Council.

This is an opportunity for the service to critically assess the feasibility of operating through a different delivery model. Through understanding your service's market environment you should present a clear picture of your service's vision, customers and competitors. A communications plan will ensure that all key stakeholders are being kept informed throughout the process.

Before submitting any documentation to Cabinet, Audit Services will be able to provide support to act as a 'critical friend' to test the rigour of the Business Case.

The key sections of the Business Case will include:-

- service description and vision
- a full options appraisal (building on the Commissioning Brief Options Appraisal)
- a financial statement
- a market assessment
- commercial opportunities
- staff assessment
- summary of assets including ICT systems and infrastructure
- equality and social inclusion impact assessment
- a risk assessment including ICT systems and infrastructure
- timescales & timetable of activity

Conducting market research

As part of your Business Case you will want to be clear about who your customer is and what market you are operating in. In order to build a clear picture of this, you may, for example, want to consider conducting an

Industry Analysis which is a process by which you would assess the current business environment to help you understand various economic pieces of the marketplace and how these various pieces may be used to gain a competitive advantage.

The analysis may include using marketing tools such as a PESTLE Analysis (Political, Economic, Social, Technological, Legal and Environmental) or a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) based on desktop research and other forms of research. You will also want to consider what customer data you have and whether you can create a clear picture of your customer based on customer insights. Importantly, you should be clear on what your market segment is.

Depending on the type of service transitioning, you may want to evidence this analysis through data and intelligence available through the Commissioning Support Unit in Shropshire Council. You should enhance your market assessment with countywide intelligence, local intelligence and commissioning intelligence. Additionally, there may also be a need to develop further commissioning evidence with the provider market or through soft-market testing.

It is important at all times to relate your intelligence and form your proposals in line with the Council's vision, priorities and outcomes. You should be familiar with these at all times. It is also recommended that you familiarise yourself with tools, guidance and reading provided by the Commissioning Support Unit in Shropshire Council.

Decision Making Process

1. Lead officer to ensure the Business Case covers all aspects detailed in this guidance and that any information provided is accurate & allows for the decision-making process to be followed.

2. Lead officer will be responsible for preparing the Business Case for consideration by Directors and ensuring that portfolio leads are updated regularly throughout the process in preparation for consideration by Cabinet.

3. Lead officer to ensure that the Business Case and Cabinet Report is prepared and submitted for approval by Shropshire Council's cabinet

4. Shropshire Council's Cabinet will then have an opportunity to accept the Business Case, ask for further information or reject the Business Case and recommendations within the Cabinet Report

5. Lead officer will then be responsible for ensuring recommendations and next steps in the process are followed

Links

Transition Checklist
Business Case Template
Opportunity Risk Management Strategy

Factsheet 7:

Doing the Due Diligence

Due diligence is the process by which a comprehensive and detailed investigation of the financial and legal implications of the transfer of your service to a new model is undertaken. By undertaking thorough due diligence the risks associated with this process can be minimised. The principles of due-diligence will run throughout the whole process.

There are two strands to the due diligence process:
1. For the Council to understand in detail the financial and legal (including contractual) implications to the Council of a service transferring out, and
2. For the new delivery vehicle to understand and assure itself and the Council of its financial viability and ability to be able to operate externally whilst delivering better outcomes through a contractual arrangement

Depending on the method of externalisation the two strands above will either run concurrently (eg 'Teckal' transfers, Staff Mutuals, Arm's Length Organisations) or will run at different times (eg procurement of an external provider or Joint Venture partner).

Due diligence provides an opportunity to re-assess options or to stop the process altogether if any of the activities undertaken in due diligence highlight issues that make further development of a Business Plan unviable. The Director Sponsor will be responsible for any final decisions on whether the due diligence undertaken makes further development of the Business Plan unviable and what the appropriate decision making process should be. The evidence gathered during due diligence will help inform the Business Planning and viability of the model.

A significant aspect of due diligence will be to undertake a rigorous examination of the financial case for transfer. In particular, there will need to be a detailed breakdown of budgets pre- and post-transfer. For example, if only

part of a service is being transferred, then apportionment of overheads and staff costs will need to be undertaken in order to establish an accurate and robust financial forecast.

Activities that will happen in the due diligence stage will include understanding in more detail about the following:-

- Physical and information assets
- Information and data requirements of the Council
- Data protection and Information Governance requirements
- Future I.C.T requirements and investment needs
- Treatment of assets
- Financial analysis of income, support costs, overheads and future forecasting
- Accommodation requirements
- Business processes and opportunities for redesign
- Future income collection and finance processes
- Employment models, requirements and pensions needs
- Legal and contractual issues related to the transfer of business
- Suitability of the proposed business model
- Governance needs and requirements
- Insurance requirements and implications

The outcome of the due diligence process will inform the content of the contract for the externalised service.

The director sponsor/lead officer will be responsible for keeping other Directors informed of the process at Director's meetings.

Where and when appropriate information derived through the Council's due diligence should be shared with the potential provider, either as detailed information contained within an Invitation to Tender or through a Project Group set up to manage a transfer to a Staff Mutual, 'Teckal' company or Arm's Length Organisation.

Links

Finance Checklist
Business Case
Data Migration Guidance
Asset Transfer Guidance
Asset Register

Factsheet 8:
Building the Business Plan

Depending on the route for transferring the service out of the Council the development of a detailed Business Plan will be undertaken in one of two ways:

1. For transfers out which require a procurement exercise a detailed Business Plan will need to be prepared by each bidding organisation. The Business Plan will be evaluated as part of the procurement process.
2. For transfers to any new delivery models that include a Teckal company, Staff Mutual or Arm's Length Organisation the detailed Business Plan will be developed by the proposed delivery vehicle, and evaluated by the Commissioner and Project Group

In both cases final agreement will be made by Cabinet on recommendations following either of the two scenarios above.

Developing and finalising the Business Plan should be a process of confirming and tightening the proposals and plans that will have started to develop from the outset of the Commissioning and Transition process.

The Business Plan will:-
- describe how the service will be delivered over a given period of time
- define the service area's objectives outcomes and how these fit with those of the new organisation
- describe how the service specification will be delivered
- define the service's strategy

- describes product / service development
- sales and marketing forecasts

Much of the content needed for the Business Plan will have been conducted through the Business Case and Due Diligence stage. The content of the Business Plan may be commercially sensitive and therefore sharing of any content of the Business Plan will need to be considered carefully.

If the proposal is to transfer to a 'Teckal' company, Staff Mutual or Arm's Length Organisation, it is advised that a joint project group should be set up with the proposed provider to undertake work to develop the Business Plan and the business operating model.

During this stage you should ensure that those key support areas that will need to be involved in the 'Go-Live' stage of transitioning the service out of the Council (**Employment Services**, **ICT**, **Legal**) are regularly updated with any proposed dates for transition and changes to timescales to ensure that they can make appropriate support arrangements.

Whilst the scope of the contract should be developed throughout the process, Cabinet should be provided with a summary of the scope of the contract when they consider the recommendations to approve the Business Plan and, where applicable, procurement outcome.

Please read Factsheet 11 'Managing the Process' to see the recommended approach for managing the programme of work.

Decision Making Process (if 'Teckal', Staff Mutual or Arm's Length Organisation)

1. Lead responsible officer/commissioner and provider lead (if developed together) must ensure the Business Plan is compliant with this guidance and the information provided is accurate & allows for robust decision-making. If the viability or scope of the process changes during this stage, then the Director Sponsor will be responsible for deciding whether there is a need to review other options or to stop the process.

2. The lead responsible officer/commissioner will be responsible for ensuring that a summary of the scope of the contract is provided for Cabinet when they consider the recommendations to approve the Business Plan.

3. The Provider Lead ensures that the Business Plan is approved through the decision-making processes applicable to the proposed delivery vehicle.

4. Shropshire Council's Cabinet will then have an opportunity to approve the Business Plan, ask for further information or reject the Business Plan and recommendations within the Cabinet Report

5. This is the final formal decision-making gateway.

Decision Making Process (if the transfer out is subject to a procurement exercise)

1. Lead responsible officer/commissioner together with the tender evaluation group will need to ensure that procurement requirements have been met, a comprehensive, clear and transparent evaluation process has been undertaken and the submitted Business Plan is thorough, comprehensive and clearly demonstrates viability. If the viability is in question, then the lead officer / commissioner in conjunction with the Director Sponsor will be responsible for deciding whether there is a need to review other options or to stop the process.

2. The lead responsible officer/commissioner will be responsible for ensuring that a summary of the scope of contract is available for Cabinet when they consider the recommendations to approve the procurement outcome.

3. Shropshire Council's Cabinet will consider the recommendations within the Cabinet Report to either accept the procurement outcome, ask for further information or reject the procurement outcome.

4. This is the final formal decision making gateway.

Factsheet 9:
Going Live

The practicalities of transfer will need to be considered and implemented once the procurement outcome or Business Plan and scope of the contract have been agreed. A joint project team should be set up. The project team will ensure that:

- All legal and contractual issues including insurance obligations are agreed and finalised. All agreements must be signed prior to the 'go-live' date
- All financial issues have been finalised including allocation of costs, payment schedules and payment mechanisms
- Staff are kept fully informed throughout the 'go-live' phase
- On the date of transfer, staff will have the support and infrastructure available to carry out their work
- Payroll and pensions systems have been set up
- Data migration has taken place and appropriate data safeguards are in place
- Internal and external communications have been undertaken with all stakeholders
- ICT is in place and working on the 'go-live' date

Use the 'Going Live' checklist to help you at this point.

Links

Going Live Checklist
Developing the Contract Checklist

Factsheet 10:

Developing the Contract

When a service is transferred out of the Council, arrangements will need to be confirmed in a legal agreement covering all aspects of the transfer and, where the new provider is delivering a service on behalf of the Council, a service contract, incorporating a service specification, will need to be put in place. The contract development and legal agreements should be primarily led by the Commissioner with appropriate support from **Legal Services** and contract specialists. Where external legal advice is required any costs and time involved should be factored into any resource planning.

The contract specification will include key areas such as:-

- outcome specifications
- service levels
- service quality measures
- service improvement
- pricing and payment mechanisms
- data & information access and reporting requirements
- handling of complaints & customer feedback and reporting requirements
- assets and intellectual property rights
- contract and dispute resolution
- exit management.

Use the Contract Checklist throughout along with your contract specialist and legal advisors to develop the contract.

Links

Developing the Contract Checklist

Factsheet 11:

Managing the Process

Programme and Project Management Approach

The size and type of service that you are looking to transition is likely to determine the type of approach you take to managing the development of the Business Case, Business Plan and also the mechanics of the transfer. If you are responsible for a broad service area with a number of different elements being transferred you may want to consider a programme management approach to ensure that different work streams are coordinated and provide appropriate levels of governance and assurance.

You should identify project management support early in the process to help manage the project. The project manager will be responsible for identifying and securing the appropriate support required for a successful transition. All decision making should be clearly documented.

Supporting documents developed should include:-

- **Project Brief**
- **Project Plan**
- **Opportunity Risk Register**

It will be necessary to split the programme between a commissioner workstream and a provider workstream. This will help to ensure that each workstream has a clear focus and the overall programme of transition to a new delivery model is delivered effectively.

A 'Sponsor Board' or similar should be established to ensure that the programme of work is being delivered and will include representation from both workstreams and relevant members of staff from **Human Resources**, **Legal**, **ICT**, **Audit**, **Information Governance**, **Finance** and **Risk Management**.

Figure 1 - Example of how information in programme of work may split between Commissioner and Provider

Comment [AB2]: Would be helpful if the diagram said risk and insurance
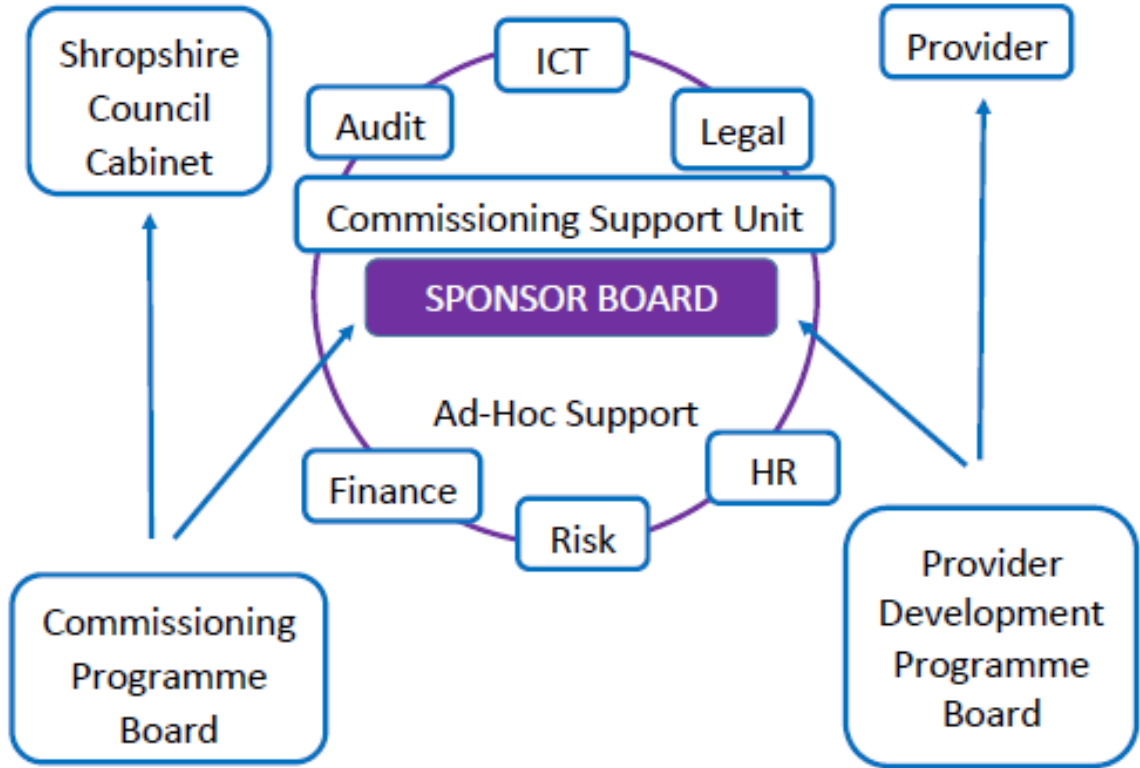
Factsheet 12:

Redesign and Restructure

As part of developing your Business Case, you may need to consider whether or how your service will need to be redesigned or restructured. You will then need to be clear as to whether any redesign will happen before any transition or as a result of any transition.

Please read the factsheet on Consultation (Factsheet 13) and work closely with your selected **HR** advisor to make sure that you have considered the impact of any redesign work that you are undertaking will have on the transition of your service outside of the Council.

FACTSHEETS

Factsheet 13:

Consultation (Public and Staff)

Consulting with the public

It is crucial that you consider the need to consult with the public at the beginning of any project related to changes in service provision and in this case when considering the transfer of a service and also before a service is actually transferred. You should seek advice from **Legal Services** immediately as to the nature and extent of consultation and engagement required. In addition, the outcome of any consultation and Equality and Social Inclusion Impact Assessment needs to be analysed and factored in to the decision making process.

Consulting with your staff

You will need to consider how to consult with your staff throughout the process. It is advised that you contact a **HR** advisor when a service is being considered for transition to understand more about when you will need to begin to consider informally consulting with staff and when formal consultation will need to begin. The type of consultation you will need to consider will depend on whether the proposed transition will be subject to TUPE (Transfer of Undertakings Protection of Employment; Background – Factsheet 15). Your **HR** advisor will help you understand the need to be clear in communicating to staff around when a formal consultation will happen and how this consultation will be conducted. Additionally, you will need to conduct an Equality and Social Inclusion Impact Assessment that considers impact on staff (see below).

FACTSHEETS

Conducting an Equality and Social Inclusion Impact Assessment (ESIIA)

The Equality and Social Inclusion Impact Assessment (ESIIA) is a tool to help to identify whether or not any new or significant changes to services, including policies, procedures, functions or projects, may have an adverse impact on a particular group of people, and whether the human rights of individuals may be affected.

Guidance is available from the **Commissioning Support Unit** on how your ESIIA is conducted. The ESIIA should be started as you begin your project and should continue to be updated as further information is collected. You should give consideration to the findings in your ESIIA as you progress and think about how they will have a bearing on the project.

