

AUDIT COMMITTEE

Monday,
28 January 2008
6.00 p.m.

Conference Room 1,
Council Offices,
Spennymoor

AGENDA and REPORTS



This document is also available in other languages, large print and audio format upon request

العربية (Arabic)

إذا أردت المعلومات بلغة أخرى أو بطريقة أخرى، نرجو أن تطلب ذلك منا.

বাংলা (Bengali)

যদি আপনি এই ডকুমেন্ট অন্য ভাষায় বা ফরমেটে চান, তাহলে দয়া করে আমাদেরকে বলুন।

(中文 (繁體字)) (Cantonese)

如欲索取以另一語文印製或另一格式製作的資料，請與我們聯絡。

हिन्दी (Hindi)

यदि आपको सूचना किसी अन्य भाषा या अन्य रूप में चाहिये तो कृपया हमसे कहे

polski (Polish)

Jeżeli chcieliby Państwo uzyskać informacje w innym języku lub w innym formacie, prosimy dać nam znać.

ਪੰਜਾਬੀ (Punjabi)

ਜੇ ਇਹ ਜਾਣਕਾਰੀ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦੀ, ਤਾਂ ਇਹ ਸਾਥੋਂ ਮੰਗ ਲਓ।

Español (Spanish)

Póngase en contacto con nosotros si desea recibir información en otro idioma o formato.

اردو (Urdu)

اگر آپ کو معلومات کسی دیگر زبان یا دیگر شکل میں درکار ہوں تو برائے مہربانی ہم سے پوچھیے۔

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 5th November 2007. (Pages 1 - 6)

4. RISK MANAGEMENT PROGRESS REPORT 2007

Report of Director of Resources. (Pages 7 - 20)

5. TREASURY MANAGEMENT STRATEGY 2008/09

Report of Director of Resources. (Pages 21 - 34)

6. REVIEW OF THE AUDIT CHARTER

Report of Director of Resources. (Pages 35 - 40)

7. 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

Councillor D. Chaytor (Chairman)
Councillor J.G. Huntington (Vice Chairman) and

Councillors T. Brimm, C. Nelson, Mrs. C. Potts and B. Stephens

B. Argyle (Independent Member)

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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

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Item 3

SEDGEFIELD BOROUGH COUNCIL

AUDIT COMMITTEE

Conference Room 1,
Council Offices,
Spennymoor

Monday,
5 November 2007

Time: 6.00 p.m.

Present: Councillor D. Chaytor (Chairman) and
Councillors J.G. Huntington, Mrs. C. Potts and B. Stephens
B. Argyle (Independent Member)

In attendance: Councillor Mrs. E. Maddison

Apologies: Councillors T. Brimm and C. Nelson

AC.13/07 DECLARATIONS OF INTEREST
Members had no interests to declare.

AC.14/07 MINUTES
The Minutes of the meetings held on 25th June and 28th September 2007 were confirmed as correct records and signed by the Chairman.

AC.15/07 INTERNAL AUDIT SERVICE - REPORT FOR HALF YEAR ENDED 30TH SEPTEMBER 2007

Consideration was given to a report of the Director of Resources regarding the above. (For copy see file of Minutes).

Members were reminded that the Internal Audit Plan for 2007/08 had been considered and approved by the Audit Committee at its meeting on 23rd April 2007 (Minute No. AC.32/06 refers).

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 911 man days for the full year, with a first half year performance of 431 days. The Appendix to the report showed that a total of 377.5 days had been achieved for the first six months. The slight shortfall was the result of a staff vacancy during the year.

Progress on the areas of work requiring the continued 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 37 formal audit reports issued during the period, with 15 confirming that satisfactory arrangements were in place. With regard to the 22 reports issued where recommendations had been made, there were 32 recommendations classified as being of 'high importance' and 6 of 'medium importance'.

All recommendations had been made following detailed discussions and with the agreement of the appropriate service managers.

Corporate Governance

It was reported that revised contract procedure rules had been formally adopted by the Council at its meeting in July 2007. Compliance with the revised rules was a necessary feature of good governance arrangements and audit work would be scheduled to ensure that the Council operated within the requirement of the new rules.

Specific reference was made to recent guidance issued by CIPFA/SOLACE regarding the recommended best practice on governance in Local Government. The content of the new guidance was currently being examined with a view to revising, if necessary, the Council's Local Code of Corporate Governance to reflect best practice.

