

# AUDIT COMMITTEE

Monday, 29 January 2007

6.00 p.m.

Conference Room 1,  
Council Offices,  
Spennymoor

# AGENDA and REPORTS

**If you would like this document in another language or format, such as audio tape, Braille or large print, or if you require the services of an interpreter, please contact us**

إذا أردت هذه الوثيقة بلغة أخرى أو بطريقة أخرى، أو إذا كنت بحاجة إلى خدمات مترجم، فنرجو أن تقوم بالاتصال بنا.

যদি আপনি এই ডকুমেন্ট অন্য ভাষায় বা ফরমেটে চান অথবা যদি আপনার একজন ইন্টারপ্রেটারের প্রয়োজন হয়, তাহলে দয়া করে আমাদের সাথে যোগাযোগ করুন।

本文件可以翻譯為另一語文版本，或製作成另一格式，如有此需要，或需要傳譯員的協助，請與我們聯絡。

यह दस्तावेज़ यदि आपको किसी अन्य भाषा या अन्य रूप में चाहिये, या आपको आनुवाद-सेवाओं की आवश्यकता हो तो हमसे संपर्क करें

ਜੇ ਇਹ ਦਸਤਾਵੇਜ਼ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਜਾਂ ਜੇ ਤੁਹਾਨੂੰ ਗੱਲਬਾਤ ਸਮਝਾਉਣ ਲਈ ਕਿਸੇ ਇੰਟਰਪ੍ਰੈਟਰ ਦੀ ਲੋੜ ਹੈ, ਤਾਂ ਤੁਸੀਂ ਸਾਨੂੰ ਦੱਸੋ।

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو براۓ مہربانی ہم سے رابطہ کیجئے۔

Póngase en contacto con nosotros si desea obtener este documento en otro idioma o formato, o si necesita los servicios de un intérprete.

**Democratic Services**



**01388 816166**

**AGENDA**

**1. APOLOGIES**

**2. DECLARATIONS OF INTEREST**

To notify the Chairman if you have an interest in any of the following items.

**3. MINUTES**

To confirm as a correct record the minutes of the meeting held on 30<sup>th</sup> October 2006. (Pages 1 - 6)

**4. DATA QUALITY ARRANGEMENTS FEEDBACK**

To consider the attached report prepared by the Audit Commission. (Pages 7 - 20)

**5. AUDITOR'S REPORT ON THE BEST VALUE PERFORMANCE PLAN**

To consider the attached report prepared by the Audit Commission. (Pages 21 - 26)

**6. YOUR BUSINESS @ RISK SURVEY**

To consider the attached report prepared by Audit Commission. (Pages 27 - 52)

**7. RISK MANAGEMENT PROGRESS REPORT 2006**

Report of Director of Resources. (Pages 53 - 64)

**8. TREASURY MANAGEMENT STRATEGY 2007/08**

Report of Director of Resources. (Pages 65 - 76)

**9. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**

Members are respectfully requested to give the Chief Executive notice of items they would wish to raise under the heading not later than 12 noon on the day preceding the meeting, in order that consultation may take place with the Chairman who will determine whether the item will be accepted.

B. Allen  
Chief Executive

Council Offices  
SPENNYMOOR  
19<sup>th</sup> January 2007

Councillor M.A. Dalton (Chairman)  
Councillor B.M. Ord (Vice Chairman)

Councillors Mrs. K. Conroy, Mrs. A.M. Fleming, Mrs. C. Potts and J.M. Smith  
B. Argyle - Independent Member

---

ACCESS TO INFORMATION

Any person wishing to exercise the right of inspection in relation to this Agenda and associated papers should contact Mrs. Gillian Garrigan, Spennymoor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

This page is intentionally left blank

# Item 3

## SEDGEFIELD BOROUGH COUNCIL

### AUDIT COMMITTEE

Conference Room 1,  
Council Offices,  
Spennymoor

Monday,  
30 October 2006

Time: 6.00 p.m.

**Present:** Councillor M.A. Dalton (Chairman) and  
Councillors Mrs. K. Conroy, Mrs. A.M. Fleming, B.M. Ord and J.M. Smith  
B. Argyle – Independent Member

**Apologies:** Councillors Mrs. C. Potts

**AC.13/06      DECLARATIONS OF INTEREST**  
Members had no interests to declare.

**AC.14/06      MINUTES**  
The Minutes of the meetings held on 26<sup>th</sup> June and 29<sup>th</sup> September were confirmed as correct records and signed by the Chairman.

**AC.15/06      INTERIM AUDIT REPORT - AUDIT OF THE FINANCIAL YEAR  
2005/2006**  
Consideration was given to the above report prepared by the Audit Commission. (For copy see file of Minutes).

Sandra Swan of the Audit Commission was in attendance to present the report.

It was explained that the report summarised the results of the Audit Commission's interim visit to review the Council's systems and the operation of its key controls. The audit had been carried out to be ISA (International Standards of Auditing United Kingdom and Ireland) compliant in accordance with the new Code of Audit Practice, which set out the work to be undertaken by auditors.

Members' attention was drawn to Paragraphs 6 and 8 of the report, which outlined the work that had been completed and the main information systems identified.

It was pointed out that as in previous years, the Audit Commission had sought to place reliance on internal audit work to make the best use of the authority's audit resource and had assessed the Internal Audit Service against the ten standards required by Cipfa.

The Committee was pleased to note that all the standards had been met

and the standards were good.

*RESOLVED : That the report be noted.*

**AC.16/06 FINAL ACCOUNTS MEMORANDUM**

Consideration was given to a copy of the Final Accounts Memorandum in respect of the 2005/06 Audit. (For copy see file of Minutes).

Sandra Swan of the Audit Commission presented the report.

It was reported that the Audit Commission had completed its audit of the Council's draft Statement of Accounts and its overall conclusion was that the financial statements presented fairly the Authority's financial position as at 31<sup>st</sup> March 2006. An unqualified audit opinion had therefore been given on 29<sup>th</sup> September 2006.

Members' attention was drawn to some of the issues that had been raised during the audit, which were detailed in Appendix 1.

*RESOLVED: That the report be noted.*

**AC.17/06 SEDGEFIELD GOVERNING PARTNERSHIPS**

Consideration was given to a report prepared by the Audit Commission in respect of the above. (For copy see file of Minutes).

Sandra Swan of the Audit Commission presented the report.

It was explained that partnerships were a significant feature of public service delivery and the Audit Commission was required to consider and report on the risks associated with partnership working.

The audit had comprised of:

- A short self-assessment by the Council (Detailed in Appendix 1)
- A review of additional supporting documents
- Brief discussions.

The objectives of the audit were to support improvement by identifying areas of risk and to determine whether further audit work was needed in 2006/07.

The Committee's attention was drawn to the main conclusions detailed in Paragraphs 7 – 13 of the report.

It was noted that partnership working was ranked as one of the highest risks in the Council's risk register. Accordingly, arrangements for entering into partnership working included a proportionate cost benefit analysis of each potential option to identify performance, financial and risks that councillors could consider when authorising or refusing the Council's participation in a partnership.

It was also pointed out a partnership control framework was being developed to monitor and mitigate risk, as recommended in the Action

Plan, detailed in Appendix 2 and would be issued to all Service Heads. Its' implementation and impact would be monitored by Strategy and Regeneration Section.

*RESOLVED : That the report be received.*

**AC.18/06**

**INTERNAL AUDIT SERVICE - REPORT FOR HALF YEAR ENDED 30TH SEPTEMBER 2006**

Consideration was given to a report of the Head of Financial Services regarding the above. (For copy see file of Minutes)

Members were reminded that the Internal Audit Plan for 2006/07 had been approved by Overview and Scrutiny Committee 1 on 10<sup>th</sup> April 2006.

The report dealt with the first six months of audit activities, including the progress against the planned work and information on related areas of corporate governance.

It was explained that the Plan scheduled a total of 915 man days for the full year, with a half year performance of 434 days. The Appendix to the report showed that a total of 424 had been achieved for the first six months of the year.

Progress on the areas of work requiring the continuing involvement of the Internal Audit staff were outlined as follows:

**Regularity audit**

The programme of regularity audit for the half year, which formed the core of the Audit Plan, had been substantially completed.

There had been 31 'formal' audit reports issued during the period, with 15 confirming that satisfactory arrangements were in place. With regard to the 16 reports issued where recommendations had been made, there were 23 recommendations classed as being of 'high importance', 3 of 'medium importance' and 4 of 'low importance'.

It was pointed out that all recommendations had been made following detailed discussions and with the agreement of the appropriate service managers and had been implemented in accordance with agreed action plans.

**Corporate Governance**

It was reported that the Council's Key Performance Indicators were reported to Strategic Working Groups and appropriate Overview and Scrutiny Committees. Reference was made to the recent Data Quality Assessment, which had reinforced the need for departmental performance management and continuing internal audit examination.

**Financial Management Information**

It was noted that the Financial Management Information system continued to be developed and enhanced to provide high quality and timely budgetary information to all managers.

### **Risk Management**

It was pointed out that internal audit had a close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes had continued. An electronic risk register had been procured and some progress had been made in its use.

### **Statement of Internal Control**

Members were reminded that the Statement of Internal Control for 2005/06 had been considered by Audit Committee on 26<sup>th</sup> June 2006. Development of the important features of the system would continue through 2006/07 to ensure a satisfactory position was maintained in respect of all departments. Outstanding matters from 2005/06 requiring further work related to Housing Property works, value for money, establishment control systems and the new leisure management information and cash receipting system. Good progress was being made in all the above areas.

### **Energy Management**

It was pointed out that the substantial increases in the cost of electricity and gas required a sophisticated procurement approach and Internal Audit resources were being deployed to ensure value for money on energy contracts. An Energy Task Group had recently been established to process energy efficiency around the Council, however, there were still concerns over the lack of energy monitoring activities by the Council.

The Committee was then given details of departmental and corporate issues that had been reviewed.

- RESOLVED :*
- 1. That the half yearly progress report be received and a full year report be considered at an appropriate future meeting of the Committee.*
  - 2. That any relevant audit matter be reported to the quarterly meetings of Audit Committee.*

**AC.19/06 HOUSING BENEFIT FRAUD REPORT - APRIL - SEPTEMBER 2006**  
Consideration was given to a report of the Head of Financial Services regarding the above. (For copy see file of Minutes).

It was reported that the Council was committed to preventing and detecting fraud and a reduction in the level of fraud was one of the Benefits Section's key priorities.

The Council had dedicated housing benefit fraud team consisting of the following:

- Senior Benefits Officer (Fraud and Investigations)
- Investigations Officers (2)
- Intervention Officers (2)



➤ Clerical Assistant

A Housing Benefit Anti-Fraud Policy had also been introduced to ensure a consistent and rigorous approach was followed to prevent and detect fraud. As well as ensuring that arrangements were made to ensure that overpayments would be recovered, the policy stated that specific outcomes known as sanctions could be imposed on claimants who had submitted fraudulent benefit claims. Those sanctions were:

- Prosecution
- Issue of a formal caution
- Issue of an administration penalty (fine)

Members noted that investigations during the first six months of the 2006/07 financial year had resulted in the issue of 11 sanctions - 3 prosecutions, 6 cautions and 2 administration penalties and arrangements had been made to recover the overpayments from all of the claimants. The amount of benefit fraud identified for the period represented less than 1.2% of the total value of benefits granted during that period.

The Committee was of the opinion that the Council must continue to investigate cases of potential fraud despite the fact that it no longer received any financial incentives from the Department of Works and Pensions to detect fraud.

It was, however, requested that details of the cost of the Fraud Investigation Service be provided to a future meeting, together with relevant Performance Indicator information.

- RESOLVED :*
1. *That the progress in investigating alleged benefit fraud in the first half of the 2006/7 be noted.*
  2. *That the report be presented to the Audit Committee in April 2007.*

**AC.20/06 COUNCIL TAX**

It was requested that a report be submitted to a future meeting of the Committee regarding the amount of Council Tax collected and the action taken in respect of non payment.

ACCESS TO INFORMATION

---

Any person wishing to exercise the right of inspection, etc., in relation to these Minutes and associated papers should contact Mrs. Gillian Garrigan, Spennymoor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

This page is intentionally left blank

# **Data quality arrangements - feedback**

**Sedgefield Borough Council**

**Audit 2005/2006**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

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

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

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 0560566.

© Audit Commission 2005

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

## Contents

Introduction	4
Background	4
Audit approach	4
Main conclusions	5
Data Quality Stage 1	5
Completeness check Stage 2	5
Spot checks Stage 3	6
The Way Forward	6
<b>Appendix 1 – Stage 1 management arrangements</b>	<b>8</b>
<b>Appendix 2 – Completeness check</b>	<b>11</b>
<b>Appendix 3 – Spot checks Stage 3</b>	<b>12</b>
<b>Appendix 4 – Action Plan</b>	<b>14</b>

## Introduction

- 1 We have carried out a detailed review of Sedgefield Borough Council's corporate management arrangements for data quality. Similar reviews have been undertaken at each of the Audit Commission's local government audited bodies.
- 2 This document provides summarised feedback from our review, for feedback and discussion with officers.

## Background

- 3 The review represents a significant change in our approach to the audit of performance information. There are a number of underlying reasons for this change.
  - Increasing reliance is being placed on performance information, e.g. to manage services, inform users, account for performance, and as basis of taking decisions.
  - The weight attached to published performance indicators as the basis for reducing the burden of regulation has increased.
  - The need for reliable data has therefore become more critical.
  - However there remains a prevailing lack of confidence in much performance data.
  - The quality of financial information is higher than for performance information.
  - Finance data is collected according to professional accounting rules, and subjected to strong internal controls and a formal audit regime.
  - Conversely the internal controls for recording and preparation of the underlying performance data are often less developed.
  - There is often less ownership of performance information by those charged with governance.

## Audit approach

- 4 Our work on Data Quality has three stages as detailed below.
  - **Stage 1 (Management Arrangements)**
    - The assessment of Sedgefield Borough Council's corporate management arrangements for data quality using Key Lines of Enquiry (KLoE's) developed by the Audit Commission.
    - This work will contribute to the auditor's conclusion under the Code of Audit Practice on an audited body's arrangements to secure value for money. The work relates specifically to the arrangements for 'monitoring

and reviewing performance, including arrangements to ensure data quality'.