The assessment comprises two parts: a screening part, and a full report part. Screening (Part One) enables energies to be focussed on the service changes for which there are potentially important equalities and human rights implications. If screening indicates that the impact is likely to be positive overall, or is likely to have a medium or low negative or positive impact on certain groups of people, a full report is not required. Energies should instead focus on review and monitoring, and ongoing evidence collection, enabling incremental improvements and adjustments that will lead to overall positive impacts for all groups in Shropshire.

A full report (Part Two) needs to be carried out where screening indicates that there are considered to be or likely to be significant negative impacts for certain groups of people, and/or where there are human rights implications. Where there's some uncertainty as to what decision to reach based on the evidence available, a full report is recommended, as it enables more evidence to be collected that will help the service area to reach an informed opinion.

For further details please see https://www.shropshire.gov.uk/equality,-diversity-and-social-inclusion/equality-and-social-inclusion-impact-assessments-(esiia)/

Factsheet 14:

Background Reading & Further Information

This section provides an overview of some of the key legal issues that you may want to familiarise yourself with. You will be provided with legal support throughout the process, however, knowledge of these areas will help you to consider the options available to you.

Can the Council's functions legally be delivered by someone other than the Council?

Local Authorities derive their ability to provide services to the public from legislation, which will also indicate whether such services are mandatory or discretionary. Those that are mandatory are generally where the Council has a 'statutory duty' to provide a service or achieve certain outcomes, whereas those that are discretionary are referred to as the Authority's 'powers' i.e. the ability to do something if it wishes. In either case the Authority can only act where it either has a statutory duty or the relevant power, and should an Authority act outside of these legislative provisions is referred to as acting 'ultra vires'. Where the Council has a statutory duty, and is considering whether that duty can be performed by another body consideration must be given to the relevant legislation imposing the duty to check whether the duties can be actually discharged by a body other than the Council.

Consideration also needs to be given to the Deregulation and Contracting Out Act 1994, and the various regulations made under it, which specifies where Local Authorities can arrange for other bodies to perform certain of the Council's statutory responsibilities. However it must be remembered that statutory duties are non-delegable and as such liability will remain with the authority. For this reason it is imperative that all contracts with third party providers have indemnity clauses within them.

Procurement

The Council is a 'Contracting Authority' under the Public Contracts Regulations 2015 (Procurement Regulations) which give effect to certain EU Directives in respect of public procurement. As a result Contracting Authorities are obliged to award contracts for goods works and services over specified values on an open, competitive and non-discriminatory basis following EU wide advertisement of the contract opportunity. Suppliers have rights under the Procurement Regulations to pursue public authorities where they believe that contracts are not being advertised and awarded on an open and fair basis.

Procurement issues need careful consideration and advice should always be sought from the **Procurement Team**.

Social Value

The Public Services (Social Value) Act 2012 places a requirement on all public sector contracting bodies to consider how their procurement activity might improve the social, economic and environmental wellbeing of the area in which they operate. The Council has developed a Social Value Commissioning and Procurement Framework which sets out ways in which Social Value can be generated.

You must consider, at the earliest possible stage, how your proposals can generate Social Value and then take steps to secure this through development of the business case, contract specification and proposals for monitoring.

'Teckal' exemption from the Procurement Regulations

In certain circumstances the Procurement Regulations will not apply. One such is the use of the 'Teckal' exemption. This may be used in the case of "in-house awards" (so-called 'Teckal' arrangements) where a contracting authority (the Council) awards a contract to an entity which it controls where (i) the authority exercises over that entity a control similar to that which it exercises over its own departments, (ii) the entity carries out more than 80% of its activities with the controlling authority, and (iii) there is no private sector capital participation in the controlled entity. This exemption is typically relied on by local authorities who set up wholly owned subsidiaries.

The use of the Teckal exemption is complex. Where this is a consideration you must seek legal advice before deciding on an option of awarding a contract directly to a wholly owned company of the Council, and before deciding to trade commercially.

State Aid

In principle State Aid is not allowed in the EU. State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union (EU). The definition of state aid is very broad because 'an advantage' can take many forms. It is anything which an undertaking (an organisation engaged in economic activity) could not get on the open market. State aid rules can (among other things) apply to the following:

- grants
- loans
- tax breaks
- the use or sale of a state asset for free or at less than market price

The rules can apply to funding given to charities, public authorities and other non-profit making bodies where they are involved in commercial activities. Therefore care must be taken, advice sought from **Legal Services** in the first instance and risks assessed if there is any suggestion of state aid being a factor in the transfer of a service outside of the Council.

Reference: https://www.gov.uk/guidance/state-aid

The Transfer of Undertakings Protection of Employment (TUPE)

TUPE protects employees' terms and conditions of employment when an *undertaking* (i.e. business / service) is transferred from one owner to another.

When a business/service changes hands, employees of the previous owner can become employees of the new employer on the same terms and conditions at the date of transfer. It's as if their employment contracts had originally been made with the new employer. Their continuity of service and any other rights are all preserved.

Both old employer (transferor) and new employer (transferee) are required to inform and consult employees affected directly or indirectly by the transfer.

Employees must be given information about the fact that the transfer is taking place, the date of the proposed transfer and the reason for it and any envisaged measures that the transferee will be taking.   Employees need to be consulted in clear and meaningful consultation period regarding any changes in proposed measures.

The transferor of a business must notify the transferee of certain specified items of employee liability information not less than 28 days before the transfer. Failure to do so can lead to a complaint to tribunal and a compensation award per employee in respect of whom the transferor has failed to provide the information.

If employees feel that they have been unfairly dismissed because of a transfer, they can raise this with the employer but if the issue is not resolved they have the right to complain to an employment tribunal.

Managers needing advice regarding TUPE transfers should contact their **HR Business Partner**. This is especially important where a service restructure may be required.

Commissioning Strategy

Shropshire Council continues to look to deliver better outcomes for customers through delivering and commissioning services in different ways. The Commissioning Strategy outlines the importance of delivering value for money for the customer through utilising community capacity and looking at new delivery models when commissioning services. A key aspect to the 'Commissioning Strategy' is that Shropshire Council aspires to be a 'Commissioner' and not a 'Deliverer' of services.

A number of linked resources and guidance notes are being developed to sit alongside the Commissioning Strategy.

Resources Link

- Shropshire Council 'Commissioning for the Future' Strategy
- Transformation Data Migration Guidance
- Shropshire Compact
- Social Value
- Grant Thornton Report *'Spreading Their Wings - Deciding to Set Up a Local Authority Trading Company'*
- State Aid
- Enterprising Councils
- Opportunity Risk Management Strategy

Factsheet 15:

<u>Eight Things We Have Learned From Other Transitions</u>

1. Identify the lead commissioner at the earliest possible opportunity

2. Engage with and involve the key support functions (**ICT, HR, Audit, Finance, Information Governance, Commissioning Support,** Risk and Insurance) from the very start of the process, setting out timescales and plans which will be refined throughout the process

3. Have direct conversations, rather than emails, regarding complex and contentious issues

4. Ensure commissioners retained Shropshire Council side have knowledge of the service area & commissioning structures are considered early

5. Have transparent and open conversations when forming Commissioning outcomes, outputs or a specification

6. Ensure strategic sponsor's board is set up after any high-level Business Case is developed, to help reporting and make decisions.

7. Identify project management support early to manage the process

8. Ensure provider engages with staff early in the process to discuss the business vision, aims and objectives

Commissioning Strategy – Supporting Documents

Make reference to commissioning strategy

Cycle	Category	Document Name	Document Description	Target Completion Date
Whole	Strategy	Commissioning For The Future	Sets out the Council's approach to commissioning	July 2016
Analyse	Evidence	Gathering the Evidence	Explains who to engage with and how the gathered evidence can inform commissioning	Complete
Analyse	Engagement & Consultation	Effective Engagement (ladder of participation)	Methods by which can engage effectively with customers, communities, partners and other stakeholders	June 2016
Analyse	Engagement & Consultation	Effective Engagement & consultation	Methods by which can engage effectively with customers, communities, partners and other stakeholders	June 2016
Plan	The Commissioning Approach	Transferring Services out of the Council – Our Approach	Step-by-step approach to commissioning services out of the Council	June 2016

Plan	Mixed Economy	Mixed Economy of Commissioning Approaches	Explains in detail how the different types of commissioning work	Complete
Plan	Governance	Governance of Commissioning	Describes the governance around commissioning	June 2016
Plan	Social Value	Social Enterprise UK Social Value Guide	Published document by Social Enterprise UK setting out background and potential use of Social Value	Complete
Plan		Social Value Act 2012 Staff Guidance Document	Internal guidance for SC commissioning & procurement staff on implementing Social Value	Complete
Plan		Social Value Commissioning & Procurement Framework for Shropshire	Sets out principles, outcomes and measures to deliver social value	Complete

Plan	Outcomes – Measuring the Impact	Commissioning for Outcomes and Co-Production – New Economics Foundation	Sets out a model for designing, commissioning and delivering services so that they focus on commissioning for 'outcomes', promote co-production to make services more effective and bring in new resources, promote social value	Complete
		Commissioning for Better Outcomes: A Route Map	Standards for good commissioning in adult social care	Complete
	Market Position Statement	Adult Services Market Position Statement	2014 Market Position Statement complete. Redrafting 2016 update	Sept 2016
		Early Help Market Position Statement	Document setting out current and future predicted demand for Early Help services aligned to market analysis	Complete
		Adult Services Commissioning Intentions	Statement of intentions for commissioning	

		Public Health Commissioning Intentions	Statement of intentions for commissioning	
		Resources & Support Commissioning Intentions	Statement of intentions for commissioning	
Do	Procurement	Procurement Strategy	Sets out Shropshire Council's strategy for procurement	Complete
Do	Contracting	Contracting Guidance	Guidance on how to ensure that our contracts focus on delivery of outcomes through flexibility and a partnership approach	Sept 2016
Do		Measuring the Impact (Why evaluate?)	Explains how to develop outcomes and the means by which we can measure them effectively	Sept 2016
Do	Decommissioning	Decommissioning Guidance	How to decommission effectively and fairly	Complete
Review	Contract Monitoring	Contract Monitoring Guidance	Guidance on how to monitor contracts effectively	Sept 2016

Under-stand	**Community Right to Challenge**	Community Right to Challenge Briefing	Sets out background to Community Right to Challenge	Complete
Under-stand		Community Right to Challenge Procedure	Procedure document for submitting challenges	Complete
Under-stand		DCLG Statutory Guidance	Guidance on how the law applies	Complete
Under-stand	**Social Value**	Social Enterprise UK Social Value Guide	Published document by Social Enterprise UK setting out background and potential use of Social Value	Complete
Under-stand		Social Value Act 2012 Staff Guidance Document	Internal guidance for Shropshire Council commissioning & procurement staff on implementing Social Value	Complete
Under-stand		Social Value Information Pack	Information about Social Value in Shropshire and good practice elsewhere. Aimed at a wide audience	Complete
Under-stand	**Financial Information about providers**	To be confirmed		

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	Committee and Date	Item
Shropshire Council	Audit Committee 15th September 2016	**7** <u>Public</u>

BENEFIT OVERPAYMENT PERFORMANCE MONITORING REPORT

Responsible Officer   Phil Weir
e-mail: phil.weir@shropshire.gov.uk   Tel: 01743 256113

1. Summary

The Revenues and Benefits Service is responsible for the recovery of Housing Benefit overpayments. This report provides Members with performance monitoring information on the collection of this income for the year to 2015/16.

2. Recommendations

Members are asked to note the report.

REPORT

1.   The service is responsible for recovering amounts outstanding on invoices raised by the former district councils relating to Housing Benefit overpayments, and for debt due to Shropshire Council for the same reason, which are now recovered separately from the Sundry Debt Service.

2.   With regards to Housing Benefit overpayment recovery, the total value of invoices raised in 2015/2016 is: -

Created   £3,855,193.79

Recovered   £2,985,128.40

Written off   £   185,909.16

3.   The total value of invoices raised for the period April 2016 to July 2016 is:-

Created   £1,094,267.61

Recovered   £ 974,283.77

Written off   £   34,506.31

4.   At 31st July 2016 the total amount outstanding, including previous years, was £6.2 million compared with £5.4 million as at 31st July 2015. The table at Appendix A provides a detailed breakdown of this debt by financial year, and also categorises the debt between sundry debt and debt being recovered from ongoing Housing Benefit.

5.   The increase in outstanding Housing Benefit overpayments follows a national trend. There are a number of ongoing national initiatives that explain why the figure has increased in the past twelve months.

- Shropshire Council has been required to participate in the Real Time Information (RTI) project since September 2014.   This is a data matching exercise that matches earnings information between Shropshire Council and HMRC and which focusses on higher level mismatches.

- Shropshire Council has signed up to the Fraud and Error Reduction Scheme (FERIS) since November 2014.   This requires us to undertake various activity to identify fraud and error (which results in overpayments).

- There has been an increase in data matching via the Housing Benefit Matching Service (HBMS).   This matches Shropshire Council and DWP data files to identify discrepancies between the two sets of records such as Income Support, JSA, Incapacity benefit and Pension Credit.

- We are also receiving a higher volume of information via Automated Transfer to Local Authority Systems (ATLAS).   This automatically loads DWP information directly into Shropshire Council's systems meaning that we are made aware of the changes more quickly

5.   In order to deal with this higher level of overpayments we have taken the following action.

- We have purchased additional functionality from Northgate which ensures that we are recovering overpayments at the appropriate rate.   (For example, where a claim has been sanctioned or if there are income disregards we can recover at a higher rate).   This functionality identifies discrepancies in our current system so we can increase our ongoing recovery rate. The recovery rates for 2016-17 are at Appendix C.

- In the last twelve months we have reorganised outstanding sundry debt into meaningful enforcement stages to easily identify what action is currently being taken in respect of each debt, and automate our enforcement procedures. These include where debt is being recovered from DWP benefit, where debt is with an enforcement agent, where there is a payment arrangement etc. We have also recently taken advantage of Direct Earnings Orders, which allow us to attach earnings where

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people are working. Debt at each enforcement stage is monitored monthly to ensure appropriate action is being taken. A breakdown of debt at various enforcement stages is at Appendix B (please note this analysis does not include cases at invoice, reminder and final notice).

- This work is providing improved management information and is being monitored on a monthly basis by the Revenues and Benefits Service Manager, the Recovery Manager and the Benefits Manager.

REPORT

3. Risk Assessment and Opportunities Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

The targets seek to increase the number of income collections transacted electronically.

4. Financial Implications

Effective monitoring of outstanding debt will enable early action to be taken to minimise the risk of financial loss to the Council.

5. Background

Housing Benefit is a national welfare benefit administered by the Council for the Department of Work and Pensions. A complex legal framework is in place to define who is entitled to benefit and to reduce fraud and error in the system. The Benefits Service within the Council has a responsibility to pay the right benefit to the right person at the right time.

6. Additional Information

None

7. Conclusions
Members are asked to note the content of the report.

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List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) N/A
Cabinet Member (Portfolio Holder) Malcolm Pate
Local Member N/A
Appendices N/A

Appendix A – Housing Benefit Overpayment Debt Breakdown by financial year

31/07/2016			
YEAR	TOTAL DEBT	SD	HB
2008/09	122,458.16	76,485.68	45,972.48
2009/10	544,313.28	456,303.18	88,010.10
2010/11	358,478.76	307,066.05	51,412.71
2011/12	401,552.82	318,685.04	82,867.78
2012/13	517,729.79	430,181.22	87,548.57
2013/14	716,626.88	533,561.05	183,065.83
2014/15	1,197,053.51	791,157.08	405,896.43
2015/16	1,676,062.95	904,264.70	771,798.25
2016/17	688,229.12	305,805.15	382,423.97
Total	**6,222,505.27**	**4,123,509.15**	**2,098,996.12**

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Appendix B – Housing Benefit Enforcement Stage Analysis

Housing Benefit Enforcement Analysis 25.08.2016	accounts	£ value
Arrangement	666	£1,173,903.87
Bail	501	£545,001.91
DWP	187	£236,503.87
HALL	28	£6,130.43
Other La	4	£14,764.71
DEA	153	£213,073.19
BAIL refer	74	£81,913.04
DWP refer	3	£7,638.96
PDEA	39	£44,196.50
Visit	147	£377,248.88
LA refer	0	£0.00
Prison	11	£4,421.40
Admin Pen Defer	8	£12,412.50
Legal	9	£24,034.40
Charging Order	4	£29,980.07
Bankruptcy	1	£429.24
No Forwarding address	36	£27,487.20
Write off	445	£216,837.33
BAILRET	447	£330,076.94
Arrangement Reminder	29	£41,105.22
Arrangement Cancelled	49	£71,512.38
Correspondence	3	£3,514.98
UC pending	3	£916.21
Dispute	15	£38,068.15
Totals	**2,862**	**£3,501,171.38**

Appendix C – Recovery rates from ongoing Housing Benefit 2016-17

Maximum Rates for Deductions from Ongoing Benefit 2016-17	
Standard Rate	£11.10
If the claimant has been found guilty of fraud, or admitted fraud after caution	£18.50
Plus 50% of any earned income disregards	
Plus any disregard of regular charitable or voluntary payments	
£10 disregard of war disablement or bereavement pension	

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	Committee and Date	Item
Shropshire Council	**Committee and Date** Cabinet 27 July 2016 Audit Committee 15 September 2016 Council 22 September 2016	**Item** **10** Public

ANNUAL TREASURY REPORT 2015/16

Responsible Officer   James Walton
e-mail: James.Walton@shropshire.gov.uk   Tel: (01743) 255011

1. Summary

1.1. The report informs members of treasury activities for Shropshire Council for 2015/16, including the investment performance of the internal treasury team to 31 March 2016. The internal treasury team outperformed their investment benchmark by 0.27% in 2015/16 and performance for the last three years is 0.28% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.