Financial Management

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

Risk Management

Internal Audit continued its close involvement in the development of the Council's approach to risk management. A review of the Council's Risk Management Policy and Strategy Statement had been undertaken by the Risk Management Group and the documents had been amended to take account of changes to the Council's corporate aims as well as other amendments arising from the progress report, previously considered by the Audit Committee. Cabinet had subsequently approved the revised policy and strategy at its meeting on 26th April 2007 (Minute CAB. 207/06 refers)

Statement on the System of Internal Control and Corporate Governance

Audit work on the System of Internal Control had now been concluded for 2006/07 and an unqualified opinion had been issued by the External Auditor.

Energy Management

The Council's energy contracting arrangements had now been consolidated via the North East Purchasing Organisation (NEPO) ensuring that value for money continued to be realised from the sophisticated energy market place.

Staffing

The Committee noted that the Audit Plan for 2007/08 allowed for 5.5 persons to deliver the work.

Reference was made to the fact that the Audit team was currently operating with a vacancy at the Trainee Auditor level and a second trainee had recently secured a job at a neighbouring authority and would be leaving at the end of November.

Specific reference was made to Local Government Review and the impact on staffing as individuals look for more secure positions at organisations not affected by restructuring. It was, however, pointed out that there would be a lot of work in winding down Sedgefield Borough Council and setting up the new Council and that the demands on the Audit Team would actually be higher over the next 17 months to deal with control and governance issues.

Staffing arrangements were currently being reviewed to ensure that the Internal Audit function continued to maintain the standard of service and that appropriate staffing was in place to carry out the work contained in the Plan. Staff would always endeavour to undertake the high and medium priority work and consideration would be given to the appointment of temporary staff if necessary to maintain the service provided.

It was noted that the Local Government and Public Involvement in Health Act had received Royal Assent on 30th October 2007 and the County Durham Draft Implementation Orders had been published. The Orders would be debated in the House of Commons and House of Lords in December and it was expected would be implemented early 2008.

- RESOLVED:*
1. *That the half yearly progress report be received.*
 2. *That a full year report be considered at the appropriate future meeting of Audit Committee.*

AC.16/07 COUNTER FRAUD AND CORRUPTION

Azhar Rafiq, Audit and Resources Manager, gave a presentation regarding the above.

A copy of the presentation slides was circulated at the meeting. (For copy see file of Minutes)

The presentation covered the following:

- Definition of Fraud and Corruption
- Impact of Fraud
- Who Commits Fraud
- Conditions for Fraud to Exist
- What drives Fraud/Fraud Triangle Motivation/Opportunity/Rationalisation
- Responsibility for Managing Fraud
- Management Controls
- Role of Internal Audit
- Managing the Risk of Fraud

Members welcomed the presentation and stated that they found it very interesting.

AC.17/07 COUNTER FRAUD AND CORRUPTION - SELF ASSESSMENT ACTION PLAN

Consideration was given to a report of the Director of Resources regarding the above. (For copy see file of Minutes).

It was explained that Council had first developed a Counter Fraud and Corruption Strategy in December 2001 which detailed the importance the Council placed on probity, financial control and honest administration.

It was reported that CIPFA had recently issued a document entitled, "Managing the Risk of Fraud" which contained guidance on dealing with fraud and corruption at a strategic level.

The guidance covered a broad range of activities including:

- Section 1 – Adopting the right strategy – key elements of a strategic approach
- Section 2 – Accurately identifying the risks – measuring fraud and corruption issues
- Section 3 – Creating and maintaining a strong structure – having the necessary authority and support
- Section 4 – Taking action to tackle the problem – taking the full range of actions and integrating different strands
- Section 5 – Focusing on outcomes and not merely activity.

Members noted that the Council's Internal Audit Section had conducted a self-assessment against CIPFA's guidance and details of the assessment were detailed in Appendix 1 to the report.

The Committee's attention was drawn to the eight actions required.

Specific reference was made to the employment of staff and what measures were in place to try and safeguard the Council against fraud. It was noted that the Council always sought references before appointing staff and it was currently reviewing its policy/procedure with regard to CRB checks.

Reference was also made to housing benefit fraud. It was pointed out that the Council had adopted the verification framework to process housing benefit applications, which required the production of supporting documentary evidence thereby reducing the opportunities for fraud.

The Committee requested that if an officer responsible for processing housing benefit applications, notified the Council's Investigations Officer of a possible fraudulent claim, he/she should always receive feedback on any investigation undertaken.