- **Stage 2 (Completeness Check)**
  - The review of queries on individual BVPIs submitted to the Audit Commission by the Council.
  - The number and extent of these queries are determined by the Audit Commission following their review of data nationally.
- **Stage 3 (Data Quality spot checks)**
  - The detailed audit of individual BVPIs.
  - The number of BVPIs selected for review were determined by the outcomes of Stages 1 & 2, and were selected from a list developed by the Audit Commission.

## Main conclusions

### Data Quality Stage 1

- 5 Overall the Council has arrangements in place for ensuring data quality, however there are areas where arrangements could be further strengthened.

<b>Recommendation</b>
<i>R1 The Council should use the data quality key lines of enquiry to identify where arrangements could be strengthened and develop an action plan to monitor progress.</i>

- 6 Appendix 1 provides detailed feedback over each of the 5 areas covered within our Stage 1 review, namely:
- governance and leadership;
  - policies and procedures;
  - systems and processes;
  - people and skills; and
  - data use.

### Completeness check Stage 2

- 7 Information was submitted for the six specified best value PIs and variances were either within expectations or could be explained.

- 8 Information was available for analysis for four of the five specified non BVPIs and variances were either within expectations or could be explained. The level of private sector homes vacant for more than six months showed a large increase. No explanation was requested for this as this PI was subject to detailed testing.
- 9 Appendix 2 provides detailed feedback.

### Spot checks Stage 3

- 10 Our assessment at Stage 1 was that the Council has arrangements in place for data quality and represent a medium risk. This resulted in the selection of three PIs for spot checking.
  - Recycling
  - Composting
  - Private sector homes vacant for more than six months
- 11 The recycling and composting PIs were amended at audit because detailed testing highlighted manual errors in entering information from the County into the Borough's spreadsheets. Recent changes to checking procedures should ensure that errors are identified in the future.
- 12 A reservation was placed on the private sector homes vacant for more than six months PI because the system used to collect the data is not in line with the definition.

<b><i>Recommendation</i></b>
<i>R2 The Council should review the system in place for calculating the private sector homes vacant for more than six months PI.</i>

- 13 Appendix 3 provides detailed feedback.

### The Way Forward

- 14 The issues raised within this report will be discussed with officers to provide them with feedback and to assist them in formulating an action plan to improve data quality arrangements in future years. The principal areas for discussion are:
  - the lack of a detailed overarching statement relating to the Council's data quality objectives;
  - improvements to underlying systems security, subject to risk assessment - increased focus on the importance of good data quality for decision making;
  - extending protocols for data sharing; and



- assessment of data quality skills across the workforce to identify any skill gaps and development of specific training packages to address any identified skill deficiencies.

## Appendix 1 – Stage 1 management arrangements

Assessed objective	Findings
<b>Governance and leadership</b>	
Responsibility for data quality is clearly defined	There is a clear commitment to data quality, overall responsibilities have been assigned; there are reporting arrangements relating to the quality of data, issues relating to data quality are brought to the attention of those charged with governance and action is taken as a result. However, the commitment to data quality throughout the authority is not formalised through clear and interlinked policies and strategies.
The body has clear data quality objectives	There is no overarching statement relating to the council's data quality objectives. Nevertheless improvements continue to be made to data quality largely through departmental efforts.
The body has effective arrangements for monitoring and review of data quality	The Council has effective arrangements for monitoring and review of data quality. Monitoring and review of data quality has been undertaken initially on an ad hoc basis. Formal reviews of data quality have now been established, proportionate to the risk and reported those charged with governance. Internal Audit also routinely assesses data collection systems and their accuracy as part of their audit function.
<b>Policies and procedures</b>	
A policy for data quality is in place, supported by operational procedures and guidance	There is no formal policy or strategy in place in relation to data quality. However there are some departmental procedures and guidance in place although these do not provide comprehensive coverage for all areas or aspects.

<b>Assessed objective</b>	<b>Findings</b>
Policies and procedures are followed by staff and applied consistently throughout the Council	Where guidance is in place it is accessible and staff comply with it. There are regular updates to guidance in relation to BVPIs and these are supplied to staff responsible for data. Also staff comply where procedural notes are in existence.
<b>Systems and processes</b>	
Appropriate systems are in place for the collection, recording, analysis and reporting of data.	Data collection systems produce fit for purpose data on a right first time basis and where weaknesses are identified action is taken to rectify them. Internal Audit routinely assesses data collection systems and their accuracy as part of their audit function.
The Council has appropriate controls in place to ensure that systems secure the quality of data used.	Generally appropriate controls are in place for all systems of data collection. There is still some scope to improve underlying systems security, subject to assessment of risk.
Security arrangements for performance information systems are robust and business continuity plans are in place	Security arrangements for performance information systems are robust and business continuity plans are in place
An effective management framework for data sharing is in place	There is due regard to compliance in terms of sharing personal information. Shared data is largely from sources considered to be credible, but there is scope to extend the recently signed data sharing protocols with other local authorities within Durham County which covers all external sources or sharing.
<b>People and skills</b>	
The Council has communicated clearly the responsibilities of staff for achieving data quality	The Council has not yet undertaken an assessment of data quality skills that it has across the workforce and identified any skill gaps. For employees who have specific responsibilities for data collection; their responsibilities are communicated through the performance management framework.

10 Data quality arrangements - feedback | Appendix 1 – Stage 1 management arrangements

<b>Assessed objective</b>	<b>Findings</b>
The Council has arrangements in place to ensure that staff with data quality responsibility have the necessary skills	Managers with specific responsibilities for data collection have the appropriate skills and are supported through training, development and access to guidance. General training is given to all staff as part of induction or when new systems / procedures are introduced. The PDP process combined is effective in identifying other training needs.
<b>Data Use</b>	
The Council has arrangements that are focused on ensuring that data is used to manage and improve the delivery of services	The Council has arrangements in place to ensure that data collected is used to manage and improve services and focus on priorities.
The Council has effective control in place for data reporting	The Council has robust systems of internal control in place in relation to reporting. They are reviewed and developed where issues are identified. There is rigorous evaluation where there are direct financial implications related to published data.

*Assessment against Audit Commission KLoE's*

## Appendix 2 – Completeness check

<b>BVPI</b>	<b>Conclusion</b>
109 planning speed	Increase in performance confirmed as real variance.
82a recycling	Increase in performance confirmed as real variance.
82b composting	Increase in performance confirmed as real variance.
184a non decent homes	Performance in line with expectations.
183a temporary accommodation, bed and breakfast	Performance in line with expectations.
183b temporary accommodation, hostels	Performance in line with expectations.
<b>Non BVPI</b>	
Average re-let times	Performance in line with expectations.
Planned to responsive repairs	Performance in line with expectations.
Private sector homes vacant for more than 6 months	Large variance year on year, PI subject to detailed testing.
Repeat homelessness	Performance in line with expectations.
Private sector unfit properties made fit	Performance in line with expectations.

## Appendix 3 – Spot checks Stage 3

Performance indicator	Detailed findings
Recycling	<p>The definition has been followed and there is good supporting evidence to support the PI. Depot records are well organised and maintained to clearly demonstrate the complex calculation of the PIs. There are three problems to note with service systems. First, reporting spreadsheets are not always consistent, the annual/monthly spreadsheet summarises waste by rounds (1-9 and spare vehicle), but the breakdown reports down to days and individual loads are reported by vehicle, this can lead to confusion when auditing. Second, instances found of weigh ticket data not recorded correctly (glass recorded as paper), this was infrequent and does not affect the BVPI value and recent changes to checking procedures should ensure correct transfer in the current year. Third, tonnages have not been transferred correctly from the DCC aerobic treatment monthly report.</p> <p>BVPI 82a is valid for the revised values of 14.11 per cent (i) and 5585.80 tonnes for BVPI 82a(ii).</p>
Composting	<p>As above.</p> <p>BVPI 82b is valid for the revised values of 6.14 per cent (i) and 2432.15 tonnes (ii).</p>

Performance indicator	Detailed findings
Private sector homes vacant for more than six months	<p>The information to support this indicator comes directly from the HIP returns.</p> <p>Total vacant dwellings figures come from the council tax system and then RSL and council properties are removed to find total private sector homes vacant. Total private sector stock is based on a stock survey carried out in the past from which right to buys and completions are added and demolitions are taken away.</p> <p>Initial testing found that the figures in the HIP return did not agree to the supporting information and a revised HIP return was submitted.</p> <p>In addition, RSL figures are estimated. Letters are sent out to the RSLs requesting relevant data. The return rate accounts for 72 per cent of RSL stock. The figure is not extrapolated and is given as an estimate.</p> <p>Further detailed testing identified that the report from the council tax system of total vacant dwellings contained some properties more than once. The information listed is based on account numbers (directly attributable to a person or occupier) not property addresses.</p> <p>It was not possible to resolve these issues within the timescale for the audit and a reservation was placed on this PI.</p>

*Detailed testing*

## Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 The Council should use the data quality key lines of enquiry to identify where arrangements could be strengthened and develop an action plan to monitor progress.	2	Heads of Service co-ordinated by Head of Organisational Development	Yes	An overall data quality policy has been drafted. The policy is supported by three subordinate policies covering financial, human resources and performance data. A fourth subordinate policy for customer data is currently under development. An action plan has also been prepared. These documents are currently out for consultation with the Heads of Service and will then be taken to management team before adoption.	December 2006
6	R2 The Council should review the system in place for calculating the private sector homes vacant for more than six months PI.	3	Head of Housing Management	Yes	A system needs to be established with some urgency to allow accurate information to be calculated and published for the current year.	December 2006



# **Auditor's report on the Best Value Performance Plan**

**Sedgefield Borough Council**

**Audit 2006/2007**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

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

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

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

## Contents

Authority's responsibilities	4
Auditor's responsibilities	4
Report	4

## Authority's responsibilities

- 1 The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2 The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate corporate performance management and financial management arrangements from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

## Auditor's responsibilities

- 3 I am required by section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice to carry out an audit of the Council's best value performance plan, certify that I have done so, and report:
  - any matters that prevent me from concluding that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
  - where appropriate, making any recommendations under section 7 of the Local Government Act 1999.

## Report

- 4 I certify that we have audited the Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice.
- 5 In preparing my report I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work, therefore, comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.
- 6 I have not identified any matters to report to the authority.

- 7 I have no recommendations to make on procedures in relation to the plan.

Steve Nicklin

November 2006

This page is intentionally left blank

# Your Business @ Risk Survey

**Sedgefield Borough Council**

**Audit 2006/2007**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

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

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

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



# Contents

Introduction	4
Main findings and conclusions	4
Recommendations	5
The way forward	6
<b>Appendix 1 – Detailed survey results</b>	<b>17</b>
User survey	17
ICT staff survey	21

## Introduction

- 1 The growth in the use of newer technologies to give greater public access has resulted in increased risks for public sector bodies. Computer viruses, IT fraud, hacking, invasion of privacy and downloading of unsuitable material from the internet remain real threats to many organisations. Confidence in technologies that are influencing the way we live and work is being eroded and organisations must address these issues if the increased use of new technology is not to be matched by a similar increase in IT abuse.
- 2 An Audit Commission report, published in 2005, concluded that although organisations have got better at establishing anti-fraud frameworks, cultures and strategies, failures in basic controls are still a problem and the upsurge in the use of newer technologies has not been matched by enhanced security measures.
- 3 The Audit Commission has developed an online survey, designed to help organisations to:
  - raise awareness of the risks associated with their increasing use of technology;
  - gauge the level of knowledge within their organisations of such risks;
  - highlight areas where risks are greatest; and
  - take positive action to reduce risks.
- 4 In partnership with Sedgefield Borough Council, we ran the above online survey in mid September 2006. This brief report summarises the responses by staff at the council. The full survey results are reproduced in Appendix 1 with a traffic light system to highlight both positive messages and identify any areas of significant weakness where further action is necessary.

## Main findings and conclusions

- 5 Our conclusions are based upon responses from around 420 users and all 20 ICT staff from a total of approximately 820 council employees requested to take part in the survey. Overall, the results are positive and any concerns are mostly around lack of awareness. In most areas the council's users score highly and better than the national average - as indicated by the Commission's national database which currently contains almost 15,000 responses from around 80 public sector organisations.
- 6 The ICT department is a reasonably sized department which has to meet the same modern day demands as a larger council. It therefore does needs to be more flexible and adaptable due to limited capacity and skills. The survey has highlighted some IT risks and gaps in the knowledge base of professional ICT staff.

- 7 There are areas where further improvements can be made. As the survey is based on the perceptions of users and ICT staff, the issues that arise often relate to the need to improve communication, provide more information and training. However, it may also point to areas where improved procedures are required. The main areas highlighted by the survey include the following.
- Absence of IT policies, for example, Information security and email.
  - Business continuity arrangements.
  - Promoting the anti-fraud strategy.
  - Knowledge of key areas of relevant legislation.
- 8 Key messages are drawn out in Table 1 below and we have summarised the recommendations and included management responses discussed and agreed with officers. Appendix 1 provides a summary of the survey questions and the results for the council.

## Recommendations

<b>Recommendations</b>
<i>R1 Improve awareness for all staff on reporting computer virus incidents.</i>
<i>R2 Consider discussing the results of the ICT staff survey with all department staff.</i>
<i>R3 Consider the appointment of a dedicated IT security officer.</i>
<i>R4 Ensure that formal change control procedures are developed.</i>
<i>R5 Improve awareness and make more information readily available to address business continuity arrangements.</i>
<i>R6 Improve awareness for all staff on the anti-fraud strategy.</i>
<i>R7 Ensure an access control policy is developed.</i>
<i>R8 Inform staff of Council policy on use of email.</i>
<i>R9 Improve awareness of the requirements of the Data Protection Act legislation</i>
<i>R10 Reassess the use of PC timeout controls and consider implementing this feature.</i>
<i>R11 Raise the level of IT legislation awareness through improved induction and ongoing training programmes for all staff.</i>
<i>R12 Develop and issue an Information Security policy.</i>
<i>R13 Develop procedures for reporting IT security incidents.</i>

## The way forward

- 9 The council may find it beneficial to carry out this survey again at a future date to measure any improvements that have been made.