1.2. During 2015/16 the performance of the Treasury Team delivered an under spend of £1.499 million compared to budget as highlighted in paragraph 10.5 of this report. This underspend helped the Council to achieve an overall underspend at the end of the financial year.

2. Recommendations

2.1. Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2. There are no direct environmental, equalities or climate change consequences arising from this report.

3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with

Treasury Management activities and the potential for financial loss.

4. Financial Implications

4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

4.2. The 2015/16 performance is above benchmark for the reasons outlined in paragraph 10.5 of this report and has delivered additional income of £1.499 million which has been reflected in the final Revenue Monitor report for 2015/16.

5. Background

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

5.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

5.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:

- An annual treasury strategy in advance of the year.

- A mid-year treasury update report.

- An annual report following the year describing the activity compared to the strategy.

5.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee and members should be trained on treasury management activities in order to support them in their scrutiny role. These reports were scrutinised by the Audit Committee before they were reported to full Council for approval. Members have also received training on treasury management issues to support their scrutiny role by completing the CIPFA treasury management self-

assessment and further Member training has been undertaken in conjunction with our Treasury Advisor, Capita Asset Services.

5.5.   In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.

5.6.   The Treasury Strategy for 2015/16 was approved by Council in February 2015, the mid-year treasury update report was approved by Council in December 2015. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

6. Borrowing Strategy for 2015/16

6.1.   The Council did not have an external borrowing requirement for 2015/16 to 2017/18 but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

6.2.   Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.

6.3.   An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk. Short term money market borrowing was not used during the year.

7. Borrowing outturn for 2015/16

7.1.   The Treasury Team take advice from its external treasury advisor, Capita Asset Services, on the most opportune time to borrow. Movements in rates during 2015/16 are shown in the graph below.

Apr 2015 - Mar 2016 PWLB maturity certainty rates

Legend: —1 Year —5 Year —10 Year —50 Year —50 year target %
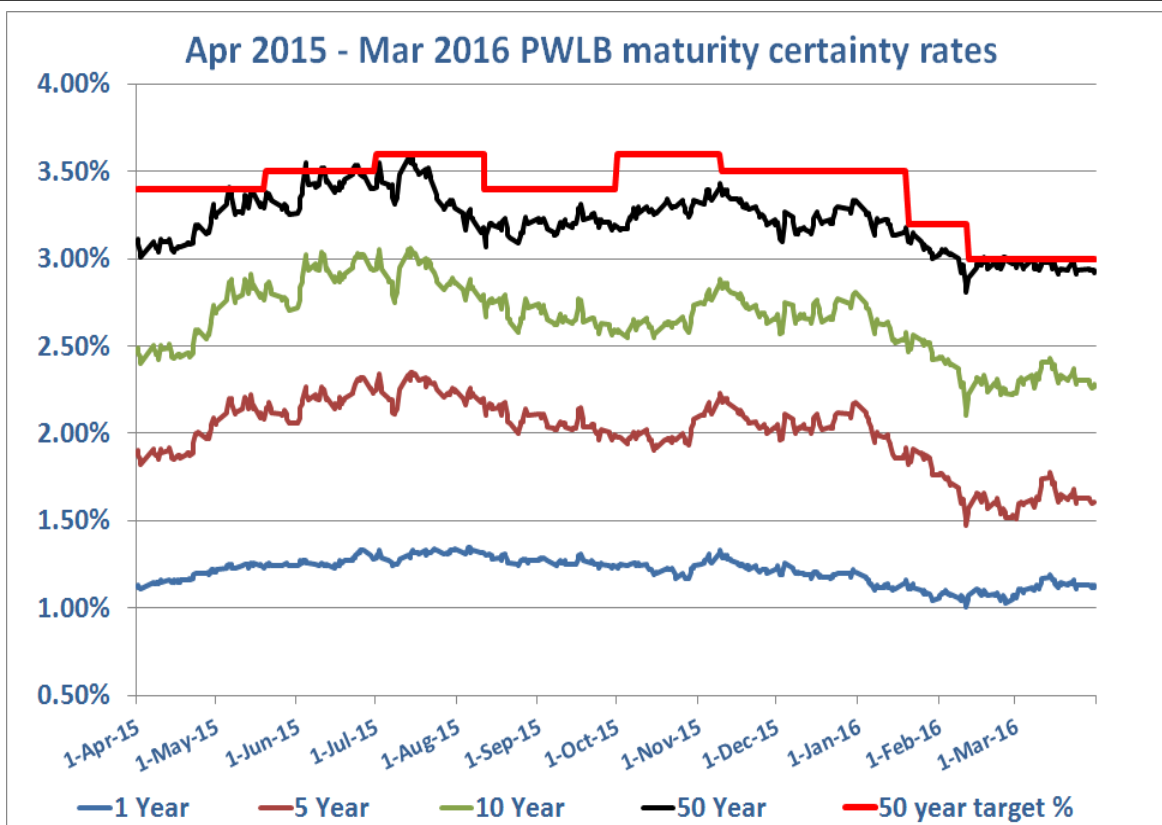
7.2.   Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. This resulted in an increase in all new borrowing rates of between 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

7.3.   The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

	4.5 – 5yrs	9.5 – 10yrs	24.5 – 25 yrs	49.5 – 50 yrs
01/04/2015	1.90%	2.49%	3.15%	3.11%
31/03/2016	1.61%	2.28%	3.11%	2.92%
High	2.35%	3.06%	3.66%	3.58%
Low	1.47%	2.10%	2.98%	2.81%
Average	2.00%	2.65%	3.35%	3.22%
High date	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Low date	11/02/2016	11/02/2016	11/02/2016	11/02/2016

7.4.   Following discussions with Capita, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. Due to a review of the Capital Programme no new external borrowing was required in 2015/16.

7.5. The Council's total debt portfolio at 31 March 2016 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2015/2016
General Fund Fixed rate – PWLB	196.42	5.48%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

7.6. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 21 years, market loans have an average debt period of 54 years. The total debt portfolio has a maturity range from 1 year to 62 years.

7.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

8. Debt rescheduling

8.1. No debt restructuring was undertaken during 2015/16. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

8.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

- To generate cash savings at minimum risk.

- To help fulfil the Treasury Strategy.

- To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

9. Investment Strategy for 2015/16

9.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2015 that the bank rate would remain at its historically low level of 0.50% until December 2015 when a rise to 0.75% was expected. During the year their interest rate forecast was reviewed and their updated forecast was approved by Council in December 2015 as part of the mid-year report. Their revised forecast was that the bank rate would remain at 0.50% until June 2016.

9.2. In 2015/16 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to

keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, Nationalised and Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy. Following approval from the Section 151 Officer, two Money Market Fund accounts (AAA credit rating) were also set up in 2015/16, however, funds were not transferred into these accounts until April 2016. The rates on these accounts are higher than short term fixed deposit rates which will help increase the overall yield.

10. Investment outturn 2015/16

10.1 Bank rate remained at its historic low of 0.5% throughout the year, it has now remained unchanged for seven years. Deposit rates remained depressed during the whole year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

10.2 The Funding for Lending Scheme, announced in July 2012, has resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling drastically in the second half of 2012 and continuing into 2015/16.

10.3 To counter the historically low investment rates and following advice from Capita, use was made of direct deals with main UK banks which were part nationalised, for various periods from three months to one year. Direct deals offered substantially enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Due to the enhanced market rates over bank rate this resulted in the total portfolio outperforming the benchmark. Use of instant access accounts with NatWest, HSBC and Svenska Handelsbanken was continued, as these accounts offered both instant access to funds and paid a rate which was higher than placing short term deposits through brokers.

10.4 Movements in short term rates through the year are shown in the below.

Apr 2015 - Mar 2016 Bank Rate vs LIBID rates %

Legend: - - - Bank Rate — 7 day — 3 mth — 6 mth — 12 mth
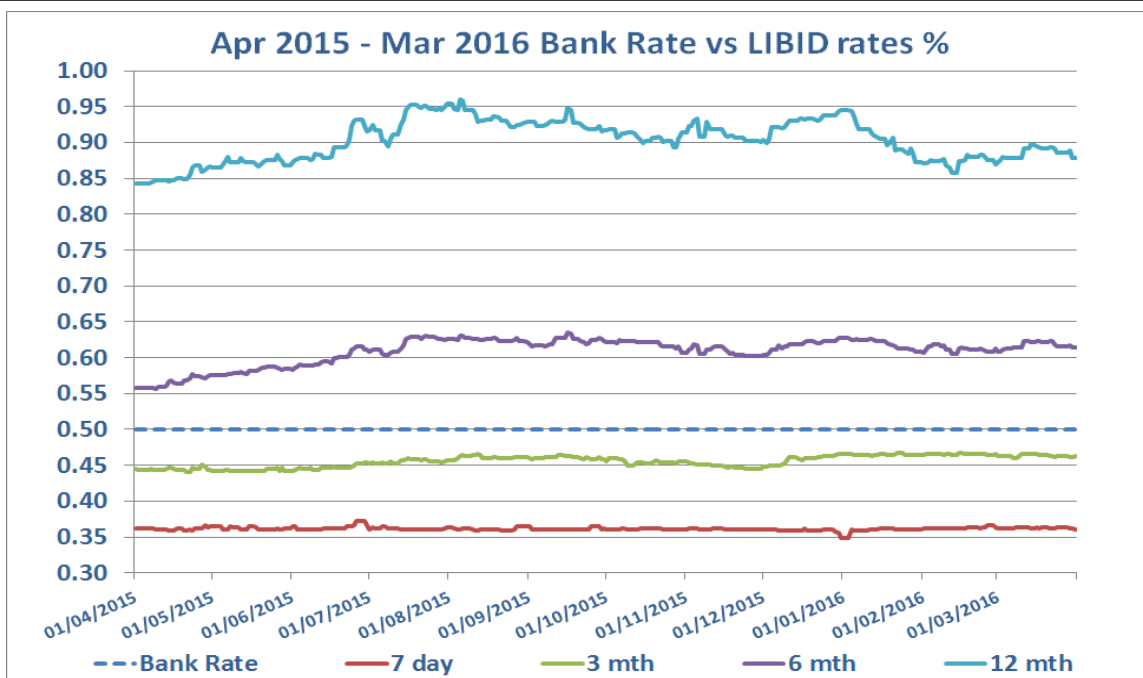
10.5 Throughout the year the level of interest rates and average investment balances were higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This surplus was in addition to an underspend on debt charges due to no long term general fund borrowing being undertaken in 2015/16. The total £1.499 million underspend helped the Council to achieve an overall under spend at the end of the financial year.

10.6 At 31 March 2016 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	97.5
• In-house long dated deposits (up to 1 year)	25.0
• Other Local Authorities	12.0
Total	**134.5**

10.7 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2016. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	Return 2015/16	Return 3 years to 31 March 2016
	%	% p.a.
Internal Treasury Team	0.63	0.60
Benchmark (7 Day LIBID rate)	0.36	0.32

10.8 The conclusions to be drawn from the table are:

• During 2015/16 the internal treasury team outperformed their benchmark by 0.27%.

- Over the 3 year period the internal team's performance has been 0.28% per annum above the benchmark.

11. Compliance with Treasury Limits and Prudential Indicators

11.1 All borrowing and lending transactions undertaken through the year have complied with the procedures and limits set out in the Council's Treasury Management Practices and Treasury Strategy. In addition, all investments made have been within the limits set in the approved counterparty list. No institutions, in which investments were made, showed any difficulty in repaying investments and interest in full during the year.

11.2 Appendix B shows the Prudential Indicators approved by Council as part of the 2015/16 and 2016/17 (revised estimate) Treasury Strategies compared with the actual figures for 2015/16. In summary, during 2015/16 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Council, February 2015, Treasury Strategy 2015/16.
Council, December 2015, Treasury Strategy 2015/16 Mid-Year Review.
Council, February 2016, Treasury Strategy 2016/17.
Cabinet, July 2015, Treasury Management Update Quarter 1 2015/16.
Cabinet, December 2015, Treasury Management Update Quarter 2 2015/16.
Cabinet, February 2016, Treasury Management Update Quarter 3 2015/16.
Cabinet, July 2016, Treasury Management Update Quarter 4 2015/16.

Cabinet Member:
Malcolm Pate (Leader), Portfolio Holder

Local Member
N/A

Appendices
A. Debt Maturity Profile as at 31 March 2016
B. Prudential Indicators 2015/16

9

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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2038	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2052	2053	2054	2055	2056	2057	2060	2066	2075	2076	2077	2078		
Fixed Rate	5,000,000	6,400,000	1,000,000	4,000,000	4,000,000	12,000,000	0	5,500,000	600,000	500,000	0	0	0	13,000,000	15,467,000	10,400,000	19,600,000	15,000,000	14,000,000	16,000,000	1,000,000											2,000,000	1,300,000	0	3,000,000	4,853,693	10,777,000								
Fixed Rate (HRA																						8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000	8,335,000													
Variable Rate																																						17,000,000	5,000,000	5700000	5350000	5150000	11000000	PWLB	LOBO
LOBO Maturity																																												Av period	Av period
	10085	12915.2	12114	8080	8094	24284	0	11132	1215	1013	0	0	0	26390	31454.097	21132.8	38846.8	30510	28466	32576	20380	17003.4	17011.735	17020.07	17028.405	17036.74	7045.075	17053.41	17061.745	17070.08	17078.415	4194	37569.9	0	6165	6679.1926	22168.289	35520	10330	11827.5	11106.6	0366.55	22858	2038	2070

Debt Maturity Profile as at 31/03/2016 - Appendix A

15% OF TOTAL OUTSTANDING DEBT

Amount Maturing (£)

Page 91

Legend:
- LOBO Maturity
- Variable Rate
- Fixed Rate

Financial Year ending

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<div align="right">**APPENDIX B**</div>

SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2015/16

C1.   The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.

C2.   The ratio of financing costs compared to the net revenue stream of the Council was lower than expected in 2015/16 due to no general fund borrowing being undertaken during the year.

Prudential Indicator	2015/16 Estimate	2015/16 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	10.7	10.3

Prudential Indicator	2015/16 Estimate	2015/16 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	10.3	9.7
HRA Ratio of financing costs to HRA net revenue stream	41.5	40.3

C3.   The cost of capital investment decisions funded from a re-direction of existing resources was lower than expected due to lower than anticipated interest rates.

Prudential Indicator	2015/16 Estimate	2015/16 Actual
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Council Tax Band D, per annum)	22.62	21.52
Cost of capital investment decisions funded from increase in council tax (Council Tax Band D, per annum)	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0
Total	**22.62**	**21.52**

C4.   It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2015/16.

Prudential Indicator	2015/16 Estimate	2015/16 Actual
External Debt	**£ m**	**£ m**
Authorised Limit: Borrowing Other long term liabilities	442 81	329 97
Total	**523**	**426**

Prudential Indicator	2015/16 Estimate	2015/16 Actual
External Debt	**£ m**	**£ m**
Operational Boundary: Borrowing Other long term liabilities	406 81	329 97
Total	**487**	**426**

C5. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2015/16. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator. The Capital Financing Requirement was lower than estimated following slippage in the capital programme that resulted in a reduced financing requirement from the capital receipts previously set-aside as approved by Council.