RESOLVED : 1. *That the proposals to take forward the results of a self assessment against CIPFA's checklist on*

dealing with fraud and corruption at a strategic level be noted.

2. *That a further report be considered by Audit Committee detailing progress made at an appropriate time in the future.*

AC.18/07 TRAINING EVENT - EASINGTON - 3RD OCTOBER 2007

The Chairman gave a report on the training event held at Easington Council offices on 3rd October 2007 which had been attended by four Members of the Audit Committee and three officers of the Audit Team.

It was noted that Members had found the training worthwhile.

ACCESS TO INFORMATION

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Item 4

REPORT TO THE AUDIT COMMITTEE

28th JANUARY 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

Subject: RISK MANAGEMENT PROGRESS REPORT 2007

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) have necessitated a strong Risk Management culture. The new requirements of the Statement of Corporate Governance, maintains this emphasis on Risk Management.
- 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 this Committee on 29th January 2007.

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' published in 2001, 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 Since 2001, local government has been subject to continued reform intended to improve local accountability and engagement and CIPFA/SOLACE have recently revised the Framework to more comprehensively reflect the change in environment. Whilst the fundamentals of good governance remain relevant, the new Framework is currently being assessed to identify whether changes to the Council's Local Code of Corporate Governance are needed.
- 3.3 Within the revised Framework, risk management is specifically identified as follows:-
- Core Principle – The authority takes informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Supporting Principle – Ensure that an effective risk management system is in place.
- Requirement To – Ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their jobs.
- 3.4 A number of good practices relevant to the Governance Framework risk management issues have been well established within the Council for many years. However, the continuing development of Risk Management is essential to the achievement of the increasingly significant strong governance requirements.

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 issues, including Health and Safety, 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 Arrangement/Communications System
Work at Height Regulations
Control Asbestos Regulations/Management
Legislative Changes
Updates from the Council's Insurers
Emergency Planning
Business Continuity Planning
Pandemic Flu Planning
Driving Licenses
Substance Misuse
Insurer's Fire Reports
Personal Safety
Sickness Absence
Violent Incidents Arrangements
At Risk Register Development
Construction Skills Certification Scheme
Green Lane Security
Mobile Phone use
Copyright Licensing

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

5. RISK MANAGEMENT ACTIVITY PROGRESS

5.1 Departmental Safety Groups

Important work relating to specific operational risks continues to be undertaken by the Council's Safety Groups. Since the previous report two more safety groups have been formed; this brings the total up to six groups covering all Council departments, all reporting into the Risk Management Group:

- Housing Services.
- Leisure Department.
- Neighbourhood Services.
- Chief Executive's Department (Training).
- Chief Executive's Department (Other Sections).
- Resources Department.

5.1.1 Housing Safety Group

All housing personnel attended 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 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.

The operational process risk profiles have been highlighted by Housing Safety Officers through continuous toolbox talks to operatives.

5.1.2 Leisure Safety Group

The Leisure Safety Group increased Health and Safety awareness has resulted in a decrease in accidents to customers undertaking leisure activities. This has also resulted in reduced public liability insurance claims.

5.1.3 Neighbourhood Services Safety Group

Neighbourhood Services Safety Group was restructured during the year, the outcome being positive benefits in relation to legislative documentation by improved record keeping, increased awareness and increased performance monitoring, which has resulted in the department achieving the Council's non-conformance close out target of 80%.

5.1.4 Chief Executive Training Safety Group

The Council's Training Safety Group have recently been commended and praised by the Learning Skills Council for their innovative approach of involving all different learner groups in raising Health and Safety awareness.

These groups have bought into the process activities pertaining to Health and Safety and regularly monitor their own areas to ensure compliance with existing regulations by feeding information back on potential hazards and risks; these are then swiftly closed out by Management Personnel.

5.1.5 Chief Executive Safety Group (Other Sections)

This group has been recently formed at the request of employees within the department. The group forms part of the consultation exercise on the introduction of new policy and procedures and feeds back positive suggestions on amendments to the documentation.

Discussions on sickness absence and workplace accident department reports result in suggestions of pro-active measures to reduce the reported figures.

5.1.6 Resources Safety Group

This is another safety group that was formed at the early part of the year and has resulted in mainly office based personnel having an active voice in deciding Health and Safety policy.