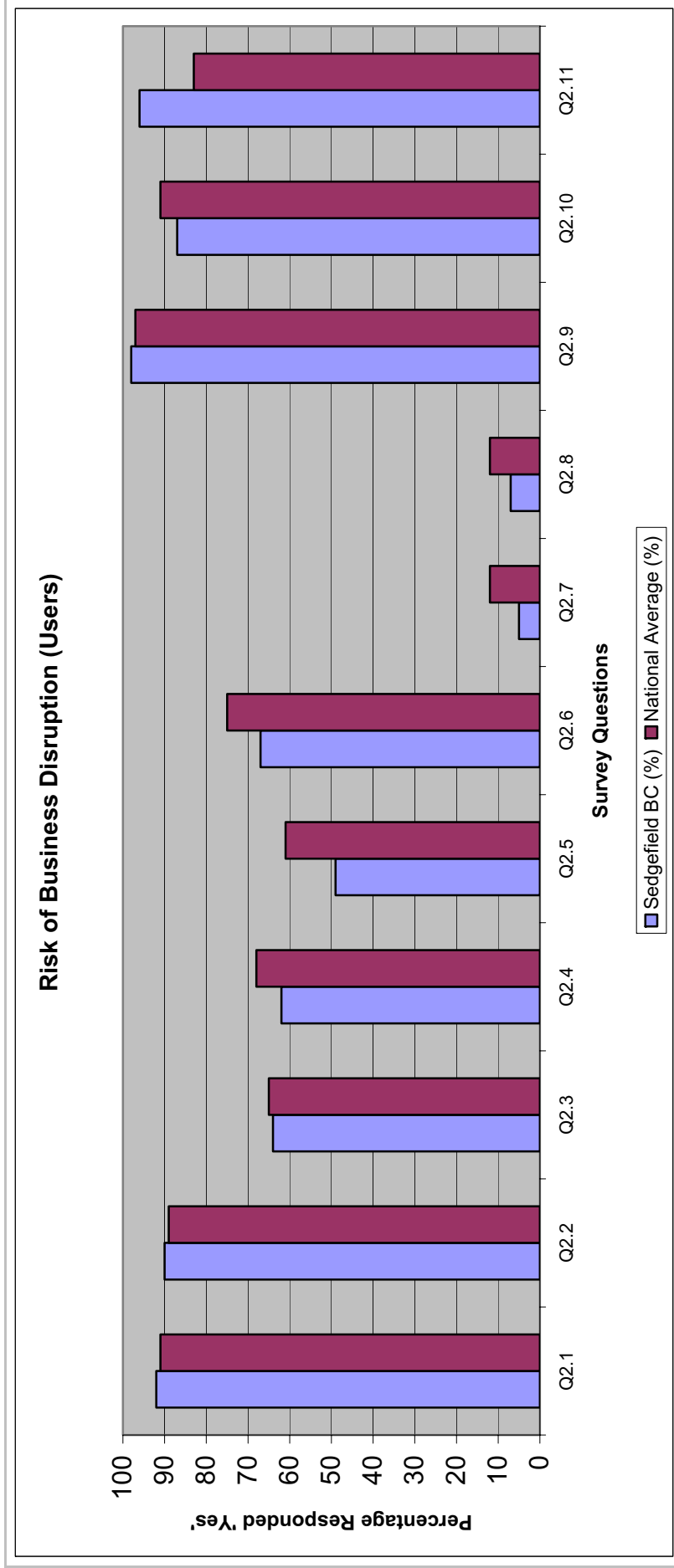
**Table 1 Key messages**

A brief summary of responses to our survey covering both dedicated ICT staff and departmental business systems users

<b>Business Disruption Risk</b>		
<b>Positive messages</b>	<b>Areas requiring attention</b>	<b>Suggested Action</b>
<p>A high number of users (95 per cent) replied positively at how the council takes the threat of computer virus infection very seriously.</p> <p>There is a small team which manages virus related type issues seamlessly in the background. Most users and some ICT staff will not be aware this service is delivered.</p> <p>Virus protection software is installed on machines and regularly updated. This explains the high number of users not knowing this task is carried out and it is not seen as a weakness.</p> <p>5 per cent users (nationally 12 per cent) claim to have suffered a virus infection on their machine which is a good result (Q2.7/2.8 – see appendix for survey questions).</p> <p>ICT staff scored highly in most areas. Due to the dedicated responsibilities of certain ICT staff (network/firewall/anti-virus software management) or specific system requirements (server backups), the instances where ICT staff did not know a clear answer to some of the questions is not seen as a significant risk.</p> <p>Password use and maintenance follows best practice. Individual machines and the council's network require the use of username and password for access. Password changes are enforced.</p>	<p>Users (67 per cent) are not significantly aware of the procedures for reporting virus infections. Nationally this is 75 per cent.</p> <p>ICT staff provided an average response of 60 per cent displaying a lack of information about having procedures to address virus infections should they occur.</p> <p>70 per cent of ICT respondents were misinformed about the appointment of an IT security officer. There is no dedicated post although the role tasks are carried out ad-hoc by some of the ICT staff on an informal basis.</p> <p>The two most significant IT risk areas in the survey where ICT respondents highlighted an absence of procedures and awareness are:</p> <ul style="list-style-type: none"> <li>• the absence of formal change control procedures, an average of 60 per cent of ICT respondents didn't know; and</li> <li>• the absence of business continuity arrangements (average 50 per cent). A disaster recovery plan for IT facilities is in the early stages of development.</li> </ul>	<p>Improve awareness for all staff on reporting computer virus incidents.</p> <p>Consider discussing the results of the ICT staff survey with all department staff.</p> <p>Consider the appointment of a dedicated IT security officer.</p> <p>Ensure that formal change control procedures are developed.</p> <p>Improve awareness and make more information readily available to address business continuity arrangements.</p>

**Figure 1 Risk of Business Disruption (Users)**

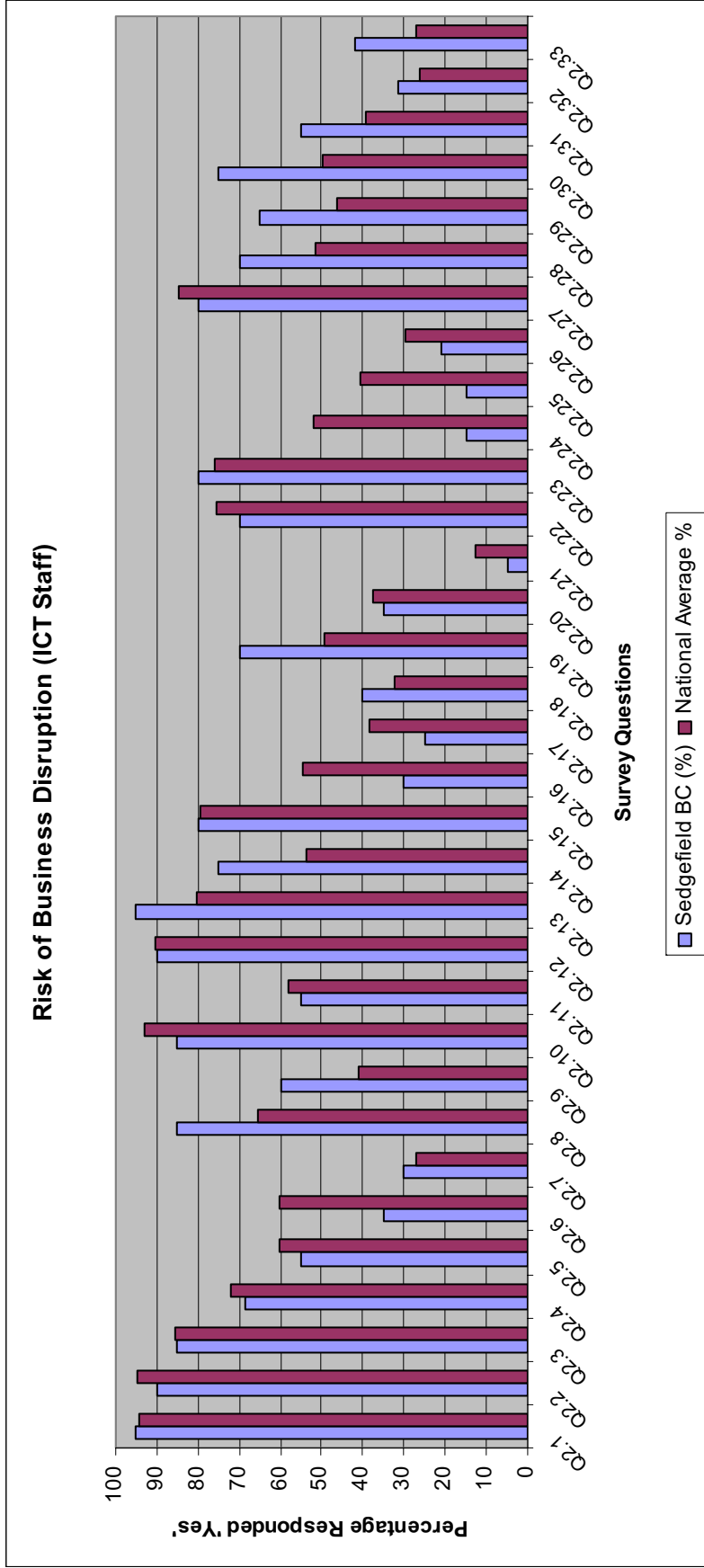
Results for council versus national results



Source: YB@R: Audit Commission

(Responses to Q2.7 & 2.8 on computer virus infection are better if lower than the national average).

**Figure 2 ICT Staff Results: Risk of Business Disruption**



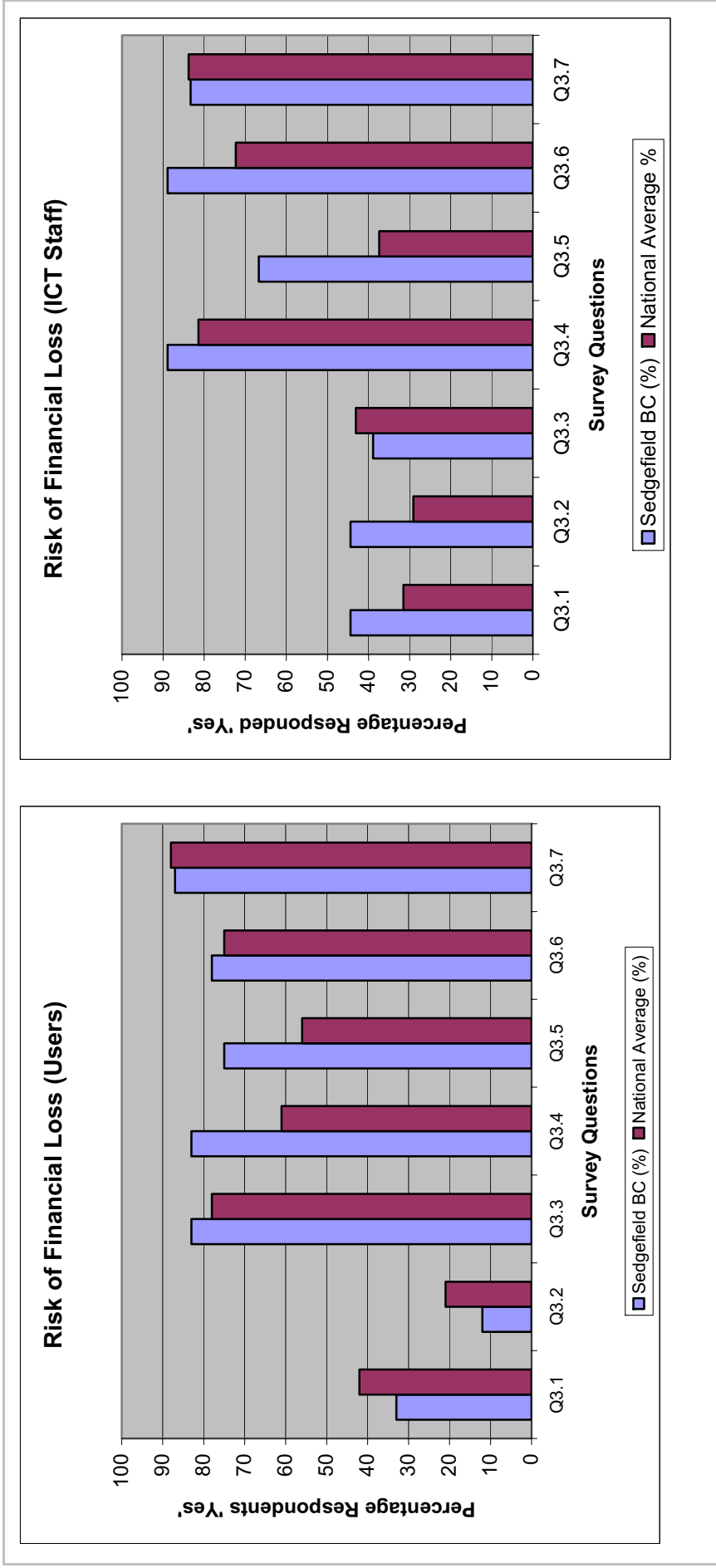
Source: YB@R: Audit Commission

<b>Financial Loss Risk</b>		
<b>Positive messages</b>	<b>Areas requiring attention</b>	<b>Suggested Action</b>
<p>A high percentage of users (83 per cent) claim they have access to the information they need to do their job (national average 78 per cent).</p> <p>The council has been reasonably clear in informing all staff what rules exist regarding private use of ICT facilities, 87 per cent of users and 83 per cent of ICT staff confirm they have been informed. Both are good scores but just below the national average.</p> <p>Measures are in place to prevent staff copying software from and to their machines.</p>	<p>Approximately 67 per cent of user respondents are not aware of the existence or content of the council's anti-fraud strategy.</p> <p>50 per cent of ICT staff do not know if there is a formal access control policy.</p>	<p>Improve awareness for all staff on the anti-fraud strategy.</p> <p>Ensure an access control policy is developed.</p>



### Figure 3 Risk of Financial Loss

Council versus national results



Source: YB@R: Audit Commission

**Reputational Damage Risk**

**Positive messages**

A very high proportion of IT users:

- know that their internet activity is monitored;
- know that the downloading of unsuitable material and misuse of personal data is a disciplinary matter;
- have access to internet and email usage protocols; and
- know that the use of unlicensed software is prohibited.