Prudential Indicator	2015/16 Revised Estimate	2015/16 Actual
Net Borrowing & Capital Financing Requirement:	**£ m**	**£ m**
Gross Borrowing (inc. HRA)	329	329
Investments	140	134
Net Borrowing	**189**	**195**
Non HRA Capital Financing Requirement	253	243
HRA Capital Financing Requirement	85	85
Total CFR	**338**	**328**

C6. Total capital expenditure during the year was lower than anticipated. Explanations for these under-spends were included in the 2015/2016 final capital outturn report.

Prudential Indicator	2015/16 Revised Estimate	2015/16 Actual
	£ m	**£ m**

Non HRA Capital expenditure	46	40
HRA Capital expenditure	5	5

C7. The level of fixed rate and variable rate borrowing were within the approved limits for the year.

Prudential Indicator	2015/16 Estimate	2015/16 Actual
Upper Limit For Fixed/Variable Rate Borrowing	**£ m**	**£ m**
Fixed Rate (GF)	442	244
Fixed Rate (HRA)	96	85
Variable Rate	221	0

C8. The level of fixed rate and variable rate investments were within the approved limits during 2015/16.

Prudential Indicator	2015/16 Estimate	2015/16 Actual
Upper Limit For Fixed/Variable Rate Investments	**£ m**	**£ m**
Fixed Rate	200	87
Variable Rate	200	47

C9. No investments over 364 days were held by the internal treasury team.

Prudential Indicator	2015/16 Estimate	2015/16 Actual
Upper Limit For Sums Invested over 364 days	**£m**	**£m**
Internal Team	40	0
External Manager	30	0

C10. The maturity profile was within the limits set in the Treasury Strategy.

Prudential Indicator	2015/16 Upper Limit	2015/16 Actual
Maturity Structure of External Borrowing	**%**	**%**
Under 12 months	15	2
12 months to 2 years	15	2
2 years to 5 years	45	4
5 years to 10 years	75	6
10 years to 20 years	100	31
20 years to 30 years	100	21
30 years top 40 years	100	16
40 years to 50 years	100	10
50 years and above	100	8

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	Committee and Date	Item
Shropshire Council	Audit Committee – 15th September 2016	**11** Public

RISK & INSURANCE ANNUAL REPORT 2016

Responsible Officer Angela Beechey
e-mail: Angela.beechey@shropshire.gov.uk Tel: (01743) 252073 Fax (01743) 252858

1. Summary

1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2015/2016 which has again seen an intense and varied workload.

1.2 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the risk and insurance market.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Risk Management and Opportunities Appraisal

3.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement and the Risk Management Team ensures that processes and protocols are established and embedded which support effective decision making.

3.2 Insurance is an effective method of risk transfer and a balance of self insurance and third party insurance is used based on our risk appetite.

4. Financial Implications

4.1 Failure to effectively and strategically manage the risks associated with developing a sustainable budget will potentially leave the Council exposed to external challenge and financial ramifications.

4.2 Through the purchase of an insurance policy the large financial risks are transferred.

5. Background

5.1 This year saw the Audit Team undertake an audit of both risk management and insurance and we are pleased to confirm the final reports identified the assurance level as **"Good"** with no recommendations for both audits.

5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, has now been fully embedded by the Risk Management Team throughout the council. The council needs to ensure that it is taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

6.   Additional Information – Risk Management

6.1   Strategic Risk Management

6.1.1 Throughout 2015/2016 our strategic risks were reviewed on a bi-monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.

6.1.2 This was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.

6.1.3 The new Risk Profile & Action Plan template for managing our strategic risks has been adopted during this year. This details the direction of travel for each strategic risk over the year and clearly articulates the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. This replaced the previous excel document and is clearer to understand and update.

6.1.4 During this year we have continued to develop an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	Type of Assurance	Provided by/ Obtained through
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by:- • Performance (scrutiny, customer experience) • Legal • Risk (operational, programmes, projects)
Third Line	External Assurance	Obtained through:- • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

6.1.5 As a result of the focus on ICT resilience as one of our highest strategic risks, progress has been made with the formation of an ICT Digital Transformation Programme. Members of the Risk Management Team have been involved, and will continue to provide support for the duration of this transformation programme.

6.1.6 All relevant strategic risks have been linked to the Annual Governance Statement Action Plan points. This demonstrates that we are managing these Action Points at a strategic level and this is shown clearly on each of the strategic risks where there is a link.

6.1.7 The following diagrams demonstrate our current overall strategic risk exposure:-
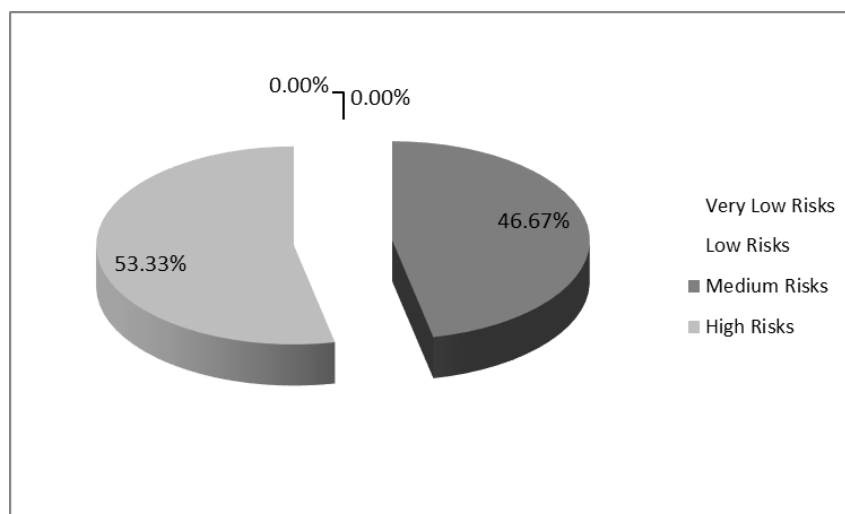
6.1.8 During 2015/2016 we consulted with all operational risk owners with regard to modifying and updating our risk definitions and matrix in order to adapt them more appropriately to today's risk climate. In order to do this we also conversed with many professional risk colleagues nationally to develop a list of appropriate definitions from which to choose. The new risk definitions and matrix were adopted in readiness for the 2016/2017 reviews and associated reporting process.

6.2 Operational Risks

6.2.1 Operational risks are reviewed and reported upon on a quarterly basis. All risks are held within one overarching risk register for each Head of Service area and circulated to risk owners for review and update.

6.2.2 At the end of the review period a detailed report is provided firstly to Heads of Service and then a collated version for Directors. These reports detail all current medium and high risks, the area they relate to and who is responsible for their mitigation. The report also details all changes that have occurred during this reporting period. These have enabled pro-active operational risk dialogue and challenge between Directors, Heads of Service and Service Managers ensuring a more accurate and robust operational risk review.

6.2.3 Following the provision of these reports a final summary report is presented by the Section 151 Officer to Directors.

6.2.4 To support the implementation of the new definitions and matrix all operational risk owners have been invited to facilited risk workshops which briefs them on the background to the Opportunity Risk Management Strategy and the methodology to enable them to robustly manage their operational risks. The workshop also allows time for the risks to be updated there and

then which enables all risk owners to update their operational risks with risk management support on hand.

6.3   Business Continuity Management

6.3.1   With the many changes occurring within the council, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel on the emergency response teams and that these people are trained appropriately.

6.3.2   To support our business continuity management arrangements, regular testing to ensure they are robust is necessary. During the early part of 2016 a live exercise called 'Back to the 70's' was undertaken to test how we would manage a cyber-attack and the impact this would have on our organisation.

6.3.3   We were fortunate to have the support of the DCLG Resilience Advisor during the development of the exercise and as an observer of the exercise whilst it took place. The DCLG Resilience Advisor is our link into COBR and his feedback was extremely positive and he was re-assured that they could rely on us as an authority to manage such an incident robustly and provide meaningful and accurate reporting.

6.3.4   We are one of the first local authorities to live test such a scenario and interest has been received from both Alarm and other colleagues as to how we have undertaken this and the learning outcomes from this.

6.3.5   Following the exercise a Post Exercise Report & Action Plan was produced and we continue to develop processes and undertakings to meet the requirements identified within this.

6.3.6   One of the key actions was to ensure that loggists were available to log key decisions during any incident. We asked for volunteers for this role and then provided training to these in effective logging. We now have 16 fully trained loggists who form part of our Emergency Response Teams and will take part in all future meetings and exercises.

6.3.7   Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/ businesses. We have facilitated two sessions called 'Your Business Matters' with local businesses sharing best business continuity management practice.

6.3.8   During national Business Continuity Week we also ran a live exercise over the week with these businesses to test the robustness of their arrangements. Following this we collated a response and action plan document which was provided to all participants. Feedback has been excellent and these will be continued to be undertaken on an annual basis during national Business Continuity Week.

6.4   Emergency Response & Business Recovery Plan for Schools

6.4.1 Following the provision of the Emergency Response & Business Recovery Plan for schools we have continued to support schools in the completion of this and the testing of the robustness of their plans.

6.4.2 We have undertaken a desktop exercise with schools and their Schools Emergency Management Teams to test a scenario and how they would manage it. Further sessions are booked to continue to support all other schools who had been unable to attend this first session.

6.4.3 Excellent feedback has been received from the schools who have confirmed that they have found the plan and training extremely beneficial enabling them to become more robust and confident in their planned response to any incident.

6.5 Opportunity Risk Management Strategy
6.5.1 During 2015/2016 we have continued to share our strategy nationally. Shropshire Council's Opportunity Risk Management Strategy is considered nationally, through Alarm, to be best practice and is now contained as a link on their website.

6.5.2 This year has seen Jane Cooper, Risk Management Officer, successfully short listed through Alarm as a finalist for two awards; Resilience Award for the exercise 'Back to the 70's' and Community Award for the work undertaken with schools in the development of their Emergency Response & Business Recovery Plans.

6.6 Project Risk Management
6.6.1 We have, and continue to support key projects that are currently underway or due to be commenced.

6.6.2 Most of the projects commence with an opportunity risk workshop to develop a robust register. This enables these to be reviewed and updated at project team meetings with key officers taking responsibility to manage specific areas of risk. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales.

6.7 Audit Team Collaborative Working
6.7.1 We continue to work closely and collaboratively with Audit Team colleagues, supporting the undertaking of the risk based audit plan meetings on an annual basis with the Audit Services Manager. This ensures that the process is cross referenced with our strategic and business plan objectives and risk exposure.

6.8 Risk Management & Business Continuity Training
6.8.1 We have continued to provide risk management and business continuity training opportunities for colleagues including schools as detailed below.

6.8.2 Schools Emergency Response & Business Recovery Plan Development
- We delivered nine training sessions either centrally or within School Development Groups around the county. This enabled us to provide support to 130 delegates representing 89 maintained schools and 9 academies in the development of their plans. The sessions allowed them time to develop their arrangements with subject matter experts on hand to support them.

6.8.3   Operational Risk Management Training
- During 2015/2016 we facilitated three operational risk management training sessions to provide refresher training to existing risk owners and introduce new risk owners to the process. In total 65 delegates attended these training sessions which is 83% of risk leads. The sessions allowed delegates to undertake their quarterly review with support from the risk management team on hand to answer queries or provide advice.

6.8.4   Risk & Insurance Training for Schools
- This training continues to be offered to all maintained schools on a termly basis. So far 92% of schools have been represented but we continue to run the sessions to enable new school staff to attend and also to continue to provide updated and relevant information in relation to changes in legislation and best practice.

6.8.5   Business Continuity Exercise 'Back to the 70's'
- In January 2016 we undertook a 'live' business continuity exercise to test our response to a cyber-attack. This involved the engagement and participation of 50 members of the emergency response teams and three observers. A representative from the DCLG also attended and his input was extremely beneficial.

6.8.5   Loggist training
- Loggist training was developed as a result of an action in the post exercise report and action plan produced following 'Back to the 70's'. We developed and delivered three training sessions resulting in the provision of 16 trained loggists to support future responses to real incidents or exercises.

6.8.6   We will continue to provide scheduled training opportunities and work with colleagues to develop bespoke training packages where required.

6.9   External Work
6.9.1   During the year we have worked to develop commercial relationships with external colleagues and organisations. This has enabled income generating opportunities with the following organisations:-
- Academy Schools - Emergency Response & Business Recovery planning;
- STaR Housing - business continuity management desktop exercise and action planning;
- Shropshire Housing Group – development of their business continuity plan and live exercise;
- Severnside UnITe – business continuity management desktop exercise and action planning.

6.9.2   We continue to be in discussion with other organisations in scoping further income generating opportunities.

7.   **Additional Information – Insurance**

7.0.1   We received 376 claims against the 2015/2016 policy year, this is an increase of 18% compared to the previous year but still fewer than the number of claims received during 2013/2014. The increase is mainly due to the number of Public Liability claims notified which has risen from 254 to 303. The majority of councils have seen an increase in their public liability claims and this has not been helped by a wet winter that saw many potholes forming quickly. In addition we have seen an increase in Property claims notified (up from 9 to 15). Although this is an increase on the previous year this level is still extremely low.

Illustration 1 - Comparison of claims received year on year
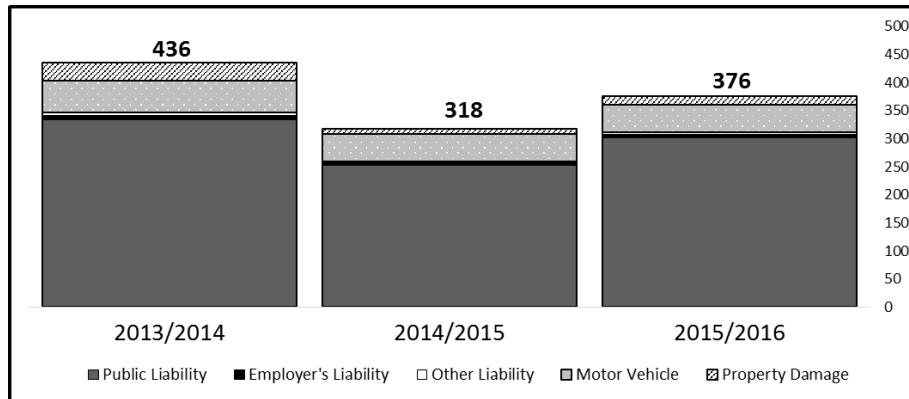
7.1   All Liability Claims

7.1.1   Liability claims represent 312 of all claims received in 2015/2016. A liability claim means an allegation of negligence is being made against the Council. Following investigations a liability decision has been reached on 287 of these claims, with 253 (88%) being repudiated (i.e. turned down).

7.1.2   The good work carried out by Shropshire Council staff is again proven by the cost we could have incurred if repudiated claims had been paid. In 2015/2016 savings of £534,924 were achieved against defended Liability claims. Over the last three year period, these savings amount to over £1.9m.

7.1.3   When a claim is received a claim form is issued for completion which will give us more detail in order that the claim can be investigated fully. Once the claim form has been issued the claim is recorded as a pending claim until such time the claim form is returned. However, there are a number of claim forms that are not returned and the table below shows the number pending claims whose claim forms have not been returned and the savings attached to these.

Policy Year	Total Number of Claims	Savings
2013/14	108	£ 62,767
2014/15	74	£ 85,830
2015/16	98	£ 71,549

7.1.4   Having taken the repudiation savings and those made from the pending claims, the overall savings over the past three years amount to over £2.1m.

7.1.5 It is pleasing to note that our repudiation rate for liability claims at 88% remains well above the industry average of 79.7%.

7.1.6 34 of the claims received have been accepted, with a combined expected cost once fully settled of £51,385. The remaining 25 claims remain under investigation at the present time and have reserves of £441,714 attached to them. However, one claim alone has a reserve of £278,000.

Illustration 2 - Comparison of those claims accepted and those defended
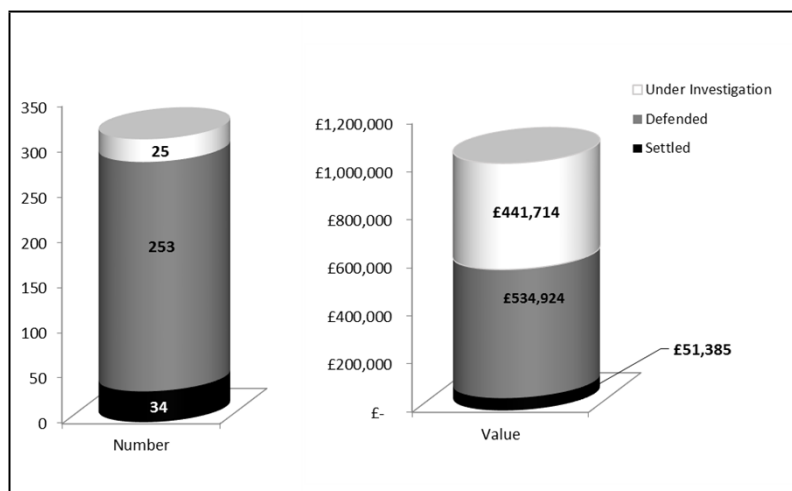
7.2 Public Liability claims

7.2.1 Of the 303 Public Liability claims received during 2015/2016, 257 claims (84.8%) have arisen through Highways Maintenance incidents with the majority of these claims arising as a result of potholes on the carriageway.