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

This Group, with representation from all Durham Districts and the Council, meets periodically to exchange views on a wide range of risk matters affecting all authorities. Recent items included Health and Safety Statistics, Strategic Risk, Business Continuity, Internal Control Arrangements, Insurance Renewals, Asbestos Claims, Local Area Agreements, Shared Services, Training, Partnerships and Governance Framework. 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 £351,000, with varying policy excesses, up to £69,200 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. 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 was held on 25th January 2007. Several meetings have been held with neighbouring authorities and areas for further development identified.

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. 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.

The technique has been successfully applied to a number of projects/activities to date. The Risk Management Group continues to promote this valuable aid to the identification and mitigation of risk and its use around all departments of the Council is increasing.

5.7 Health and Safety

5.7.1 General

Since the previous report to the Audit 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 Index Register displaying all policies, procedures and risk assessments records, relating to the process work activities of the authority has been introduced on the Council's Intranet. The register currently holds about 2000 documents and records.

5.7.3 Occupational Health and Safety Communication Framework

The communication within the framework continues to improve. The message relating to Health and Safety awareness is effectively being transmitted to more areas and reaching more personnel and there appears to be a more openness to discuss Health and Safety topics.

The Occupational Index on the Council's Intranet, introduced in the last year, has greatly improved individual access, through any Council personal computer, to Health and Safety documentation and information without having to go through the Health and Safety section for advice. A request has been made to IT to monitor visits to the database.

5.7.4 Stress Management Policy

Further Stress Management related guidance documents have been developed and the reactive approach in dealing with stress related illnesses is now firmly entrenched in the occupational management systems, particularly in reference to onward referrals.

Current work in this field is moving from the reactive to more proactive ways in identifying how individuals perceive stressors. The mechanism to conduct stress surveys has been formulated and published, and training on how to complete the stress diagnostic tool was undertaken in December 2007 with the Leisure Department being the pilot scheme.

Self assessment using the Health and Safety Executives Stress Progress Indicator sees the Council currently at Stage 3 of a five stage process.

The Councils Stress Primary Intervention Programme has proved particularly successful in allowing the individual, along with their immediate Manager, to identify their perceived stressors and being able to agree a programme to move forward.

Managers are continuing to undertake 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; the resultant feedback from attendees on this course has proved positive.

Consideration is being given to extending such training to Senior Managers.

5.7.5 Lone Workers

Monitoring of lone workers arrangements has improved greatly through the last few months with the successful launching of the Council's I-Call system which allows permanent monitoring by the Council's Control Room personnel based at the Chilton Depot.

A successful escalation procedural system allied to the I-Call allows notification of failure to respond immediately after the time has elapsed that an individual lone worker should have reported in. There are progressive stages in place of escalation that ensures there is a tangible approach in dealing with a non-respondent call.

5.7.6 Working at Height

These regulations were introduced in April 2005 and proposed a cultural change in the way the Council's employees had previously approached working at height and the equipment used.

The imposition of the regulations to date on the Council's work activities requires management to conduct specific risk assessment on the justification of use set against the criteria listed below:

- Low risk
- Short Duration
- Site conditions dictate

The Council have included the above in its operational procedures relating to working at height, but there is little evidence in relation to the completion of risk assessment available for inspection. Managers must therefore ensure risk assessments are completed prior to the use of such access equipment to ensure compliance with the legislation.

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 created a database of all work equipment and employees time of use, relating to exposure in the use of vibratory equipment. This information resulted in the database calculating individual employees exposure levels at the action and limit values.

There were 73 employees above the exposure action value; these employees were placed in the vibration medical surveillance programme. Some 31 employees of the above figure were referred for Tier 3 assessments, of this figure 12 were referred to the doctor for Tier 4 assessments.

5.7.8 Fire Preventative Measures

The Regulatory Reform (Fire Safety) Order 2005 came into effect in October 2006.

The Council's Health and Safety Team have reviewed and updated the Fire Risk Assessment forms and produced Fire Log Books for all of the Council's buildings.

The Fire Risk Assessments have been completed in 32 of the Council's 42 buildings requiring assessments, with the remainder due for completion shortly.

5.7.9 Corporate Manslaughter & Corporate Homicide Act 2007

The Corporate Manslaughter and Corporate Homicide Act 2007 were given Royal Assent on the 26 July 2007 and will come into force on 6 April 2008.

The new offence allows an organisation's liability to be assessed on a wider basis, providing a more effective means of accountability for any very serious management failings across the organisation.

An organisation will only be guilty if the way in which its Senior Managers manage or organise its activities is a substantial element in the breach.

Effective Health and Safety management systems based on the following would normally be seen as doing enough to meet the Council's legal obligations.