Misuse of personal data is well understood to be a disciplinary offence by users (82 per cent) but only 63 per cent by ICT staff which is below the national average of 79 per cent.

**Areas requiring attention**

42 per cent of user respondents are not aware of or have access to written protocols covering email usage and language.

24 per cent of users and 32 per cent of ICT staff confirmed their lack of knowledge about a documented data protection policy.

Approximately 49 per cent users and 37 per cent ICT staff are unaware of confidentiality requirements.

32 per cent user respondents and 42 per cent ICT respondents have not had their responsibilities under the Data Protection Act explained to them. There is a distinct lack of awareness around the Data Protection Act.

PCs are not times out after a short period of inactivity. 60 per cent of users and 58 per cent ICT respondents confirmed this and it reflects the actual absence of controls in this area due to previous problems.

**Suggested Action**

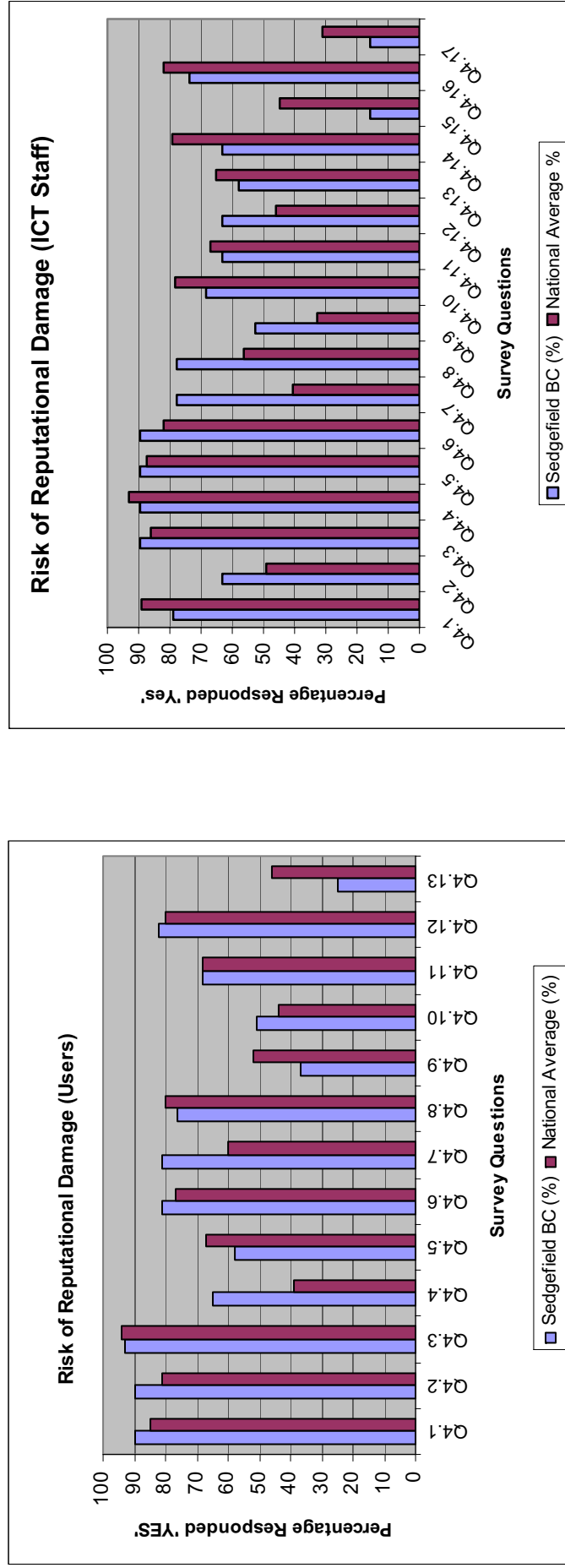
Inform staff of Council policy on use of email.

Improve awareness of the requirements of the Data Protection Act legislation.

Reassess the use of PC timeout controls and consider implementing this feature.

**Figure 4 Risk of Reputational Damage**

Council versus national results

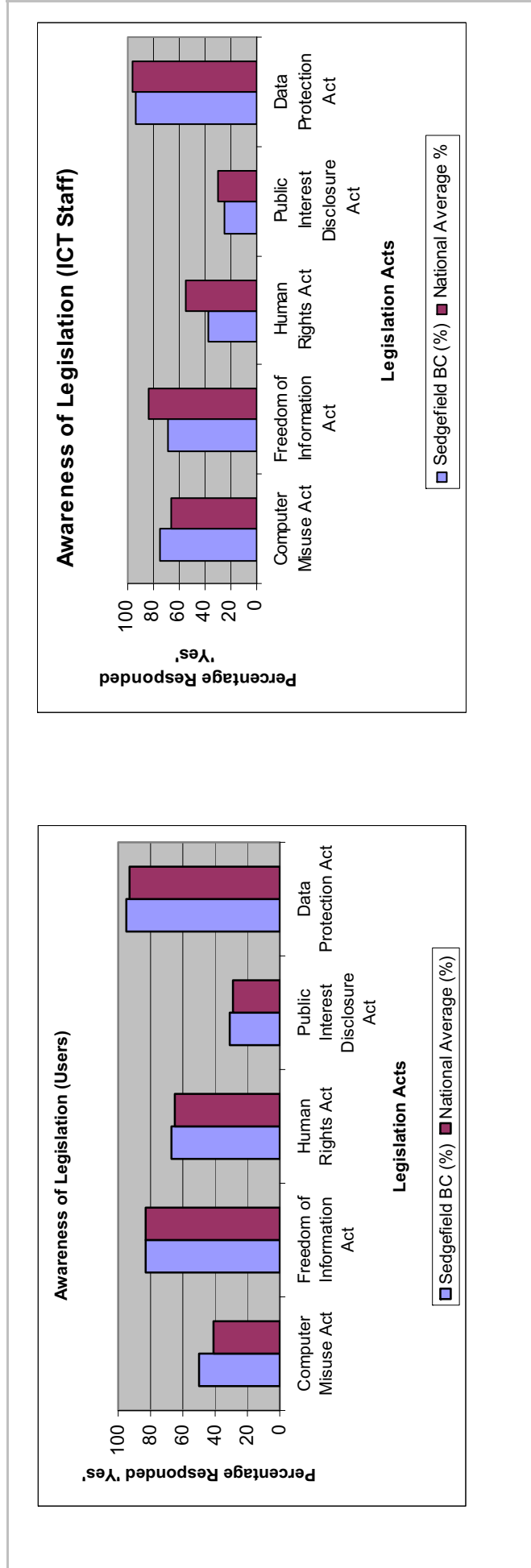


Source: YB@R: Audit Commission

Awareness of implications of legislation	Areas requiring attention	Suggested Action
User respondents scored well above the national average for their group covering all five legislation acts.	ICT staff respondents scored lower than the national average in awareness of four of the five IT related legislation acts.	Raise the level of IT legislation awareness through improved induction and ongoing training programmes for all staff.

**Figure 5 Awareness of Implications of Legislation**

Council versus national results

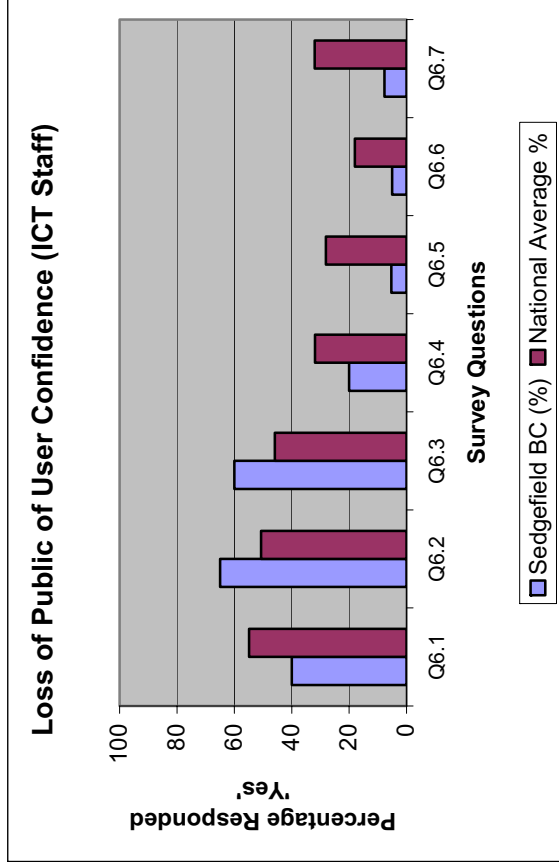
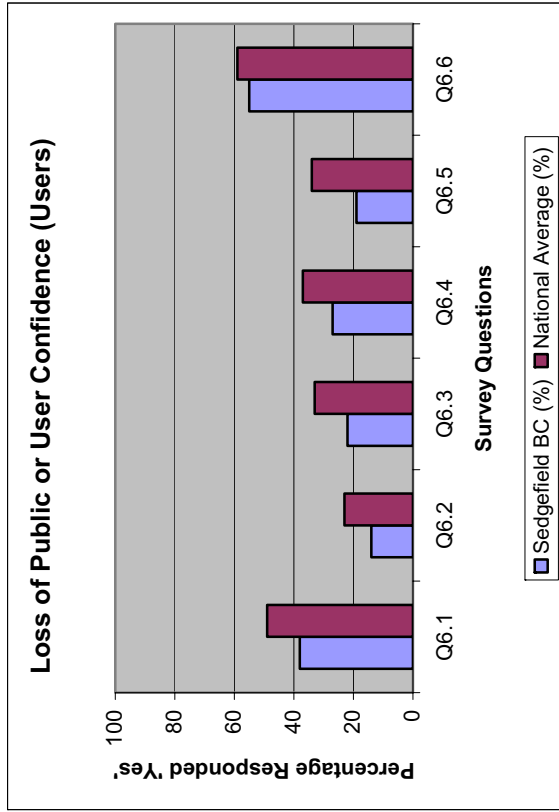


Source: YB@R: Audit Commission

<b>Loss of User Confidence Risk</b>		
<b>Positive messages</b>	<b>Areas requiring attention</b>	<b>Suggested Action</b>
<p>Both sets of respondents scored less well in this section. ICT staff do understand the principles of information security and the development of an information security policy is still in progress.</p>	<p>The Council is in the process of developing an Information Security policy. There are no immediate plans to progress towards implementing BS7799 as the process is extensive and they have limited capacity. The lack of knowledge in this area accurately reflects the survey results.</p> <p>There is a lack of awareness of documented procedures for reporting an IT security incident (80 per cent ICT staff don't know and 36 per cent users).</p>	<p>Develop and issue an Information Security policy.</p> <p>Develop procedures for reporting IT security incidents.</p>

### Figure 6 Loss of User Confidence

Council versus national results



Source: YB@R: Audit Commission

## Appendix 1 – Detailed survey results

<b>Key</b>
Good/satisfactory
Scope for improvement
Weakness identified

### User survey

Q1 Which Department do you work in? (only complete if agreed by your Authority/Trust)	
	Councillors 0%
	Chief Executives 5%
	Resources 42%
	Housing 16%
	Neighbourhood Services 18%
	Leisure Services 19%

Note: Rounding up of responses may result in some scores slightly exceeding 100%.

#### Q2 The risk of business disruption

**Virus protection is handled by dedicated staff seamlessly in the background and most users will not be aware. This may explain the high number of 'Don't know' responses.**

	Yes	No	Don't know	Not Applicable
2.1 My organisation takes the threat of a virus infection very seriously	92%	0%	8%	0%
2.2 Virus protection software is installed on my machine	90%	0%	10%	0%
2.3 Virus protection software is regularly updated on my machine	64%	0%	35%	0%
2.4 I have been given clear instructions about dealing with emailed files from external sources	62%	28%	9%	1%
2.5 I am sent an alert when new viruses are discovered and am told what to do and what not to do	49%	23%	27%	2%

## 18 Your Business @ Risk Survey | Appendix 1 – Detailed survey results

	Yes	No	Don't know	Not Applicable
2.6 I know how to report a virus infection if I suffer an infection on my machine	67%	21%	12%	0%
2.7 I have suffered a virus infection on my machine	5%	83%	11%	2%
2.8 Whenever I have suffered a virus infection, my machine was cleansed and restored quickly	7%	2%	17%	73%
2.9 To log on to my machine I must enter a user name and password	98%	2%	0%	0%
2.10 To log on to my organisation's network I must enter a user name and password	87%	8%	4%	1%
2.11 I am forced to change my password by the system on a regular basis eg. every month	96%	2%	1%	0%

### Q3 The risk of financial loss

	Yes	No	Don't know	Not Applicable
3.1 My organisation has an anti-fraud strategy.	33%	0%	67%	0%
3.2 I know what the key elements of the strategy are.	12%	27%	57%	4%
3.3 I only have access to the information I need to do my job	83%	11%	6%	0%
3.4 I am prevented from installing any software on my machine	83%	1%	16%	0%
3.5 I am prevented from copying software from my machine	75%	3%	22%	0%

**The Council maintains a full inventory of ICT equipment. The survey question may be implying the use of security markers, for example, which is not an action taken.**

	Yes	No	Don't know	Not Applicable
3.6 My computer is clearly security-marked.	78%	4%	18%	0%



	Yes	No	Don't know	Not Applicable
3.7 I know what are my organisation's rules are covering private use of IT facilities and in particular what is and what isn't acceptable	87%	4%	8%	0%