7.2.2 A liability decision has been made on 240 of these, 214 being repudiated. The current repudiation rate for Highways Maintenance claims is therefore 89.2% - again above the industry average of 84.2%. However, as detailed below some of the claims were accepted because of our statutory duty but were in fact as a result of the actions of Ringway. If correct action had been taken the repudiation rate for Highways claims would have been 92%.

7.2.3 Of the 214 Highways claims repudiated, we expect to achieve savings of approximately £377,855 which would have been incurred in defending these claims. The main reason that we are able to successfully defend claims is because there is a Section 58 defence under the Highways Act - we can demonstrate that we have an adequate system of inspection in place, or we had no knowledge of the defect prior to the incident (but took action as soon as we were put on notice).

7.2.4 Liability has been accepted against 26 of the Highways claims against the 2015/2016 policy year, at an expected cost of £23,050. Seven of these claims however have occurred as a result of the failure of Ringway – either because of a failed repair or the repair was not carried out as requested. These claims have a value of £5,614 and a recovery from Ringway is being undertaken.

Illustration 3 – Public Liability Highways claims - by cause
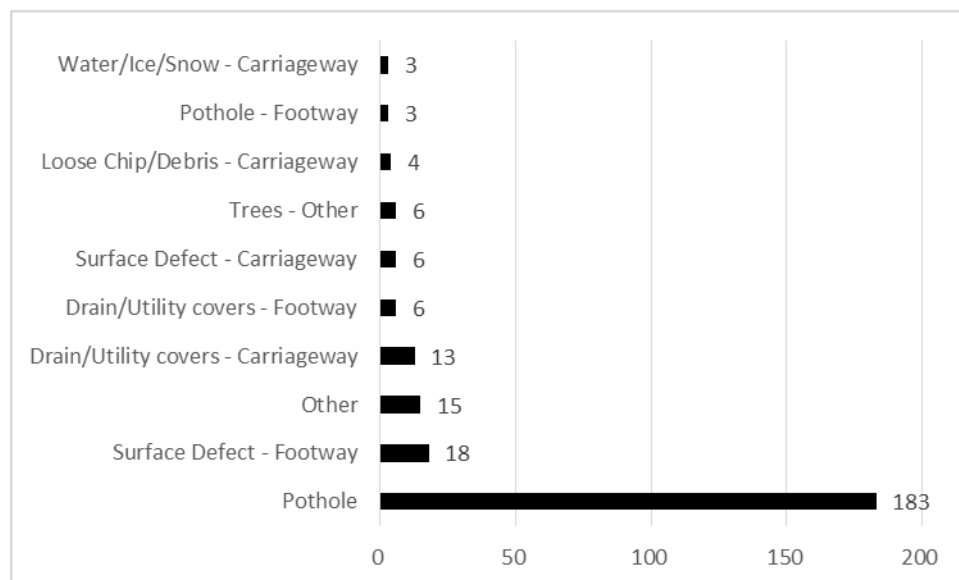
7.3 <u>Employers Liability claims</u>

7.3.1 We continue to receive a low number of Employers' Liability (EL) claims, with four claims being received during 2015/2016. The number has fallen again from the 6 in 2014/2015. It should be noted that EL claims often take a number of years to be received and there is the potential for an increase on the claims against 2015/2016 in the future.

7.3.2 Of the 2015/2016 EL claims, two related to Highways Maintenance, one Adult Social Care and one Shropshire Town and Rural Housing. The claims include two falls, one slip and one harassment.

7.3.3 At this time, two of the claims remain under investigation with a reserve of £42,158 whilst the other two have been repudiated. The expected saving against the repudiated claims is £10,193.

7.4 Other Liability claims

7.4.1 We have received five Official Indemnity claims against the 2015/2016 policy year. Official Indemnity claims are where a claimant has suffered a purely financial loss as opposed to damage or injury. Liability has not been accepted against any of these claims to date giving a saving of £4,770.

7.5   Motor claims

7.5.1   During 2015/2016 we received a total of 49 motor claims which matches the number received in 2014-2015.

7.5.2   Of these received, 33 involve our own vehicle only (no Third Party involvement), making up 67% of all motor claims received in 2015/2016.

7.5.3   Of the 16 claims involving a Third Party, we have accepted fault in 10 cases and payments made against these claims total £14,544.

7.5.4   The main reason for motor claims during 2015/2016 are incidents involving misjudgement/manoeuvring of vehicles.

7.6   Property claims

7.6.1   During 2015/2016 we received just 15 Property claims but this was up slightly from 2014/2015 where 9 property claims were received.

7.6.2   Included within the 15 claims received in 2015/2016 there is one claim valued at nearly £21,000 and another valued at £11,500. The first one of these relates to an oil leak at one of our schools where the cost of trace and access to locate and repair the leak was covered. The other relates to fire damage to one of our properties in our housing stock. The average value of the other 13 claims is £1,700. This includes four claims for storm/lightening damage, three for theft, two for fire, two accidental, one malicious and one burst pipe. Of the total number of property claims 9 related to educational properties.

7.7   Current exposure

7.7.1   We currently have 304 open claims with reserves of just over £3.2m attached. Whilst this report so far has focused on claims against the 2015/2016 policy year, it is important to remember that claims can continue to be received against old policy years – we have had a number of claims going back as far as the early 1960's. These normally relate to Employers Liability claims as shown in illustration 4 below. We currently have open 23 Employers Liability claims, of which 13 are disease related claims with reserves of £266,302. Ten are for noise related injuries, two for vibration white finger and one for mesothelioma.

7.7.2   The majority of open claims are of a low value with 48% (146 claims) being valued at less than £1,000. This is because the majority of claims we receive relate to vehicle damage caused by the highway conditions. A further 44% (134 claims) are valued between £1,000 and £25,000. Whilst 48% of the number of claims are valued under £1,000, the combined value of these claims (£43,000) represents just 1.2% of the overall reserve of £3,617m.

Illustration 4 – Open Employers Liability claims by Policy Year

Employer's Liability	Number of claims	Value (£)
1962/1963	1	£150,000
1963/1964	1	£13,000
1969/1970	1	£5,440
1974/1975	1	£16,253
1975/1976	1	£3,529
1976/1977	1	£10,061
1978/1979	1	£5,197
1979/1980	2	£29,060
1980/1981	1	£2,973
1985/1986	2	£24,789
2005/2006	1	£6,000
2011/2012	1	£14,488
2012/2013	5	£389,626
2014/2015	1	£6,665
2015/2016	3	£46,658
Total	**23**	**£723,739**

7.7.3   We have just five claims that are valued above £100,000 – the combined reserves of these claims being £1.21m. Liability is denied against two of the claims. The remaining three claims are still under investigation.

7.7.4   Of the 304 claims open, just over 56% have been repudiated (171 claims) and as such the £1.52m reserved against these claims is not likely to be paid. However there is the possibility of a challenge to these decisions which could result in legal action (and increased costs in some areas). 96 claims remain under investigation at present and 37 claims have been accepted and we are negotiating settlement. The value of the accepted claims being approximately £397,811.

Illustration 5 – Open claims by detailed status

By Status	No.	Value
Repudiated	171	£ 1,527,150
Accepted	37	£ 397,811
Under Investigation	96	£ 1,698,892
	304	**£ 3,623,853**

7.8   Municipal Mutual Insurance (MMI) Clawback

7.8.1   In previous years we reported that as MMI were no longer able to foresee a solvent run off, the Scheme of Arrangement was implemented and a levy was applied to creditors in early 2014 resulting in a payment by Shropshire Council of £834,000.

7.8.2   Following the publication of the accounts it was confirmed that a levy of a further 10% would be applied to creditors. This resulted in a second payment by Shropshire Council of £444,303

7.8.3   As the MMI years relate to the old Shropshire County days before the Telford & Wrekin split, the above payments are split between Shropshire Council and Telford & Wrekin.

7.8.4   In addition to the payments detailed above, there is an ongoing 25% contribution to all claim payments that has to be made by Old Shropshire on an ongoing basis.

7.10   Other Policies

7.10.1 With the move to commissioning and new ways of working the insurance policy has been extended to include the name of STAR Housing. Therefore this company is covered under the same policy and conditions as Shropshire Council.

7.10.2 The Insurance Team supports and advises the above company in the same way it supports Shropshire Council.

7.11   **Reporting**

7.11.1 The insurance team have access to detailed management information regarding the number of claims received, the cause and the cost and can report on trends happening within any service area. To this end we provide regular reporting to key service areas such as highways, property services, and transport operations group which informs their decision making. We also work closely with services to manage their risks and to ensure that incidents do not happen again which have given rise to a claim.

7.11.2 There is close involvement in the Alarm Midlands Group and the Risk & Insurance Manager is chair with the Risk Management Officer also being a committee member. This allows the team to be aware of current legislation changes, trends and best practice from other authorities.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Annual Governance Statement
Risk Management Audit Report
Opportunity Risk Management Strategy
Business Continuity Management Policy
Business Continuity Plan
Insurance Annual Report
Cabinet Member
Michael Wood, Portfolio Holder Finance, Governance & Assurance
Local Member
N/A
Appendices

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	Committee and Date	Item
Shropshire Council	Audit Committee – 15th September 2016	**12** Public

STRATEGIC RISK REPORT SEPTEMBER 2016

Responsible Officer   Angela Beechey
e-mail: Angela.beechey@shropshire.gov.uk   Tel: (01743)   Fax (01743)
                                                    252073   252858

1.   Summary
1.1   This report sets out the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.

2.   Recommendations
2.1   Members are asked to accept the position as set out in the report.

REPORT

3.   Current Strategic Risk Exposure
3.1   The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Action Plan points.

3.2   Strategic risks are reviewed and reported on a bi-monthly basis. This is achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. These meetings take place over a one week period resulting in an up to date and timely report detailing current risk exposures, changes that have occurred, reasons for changes to exposure and the identification of emerging risks.

3.3   The new Risk Profile & Action Plan template for managing our strategic risks has been adopted during this year. This details the direction of travel for each strategic risk over the year and clearly articulates the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively.

3.4   During 2015/2016 we consulted with all risk owners with regard to modifying and updating our risk definitions and matrix in order to adapt them more appropriately to todays risk climate. The new risk definitions and matrix were adopted in readiness for the 2016/2017 reviews and associated reporting process and are detailed in Appendix A.

3.5 We currently have 16 strategic risks on our strategic risk register, some of which are managed specifically by certain Directors and others where all Directors input and contribute to the management of these. These are detailed as follows:-

Risk (AGS Action Plan Point)	Risk Owner	L	I	Status
Sustainable Budget – 2017/2018 and beyond AGS 2	James Walton	5	5	25
Staffing AGS 4	Michele Leith	4	5	20
Work Related Stress AGS 4	Michele Leith	5	4	20
Union challenge	Michele Leith	4	4	16
Contract Management AGS 5	George Candler	4	4	16
Failure to safeguard vulnerable children. AGS 7	Karen Bradshaw	4	4	16
Commissioning Council AGS 5	George Candler	4	4	16
Statutory Duties	Clive Wright (all Directors)	3	5	15
ICT provision (infrastructure, systems, services and support) AGS 1	Michele Leith	3	4	12
Reputation ALL	Clive Wright (all Directors)	3	4	12
Governance AGS 3 & 5	Claire Porter	3	4	12
Strategic Vision AGS 3	Clive Wright (all Directors)	3	4	12
Failure to safeguard vulnerable adults. AGS 7	Andy Begley	3	4	12
Future Funding Levels – 2017/18 and beyond AGS 2	James Walton	2	5	10
ICT Digital Transformation Programme AGS 1	Michele Leith	2	5	10
Health & Social Care	Andy Begley			*New

High Risks
Medium Risks

3.6 A key part of the risk management process is to be aware of the ever changing arena in which we work and to identify any new or emergency risks. These are highlighted and discussed with the relevant officers and added as a strategic risk if deemed appropriate. During 2015/2016 three risks have been added to the strategic risk list.

3.7 The first new risk was added in March 2016. 'Risk of challenge from unions to required and proposed organisational restructures and the possibility to gain support in a wider public arena against these changes'. This was identified as a potential new risk following discussions around the current situation in relation to the unions.

3.8 The second new risk was added in May 2016. 'A funding methodology that disadvantages Shropshire results in inability to deliver our statutory duties'. This risk was identified and added to the strategic risk register following the acknowledgement of the funding methodology that disadvantages Shropshire. Issues in relation to this have been raised with a Member of Parliament but currently the risk is high and ways in which to mitigate this going forward are in the process of being considered.

3.9 The final new risk added following the July 2016 review is in relation to Health & Social Care. Regular sound engagement is in place between health and social care for the future provision of services, which includes the agreement of Clinical Health Commissioning funding on a case by case level through to service redesign and commissioning through the Better Care Fund, the Transforming Care Partnership and the Strategic Transformation Plan. This risk profile and action plan in relation to this risk is in the process of being fully populated with current mitigating controls and the identification of additional controls required to be implemented. Once these controls have been identified the risk will be scored appropriately to reflect the current level of risk exposure.

3.10 As a result of the focus on ICT resilience as one of our highest strategic risks, progress has been made with the formation of an ICT Digital Transformation Programme. To ensure that the risks in this area are managed effectively the original risk 'Failure to implement robust ICT solutions and resilience to support the direction of travel results in significant impact on access to, and management of, material systems and ultimately service delivery' has been separated into two risks as detailed in the strategic risk list above.

3.11 Our current risk exposure, when plotted on our matrix is demonstrated as follows:-
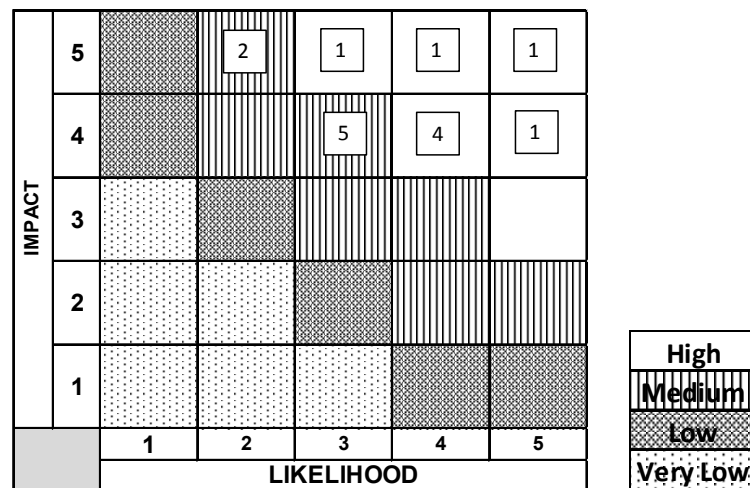
3.12 As mentioned above the risk profile and action plans detail the direction of travel from one bi-monthly review to another. The following table shows the

direction of travel during this year of our strategic risk exposure since the implementation of the new definitions and matrix.

Strategic Risk Exposure	Owner	Status May 16	Status July 16	Dir of Travel
Sustainable budget	James Walton	5 x 5 = 25	5 x 5 = 25	=
Staffing	Michele Leith	4 x 5 = 20	4 x 5 = 20	=
Work related stress	Michele Leith	5 x 4 = 20	5 x 4 = 20	=
Union challenge	Michele Leith	5 x 4 = 20	4 x 4 = 16	↓
Contract management	George Candler	4 x 4 = 16	4 x 4 = 16	=
Children's safeguarding	Karen Bradshaw	4 x 4 = 16	4 x 4 = 16	=
Commissioning	George Candler	4 x 4 = 16	4 x 4 = 16	=
Funding methodology and statutory duties	Clive Wright	3 x 5 = 15	3 x 5 = 15	=
ICT provision	Michele Leith	4 x 5 = 20	3 x 4 = 12	↓
Reputation	Clive Wright	3 x 4 = 12	3 x 4 = 12	=
Governance	Claire Porter	3 x 4 = 12	3 x 4 = 12	=
Strategic vision and strategy	Clive Wright	3 x 4 = 12	3 x 4 = 12	=
Adults safeguarding and DoLs	Andy Begley	3 x 4 = 12	3 x 4 = 12	=
Future funding levels	James Walton	2 x 5 = 10	2 x 5 = 10	=
ICT Digital Transformation Programme	Michele Leith	2 x 5 = 10	2 x 5 = 10	=

4.   Planned Changes

4.1   The Risk Management Team continuously monitor the most appropriate and effective way to manage the Council's risk exposure (Strategic, Operational or Project related). With the development of the Corporate Plan, all strategic risks are being linked through to the high level outcomes; Healthy People, Resilient Communities and Prosperous Economy. This will continue to show a golden thread between the key objectives of the Council, the risks associated with the delivery of them and also the governance issues through the links with the Annual Governance Statement.