- Simple structure for Health and Safety management.
- Clear roles and responsibilities.
- Defined targets and objectives.
- Employee and management involvement.
- Regular monitoring and objective assessment performance.
- Process for raising and correcting problems and issues.
- Continuous improvement.
- External accreditation (OHSAS 18001) to validate performance.

The Council's existing Occupational Management System is consistent with the obligations listed above.

5.7.10 Other Documentation

The following documents have been written and approved since the last report, as an aid to assist the control and management of risks associated with the Council's activities:

Health & Safety Policy Statement.
Home Working Policy.
Substance Misuse Policy.
Managers Guide to Substance Misuse.
Substance Misuse Treatment Programme.
Young Workers Policy.
Green Lane Car Park Rules.
Policy for the Provision of mobile communications equipment.
Safe use of Mobile Communicating Devices.
Annual Report on Health & Safety 2007.

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

The Council's ability to clearly demonstrate high quality corporate governance arrangements has been substantially linked to the SIC and CPA issues by the requirements for a properly developed and evidenced SIC introduced by the Accounts and Audit Regulations 2003.

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 featured strongly in any assessment of corporate governance and this was confirmed within the SIC guidance and the CPA self-assessment criteria under Use of Resources.

With effect from April 2008, current requirements are replaced with the production of a new Statement of Corporate Governance. Guidance on delivering good governance has been produced by CIPFA/SOLACE and this guidance is currently being assessed to identify any areas where further development by the Council is needed. Initial views are that most of the requirements are already embodied in the Council's working practices, including proper Risk Management.

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 continued to provide support to the Council by organising meetings of the Council's Crisis Management Team 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 and is supported by the Civil Contingencies Unit.

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.

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; it's 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 reviewed the Risk Management Policy and Strategy Statements that were initially approved by Cabinet on 31st July 2003. Revised Risk Management Policy and Strategy Statements were considered and approved by Cabinet at its meeting on 26th April 2007.

5.13 **Strategic Risk**

Action has taken place to identify the key strategic risks facing the Council. A Strategic Risk Group, including Directors and Heads of Service, initially identified 24 strategic risks, and this has recently been re-focused following the Local Government Review announcements down to a revised listing of 12 risks, as follows:-

- Recruitment/Retention of staff.
- Sickness levels.
- IT Infrastructure.
- Maintain/Improve quality of governance.
- Non-compliance with legislation.
- Delivery of Private Sector Master Plan/Major Regeneration Initiatives (including regeneration company).
- Maintain/enhance performance management.
- Delivery of Training Centre
- Partnerships – Performance, Funding, Strategy, Failure.
- Comprehensive assessment of resources needs.
- Delivery of satisfactory Property Services within revised contract arrangement.
- Delivery of Decent Homes Standard and quality housing management services (including LSVT).

Some progress has been made in fully identifying the various issues associated with each risk and further development of the Risk Matrix and associated Management Action Plans is to be undertaken.

5.14 **Measuring Performance**

It remains difficult to gauge the effectiveness of the Risk Management and Health and Safety activities with the Council as 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.

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 69 of the 71 claims made during that period of which 37 (54%) have been settled without a payment being made to the claimant. Payments in respect of the remaining 32 claimants amounted to £309,185 with an average settlement of £9,662. It is pleasing to note that there have been only 4 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 46 claims per year over the same period, with only 22 during 2003/04, 29 in respect of 2004/05, 14 in 2005/06 and 17 in 2006/07. 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 653 of the 683 claims received since 1992 of which 368 (58%) have been settled without a payment being made to the claimant. Payments in respect of the other 277 claimants amounted to £857,367, an average payment of £3095.

With regard to Health and Safety trends, the number of accidents reported has been at a consistent level around 75 for the last 3 years. A total of 67 accidents have been reported for the period April - December 2007, although only 18 of these resulted in absence from work and therefore have been reported to the Health and Safety Executive.

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 the Governance Framework, together with further progress on Strategic Risk, are crucial to future assessments of the quality of corporate governance.

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 Ward(s): Not Ward specific.

Background papers: Risk Management Progress Report to Audit Committee
 29th January 2007.