**Q4 The risk of reputational damage**

	Yes	No	Don't know	Not Applicable
4.1 I am allowed access to the internet only by connections provided by my organisation.	90%	5%	5%	0%
4.2 I have been informed that my access to the internet will be monitored.	90%	5%	5%	0%
4.3 It has been made clear to me that my organisation's policy is that accessing or storing unsuitable material is a disciplinary matter	93%	3%	3%	0%
4.4 Emails sent to me from outside my organisation that contain very large files or executable programs etc. are prevented from reaching me	65%	4%	29%	3%
4.5 I have access to written protocols covering e-mail usage and language.	58%	10%	32%	0%
4.6 I have been informed by my organisation that the use of unlicensed software is prohibited.	81%	7%	12%	0%
4.7 I am prevented from installing software on my machine.	81%	1%	17%	0%
4.8 My organisation has a documented data protection policy	76%	0%	24%	0%
4.9 My organisation has appointed a data protection officer	37%	1%	62%	0%
4.10 I have been required to sign a confidentiality undertaking as part of my conditions of service	51%	26%	22%	1%

## 20 Your Business @ Risk Survey | Appendix 1 – Detailed survey results

	Yes	No	Don't know	Not Applicable
4.11 My responsibilities under the Data Protection Act have been explained to me.	68%	24%	8%	0%
4.12 I have been informed that the misuse of personal data will be treated as a disciplinary offence by my organisation.	82%	12%	5%	0%
4.13 My PC is automatically timed out after a short period of inactivity and my password and user name must be entered to resume the session.	25%	60%	15%	0%

### Q5 I am aware of the main implications of the following legislation:

5.1	• The Computer Misuse Act	50%
5.2	• The Freedom of Information Act	83%
5.3	• The Human Rights Act	67%
5.4	• The Public Interest Disclosure Act	31%
5.5	• The Data Protection Act	95%

### Q6 Loss of public or user confidence

**An Information Security Policy is still in development and the council does not have a post to cover IT security.**

	Yes	No	Don't know	Not Applicable
6.1 My organisation has an Information Security policy	38%	3%	59%	0%
6.2 I have been provided with a copy of the policy.	14%	49%	32%	6%
6.3 I have been informed about the policy and what I must and must not do.	22%	40%	32%	6%
6.4 Senior management in my organisation is committed to the policy and its observance.	27%	3%	67%	3%
6.5 I know where to find written procedures for reporting a security incident.	19%	44%	36%	1%

	Yes	No	Don't know	Not Applicable
6.6 Someone in my organisation is specifically responsible for IT security	55%	2%	42%	0%

## ICT staff survey

### Key

Good/satisfactory

Scope for improvement

Weakness identified

Q1 Which ICT Department do you work in?		
	Corporate ICT	100%
	Departmental ICT	0 %

### Q2 The risk of business disruption

The ICT department has within it a small team whose role it is to manage any issues related to anti-virus software, email and internet access (network). Some ICT staff not involved will be unaware this process is operating seamlessly in the background.

	Yes	No	Don't know	Not Applicable
2.1 My organisation takes the threat of a virus infection very seriously	95.0%	0.0%	5.0%	0.0%
2.2 Our policy is to install virus protection software on all our machines	90.0%	0.0%	10.0%	0.0%
2.3 Staff are provided with regular updates to virus protection software	85.0%	5.0%	10.0%	0.0%
2.4 Staff have been given clear instructions about dealing with emailed files from external sources	68.4%	10.5%	21.1%	0.0%
2.5 Staff are alerted when new viruses are discovered and are advised as to what they must do	55.0%	15.0%	30.0%	0.0%
2.6 We have clear procedures in place for reporting a virus incident	35.0%	30.0%	35.0%	0.0%

## 22 Your Business @ Risk Survey | Appendix 1 – Detailed survey results

2.7	Our procedures for recovering from a virus infection have been documented	Yes 30.0%	No 25.0%	Don't know 35.0%	Not Applicable 10.0%
2.8	Our virus software is automatically updated by the software vendor	Yes 85.0%	No 0.0%	Don't know 15.0%	Not Applicable 0.0%
2.9	In the event of a virus outbreak measures are in place to restrict the impact of that virus eg. we make router changes to restrict virus infection	Yes 60.0%	No 5.0%	Don't know 35.0%	Not Applicable 0.0%
2.10	A firewall protects our networks, systems and information from intrusion from outside	Yes 85.0%	No 0.0%	Don't know 15.0%	Not Applicable 0.0%
<b>The ICT department based on business need and a risk assessment do let through large files.</b>					
2.11	Our firewall prevents large files and executable programs from reaching our networks.	Yes 55.0%	No 25.0%	Don't know 15.0%	Not Applicable 5.0%
2.12	Our user registration and sign-on procedures prevent unauthorised access to our networks	Yes 90.0%	No 0.0%	Don't know 10.0%	Not Applicable 0.0%
2.13	Proper password management is enforced by the system on all users	Yes 95.0%	No 0.0%	Don't know 5.0%	Not Applicable 0.0%
2.14	Our dial-up connections are secure	Yes 75.0%	No 0.0%	Don't know 15.0%	Not Applicable 10.0%
2.15	Network management staff have been appointed	Yes 80.0%	No 0.0%	Don't know 20.0%	Not Applicable 0.0%
<b>There is no appointed IT security officer post but the role is presently shared by various ICT staff.</b>					
2.16	We have appointed an IT security officer	Yes 30.0%	No 30.0%	Don't know 40.0%	Not Applicable 0.0%
2.17	A detailed daily log of network activity is maintained.	Yes 25.0%	No 20.0%	Don't know 50.0%	Not Applicable 5.0%
2.18	Network logs are inspected periodically by network staff	Yes 40.0%	No 15.0%	Don't know 45.0%	Not Applicable 0.0%
2.19	Sensitive programs and information are given additional protection.	Yes 70.0%	No 5.0%	Don't know 25.0%	Not Applicable 0.0%

## Your Business @ Risk Survey | Appendix 1 – Detailed survey results 23

	Yes	No	Don't know	Not Applicable
2.20 Security violations are reported to IT security staff immediately by our security systems	35.0%	15.0%	50.0%	0.0%

**Web site vulnerability is tested annually due to financial constraints.**

	Yes	No	Don't know	Not Applicable
2.21 Our web site vulnerability is checked every month	5.0%	15.0%	75.0%	5.0%

	Yes	No	Don't know	Not Applicable
2.22 Physical entry controls prevent unauthorised access to our IT facilities	70.0%	0.0%	30.0%	0.0%

	Yes	No	Don't know	Not Applicable
2.23 Our servers & network equipment are sited securely and adequate protection is offered.	80.0%	0.0%	20.0%	0.0%

	Yes	No	Don't know	Not Applicable
2.24 Any amendment to a program or system must go through our change control process	15.0%	20.0%	60.0%	5.0%

	Yes	No	Don't know	Not Applicable
2.25 Our change control processes are well documented	15.0%	20.0%	60.0%	5.0%

	Yes	No	Don't know	Not Applicable
2.26 All IT staff are trained in our change control requirements	21.1%	26.3%	42.1%	10.5%

**A team ICT staff are dedicated to performing backups and users are advised to backup to servers and not desktop PCs.**

	Yes	No	Don't know	Not Applicable
2.27 Backups of data on all servers are taken frequently.	80.0%	0.0%	20.0%	0.0%

	Yes	No	Don't know	Not Applicable
2.28 Backup arrangements are properly documented.	70.0%	0.0%	30.0%	0.0%

	Yes	No	Don't know	Not Applicable
2.29 User and IT staff have been trained in how to conduct backups of servers.	65.0%	15.0%	20.0%	0.0%

	Yes	No	Don't know	Not Applicable
2.30 Monitoring of backups ensures that management is alerted when backups of remote servers do not take place	75.0%	0.0%	25.0%	0.0%

	Yes	No	Don't know	Not Applicable
2.31 My organisation has a clear business continuity plan.	55.0%	0.0%	45.0%	0.0%

## 24 Your Business @ Risk Survey | Appendix 1 – Detailed survey results

	Yes	No	Don't know	Not Applicable
2.32 All staff named in the business continuity plan know of its existence and their role in it.	31.6%	5.3%	57.9%	5.3%
	Yes	No	Don't know	Not Applicable
2.33 Our continuity plan is based upon a robust risk analysis process	42.1%	0.0%	52.6%	5.3%
<b>Q3 The risk of financial loss</b>				
	Yes	No	Don't know	Not Applicable
3.1 The systems most at risk from fraud have been identified.	44.4%	0.0%	55.6%	0.0%
	Yes	No	Don't know	Not Applicable
3.2 The systems most at risk are afforded additional protection.	44.4%	0.0%	55.6%	0.0%
	Yes	No	Don't know	Not Applicable
3.3 We have a documented access control policy	38.9%	11.1%	50.0%	0.0%
	Yes	No	Don't know	Not Applicable
3.4 Access to systems is only provided to those who need it.	88.9%	0.0%	11.1%	0.0%
	Yes	No	Don't know	Not Applicable
3.5 We have controls to prevent the copying or removal of software.	66.7%	5.6%	27.8%	0.0%
	Yes	No	Don't know	Not Applicable
3.6 Hardware is clearly security-marked.	88.9%	0.0%	11.1%	0.0%
	Yes	No	Don't know	Not Applicable
3.7 My organisation has clear rules covering private use of IT facilities and in particular what is and what isn't acceptable	83.3%	11.1%	5.6%	0.0%
<b>Q4 The risk of reputational damage</b>				
	Yes	No	Don't know	Not Applicable
4.1 Staff are only allowed to access the Internet through our authorised ISP	78.9%	0.0%	21.1%	0.0%
	Yes	No	Don't know	Not Applicable
4.2 Internet activity logs are reviewed by managers.	63.2%	5.3%	31.6%	0.0%
	Yes	No	Don't know	Not Applicable
4.3 We bar access to internet sites we deem to be unsuitable	89.5%	0.0%	10.5%	0.0%

	Yes	No	Don't know	Not Applicable
4.4 Our policies make it clear to all staff that the downloading or storage of unsuitable material is a disciplinary matter	89.5%	5.3%	5.3%	0.0%
4.5 Protocols for internet and e-mail use have been developed and are available to all users.	89.5%	0.0%	10.5%	0.0%
4.6 My organisation has made it clear to all staff that use of unlicensed software is prohibited.	89.5%	0.0%	10.5%	0.0%
<b>There is no software but extensive use of Windows 'policies' is made.</b>				
4.7 Security software that prevents the installation of any program except by authorised IT staff is installed on all PCs and laptops.	77.8%	5.6%	16.7%	0.0%
4.8 Users in my organisation are prevented from gaining access to system utilities.	77.8%	0.0%	22.2%	0.0%
4.9 Our asset register is up to date, as are all enterprise / site license numbers	52.6%	0.0%	47.4%	0.0%
4.10 My organisation has a documented Data Protection Policy.	68.4%	0.0%	31.6%	0.0%
4.11 My organisation has appointed a data protection officer.	63.2%	0.0%	36.8%	0.0%
4.12 All users are required to sign a confidentiality undertaking as part of their conditions of service	63.2%	10.5%	26.3%	0.0%
4.13 My responsibilities under the Data Protection Act have been explained to me.	57.9%	21.1%	21.1%	0.0%
4.14 Misuse of personal data is treated as a disciplinary offence.	63.2%	0.0%	36.8%	0.0%
4.15 PC's are timed out after a period of inactivity	15.8%	57.9%	26.3%	0.0%

## 26 Your Business @ Risk Survey | Appendix 1 – Detailed survey results

	Yes	No	Don't know	Not Applicable
4.16 My computer has a lock out facility to be used when left unattended.	73.7%	5.3%	21.1%	0.0%

	Yes	No	Don't know	Not Applicable
4.17 Systems containing personal data are registered with the Information Commissioner.	15.8%	5.3%	78.9%	0.0%

### Q5 I am aware of the main implications of the following legislation:

5.1	The Computer Misuse Act			75.0%
5.2	The Freedom of Information Act			68.8%
5.3	The Human Rights Act			37.5%
5.4	The Public Interest Disclosure Act			25.0%
5.5	The Data Protection Act			93.8%

### Q6 The risk of loss of public or user confidence

#### An Information Security Policy is still in development

	Yes	No	Don't know	Not Applicable
6.1 My organisation has an up to date Information Security policy	40.0%	5.0%	55.0%	0.0%

	Yes	No	Don't know	Not Applicable
6.2 Staff are informed about the policy and what they must and must not do.	35.0%	10.0%	50.0%	5.0%

	Yes	No	Don't know	Not Applicable
6.3 Senior management is committed to the policy and its observance.	30.0%	5.0%	60.0%	5.0%

	Yes	No	Don't know	Not Applicable
6.4 An officer group manages the implementation of information security.	20.0%	15.0%	65.0%	0.0%

	Yes	No	Don't know	Not Applicable
6.5 Regular independent reviews of information security are undertaken.	22.2%	11.1%	66.7%	0.0%

#### There are no formal plans to progress towards BS7799.

	Yes	No	Don't know	Not Applicable
6.6 We comply with BS7799 standards.	5.3%	10.5%	84.2%	0.0%

	Yes	No	Don't know	Not Applicable
6.7 There are clear written procedures for reporting and following up all security incidents.	5.0%	15.0%	80.0%	0.0%



# Item 7

## REPORT TO THE AUDIT COMMITTEE

29<sup>TH</sup> JANUARY 2007

### REPORT OF DIRECTOR OF RESOURCES

**Portfolio: STRATEGIC LEADERSHIP**

**Subject: RISK MANAGEMENT PROGRESS REPORT – 2006**

#### **1. SUMMARY**

- 1.1 Effective risk management is now widely acknowledged to be an essential element of quality corporate governance, and ideally should be an integral part of an organisation's processes and culture.
- 1.2 The Council has developed a Risk Management Strategy and the Strategic Leadership Working Group has a Risk Management Officer Working Group reporting to it.
- 1.3 Members are aware that the requirements of the Comprehensive Performance Assessment (CPA) and the Statement of Internal Control (SIC) necessitate a strong risk management culture.
- 1.4 This report provides an update to members on the progress made in developing risk management within the Council since the previous report to Overview and Scrutiny Committee 1 in August 2005.