4.2   During this year we have continued to develop an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	Type of Assurance	Provided by/ Obtained through
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by:- • Performance (scrutiny, customer experience) • Legal • Risk (operational, programmes, projects)
Third Line	External Assurance	Obtained through:- • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

4.3   In future reports detailed analysis will be provided in relation to our three lines of defence in the management and mitigation of our strategic risks.

4.4   Over the coming month's consideration will need to be given to the implications of the Brexit outcome and potential future risks this could pose to the authority. It was felt during this review it was too early to understand the full ramifications of this but over the coming months these should become more apparent. Therefore we will keep a watching brief on the situation and monitor it as part of the ongoing strategic risk reviews.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Annual Governance Statement

Opportunity Risk Management Strategy

Cabinet Member

Michael Wood, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

Appendix A – Likelihood, Impact Definitions and Matrix

Committee and Date	Item
Audit Committee 15 September 2016 09:30am	 Public

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2016/17 – FIVE MONTH REPORT

Responsible Officer   Ceri Pilawski
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1. Summary

This report provides members with an update of work undertaken by Internal Audit in the five months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation. Twenty nine percent of the revised plan has been completed (**see Appendix A, Table 1**), lower than previous delivery records, but in line with the profile of available resources this year and the team is still targeting achieving 90% delivery by the year end.

Two good and ten reasonable assurances, eight limited and eight unsatisfactory assurance opinions have been issued. The 28 final reports contained 549 recommendations, two of which were fundamental.

This report proposes minor revisions taking the overall audit plan from 1,717 days, as reported in February 2016, to 1,761 days. Changes to the planned activity reflect adjustments in both risks and resources. The changes have been discussed with, and agreed by, the Section 151 Officer.

The Council is undergoing significant change in its operational approach and is having to do so under ongoing financial constraint. An increase in risk taking has been inevitable, and continues to be reflected in a reduction in the level of assurance in the internal control environment. Of concern at this stage of the audit plan delivery, is the increased number of service areas attracting unsatisfactory assurances compared to previous years. Limited assurances are also being seen across all service areas. It is important therefore that this situation is kept under review and managed appropriately.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including counter fraud guidance, management of and recovery of assets, sharing best practice and providing advice on system developments.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

a) The performance to date against the 2016/17 Audit Plan set out in this report.

b) The adjustments required to the 2016/17 plan to take account of changing priorities set out in **Appendix B**.

REPORT

3. Risk assessment and opportunities appraisal

3.1   The delivery of a risk based Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures, and is closely aligned to strategic and operational risk registers. The Plan is delivered in an effective manner in which the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.

3.2   Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes and impacts on risks and controls.

3.3   Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

3.4   'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).

3.5   The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.6   There are no direct environmental, equalities or climate change consequences of this proposal.

4. Financial implications

4.1   The Internal Audit plan is delivered within approved budgets. The work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5. Background

5.1   Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls.

5.2   The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.

5.3   The Internal Audit Plan was presented to, and approved by, members at the 18th February 2016 Audit Committee with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 14th August 2016 and includes minor revisions to the plan.

5.4   Part of the internal audit plan continues to be met by external providers.

Performance against the plan 2016/17

5.5   Revisions to the February 2016 plan provide for a total of 1,761 days following slight changes reflecting adjustments in risks and resources.

5.6   In total 28 final reports have been issued in the period to 14th August 2016. These are broken down by service area in **Appendix A, Table 2**.

5.7   Two good and ten reasonable assurances were made in the period accounting for 42% of the opinions delivered. This represents a reduction in the higher levels of assurance compared to the previous year outturn of 49%. A corresponding 7% increase in limited (eight) and unsatisfactory (eight) opinions make up the remaining 58% of opinions issued in the period.

5.8   During this period, Children's Services continue to show lower assurance levels following the completion of school audits. These are considered low risk to the Council overall and therefore, at this stage, are not expected to affect the Audit Service Manager's overall year-end opinion. Limited assurances have been identified across all service areas based on the audits completed to date with continuing focus on IT system controls. The overall direction of travel throughout the Council is explored in more detail in section 5.17.

5.9   Nineteen draft reports, awaiting management responses, will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of a school fund and the certification of three grant claims.

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5.10 A summary of the planned audit reviews which resulted in unsatisfactory or limited assurance is included in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5**.

5.11 A total of 549 recommendations have been made in the 28 final audit reports issued to date; these are broken down by audit area and appear in **Appendix A, Table 6**.

5.12 Two fundamental recommendations have been identified. These are:

Brockton Primary School 2015/16
To ensure that duplicate payments are not made, payments should only be processed upon the receipt of an original invoice which should be date stamped on receipt and subject to pre-payment checks.

Dorrington Primary School 2015/16
Formal minutes of the Finance, General Personnel and Premises Committee must be recorded at the meetings. The format should include the following to ensure that they meet minimum requirements:
- The name of the Chair and the Clerk;
- Apologies;
- Separate items discussed should be numbered;
- Declaration of interests as a standing item;
- A summary of actions, a space for the Chair to sign and date and the date of the next meeting;
- Be signed and dated by the Chair of the Committee to confirm as accurate;
- Be subject to review by the Governing Body.
Other committee minutes should be reviewed in light of this recommendation.
Meetings should be held termly and in advance of the Governing Body meetings.
(Updated from previous recommendation made and agreed in 2010/11 and in 2007/08).

5.13 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits, where recommendations are revisited as a matter of course, progress on fundamental, significant and requires attention recommendations are followed up after six months by seeking an update from management. Cases where fundamental recommendations are not implemented in a timely manner are escalated to directors and Audit Committee.

5.14 Three recommendations have been rejected by management.

Two rejected recommendations were at different primary schools where management had been advised to involve an additional member of staff in the income processes to ensure that appropriate segregation of duties were in place. This was rejected by management in both cases with mitigation put forward that all money is receipted and records are kept at one school whilst the Head Teacher checks the cash sheets against the paying in books and signs at the second school.

Whilst it is recognised that small schools have a corresponding low number of staff, the risk of misappropriation or fraud increases when there is a lack of segregation of duties in the collection, recording and banking of income and therefore the risk is not mitigated

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by the controls identified.

A secondary school was advised that purchasing cards should be kept securely by the card holder at all times. This was rejected with a comment that Governors had agreed that locking the purchasing cards in a safe was the most secure place for them to be held. The Purchasing Card Guidelines, issued to all purchasing card holders, clearly stipulate that the cardholder must keep their card in a secure location to which only the cardholder has access and must not allow anyone else to have access to or use their card. Audit established that both the Head Teacher and the Business Manager had access to the safe thereby exposing the cards to access by a person other than the cardholder, with potential for abuse.

5.15   Performance to date has been lower than previous delivery records at 29% (37%). This position was expected as the vacancies and maternity leave at the start of the financial year have impacted on resources available to undertake audit work in the period to 14th August 2016. The team is still currently targeting delivery of a minimum of 90% of the annual plan by year end. The increased resources currently available to the end of the financial year have allowed the revised plan to be increased to 1,761 days (1,717 days). In addition to known demands in the period to 14th August 2016, the Audit Team has been affected by a number of unanticipated demands:
- The unplanned vacancy of an auditor post: Following a recruitment process, a fixed term replacement has been appointed for one of the two vacant posts in the team, covering a period of twelve months. The second post remains unfilled.
- Management of a change of contractor for the provision of internal audits. The new contractor is in place and early work, completed to draft stage, will be reported to future committees. In addition, this year will see the revisiting and letting of the contract under the Staffordshire Framework agreement, requiring the commitment of additional resources, difficult to quantify at this time.
- Maternity leave of an Auditor and a Principal Auditor not backfilled. The Auditor has now returned to work and increasing available resources from quarter two. The Principal Auditor is responsible for a lot of the processes around servicing the data required for the Council's Audit Committee and, as such, additional time is required from other team members to pick up this work in her absence.
- A performance management process has been instigated in line with Council procedures for an Auditor who has been unable to deliver to the quality needed in the time required. This process is ongoing but requires significant management investment to give the employee the best chance to deliver.

Low staff numbers combined with daily pressures on the team mean that it is difficult currently to support a suitable recruitment/induction programme or management of increased numbers of contractors. Although there is currently a vacancy and budget available, there is insufficient management time available to purchase additional resources. This situation will be monitored to ensure risks remain considered.

5.16   The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at Appendix A, Table 1.
- A service area failed to identify the equipment that an ex-employee had in their ownership. Audit identified the items and advised on the successful recovery of equipment to the value of £1,200.
- An Auditor identified an issue with schools receiving unsolicited invoices as part of the National Fraud Initiative audit, an alert was published via the Schools'

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Learning Gateway and the school newsletter. Audit received a call from a school, within a day of posting the alert, to report that they thought they had also received this type of invoice and the alert had enabled them to identify and deal with the hoax appropriately and avoid any financial consequences.

- Schools have provided positive feedback on the internal control self-assessment designed by Audit, shared freely with maintained schools, and used for the first time this year to assess the risks within an identified number of schools. The system has been used to inform the audit plan. The approach was reported as helping Head Teachers to think about the systems they currently have in place.

- Following completion of a health check on a Council owned company, lessons learnt have been identified which cover business plans, governance structures, contract monitoring and performance reporting. These are being shared to enable ongoing improvements to continue in other areas where alternative delivery vehicles are under consideration.

- The service has reviewed the financial stability of a number of companies who provide services for the Council. Some involved companies requesting uplifts to contract prices to avoid administration. Financial analysis revealed instances where this was not the case and therefore saved the Council agreeing to unnecessary uplifts.

- Advice has been given on a number of regulatory issues and procedures reviewed to ensure that they remain current in relation to authorisations and inventories.

- The Head of Audit has supported the recruitment of officers to key posts as part of the Finance Service restructuring to ensure the appropriate selection of candidates to help with the future delivery of service and Council needs.

- Researching around an access issue identified some potential risks which are being reviewed and considered by the relevant senior managers and information asset owners to improve security.

Direction of travel

5.17 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2016/17 to date	*7%*	*35%*	*29%*	*29%*	*100%*
2015/16	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%
2012/13	31%	56%	12%	1%	100%

Comparison of recommendation by categorisation

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Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2016/17 to date	*4%*	*51%*	*45%*	*0%*	*100%*
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%
2012/13	23%	57%	20%	0%	100%

5.18   The increased number of lower level assurances, 58% compared at the five month point 2016/17, compared to the 2015/16 outturn of 51%, indicates a falling level of overall control. The recommendation classifications at this point in the year are roughly comparable with the outturn for 2015/16, representing a significant decrease in assurance from 2012/13 and 2013/14 results.

5.19   **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This demonstrates, at a point in time, issues around control areas such as contract management, IT systems, financial administration in Adult Services and Schools. This needs to be considered in the context of reduced Internal Audit resources that are increasingly focused on the higher level risk areas in terms of delivering the Council's business objectives.

Performance measures

5.20   All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Draft Internal Audit Risk Based Plan 2016/17 - Audit Committee 18 February 2016
Public Sector Internal Audit Standards (PSIAS).
Various internal documents supporting self-assessment against the PSIAS.
Audit Management system.
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)
Malcom Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee

Local Member: All

Appendices

Appendix A
Table 1: Summary of actual audit days delivered against plan 1st April 2016 to the 14th August 2016
Table 2: Final audit report assurance opinions issued in the period 1st April 2016 to 14th August 2016
Table 3: Unsatisfactory and limited assurance opinions in the period 1st April 2016 to the 14th August 2016
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Audit recommendations made in the period 1st April 2016 to the 14th August 2016

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Appendix B - Audit plan by service 1st April 2016 to 14th August 2016

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April to 14th August 2016

	Original Plan	August Revision	Revised Plan Days	14 August Actual	% of Plan Achieved
Chief Executive	444	3	447	86.2	19%
Adult Services	140	19	159	63.2	40%
Commissioning	102	2	104	13.2	13%
Children's Services	232	-26	206	88.2	43%
Public Health	67	13	80	25.4	32%
S151 Planned Audit	**985**	**11**	**996**	**276.1**	**28%**
Contingencies and other chargeable work	532	-12	520	178.3	34%
Total S151 Audit	**1,517**	**-1**	**1,516**	**454.4**	**30%**
External Clients	200	45	245	63.2	26%
Total	**1,717**	**44**	**1,761**	**517.6**	**29%**

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in the period from 1st April 2016 to 14th August 2016.

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	1	1	1	3
Adult Services	0	2	1	0	3
Commissioning	0	0	0	0	0
Children's Services	0	6	2	6	14
Public Health	0	0	1	1	2
Resources and Support					
Commercial Services	0	0	1	0	1
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	2	1	1	0	4
Human Resources	0	0	1	0	1
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➢ **Numbers**	**2**	**10**	**8**	**8**	**28**
➢ **Percentage**	**7%**	**35%**	**29%**	**29%**	**100%**
% for 2015/16	**14%**	**35%**	**42%**	**9%**	**100%**
% for 2014/15	**17%**	**47%**	**28%**	**8%**	**100%**
% for 2013/14	**30%**	**45%**	**15%**	**10%**	**100%**

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Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st April 2016 to 14th August 2016 listed by service area

Unsatisfactory assurance
  Chief Executive
    CONFIRM – Highways Management System
  Children's Services
    Brockton CE Primary School
    Corvedale CE Primary School
    St Mary's CE Primary School, Westbury
    Cockshutt CE (Controlled) Primary School
    Dorrington CE Primary School
    Crowmoor Primary School
  Public Health
    Drug & Alcohol Misuse Contract

Limited assurance
  Chief Executive
    Third Party Audits for Hosted Systems
  Adult Services
    Personal Budgets – Deferred Payments
  Children's Services
    Kinlet CE Primary School
    St Lawrence CE Primary School, Church Stretton
  Public Health
    Health Partnership Governance
  Commercial Services
    Technology Forge Application
  Finance Governance and Assurance
    Sales Ledger
  Human Resources
    ResourceLink – HR Application Review

Table 4: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Table 5: Audit recommendation categories: an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Table 6: Audit recommendations made in the period from the 1st April 2016 to 14th August 2016

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	3	5	31	0	39
Adult Services	1	18	9	0	28
Commissioning	0	0	0	0	0
Children's Services	18	216	182	2	418
Public Health	0	11	13	0	24
Resources and Support					
Commercial Services	0	9	6	0	15
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	17	6	0	23
Human Resources	0	1	1	0	2
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ **Numbers**	**22**	**277**	**248**	**2**	**549**
➤ **Percentage**	**4%**	**51%**	**45%**	**0%**	**100%**
% for 2015/16	**4%**	**54%**	**42%**	**0%**	**100%**
% for 2014/15	**6%**	**53%**	**40%**	**1%**	**100%**
% for 2013/14	**15%**	**57%**	**27%**	**1%**	**100%**

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AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 14th AUGUST 2016

	Original Plan Days	August Revision	Revised Plan Days	14 August 2016 Actual	% of Revised Plan Achieved
CHIEF EXECUTIVE					
Governance	**38**	**-8**	**30**	**10.4**	**35%**
IT	**176**	**6**	**182**	**15.3**	**8%**
Finance Governance & Assurance					
Finance Transactions	39	9	48	10.9	23%
Finance and S151 Officer	60	-3	57	18.9	33%
Financial Management	18	0	18	1.6	9%
Benefits	34	0	34	0.0	0%
Risk Management and Business Continuity	13	0	13	6.8	52%
Treasury	2	0	2	0.0	0%
	166	6	172	38.2	22%
Human Resources	**43**	**3**	**46**	**8.3**	**18%**
Legal, Democratic & Strategic Planning					
Elections	8	0	8	5.1	63%
Legal Services	13	-4	9	9.0	100%
	21	-4	17	14.0	83%
CHIEF EXECUTIVE	**444**	**3**	**447**	**86.2**	**19%**
ADULT SERVICES					
Social Care Operations					
Long Term Support	79	6	85	40.8	48%
Provider Services - Establishments	20	1	21	0.0	0%
Provider Services - Comforts Funds	6	4	10	6.6	66%
Provider Services - Trading Accounts	10	5	15	9.6	64%
Housing Services	20	-5	15	5.5	37%
	135	11	146	62.6	43%
Social Care Efficiency and Improvement					
Development Support	5	8	13	0.6	5%
ADULT SERVICES	**140**	**19**	**159**	**63.2**	**40%**
COMMISSIONING					
Library Services	5	3	8	0.0	0%
Waste & Bereavement	14	-4	10	0.0	0%