#### **2. RECOMMENDATION**

- 2.1 That the content of the report is noted.
- 2.2 That the Audit Committee considers the effectiveness of the Council's risk management arrangements.
- 2.3 That the Audit Committee informs Cabinet of its findings .
- 2.4 That an annual review of the Risk Management arrangements be undertaken by the Audit Committee.

#### **3. RECOMMENDED RISK MANAGEMENT GOOD PRACTICE**

- 3.1 In a joint report of CIPFA/SOLACE titled 'Corporate Governance in Local Government – A Keystone for Community Governance', risk management and internal control were specifically referred to as one of the major dimensions of effective governance. It stated that every organisation needs to:-
  - *Develop and maintain robust systems for identifying and evaluating all significant risks which affect the planning and delivery of services.*
  - *Put in place effective risk management systems, including systems of internal control and an internal audit function.*

- *Ensure that services are delivered by trained and experienced people.*
- *Have effective arrangements for an objective review of risk management and internal control, including internal audit.*
- *Maintain an objective and professional relationship with external auditors and inspectors.*
- *Publish a relevant annual report on risk management and internal control mechanisms and their effectiveness.*

3.2 A number of these good practices have been well established within the Council for many years. However, the continuing development of risk management is essential to achieving a strong governance position.

#### **4. RISK MANAGEMENT GROUP ACTIVITIES**

4.1 The Risk Management Group was re-established in 2004 as an officer group reporting to the Strategic Leadership Group. Representatives from all departments meet on a two monthly cycle and address a wide range of risk management, including health and safety issues, a selection of which is shown below.

4.2 Minutes from Departmental Safety Groups  
 Insurance Statistics  
 Electronic Risk Register  
 Generic Risk Profiles  
 Risk Prioritisation Matrix  
 Hand/Arm Vibration (HAV)  
 Stress Management  
 Lone Working Arrangements  
 Work at Height Regulations  
 Control Asbestos Regulations  
 Legislative Changes  
 Updates from the Council's Insurers  
 Emergency Planning  
 Business Continuity Planning  
 Pandemic Flu Planning

Further details on the more significant areas are given in 5 below.

4.3 Important corporate risk areas forming essential elements of CPA Use of Resources Assessments and the Statement of Internal Control (SIC) have also been discussed by the Group, with dissemination of the important areas being helped by the Group members. Further information on CPA and SIC is shown at 5.8 below.

#### **5. RISK MANAGEMENT ACTIVITY PROGRESS**

##### **5.1 Departmental Safety Groups**

Important work relating to specific operational risks is now being undertaken by Safety Groups established within Housing Services, Leisure Department, Neighbourhood Services and Chief Executive's Department.

### ***Housing Safety Group***

The Housing Safety Group has recently considered issues such as the Construction Skills Certification Scheme (CSCS) training programme.

This training programme is part of a national scheme to improve competence and skills in the construction industry, the training is to be offered to all Housing personnel.

The benefits of the scheme to the Council are:

- Improved health and safety awareness for all staff;
- Increased individual personal responsibilities for health and safety;
- Creation of a better health and safety culture;
- Potential sickness reduction;
- Value For Money (VFM), measurable improvements, through a competent workforce.

### ***Leisure Safety Group***

The Leisure Safety Group have covered issues such as poolside slip tests, use of defibrillators, working at height, new fire regulations, private partners public insurance liability, Councils safety policy for the supervision of swimming pools.

### ***Neighbourhood Services Safety Group***

Neighbourhood Services Safety Group have covered issues such as Workplace Transport policy and guidance documents, Reversing vehicles system of operation, Hand Arm Vibration and employees exposure to vibratory equipment, Department Induction Process, First Aid coverage

### ***Chief Executive Training Safety Group***

The Council's Training Safety group have conducted regular Safety Group meetings, they discussed such issues as improving learner health and safety awareness.

The group set up learner health and safety forums whose membership includes, construction apprentices, E2E learners, manufacturing/engineering apprentices and young people on school projects.

The forums minutes and recommendations are discussed on the agenda of the main committee, this action is helping to raise health and safety awareness at all levels.

## **5.2 *Durham Chief Financial Officers' Risk Management & Insurance Sub-Group***

This Group, with representation from all Durham Districts and the County Council, meets periodically to exchange views on a wide-range of risk matters affecting all authorities. Recent items included benchmarking, health and safety statistics, strategic risk, business continuity, internal control arrangements, insurance renewals, freedom of information and risk management staffing arrangements. The experiences and views of members of the Group are helpful in considering future developmental activity, as well as exchanging historic experiences with a view to minimising risk.

### **5.3 Insurances**

Information related to insurance claims made against the Council by third parties as well as employees who allege that they have suffered injuries as a result of the negligence of the Council, is regularly prepared and considered. The identification of changing trends in the claims history is important in order to address emerging or deteriorating control issues. Ultimately a pro-active and responsive approach to identified risks will ensure that insurance premiums payable to Zurich Municipal and the drain on internal funds as a result of policy excesses are kept to a minimum level. Current policy premiums amount to £390,000, with varying policy excesses, up to £67,000 per incident in respect of Public and Employer's Liability Claims.

### **5.4 Corporate Electronic Risk Register**

The initial Corporate Risk Register was originally commissioned by the Council from Marsh Consulting Ltd. in 2003. Last year an electronic Risk Register was procured from RSL, a company specialising in risk management software, which replaced the original Register. The new electronic Risk Register was installed in all departments and each department was asked to input its main operational and strategic risks, along with detailed action plans to deal with all high risk areas. This would then create an electronic record of the Council's corporate risks and allow the Risk Management Working Group to monitor the risks identified and the action plans developed. The development of the Risk Register is an on-going exercise, with some departments having made better progress than others in identifying and registering their risks. Management Team recently approved a report from the Audit Manager that asked for all Chief Officers and Heads of Service to identify their departments' top ten strategic risks for entry into the Register. The successful development of an electronic Risk Register is seen as best practise for effective risk management, and is an important aspect of good corporate governance. The Council must therefore continue to make good progress in this area.

The inaugural meeting of an RSL Risk Register User Group, which this Council will attend, was held on 25<sup>th</sup> January 2007. This Group will help to develop expertise and identify best practise in a number of areas.

### **5.5 Generic Risk Profiles**

The Risk Management Group agreed the procurement of a set of standard Risk Profiles during 2003/04, which were developed by a consortium of local authorities and outside consultants, and presented in CD Rom form. The profiles for a wide range of services were made available to officers around the Council and were seen as a convenient and relevant approach to enhancing risk awareness and an aid to embedding risk management throughout the Council. The profiles attempt to identify for each service the risks faced, the controls in place to minimise the risk, and a series of management actions to confirm that controls are operating effectively.

Managers, supervisors and their staff have been encouraged to review the profiles relevant to their services in order to identify any risk issues. The Internal Audit Section has also reviewed a number of risk profiles as part of the annual audit of the Council's major financial systems.

Any risk issues identified as part of the review process have been incorporated into audit recommendations, for which action plans have been developed. Some of the risks identified have been entered in the Risk Register.

## **5.6 Risk Prioritisation Matrix (RPM)**

Following the introduction of RPM principles, the Risk management Group continue to support the assessment and mitigation of risks using this technique. The process involves scoring identified risks based on likelihood of occurrence and severity of impact. The Risk Management Group have endorsed its application to all capital programme projects, any proposals involving sums in excess of £50,000, and any major service delivery change proposals.

Whilst the technique has been successfully applied to a number of projects / activities to date, there are numerous areas where progress has been limited. The Risk management group continues to promote this valuable aid to the identification and mitigation of risk and the Group is currently giving consideration to each department's progress, with a view to making further recommendations on use of the Risk Matrix.

## **5.7 Health and Safety**

### **5.7.1 General**

Since the previous report to Overview and Scrutiny Committee the Health and Safety Team within the Organisational Development Section has continued to develop comprehensive health and safety arrangements within the Council.

### **5.7.2 Occupational Management Procedure Register**

An Occupational Management Procedure Register (OMPR) displaying all policies, procedures and risk assessments relating to the work of the authority has been developed. Information from all departments have been collated and brought within the register.

The Information Technology (IT) section are currently working with the Health and Safety Team to make the register available on the Councils Intranet, the information contained within the register will be available in January 2007.

### **5.7.3 Occupational Health and Safety Communication Framework**

To communicate the message relating to health and safety effectively, the authority has developed a clear transparent open two-way communication system, as part of its draft consultation exercise, between the management structure and all of its employees.

This allows open input into developing and formalising future occupational management system documentation by all interested parties.

The existing framework has been further strengthened by a more robust reporting system, which has seen the continuing development and improvement of the departmental safety groups.

The Leisure, Housing, Neighbourhood Services and Chief executive's Departments all have Safety Groups meeting on a regular basis, each department safety group considers the accident statistical analysis relating to their department employees for trend patterns, suitable preventative control measures are then introduced to prevent/minimise future accidents.

#### **5.7.4 Stress Management Policy**

A Stress Management Policy and related guidance documents have been developed, the aim, to establish standards and safe systems of work to recognise the Councils commitment to protecting health, safety and welfare of employees in relation to work place stress.

It acknowledges the importance of reducing and identifying workplace stresses at the earliest possible stage as part of the Councils Primary Intervention programme, and introduces management standards to address risk factors and key aspects of workplace stress.

Information is now available on the Council's Intranet to provide guidance and enable all employees to assess whether they are subjected to stress

Managers are currently undertaking training in the Role of the Manager In Dealing With Stress, this training will enable the managers to carry out stress risk assessments and primary interventions, early indications on feedback from attendees on this course are positive.

#### **5.7.5 Lone Workers**

Lone Working continues to be recognised as an ongoing risk to a large number of employees. New procedures and guidance documents have been produced and training, where necessary provided.

#### **5.7.6 Working at Height**

These regulations were introduced in April 2005, they proposed a cultural change in the way the Councils employees had previously approached working at height.

The regulations require a more structured system in determining the need to work at height and the hierarchy laid down in the regulations must be followed.

Duty Holders Must:

- Avoid work at height where they can;
- Use work equipment or other measures to prevent falls where they cannot avoid working at height;
- Where they cannot eliminate the risk of a fall, use work equipment or other measures to minimise the distance and consequences of a fall should one occur.

On whether ladders/step ladders can be used, the regulations require that a risk assessment must be carried out to justify their use, and must satisfy the following criteria:

- Low risk
- Short Duration
- Site conditions dictate

The Council have included the above in its operational procedures relating to working at height.

#### **5.7.7 Hand Arm Vibration**

The 'Control of Vibrations Regulations' came into force in July 2005 and, although the requirement to measure vibration of equipment has been around for years in other legislative documents, the Health and Safety Executive is focusing the minds of employers on the hazards and risks of using vibrating work equipment safely.

The Health and Safety Section have created a database of all work equipment and employees time of use, relating to exposure in the use of vibratory equipment.

This information was made available to employees and managers, those employees identified as exceeding the Lower Exposure Action Value (LEAV), were subsequently placed in the medical surveillance programme within occupational health.

Some 175 employees were trained internally to understand:

- the legislation covering the use of vibratory equipment;
- the employees role of the risks involved in using vibratory equipment;
- how the risks could be reduced;
- the health implications in place to protect the workforce from Hand Arm Vibration Syndrome.

#### **5.7.8 Fire Preventative Measures**

The Regulatory Reform (Fire Safety) Order 2005 came into effect in October 2006; the order amends or replaces 118 pieces of existing legislation.

It repealed the Fire Precautions Act 1971 and the Fire Precautions (Workplace) Regulations 1997.

The Councils Health and Safety Team have reviewed and updated the Fire Risk Assessment forms and associated policy and guidance documents in line with the new requirements of the order.

### **5.8 Statement of Internal Control (SIC) and Comprehensive Performance Assessment (CPA)**

The Council's ability to clearly demonstrate high quality corporate governance arrangements is now substantially linked to the SIC and CPA issues. The requirements for a properly developed and evidenced SIC were introduced by the Accounts and Audit Regulations 2003, have had an impact since 2004.

Comprehensive guidance issued by CIPFA regarding compliance with the SIC regulations has been used to develop a corporate approach to securing a strong SIC position. This is fully considered by the Audit Commission, who reports on their findings to the Council. This also informs the CPA assessment.

Risk Management features strongly in any assessment of corporate governance and this is confirmed within the SIC guidance and the CPA self-assessment criteria under Use of Resources.

A group of senior officers, representing all Council departments, continue to develop the necessary policy/procedural documents covering financial and operational control, performance and risk management. Comprehensive development of these is essential and the results will be used to determine areas of weakness, good practice and ongoing developmental needs to ensure that all departments operate in accordance with best governance practices.

The demands for the highest possible CPA will not be satisfied without a strongly evidenced SIC position, which itself seeks to ensure that proper risk management practices are operating across the Council.

### **5.9 *Emergency Planning***

The Council is responsible for developing, monitoring and updating an Emergency Plan, in accordance with the requirements of the Civil Contingencies Act (CCA) 2004. The aim of the Plan is to co-ordinate the response of the various departments within the Council with those of other local authorities, the uniformed emergency services and other voluntary agencies.

For the purposes of the Plan, the word 'emergency' is defined as 'any extraordinary situation whereby the residents or visitors to the Borough require assistance beyond that normally provided by the Council'.

The Civil Contingencies Unit (CCU) of the County Durham and Darlington Fire and Rescue Authority continues to provide support to the Council by organising meetings of the Council's Crisis management Team on a regular basis and organising a number of training exercises with the Emergency Response Team and Emergency Support Staff to test parts of the Plan.

An electronic copy of the Emergency Plan is available on the Council's Intranet under 'Documents'.

### **5.10 *Business Continuity***

The CCA 2004 also imposed a statutory responsibility on the Council to develop an approach to Business Continuity management.

A Generic Business Continuity Plan for the Green Lane Offices was subsequently developed to provide a strategic framework around which staff can work to enable critical functions within the building, to be delivered as quickly as possible in the event of a business disruption such as that caused by a fire, loss of electricity supply, flooding etc.

Every service area is represented on an officer working group, which is an ad-hoc sub-group of the Risk Management Group. The CCA 2004 imposed a statutory deadline to complete the Plan by 15th November 2005 and the Group met on a regular basis to ensure that the Council complied with the requirements of the Act within the deadline.