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Highways	20	8	28	0.3	1%
Business & Enterprise	5	0	5	0.0	0%
Development Management	14	0	14	0.3	2%
Community Safety	15	-5	10	0.0	0%
Environmental Protection and Prevention	4	0	4	0.0	0%
Procurement and Contract Management	25	0	25	12.5	50%
COMMISSIONING	**102**	**2**	**104**	**13.2**	**13%**
CHILDREN'S SERVICES					
Safeguarding					
Safeguarding	20	0	20	0.3	1%
Children's Placement and Joint Adoption	38	-2	36	1.3	4%
	58	-2	56	1.6	3%
Learning and Skills					
Business Support	2	0	2	0.0	0%
Education Improvements	14	3	17	7.7	45%
Primary/Special Schools	128	-31	97	54.4	56%
Secondary Schools	20	4	24	23.7	99%
	164	-24	140	85.8	61%
Learning Employment and Training	**10**	**0**	**10**	**0.9**	**9%**
CHILDREN'S SERVICES	**232**	**-26**	**206**	**88.2**	**43%**
PUBLIC HEALTH					
Public Health	22	13	35	16.9	48%
Customer Services	5	0	5	4.9	98%
Shire Services	17	0	17	3.6	21%
Property Services	23	0	23	0.0	0%
PUBLIC HEALTH	**67**	**13**	**80**	**25.4**	**32%**
Total Shropshire Council Planned Work	**985**	**11**	**996**	**276.1**	**28%**
CONTINGENCIES					
Advisory Contingency	40	0	40	8.2	21%
Fraud Contingency	200	-20	180	49.4	27%
Unplanned Audit Contingency	45	0	45	29.5	65%
Other non-audit Chargeable Work	247	8	255	91.2	36%
CONTINGENCIES	**532**	**-12**	**520**	**178.3**	**34%**
Total for Shropshire	**1,517**	**-1**	**1,516**	**454.4**	**30%**
EXTERNAL CLIENTS	**200**	**45**	**245**	**63.2**	**26%**
Total Chargeable	**1,717**	**44**	**1,761**	**517.6**	**29%**

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Committee and Date	Item
Audit Committee	
15 September 2016	
9:30 am	Public

INTERNAL AUDIT CHARTER

Responsible Officer   Ceri Pilawski
e-mail: Ceri.pilawski@shropshire.gov.uk   Tel: 01743 257739

1. Summary

The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis. The PSIAS were refreshed in March 2016 and, to ensure that Shropshire Council's Internal Audit Service Charter reflects the key changes, it too has now been reviewed and refreshed.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the Internal Audit Charter (**Appendix A**).

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1   Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function, and has been updated to reflect the recent adoption of the Public Sector Internal Audit Standards.

3.2   The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

4.1   There are no direct financial implications from adopting this Charter.

5. Background

5.1   Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Audit Service Manager's reporting relationship with the Audit Committee, authorises access to personnel, records, and physical properties relevant to audit work, and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in Annex B of the Charter. Final approval of the Internal Audit Charter resides with Shropshire Council's Audit Committee.

5.2   The Internal Audit Charter refers to;
- The nature of assurance services provided to the Council.
- Organisational independence.
- Individual objectivity.
- Impairment to independence or objectivity.
- Proficiency and due professional care.
- Continuing professional development.
- Quality assurance and improvement programme – internal and external.

5.3   The charter will communicate the contribution that Internal Audit makes to the Council and includes:
- Internal Audit's *mission*
- Purpose, *principles* and responsibilities.
- Independence and objectivity.
- Competencies and standards.
- Planning.
- Nature of work.
- Reporting.
- Quality assurance.
- Fraud and corruption.
- Rights of access.

5.4   The principle changes to the PSIAS are the introduction of a new 'mission' for internal audit, which appears on the front cover of the Charter, and the introduction of ten principles intended to articulate how internal audit effectiveness should be demonstrated. See paragraph eight of the Charter.

5.5   The opportunity to clarify the assurance levels, recommendation categories and any consultancy work for the team has been taken in **Annex A**. Members will already be aware of these since they form part of the regular reports to the Committee. Their inclusion in the Charter provides further clarification to all service users.

5.6   **Annex B** also reflects the introduction of an Audit and Performance Panel at Oswestry Town Council to improve their governance procedures and become the recognised board at that Council.

5.7   The proposed adjustments can be found at **Appendix A** and appear in **<u>bold font and underlined</u>**

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Accounts and Audit Regulations 2015; Public Sector Internal Audit Standards 2016
Cabinet Member (Portfolio Holder) Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)
Local Member All
Appendix A Internal Audit Charter with annexes A and B

INTERNAL AUDIT CHARTER

MISSION STATEMENT

"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. ~~To examine, evaluate and report objectively on the adequacy of the risk management, control and governance processes~~ ~~as a contribution to the proper economic, efficient and effective use of Shropshire council resources for the benefit of residents, businesses and external clients."~~

INTERNAL AUDIT CHARTER

INTRODUCTION

1. This charter defines for the Council and the community Internal Audit's activities, purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)[1]. It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee[2], authority to access personnel, records, and physical properties relevant to the undertaking of its engagements[3]; and defines the scope of the Internal Audit activity. Final approval of this Charter rests with the Audit Committee[4].

2. The PSIAS which encompasses the mandatory elements of the Institute of Internal Auditors (IIA) define Internal Audit as follows: *"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resource".*

3. The basis of internal financial administration within the Council lies in the Financial Rules contained in the Council's Constitution. This Charter should be read in conjunction with the relevant sections of these Financial Rules.

4. The authority and requirement for an internal audit function derives from two pieces of legislation: - Section 151 of the Local Government Act 1972 requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Accounts and Audit Regulations 2015, require that a relevant body must 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Any officer or member of a relevant body shall if the body requires make available such documents, records and information and explanations as are considered necessary by the internal auditors.

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[1] PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practices by CIPFA, the internal audit standard setters for Local Government.
[2] See glossary for translation of the terms used in the Public Sector Internal Audit Standards in respect of Shropshire Council's Internal Audit activity and those of its external clients.
[3] Engagement is the term in the PSIAS used to represent audit work.
[4] The Audit Committee is referenced in the PSIAS as the Board.

5.   The Financial Rules (Part 4, Appendix C2) state the Section 151 Officer has a 'statutory responsibility for the overall financial administration of the Council's affairs and is responsible for maintaining an adequate and effective internal audit'.

6.   In accordance with good practice, this Charter will be reviewed annually by the Audit Committee after consultation with senior management[5].

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose
7.   Internal Audit led by the Head of Internal Audit[6] is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.'[7]

<u>Principles</u>

8.   <u>**Internal Audit, the auditors and the internal audit activity, comply with the following principles in delivering and achieving internal audit's mission:**</u>
- <u>**Demonstrates integrity.**</u>
- <u>**Demonstrates competence and due professional care.**</u>
- <u>**Is objective and free from undue influence (independent).**</u>
- <u>**Aligns with the strategies, objectives, and risks of the organisation.**</u>
- <u>**Is positioned appropriately and resourced adequately.**</u>
- <u>**Demonstrates quality and continuous improvement.**</u>
- <u>**Communicates effectively.**</u>
- <u>**Provides risk-based assurance[8].**</u>
- <u>**Is insightful, proactive, and future-focused.**</u>
- <u>**Promotes organisational improvement.**</u>

Objectives
9.   Internal Audit's objective is to give assurance and an opinion to the Section 151 Officer, Audit Committee and the Council, on the adequacy of the Council's risk management, governance and control environment and the extent to which it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015.

Responsibilities
10.   Internal Audit is responsible for conducting an independent appraisal of all the Council's (and that of its external clients) activities, financial or otherwise, including services provided in partnership or under contract with external

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[5] Senior management comprises of the Head of the Paid Service, Monitoring Officer, Section 151 Officer and directors.
[6] The Audit Service Manager is the Council's Chief Audit Executive as defined in the PSIAS.
[7] Source Public Sector Internal Audit Standards April 1st 2013.
[8] **Assurance opinions and recommendation categories are defined in Annex A**

organisations. It provides this service to the Council and all levels of management.

11. Internal Audit complies with the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Definition of Internal Auditing, **the Principles** and the Code of Ethics (see **Annex A**) and other relevant guidance; including those issued by individual auditors' professional bodies.

12. The scope of internal audit includes:
  - reviewing, appraising and reporting on the following:
    - o the soundness, adequacy and application of internal controls;
    - o the extent to which the Council's assets are accounted for and safeguarded from losses of all kinds arising from fraud and other offences, waste, extravagance, inefficient administration, poor value for money or other causes;
    - o the suitability and reliability of financial and other management data developed within the Council;
  - carrying out selected value for money reviews of the efficiency and economy of the planning and operation of the Council's functions;
  - providing a responsive, challenging and informative internal advice and consultancy service for committees and services;
  - undertaking any non-recurring studies as directed by the Section 151 Officer;
  - advising on or undertaking fraud investigation work, with the exception of benefit fraud, in accordance with the Council's Fraud Investigation procedure, prosecutions policy and the disciplinary guide;
  - Participating in the National Fraud Initiative; and
  - periodically undertaking an audit needs assessment taking into consideration the authority's risk management process.

13. Internal Audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included in the audit plan.

INDEPENDENCE AND OBJECTIVITY
14. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.

15. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not allow their judgement on audit matters to be influenced, distorted, or subordinated by others.

16. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.

17.   Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal Audit is free to plan, undertake and report on its work as the Head of Internal Audit deems appropriate, in consultation with relevant managers.

18.   The Head of Internal Audit has direct access to the Section 151 Officer, the External Auditor, senior managers, the Leader, Audit Committee and other members as required.

19.   The Head of Internal Audit fosters constructive working relationships and mutual understanding with management, external auditors and with other review agencies.

20.   Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, although the internal auditor does not allow their objectivity or impartiality to be impaired.

21.   Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit reviews are planned to ensure potential conflicts are avoided. Auditors should not allow external factors to compromise their professional judgement and must maintain confidentiality in their work.

22.   The Head of Internal Audit cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate risk management processes, control systems, accounting records, financial processes and governance arrangements i.e. the control environment, exist without depending on internal audit activity to identify weaknesses.

23.   The Head of Internal Audit is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and shall make recommendations on the standards of control to be applied. This need not prejudice the audit objectivity when reviewing the systems at a later date.

COMPETENCIES AND STANDARDS

24.   Audits must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

25.   The Head of Internal Audit holds a relevant professional accountancy qualification and is suitably experienced. In addition the Head of Internal Audit must maintain a team of staff who are properly trained to fulfil all their

responsibilities and continue to enhance their knowledge, skills and competencies through continuing professional development.

26.   Internal auditors are expected to:
- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- apply confidentiality as required by law and best practice and
- obtain and record sufficient audit evidence to support their findings and recommendations.

INTERNAL AUDIT PLANNING

27.   The Head of Internal Audit produces the Council's annual risk based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan takes into account the Accounts and Audit (England) Regulations 2015, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.

28.   The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget[9] and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.

NATURE OF WORK

29.   The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Governance

30.   The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;

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[9] The budget, including the remuneration the Audit Service Manager is approved by Council.

- communicating risk and control information to appropriate areas of the organisation;
- coordinating the activities of, and communicating information among, the audit committee, external and internal auditors and management;
- the internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

31. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
   - organisational objectives support and align with the organisation's mission;
   - significant risks are identified and assessed;
   - appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite;
   - relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

32. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

33. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control

34. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:
   - achievement of the organisation's strategic objectives;
   - reliability and integrity of financial and operational information;
   - effectiveness and efficiency of operations and programmes;
   - safeguarding of assets; and
   - compliance with laws, regulations, policies, procedures and contracts.

35. In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:-
   - identify and record the objectives, risks and controls;
   - establish the extent to which the objectives of the system are consistent with higher level corporate objectives;
   - evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose;
   - identify any instances of over and under control;

- determine an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing;
- arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

36.   To reduce duplication of effort Internal Audit will work in partnership to identify and place reliance on assurance work completed elsewhere in the Council. A computerised audit management system, supported by working papers, is used to streamline working practices. This reflects best professional practice.

INTERNAL AUDIT REPORTING

37.   Internal Audit findings are reported in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The Head of Internal Audit sets standards for reporting and makes arrangements for their review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
- provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
- state scope, purpose and extent of conclusions;
- make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
- acknowledge the action taken or proposed by management; and
- ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not taking action.

38.   The Head of Internal Audit reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Head of Internal Audit produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. In particular the annual report:
- includes an opinion on the overall adequacy and effectiveness of the Council's control environment;
- discloses any qualifications to that opinion, together with the reasons for the qualification;
- presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;

- draws attention to any issues the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement;
- compares the work actually undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
- comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

39. In order to ensure Internal Audit independence, the audit of any areas managed by the Head of Internal Audit will be carried out by an appropriate auditor and reviewed by an audit senior. The Head of Internal Audit will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer as the Head of Internal Audit's line manager.

40. The Head of Internal Audit will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years, an external assessment of Internal Audit by an appropriate person[10] external to the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any improvement plans will be agreed with and reported to the Audit Committee in the annual report[11]. Significant deviations will be considered for inclusion in the Annual Governance Statement.

41. The Head of Internal Audit develops and maintains a set of performance measures which are reported to the Section 151 Officer and Audit Committee.

FRAUD AND CORRUPTION

42. The Internal Audit Service is not responsible within services for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.

43. The Head of Internal Audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications when giving an opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

RIGHTS OF ACCESS

44. Under the Council's Financial Rules, internal auditors have the authority to:
- access at reasonable times, premises or land used by the Council;

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[10] Qualified independent assessor or assessment team
[11] For both internal and external reviews

- access all assets, records, documents, correspondence and control systems except for those from which they are statutorily prevented;
- require and receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the Council to account for cash, stores or any other Council property under his/her control and produce supporting evidence and assets for inspection if required;
- access records belonging to third parties, such as contractors, when required.

Reviewed 15th September 2016

Public Sector Internal Audit Standards

The definition of Internal Auditing within the Standards is: Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Assurance

Is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Opinions are graded as follows

Good	**Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.**
Reasonable	**Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.**
Limited	**Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.**
Unsatisfactory	**Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.**

Audit recommendation categories are an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

Best Practice (BP)	**Proposed improvement, rather than addressing a risk.**
Requires Attention (RA)	**Addressing a minor control weakness or housekeeping issue.**
Significant (S)	**Addressing a significant control weakness where the system may be working but errors may go undetected.**
Fundamental (F)	**Immediate action required to address major control weakness that, if not addressed, could lead to material loss.**

Consultancy Activity

Audit can, where resources and skills exist, provide independent and objective consultancy services, which apply the professional skills of Internal Audit through a systematic and disciplined approach, and may contribute to the opinion that Internal Audit provides on the control environment.

Consultancy comprises the range of services, which may go beyond Internal Audit's usual assurance roles, provided to assist management in meeting the objectives of the Council.

The nature and scope of the work may include:

- **Facilitation;**
- **Process and / or control design;**
- **Training;**
- **Advisory services;**
- **Risk assessment support.**

As with any piece of work, it is important to define clearly the terms of reference for the involvement of Audit in any consultancy activities, so that both the client and the auditor know what is expected from the involvement of Audit.

Any auditor asked to provide consultancy services or undertake a consultancy-style activity should consult their manager or the Head of Internal Audit before agreeing to provide such services.

Code of Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are four principles in the code of ethics:

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

3.   **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4.   **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.[12]

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[12] Information can be found at www.public-standards.gov.uk

Glossary of Terms for External Clients where they are different to the Council

Shropshire and Wrekin Fire and Rescue Authority

Senior Management	Chief Fire Officer and direct reports
	Treasurer
Board	Audit and Performance Management Committee
	Fire and Rescue Authority

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council
	Audit & Performance Panel

STaR

Senior Management	Managing Director and direct reports
Board	Finance, Audit and Risk Sub Committee

West Mercia Energy

Senior Management	Treasurer
	Managing Director
Board	Joint Committee

Shropshire County Pension Fund

Senior Management	Pension Fund Administrator
Board	Pensions Committee

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Committee and Date	Item
Audit Committee 15 September 2016 9:30 am	 Public

INTERNAL AUDIT QUALITY ASSURANCE IMPROVEMENT PROGRAMME

Responsible Officer   Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk@shropshire.gov.uk   Telephone: 01743 257739

1. Summary

Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspect of the internal audit activity.