Work is currently ongoing with other plans to cover the activities within the Council's Leisure centres and will be developed for Central Depot at Chilton once the review of the Depot is completed.

The Council also has a statutory responsibility under the Act to promote the benefits of developing Business Continuity Plans to local businesses and the Voluntary Sector. To meet this responsibility the Council initially placed information on the Council's Internet web-site that allows Businesses to obtain further guidance and assistance from a number of specialist organisations using hyperlinks.

A letter is to be sent to all Businesses on the Strategy and Regeneration section's mailing list to advise those companies to consider the benefits of developing business continuity plans and seeks information from any of them if they consider that they may be able to contribute to the "solution" of the problem of dealing with a pandemic flu outbreak so that the PCT can, if permissible, provide key workers with anti-virals and vaccines to enable them to continue to manufacture their products.

An electronic copy of the Business Continuity Plan is available on the Council's Intranet under 'Documents'

#### **5.11 *Pandemic Flu Planning***

The Business Continuity Group has also developed a Pandemic Flu plan with the assistance and guidance of the CCU.

An Action Plan has been produced which identifies a number of critical activities that need to be undertaken to enable the Council to make adequate preparations for an inevitable Pandemic Flu Outbreak at some time in the future. The World Health Authority claims it is not a question of "if" an outbreak occurs, is a question of "when".

Such is the concern of a Pandemic Flu outbreak that this is the highest risk that the Local Resilience Forum has identified.

An electronic copy of the Plan is available to all employees and members on the Council's intranet within the "Documents" section.

Officers have been working closely with the County Durham Primary Care Trust (PCT) to assist them to develop their Pandemic Flu Plan as the Council may be expected to make Leisure Centres available to assist the PCT to distribute anti-virals and subsequently make arrangements for the public to be vaccinated at the Centres.

#### **5.12 *Review of the Risk Management Policy and Strategy Statements***

The Risk Management Group is in the process of reviewing the Risk Management Policy and Strategy Statements that were initially approved by Cabinet on 31<sup>st</sup> July 2003. The statements will be updated to reflect developments since that date and a new action plan agreed.

### **5.13 Training**

Members will recall that the Head of Financial Services, and the Principal Auditors from both the Council and the Audit Commission, made presentations to members of the Audit Committee on risk management, internal audit and external audit in October 2006. The presentations were intended to provide a background to those important subjects and positive feedback was received from those members who were able to attend.

Further training relating to the Council's Health and Safety arrangements is to be provided in due course by the Council's Strategic Health and Safety Officer to all members of the Council.

### **5.14 Measuring Performance**

It is extremely difficult to gauge the effectiveness of the risk management and health and safety activities within the Council.

There are no performance benchmarks that would indicate whether the Council would be regarded as being in a "top" or "bottom" quartile when compared with other Authorities.

The Association of Local Authority Risk Managers (ALARM) was set a joint initiative with the Audit Commission and Risk Management Partners (RMP)/Gallagher Bassett to undertake a comprehensive survey of its members during 2006 and to develop benchmarking data for establishing an effective performance measurement framework for risk Management. It may therefore be possible in the future to be able to draw meaningful comparisons in terms of performance measures but it is not possible to do that at present.

In terms of insurance claims experiences, the Risk Management Group considered a report during the year which confirmed that in respect of **Employers Liability** claims there has been an annual average of only 5 claims being made by employees since 1992 when Zurich Municipal(ZM) entered the Local Authority insurance market following the demise of Municipal Mutual Insurance limited. ZM have now settled 67 of the 71 claims made during that period of which 35 (52%) have been settled without a payment being made to the claimant. Payments in respect of the remaining 32 claimants amounted to £300,839 with an average settlement of £9,401. It is pleasing to note that there have been only 5 claims received in respect of the last 2 years, although more may arise.

With regard to **Public Liability** claims there has been an average of 47 claims per year over the same period, with only 22 during 2003/04, 27 in respect of 2004/05 and 8 in respect of 2006/06. These figures exclude a number of minor claims, none involving any personal injury to a claimant, that have been settled without recourse to the Insurance Company. ZM have settled 640 of the 658 claims receive since 1992 of which 368 (58%) have been settled without a payment being made to the claimant. Payments in respect of the other 272 claimants amounted to £831,988, an average payment of £3,059

With regard to Health and Safety trends, the total number of accidents reported has fallen from 112 in 2001/02, to 86 in 2002/03, to 58 in

2003/04, increased to 76 in 2004/05, increased marginally again in 2005/06 to 78 and currently there have been 44 reported in the first 9 months of the current year. As there are approximately 1100 employees working for the Council that compares favourably with one of our neighbouring authority's which had 106 accidents in 2003/04 with a workforce of only 900 employees

## 6. CONCLUSION

Much progress continues to be made in the area of Risk Management. The Council can clearly demonstrate where initiatives and policies have been developed and adopted around the Council. However, as demonstrated in the report, further development of the corporate risk management areas of CPA and the Statement of Internal Control is crucial to future assessments of the quality of corporate governance. The successful completion of the actions covered in 5.8 above, and the implementation and monitoring of those actions, is essential.

Contact Officer: Harold Moses  
 Tel. No.: 01388-816166 ext. 4385  
 E-mail: hmoses@sedgefield.gov.uk  
 Ward(s): Not Ward specific.

Background Papers: Risk Management Progress Report to Overview and scrutiny Committee 1-August 2005

### Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

This page is intentionally left blank

# Item 8

## REPORT TO THE AUDIT COMMITTEE

29<sup>TH</sup> JANUARY 2007

## REPORT OF DIRECTOR OF RESOURCES

**Portfolio: STRATEGIC LEADERSHIP**

### **TREASURY MANAGEMENT STRATEGY 2007/08**

#### **1.0 SUMMARY**

1.1 The Treasury Management function covers the borrowing and investment activities of the Council and the effective management of associated risks in relation to these activities. This report outlines the strategy to be followed by the Council over the medium term in relation to its Treasury Management activities and takes into account guidance on investments issued by the DCLG, and the Prudential Code for Capital Finance in Local Authorities.

#### **2.0 RECOMMENDATIONS**

2.1 Following consideration of the issues set out in this report it is recommended that the Audit Committee accepts the Strategy and recommends that Cabinet make the following proposals to Council: -

- To approve the Treasury Management Strategy 2007/08;
- To approve the Investment Strategy 2007/08;
- To adopt the Prudential Indicators and Limits 2007/08 to 2009/10;
- To approve the 'Authorised Limit' for borrowing as shown in Appendix B.

#### **3.0 TREASURY MANAGEMENT STRATEGY 2006/07**

##### **Background**

3.1 The Treasury Management Service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the publication of the Prudential Code for Capital Finance in Local Authorities by the Chartered Institute of Public Finance and Accountancy.

3.2 Treasury Management activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Council initially adopted a Local Code of Treasury Management Activities in December 2002, subsequently revised by Council in September 2005, taking into account the Code of Practice and as a result adopted a Treasury Management Policy Statement. This adoption complies with one of the requirements of the CIPFA Code of Practice.

3.3 The Council's Constitution requires an annual strategy to be reported to the Council outlining the expected Treasury activity prior to commencement of the

new year. A further report will be produced after the year-end showing the actual activity for the previous financial year.

- 3.4 A key requirement is to explain both the risks, and the management of the risks, associated with the Treasury Management activities.

This strategy covers: -

- The current Treasury position.
- The expected movement in interest rates.
- The Council's borrowing and debt strategy.
- The Council's investment strategy (in compliance with ODPM guidance).
- Local Treasury Management Indicators. (set out in Appendix B)

### Current Treasury Position

- 3.5 The Council's detailed Treasury position is highlighted in the following table:-

<i>Actual</i>	<i>Actual 31.03.06 £m</i>	<i>Average Rate %</i>	<i>Estimate 31.03.07 £m</i>	<i>Average Rate %</i>
<b>FIXED RATE DEBT</b>				
<b>Public Works Loan Board</b>				
Annuity	0.98	7.22	0.95	7.23
Maturity	17.37	6.33	17.37	6.33
<b>Other Loans</b>				
Annuity	0.33	7.80	0.32	7.82
	18.68	6.40	18.64	6.38
<b>INVESTMENTS</b>				
Various Banks & Building Societies	(28.58)	4.80	(24.50)	5.00
<b>NET POSITION</b>	(9.90)		(5.86)	

- 3.6 As the above table shows, loan debt is expected to fall slightly during the current year from £18.68m to £18.64m. Investments are also expected to fall by £4.08m from £28.58m to £24.50m. This results in a reduction in the net position (i.e. investments less borrowing) by £4.04m to £5.86m at 31<sup>st</sup> March 2007.

### Expected Movement in Interest Rates

- 3.7 The Council engages Butlers as its Treasury Management Consultants, to advise on the Treasury Strategy, to provide economic data and interest rate forecasts, to assist in planning and reduce the impact of unforeseen adverse interest rate movements.

- 3.8 In Butlers view, the Bank of England remains concerned that domestically generated inflation could strengthen in the months ahead and increase the

Consumer Price Index (CPI) to unacceptably high levels. There are a number of relationships within the economy that impact on this:

- ❑ Buoyancy of international economy and the effect this might have upon domestic UK growth (paragraph 3.9)
- ❑ The strength of domestic activity and the amount of spare capacity in the economy (paragraph 3.10)
- ❑ The state of the labour market (paragraph 3.11)
- ❑ The strength of domestic demand and the pricing power of companies (paragraph 3.12).

3.9 Economic growth has been strong in 2006 and this has placed upward pressure upon materials and manufacturer's costs. However, the strength of sterling on the foreign exchanges has lessened the impact on the UK.

3.10 In Butlers view, UK growth has been stronger than expected this time last year. This has been driven mainly by domestic factors, particularly the buoyancy of consumer spending. While the current rise in official interest rates may lead to some slow down in growth, this is expected to be modest.

3.11 The Bank of England believes that the strength of UK growth for much of the last decade has reduced the amount of spare capacity in the economy to a low level. The relationship between the Retail Price Index (RPI) (now rising at an annual rate of 3.7%) and pay settlements has been strong in the past, although the relationship has weakened in recent years. The state of the labour market will dictate the extent to which pay settlements reflect the strength of the RPI and will have a major bearing upon the Bank of England's approach in early 2007.

3.12 Spending has been stronger than expected in 2006, partly as a result of increases in asset values (houses and shares). To date this has not led to a major rise in prices as competitive forces have remained strong (the influence of cheap imports) and the public being highly selective in their spending intentions (waiting for the sales).

3.13 As a result of the above economic forecast, Butlers see the expected movement in interest rates as follows:-

	<i>Average Base Rate (%)</i>
2005/06 (Actual)	4.6
2006/07	4.8
<b>2007/08</b>	<b>5.3</b>
2008/09	5.0
2009/10	4.8

This anticipates that the current Bank of England base rate, which stands at 5.25% could increase by another 0.25% before returning to 5.0% at the end of the financial year. Interest rate uncertainty is set to persist in the year ahead. The threat of higher inflation is considered a real danger for the UK economy, not least the possibility than an annual increase in RPI of close to 4% in

November 2006 that could create problems in forthcoming pay round negotiations.

### **Borrowing and Debt Strategy**

- 3.14 The Prudential Code frees Local Authorities from central controls over the level of their borrowings. Previously, borrowing allocations issued by Government were used to control each authority. In recent years the Council has not needed to incur additional borrowing to finance the capital programme, instead utilising capital receipts, external grants and contributions and funding directly from revenue. However, the introduction of the Prudential Code creates an opportunity to consider alternative means of funding the capital programme, as long as they are affordable, prudent and sustainable.
- 3.15 Any financing costs of increased borrowing or leasing will have to be met within existing revenue budgets and therefore the Council will need to continue to take a prudent and cautious approach to its borrowing and debt strategy. This will include taking advice on the movement in interest rates and the relative costs of the alternative forms of capital financing. There are currently no plans to utilise prudential borrowing for the 2007/08 Capital Programme.
- 3.16 Debt restructuring opportunities will continue to be examined to reduce the Councils long term financing costs. Rates will be continually monitored throughout the year in order to take advantage of any opportunity in favourable movements.

### **Investment Strategy 2007/08**

- 3.17 The ODPM issued investment guidance in March 2004 which applies to the financial year 2004/05 onwards. In common with the relaxation of borrowing controls in the prudential system, the more flexible guidance replaces the former detailed prescriptive regulations.
- 3.18 The key intention of the guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires the Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. This Council adopted the Code in December 2002, subsequently revised it in September 2005, and continues to apply its principles to all investment activity.
- 3.19 This annual investment strategy states which investments the Council may use for the prudent management of its balances during the financial year under the heading of specified and non-specified investments. These are explained and listed in Appendix A along with proposed criteria for specified and non-specified investments. There are no proposed changes to the lists approved by Members last year.
- 3.20 The credit rating of counterparties (banks and institutions that the Council is prepared to invest in) will be monitored on a regular basis. The Council receives credit rating advice from Butlers on a daily basis and when ratings change, and counterparties are reviewed on an ongoing basis.



- 3.21 In the normal course of the Council’s cashflow it is expected that both specified and non-specified investments will be utilised as both categories allow for short term investments. The Council will maintain a minimum of £5m of investments in specified investments to provide it with the flexibility to meet any short term cash outflows.
- 3.22 The use of longer term investments (greater than 364 days) will fall in the non-specified investment category. These instruments will only be used when the Council’s investment requirements are safeguarded and therefore only organisations with a high security rating will be used for these investments.

Risk Issues

- 3.23 Expectations are that shorter term interest rates, on which investment decisions are based, will remain relatively stable during 2007/08. The Council’s investment decisions are based on comparisons between the rises priced into market rates against the Council’s and Butlers own forecasts. It is likely that investment decisions will be for longer periods with fixed investment rates to lock into good value and security of return. The Director of Resources, using delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown above.

**Local Treasury Management Indicators**

- 3.24 The Local Code requires the Council to set performance indicators to assess the adequacy of the Treasury Management function over the next three years. These are distinct historic indicators, as opposed to the Prudential Indicators, which are predominantly forward looking.