This programme is designed to enable an evaluation of the service's conformance with the definition of internal auditing, the standards and whether auditors apply the code of ethics (PSIAS). The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This quality assurance and improvement programme includes both internal and external assessments. This report provides members with an update on the External Assessment review planned in November 2016.

2. It is recommended that:

The Committee consider and endorse, with appropriate comment, the information set out in this report.

REPORT
3. Risk assessment and opportunities appraisal

3.1   It is a requirement of the PSIAS to have an external assessment, the results of which can be used to demonstrate the Service's quality to both its main customer, Shropshire Council, and other clients.

3.2   The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.

4. Financial implications

The review will cost £6,325 plus officer time spent in preparation and support of the process. This will be met from within existing budgets.

5. Background

5.1   This quality assurance and improvement programme (QAIP) demonstrates that Internal Audit:
- Has an adequate Internal Audit charter, goals, objectives, policies and procedures;
- Contributes to the organisation's governance, risk management and control processes;
- Has complete coverage of the audit universe;
- Complies with applicable laws, regulations and other standards that the Internal Audit activity may be subject to;
- Has identified the risks affecting the operation of the Internal Audit activity itself;
- Has an effective continuous improvement activity in place and adopts best practice; and
- Adds value to improve the organisations operations and contributes to the attainment of the organisations objectives.

5.2   The Head of Audit is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy. The QAIP includes both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments will be undertaken at least once every five years, in order to meet statutory requirements. The QAIP is reviewed on an annual basis**.**

Internal Assessment
5.3   The internal assessment involves ongoing monitoring of the performance of internal audit activity against the PSIAS, which have been incorporated into the routine policies and practices used to manage the service. These arrangements are as follows:
- Engagement planning and supervision.
- Standard working practices (including quality audit manual, working paper procedures, sign off, report review, checklists to ensure the audit process is followed).
- Ongoing supervision and review of audit work.
- Performance management information.
- Feedback from auditees following specific audit work/ reports.
- Results of quality assurance reviews, internal and external.
- A self-assessment against the requirements of the PSIAS.
- Any feedback from External Audit on the effectiveness of the function.
- Completion of the actions within the Quality Assurance Improvement Programme Action Plan.

5.3   The following processes also help to inform and assess the performance of Internal Audit throughout the year:

- Monthly meetings of the Head of Internal Audit with the Section 151 Officer.
- Weekly Finance Governance and Assurance meetings which provide updates direct from Directors and Members meetings through the Section 151 Officer
- Monthly meetings of the Head of Internal Audit with the key governance officers: Section 151 Officer, Monitoring Officer and Head of Human Resources.
- Monthly meetings with the Risk and Insurance Manager.
- Audit plan performance is reported on and any changes are signed off by the Section 151 Officer and reported to the Audit Committee.
- At least annually the Head of Internal Audit meets with the CEO, Directors and Senior Managers to consider and discuss the key risks facing the Council and impact on the internal control environment. The annual plan is drafted as a result of these meetings. More frequent meetings are held in areas of high risk.
- The Audit Charter is revisited annually and signed off by Committee as is the Audit Plan.
- The self-assessment against the PSIAS is shared with the Section 151 Officer and Audit Committee annually.
- Regular meetings are held with the External Auditor and the Chair of Audit Committee.

5.4 A full review against the PSIAS is conducted by the Head of Internal Audit annually. The review is shared and commented upon by Senior Auditors and discussed at team meetings, along with the associated action plan for improvement. The Head of Audit then presents the assessment to the Council's Section 151 Officer who has an understanding of the PSIAS requirements and provides a challenge to the assessment. Following this, the results of the self-assessment are reported to the June Audit Committee along with details of any areas of non-conformance with the PSIAS. External clients are sign posted to the Audit Committee report on the Shropshire Council website for their assurances. All clients can provide challenge on the process at any time.

5.5 This self-assessment review is provided in conjunction with the Annual Internal Audit report, also found on Shropshire Council's Audit Committee June agenda. When read together, the two reports demonstrate the effectiveness of the Internal Audit service and compliance with the PSIAS.

5.6 The internal assessment concludes that there are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code. Improvements are set out in an action plan which the Head of Audit is responsible for implementing.

External Assessment

5.7 An external assessment of the team's compliance with the PSIAS must be completed every five years by a qualified, independent assessor or assessment team. The Head of Internal Audit has discussed this assessment with the Audit Committee and the Section 151 Officer and agreed that the self-assessment conducted annually will be validated by external assessors. The alternative option is for a full external assessment.

5.8   Following a tender process with other councils co-ordinated by Staffordshire County Council, the contract to conduct the fieldwork for assessment week beginning 21st November 2016, has been awarded to the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA set the internal audit standard within local government and have a deep knowledge of the impact of the PSIAS on the wider public sector. They are therefore well placed to conduct such a review. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback to the service and its clients. CIPFA is independent of the Council and Ray Gard, FCCA, CFIIA, CPFA, DMS, who will be conducting the review, has no conflict of interest with Shropshire Council. Being the professional accountancy body for public sector finance, CIPFA ensures that all consultancy, including PSIAS External Quality Assurance reviews, is delivered completely independently of any other organisation.

5.9   Results of the external assessment will be reported publically to Shropshire Council's Audit Committee and shared with external clients.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Public Sector Internal Audit Standards (PSIAS).   Various internal documents supporting self-assessment against the PSIAS.   Accounts and Audit Regulations 2015
Cabinet Member (Portfolio Holder)   Malcolm Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee
Local Member: All
Appendices: None

Committee and Date	Item
Audit Committee 15 September 2016 9:30 am Cabinet 28 September 2016	Public

CODE OF CORPORATE GOVERNANCE

Responsible Officer   James Walton
e-mail: James.walton@shropshire.gov.uk   Tel: 01743 255011

1. Summary

Shropshire Council is committed to the principles of good corporate governance. The Council's Code of Corporate Governance was developed using the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance. This guidance has been refreshed following publication of a new governance framework for local authorities, police and fire authorities: Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) published in April for application for the 2016/17 year

Compliance with the Governance Code supports the Council's review of the effectiveness of its system of internal controls as required by the Accounts and Audit Regulations 2015. This in turn informs the Annual Governance Statement which accompanies the Annual Statement of Accounts, signed by the Leader of the Council and the Head of Paid Service.

The Cabinet, in consultation with the Audit Committee, is responsible for approving this Code. The Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually. Following comment and endorsement from Audit Committee, this report seeks approval to the Code from Audit Committee and Cabinet.

2. Recommendations

Audit Committee

The Committee is asked to consider and recommend for approval to the Cabinet, with appropriate comment, the revised Code of Corporate Governance (Part 5 Constitution) contained in **Appendix A.**

Cabinet

Cabinet are asked to consider and approve the revised Code of Corporate Governance contained in **Appendix A**.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Corporate Governance is part of the overall internal control framework and contributes to the Council's strong governance arrangements. The Code complies with best practice and legislation.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no environmental consequences of this proposal.

4. Financial Implications

4.1 There are no financial implications arising from this report.

5. Background

5.1 The Shropshire Council Code of Governance forms part of the Council's Constitution. Legal Services have completed a review of the code following publication of a new governance framework for local authorities, police and fire authorities - Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) published in April for application for the 2016/17 year.

5.2 The framework contains the elements that authorities are required to include in their annual governance statement. Different parts of the UK have different regulations, but they all mandate an annual statement on governance or internal control. The adoption of the framework is also a requirement of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (CIPFA/LASAAC, 2016).

5.3 The new framework is based on the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) as developed by CIPFA and Solace supported by a UK wide steering group made up of local

government practitioners and stakeholders. The framework includes a new definition of governance which stresses how good governance is essential in enabling an organisation achieve its goals:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their organisation's objectives whilst, at all times, acting in the public interest.
- Acting in the public interest implies primary consideration of the benefits for society, which *should result in positive outcomes for service users and other stakeholders.*

5.4   There are seven principles of governance that will enable organisations, public sector partnerships and combined authorities to achieve their outcomes while working in the public interest. The principles are further supported by examples of behaviours and actions that demonstrate what good governance should look like in practice. The principles are:

- *Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law*
- *Principle 2: Ensuring openness and comprehensive stakeholder engagement*
- *Principle 3: Defining outcomes in terms of sustainable economic, social, and environmental benefits*
- *Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes*
- *Principle 5: Developing the entity's capacity, including the capability of its leadership and the individuals within it*
- *Principle 6: Managing risks and performance through robust internal control and strong public financial management*
- *Principle 7: Implementing good practices in transparency, reporting, and audit to deliver effective accountability*

5.5   During 2016/17 authorities are required to formally adopt the new framework and, in doing this, Shropshire Council's Code of Governance has been reworded to reflect the key changes in the guidance. The Code, alongside the Annual Governance Assurance framework reported to the June Audit Committee, helps to demonstrate how the Council's values, constitution and policies align to the new principles of governance.

5.6   The Council will refer to this refreshed Code of Governance when undertaking its annual review and publishing its governance statement. The governance statement for 2016/17 will relate to this new framework.

5.7   The Cabinet, in consultation with the Audit Committee is responsible for approving this Code and the Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually.

5.8   The Monitoring Officer and Head of Finance, Governance and Assurance are responsible for ensuring an annual review of compliance with this Code and Internal Audit will independently audit the process. The results of this review will

be included in the Head of Audit's annual report and will form part of the overall assurance for the Annual Governance Statement signed by the Leader and Chief Executive.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
CIPFA / SOLACE: Guidance Note – Delivering Good Governance in Local Government – Framework.   CIPFA/SOLACE: Application Note to Delivering Good Governance in Local Government: a Framework 2010.   CIPFA: Delivering Good Governance in Local Government: Framework Addendum 2012   CIPFA/ SOLACE: Delivering Good Governance in Local Government Framework 2016 edition   CIPFA/ SOLACE: Delivering Good Governance in Local Government Guidance notes for English Authorities 2016 edition   Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (CIPFA/LASAAC, 2016)   International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014)
Cabinet Member (Portfolio Holder)   Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)
Local Member All
Appendices Code of Corporate Governance.

Part five - Code of Corporate Governance

Introduction

Shropshire Council is committed to the principles of good corporate governance and to this end has revised and adopted a new Code of Corporate Governance as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) document entitled "Delivering Good Governance in Local Government – Framework"**1**. The Shropshire Code of Corporate Governance forms part of the Constitution and applies to all aspects of the Council's business.

Corporate governance in Shropshire is the systems and processes, and culture and values, by which we, the local authority, direct, monitor and control our functions and account to, engage with and, where appropriate, lead our community. Put simply, good governance enables us to do the right things in the right way, for the right people in a timely, inclusive, open and accountable manner.

The Council is dependent on our members and staff delivering excellent corporate governance which requires them to conduct themselves in accordance with the high standards expected by the citizens of Shropshire.

The fundamental principles of corporate governance are openness and inclusivity, integrity and accountability. The CIPFA/SOLACE document identifies seven core principles supported by numerous sub principles to the corporate governance framework. Our code includes the documents, systems, processes and actions we undertake to fulfil our commitment to and compliance with the code.

The Cabinet, in consultation with the Audit Committee is responsible for approving this Code and the Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually.

The Monitoring Officer and Head of Finance, Governance and Assurance are responsible for ensuring an annual review of compliance with this Code and Internal Audit will independently audit the process. The results of this review will be included in the Head of Audit's annual report and form a part of the overall assurance for the Annual Governance Statement signed by the Leader and Chief Executive.

Principle 1   Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes

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accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

1.1 Behaving with integrity

1.1.1 Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation

1.1.2 Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)

1.1.3 Leading by example and using the above standard operating principles or values as a framework for decision making and other actions

1.1.4 Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively

1.2 Demonstrating strong commitment to ethical values

1.2.1 Seeking to establish, monitor and maintain the organisation's ethical standards and performance

1.2.2 Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation

1.2.3 Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values

1.2.4 Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

1.3 Respecting the rule of law

1.3.1 Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations

1.3.2 Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their

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responsibilities in accordance with legislative and regulatory requirements

1.3.3 Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders

1.3.4 Dealing with breaches of legal and regulatory provisions effectively

1.3.5 Ensuring corruption and misuse of power are dealt with effectively

Principle 2 Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

2.1 Openness

2.1.1 Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness

2.1.2 Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided

2.1.3 Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear

2.1.4 Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

2.2 Engaging comprehensively with institutional stakeholders[2]

2.2.1 Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

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[2] institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.

2.2.2 Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively

2.2.3 Ensuring that partnerships are based on:

- trust

- a shared commitment to change

- a culture that promotes and accepts challenge among partners

and that the added value of partnership working is explicit

2.3 **Engaging with individual citizens and service users effectively**

2.3.1 Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes

2.3.2 Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement

2.3.3 Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs

2.3.4 Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account

2.3.5 Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity

2.3.6 Taking account of the impact of decisions on future generations of tax payers and service users

Principle 3   Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

3.1   Defining outcomes

3.1.1   Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions

3.1.2   Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer

3.1.3   Delivering defined outcomes on a sustainable basis within the resources that will be available

3.1.4   Identifying and managing risks to the achievement of outcomes

3.1.5   Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available

3.2   **Sustainable economic, social and environmental benefits**

3.2.1   Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision

3.2.2   Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints

3.2.3   Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs

3.2.4   Ensuring fair access to services

Principle 4   Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

4.1   Determining interventions

4.1.1   Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided

4.1.2   Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

4.2   Planning interventions

4.2.1   Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets

4.2.2   Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered

4.2.3   Considering and monitoring risks facing each partner when working collaboratively, including shared risks

4.2.4   Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances

4.2.5   Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured

4.2.6   Ensuring capacity exists to generate the information required to review service quality regularly

4.2.7   Preparing budgets in accordance with objectives, strategies and the medium term financial plan

4.2.8   Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

4.3   Optimising achievement of intended outcomes

4.3.1   Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints

4.3.2   Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term

4.3.3 Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage

4.3.4 Ensuring the achievement of 'social value' through service planning and commissioning

Principle 5 Developing the entity's capacity, including the capability of its leadership and the individuals within it

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

5.1 **Developing the entity's capacity**

5.1.1 Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness

5.1.2 Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently

5.1.3 Recognising the benefits of partnerships and collaborative working where added value can be achieved

5.1.4 Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources

5.2 **Developing the capability of the entity's leadership and other individuals**

5.2.1 Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained

5.2.2 Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body

5.2.3 Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority

5.2.4 Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:

- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged

- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis

- ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external

5.2.5 Ensuring that there are structures in place to encourage public participation

5.2.6 Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections

5.2.7 Holding staff to account through regular performance reviews which take account of training or development needs

5.2.8 Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Principle 6   Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a

performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

6.1 Managing risk

6.1.1 Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making

6.1.2 Implementing robust and integrated risk management arrangements and ensuring that they are working effectively

6.1.3 Ensuring that responsibilities for managing individual risks are clearly allocated

6.2 Managing performance

6.2.1 Monitoring service delivery effectively including planning, specification, execution and independent post implementation review

6.2.2 Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook

6.2.3 Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible

6.2.4 Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement

6.2.5 Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

6.3 Robust internal control

6.3.1 Aligning the risk management strategy and policies on internal control with achieving objectives

6.3.2 Evaluating and monitoring risk management and internal control on a regular basis

6.3.3 Ensuring effective counter fraud and anti-corruption arrangements are in place

6.3.4 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor

6.3.5 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body:

- provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment

- that its recommendations are listened to and acted upon

6.4 Managing data

6.4.1 Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data

6.4.2 Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies

6.4.3 Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

6.5 Strong public financial management

6.5.1 Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance

6.5.2 Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Principle 7   Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

7.1 Implementing good practice in transparency

    7.1.1   Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate

    7.1.2   Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

7.2 Implementing good practices in reporting

    7.2.1   Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way

    7.2.2   Ensuring members and senior management own the results reported

    7.2.3   Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)

    7.2.4   Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate

    7.2.5   Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations

7.3 Assurance and effective accountability

    7.3.1   Ensuring that recommendations for corrective action made by external audit are acted upon

    7.3.2   Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon

    7.3.3   Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations

    7.3.4   Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement

7.3.5   Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

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