	2007/08 %	2008/09 %	2009/10 %
<b>DEBT</b>			
Average Rate Movement Year on Year	- 0.10	- 0.10	- 0.10
<b>INVESTMENTS</b>			
Return compared with the 7 day LIBID Rate	+ 0.10	+ 0.10	+ 0.10

- 3.25 In effect, what these performance indicators mean is that we plan to manage our affairs so that the average rate of interest paid on external borrowings will fall by 0.10% per annum over the next three years, whilst our investment returns will exceed the industry standard benchmark (the 7 day LIBID rate) by 0.1%. Actual performance against these indicators will be reported in the respective Annual Reports for those years. The target for reducing the rate of interest on debt has changed from the previous year from a figure of - 0.20% to - 0.10%. This is because the majority of the Council’s debt is at fixed rates and there has already been significant restructuring of the debt portfolio in recent years to reduce the average rate where it has been economic to do so. There is little further scope at this point in time to secure further reductions in the average rate, although the situation will be continuously monitored to take advantage of opportunities arising from fluctuations in market interest rates.

**Prudential Indicators and Limits 2007/08 to 2009/10**

- 3.26 The Prudential Code sets out a framework of self-regulation of capital spending, in effect allowing Councils to invest in capital projects as long as they are affordable, prudent and sustainable.
- 3.27 In general terms, the Council complies with the Prudential Code by:
- Having medium term plans (Medium Term Financial Plan, Corporate Capital Strategy, Revenue and Capital Budgets);
  - Having plans to achieve sound capital investment (Capital Strategies, Capital Project Appraisals and Asset Management Plans);
  - Complying with the Treasury Management Code of Practice.
- 3.28 To support capital investment decisions, the Prudential Code requires the Council to agree and monitor a number of Prudential Indicators. The purpose of the indicators is to provide a framework for capital expenditure controls. It highlights through the indicators the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure that spending remains affordable, prudent and sustainable.

The specific indicators that Council is asked to approve are shown in Appendix B alongside the Treasury Management Indicators.

#### **4.0 RESOURCE IMPLICATIONS**

- 4.1 The financial implications have been summarised at each stage of this report and have been taken into account in the preparation of the Budget Framework 2007/08 and the Medium Term Financial Plan (MTFP) 2006/07 to 2008/09. The MTFP will be fully reviewed during 2007/08 following the outcome of the Comprehensive Spending Review by the Government.

#### **5.0 CONSULTATION**

- 5.1 Consultation on the spending proposals contained in the Budget Framework 2007/08 is being undertaken including involvement of the Council's Overview and Scrutiny Committees. The Council's treasury consultants have also been consulted in the preparation of this Treasury Strategy.

#### **6.0 OTHER MATERIAL CONSIDERATIONS**

##### **6.1 Links to Corporate Objectives/Values**

The proposals contained in the report support the Council's corporate value of being responsible with and accountable for public finances. The Council's Treasury Management Strategy supports the effective management of its debt and investment portfolio within a framework that ensures that it is responsible for public finances. The reporting of this strategy and the requirement to obtain formal approval for its implementation demonstrates accountability.

##### **6.2 Risk Management**

Treasury management activities are comprehensively governed by professional codes of practice and regulations surrounding borrowing and debt

management. The Council approved a revised code of treasury management practices in September 2005, which provides full details of how risk is assessed, managed and mitigated. In particular, Treasury Management Practice 1 (TMP1) deals specifically with the design, implementation, and monitoring of arrangements for identification, management and control of treasury management risk, which will govern the implementation of this strategy.

**6.3 Health and Safety**

There are no significant health and safety implications arising from this report.

**6.4 Equality and Diversity**

There are no significant equality and diversity issues arising from this report.

**6.5 Legal and Constitutional**

Arrangements surrounding the management and reporting of the Council's treasury management activities are contained in the Council's constitution and this report complies with those requirements. No new implications are identified in this report.

**7.0 OVERVIEW AND SCRUTINY IMPLICATIONS**

7.1 As mentioned above, full consultation and engagement on the Council's budget proposals has been made with all three Overview and Scrutiny Committees.

**Contact Officer:** Alan Smith (Director of Resources)  
**Telephone:** 01388-816166 ext. 4003  
**E-mail:** [alansmith@sedgefield.gov.uk](mailto:alansmith@sedgefield.gov.uk)

**BACKGROUND PAPERS**

1. CIPFA Code of Practice on Treasury Management.
2. Local Code of Treasury Management Activities – Report to Council, December 2002
3. Prudential Code for Capital Finance in Local Authorities.
4. Review of the Local Code of Treasury Management Practice – Report to Council, 30.09. 2005

**EXAMINATION BY STATUTORY OFFICERS**

	<b>YES</b>	<b>NOT APPLICABLE</b>
1. The report has been examined by the Council's Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

**ANNUAL INVESTMENT STRATEGY**  
**Schedule of Specified and Non-Specified Investments**

**Specified Investments**

These investments are sterling dominated of not more than one-year in maturity, or those which could be for a longer period but where the Council has a right to be paid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible.

<b>Specified Investment Category</b>	<b>Credit Rating</b>	<b>Max Period</b>
<b>UK Government</b> – including Debt management Office, UK Treasury Bills or gilts with less than one year to maturity	High security. No Credit rating criteria needed.	1 year
<b>Supranational Bonds</b> – 1) issued by a financial institution that is guaranteed by the UK 2) multi lateral development bank bonds aimed at economic development (e.g. European Investment Bank)	High security. No Credit rating criteria needed	1 year
<b>Local Authority, Parish or Community Council</b>	High security. No Credit rating criteria needed	1 year
<b>Money Market Funds (Investment Schemes)</b>	AAA rating by Fitch, Moody's and Standard and Poors	1 year
<b>Highly Credit Rated Body</b> – investments made with a bank/building society from the Council's counterparty list	Short term rating of at least F1 (or equivalent)	1 year

**Non - Specified Investments**

Non –specified investments are any other type of investment (i.e. not defined as specified investments above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

<b>Non -Specified Investment Category</b>	<b>Limit (£)</b>
<b>Supranational Bonds greater than 1 year to maturity</b> – 1) issued by a financial institution that is guaranteed by the UK 2) multi lateral development bank bonds aimed at economic development (e.g. European Investment Bank)	£15m
<b>Gilt edged securities greater than 1 year to maturity</b> – Government bonds providing the highest level of security.	£15m
<b>Building Societies not meeting the basic security requirements under the specified investments</b> – the Council may use such building societies which have a minimum asset size of £200m .	£15m
Any <b>Bank or Building Society</b> that has a minimum long term credit rating of A- for deposits of greater than one year (including forward deals in excess of one year from inception to repayment)	£15m
Any <b>Non rated subsidiary</b> of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company.	£3m
<b>Share capital or loan capital</b> in a body corporate – the use of these instruments will count as capital expenditure and will be an application of capital resources. Revenue resources will not be invested in corporate bodies.	£3m

## **TREASURY MANAGEMENT INDICATORS**

The purpose of these Prudential Indicators is to contain the activity of the Treasury Management function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions, impacting negatively on the Council's overall financial position. Four Prudential Indicators are required under this category:-

### ***Upper Limits on Fixed Interest Rate Exposure***

This indicator provides the range within which the authority will manage its exposure to fixed rates of interest.

### ***Upper Limits on Variable Interest Rate Exposure***

This indicator provides the range within which the authority will manage its exposure to variable rates of interest.

### ***Maturity Structure of Fixed Borrowing***

This indicator measures the amount of fixed rate borrowing maturing at each period expressed as a percentage of total borrowing at fixed rate at the start of each period.

### ***Maximum Principal Sums Invested for more than 1 year***

The purpose of this indicator is to contain the exposure to the possibility that loss might arise as a result of seeking early repayment or redemption of sums invested, or exposing public funds to unnecessary or unquantified risk.

The Council is asked to approve these indicators, which have been calculated as follows:

<i>Treasury Indicators</i>	<i>2007/08 to 2009/10 % of debt</i>
Upper Limits on Fixed Interest Rates	100%
Upper Limits on Variable Interest Rates	50%
Maturity Structure of Fixed Borrowing	
Under 12 months	50%
12 months to 2 years	50%
2 years to 5 years	50%
5 years to 10 years	50%
10 years and above	100%
Upper Limit on Principal Sums Invested for more than 1 year	£25m

## **CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT**

### ***Capital Expenditure***

This indicator shows the overall capital spending plans of the Council over the medium term and reflects planned investment levels in line with the Medium Term Financial Plan. The actual capital expenditure that was incurred in 2004/05 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

<i>Capital Expenditure</i>	<i>2005/06 Actual</i>	<i>2006/07 Est Outturn</i>	<i>2007/08 Budget</i>	<i>2008/09 Estimated</i>	<i>2009/10 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	7,211	9,000	8,400	8,000	8,000
Non-Housing	7,882	7,800	11,600	12,000	12,000
<b>Total</b>	<b>15,093</b>	<b>16,800</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>

### ***Capital Financing Requirement (CFR)***

This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the capital expenditure in the year and how much of this is supported directly through grants, contributions and capital receipts. The CFR is essentially a replacement of the former 'credit ceiling' mechanism, which was also a measure of underlying borrowing need.

The Council's expectations of the CFR in the next three years that Council is asked to approve are as follows:

<i>Capital Financing Requirement</i>	<i>2005/06 Actual</i>	<i>2006/07 Est Outturn</i>	<i>2007/08 Budget</i>	<i>2008/09 Estimated</i>	<i>2009/10 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	9,714	9,927	10,140	10,340	10,540
Non-Housing	9,433	9,056	8,694	8,346	8,012
<b>Total CFR</b>	<b>19,147</b>	<b>18,983</b>	<b>18,834</b>	<b>18,686</b>	<b>18,552</b>

## **LIMITS TO BORROWING ACTIVITY**

### ***Net Borrowing***

The first key control over the Council's activity is to ensure that over the medium term net borrowing will only be for a capital purpose. The Council needs to ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional capital financing requirement for the following three years.

Notwithstanding the above, there is currently a gap between the CFR and Gross Borrowing and the Director of Resources will consider limited borrowing opportunities within this narrow band where it is in the Council's financial interests.

The Council is asked to approve the following borrowing limits, which take into account current commitments, existing plans and the proposals in the Budget Framework:-

<i>Net Borrowing</i>	<i>2005/06 Actual</i>	<i>2006/07 Est Outturn</i>	<i>2007/08 Budget</i>	<i>2008/09 Estimated</i>	<i>2009/10 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gross Borrowing	18.679	18.640	18.600	18.556	18.509
Investments	(28.580)	(24.500)	(31.000)	(25.000)	(19.000)
<b>Net Borrowing</b>	<b>(9.901)</b>	<b>(5.860)</b>	<b>(12.400)</b>	<b>(6,444)</b>	<b>(491)</b>

A further two prudential indicators control the overall level of borrowing: **Authorised Limit** and the **Operational Boundary**. These limits separately identify borrowing from other long-term liabilities such as finance leases. Net borrowing is expected to increase over time as capital receipts are used to finance the capital programme, which means that they are no longer available for investment purposes.

### **Authorised Limit**

This represents the limit beyond which borrowing is prohibited and reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit that the Council must determine in accordance with Section 3(1) of the Local Government Act 2003.

The Council is asked to approve the following authorised limits:

<i>Authorised Limit</i>	<i>2005/06 Actual</i>	<i>2006/07 Est Outturn</i>	<i>2007/08 Budget</i>	<i>2008/09 Estimated</i>	<i>2009/10 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	30,000	30,000	30,000	30,000	30,000
Long Term Liabilities	-	-	-	-	-
<b>Total</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>

### **Operational Boundary**

This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure that the authorised limit is not breached.

The Council is asked to approve the following operational limits:

<i>Operational Boundary</i>	<i>2005/06 Actual</i>	<i>2006/07 Est Outturn</i>	<i>2007/08 Budget</i>	<i>2008/09 Estimated</i>	<i>2009/10 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	22,000	22,000	22,000	22,000	22,000
Long Term Liabilities	-	-	-	-	-
<b>Total</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>

## **AFFORDABILITY PRUDENTIAL INDICATORS**

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

The Council is asked to approve the following indicators:

### ***Ratio of Financing Costs to Net Revenue Stream***

This indicator expresses the amount of interest payable on external debt and other debt management expenses (i.e. financing costs) as a proportion of the amount of income received from Government and local taxpayers (i.e. net revenue stream). The definition of net revenue stream for the HRA is based on the statutory definition which incorporates charges to the account under Part 4 of the Local Government and Housing Act 1989.

<i>Financing Costs to Net Revenue Stream</i>	<i>2005/06 Actual</i>	<i>2006/07 Est Outturn</i>	<i>2007/08 Budget</i>	<i>2008/09 Estimated</i>	<i>2009/10 Estimated</i>
Housing	44.8%	40.5%	39.6%	30.2%	30.2%
Non-Housing	0.5%	(1.0%)	(2.8%)	(2.8%)	(2.8%)

### ***Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents***

As the Council's capital programme is financed by Government allocations, external funding from partners, and from the Council's own resources, such as capital receipts, there is no requirement for the Council to borrow to finance its capital investment over the medium term. As a consequence there are no additional financing charges to be absorbed by both the General Fund and Housing Revenue Accounts over this period. This is reflected in the following two indicators, which show the impact on Council Tax and Housing Rents.

This indicator identifies the impact of the Council's General Fund Capital Programme on revenue budgets and is expressed in terms of Band D Council Tax.

<i>Incremental Impact of Capital Programme</i>	<i>2007/09 Proposed Budget</i>	<i>2008/09 Projection</i>	<i>2009/10 Projection</i>
Council Tax at Band D	£0.00	£0.00	£0.00

Similar to the Council Tax calculation this indicator identifies the impact of the Housing Capital Programme on revenue budgets, expressed in terms of weekly rent levels.

<i>Incremental Impact of Capital Programme</i>	<i>2007/08 Proposed Budget</i>	<i>2008/09 Projection</i>	<i>2009/10 Projection</i>
Weekly Housing Rent	£0.00	£0.00	£0.00