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"/>

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Item 5

REPORT TO AUDIT COMMITTEE

28th January 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

TREASURY MANAGEMENT STRATEGY 2008/09

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 next financial year in relation to its Treasury Management activities and takes into account guidance on investments issued by the Department of Communities and Local Government (DCLG) and the Prudential Code for Capital Finance in Local Authorities.
- 1.2 It is usual to produce a three-year strategy, but because of the outcome of the Local Government Review in County Durham and the inception of a new authority from April 2009, the report only considers a strategy for the 2008/09 financial year.
- 1.3 The Council will also ballot its tenants regarding the transfer of the Council's housing stock during 2008. Members will be kept informed of the implications for the Council's borrowing and investment decisions following the result of the ballot.

2.0 RECOMMENDATIONS

- 2.1 That following consideration of the issues set out in the report, it is recommended that the Audit Committee accept the Strategy and recommends that Cabinet makes the following proposals to Council: -
- To approve the Treasury Management Strategy for 2008/09;
 - To approve the Investment Strategy for 2008/09;
 - To adopt the Prudential Indicators and Limits for 2008/09;
 - To approve the 'Authorised Limit' for borrowing as shown in Appendix B.

3.0 TREASURY MANAGEMENT STRATEGY 2008/09

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 (CIPFA).

- 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's Treasury Management Policy complies with 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 31.03.07 £M</i>	<i>Average Rate %</i>	<i>Estimate 31.03.08 £M</i>	<i>Average Rate %</i>
<i>FIXED RATE DEBT</i>				
<i>Public Works Loan Board</i>				
Annuity	0.95	7.23	0.91	7.23
Maturity	17.37	5.91	17.37	5.91
<i>Other Loans</i>				
Annuity	0.32	7.82	0.32	7.82
	18.64	6.01	18.60	6.01
<i>INVESTMENTS</i>				
Various Banks & Building Societies	(27.26)	5.01	(27.00)	5.75
<i>NET POSITION</i>	(8.62)		(8.40)	

- 3.6 As the above table shows, loan debt is expected to fall slightly during the current year from £18.64m to £18.60m. Investments are also expected to fall by £0.26m from £27.26m to £27.00m. This results in a reduction in the estimated net position (i.e. investments less borrowing) of £0.22m to £8.40m at 31st March 2008.

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 UK economy is set to slow down markedly in 2008, which following on from the credit crisis of last year, could be the next stage in a return towards more uncertain market conditions.

The extent to which the slowdown affects interest rates depends on various factors, including how long the current market uncertainties persist, and on-going inflation levels. There are a number of events that have combined to produce the current economic conditions:

- The credit crisis of 2007 culminating in the failure of Northern Rock (paragraph 3.9).
- Deterioration in household finances and consumer confidence and the likely effect on UK growth (paragraph 3.10).
- The expectations regarding the level of inflation (paragraph 3.11).
- International and domestic economic uncertainty (paragraph 3.12).

3.9 There has been a significant tightening of domestic credit conditions initiated by the collapse in the US sub-prime mortgage market and the resultant international credit crisis (widely referred to as the credit crunch). Interest rates rose rapidly as financial organisations became reluctant to lend to each other, which resulted in a severe shortage of funds in the market. In the UK the crisis culminated in the failure of Northern Rock. The uncertainty in the financial markets is set to continue for some time yet and there will be a reduction in the availability of cheap consumer credit.

3.10 Economic activity remained comparatively strong during 2007, driven forward by robust consumer spending and rising corporate investment. However, during 2008 household finances are likely to be affected as an estimated 1.4 million discounted fixed rate mortgages, arranged when interest rates were lower, are renegotiated at higher rates. This, closely following the Northern Rock crisis, will adversely affect consumer confidence and spending and undermine economic growth.

3.11 Inflation will remain comparatively stable in 2008, but it is unlikely that the Consumer Price Index (CPI) inflation rate will fall much below the Government's central target of 2% (the December 2007 CPI rate of inflation was 2.1%). This is due to the underlying strength of oil and commodity prices and the rising cost of basic foodstuffs. In the medium term uncertainty over inflation will limit the scope for significant interest rate cuts and will act as a constraint upon interest rate flexibility.

3.12 The economic outlook and the uncertainties in both the international and domestic markets will affect interest rates. The performance of the US economy will prove critical, and it could be adversely affected by house price weakness and tight credit conditions.

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>
2006/07 (Actual)	4.82
2007/08	5.54
2008/09	4.90
2009/10	4.75

This anticipates that the current Bank of England base rate, which stands at 5.50% in January 2008, will show an average annual rate of 5.54% by the end of the financial year, an increase of 0.72% on the average rate for 2006/07. In respect of 2008/09, the forecasts appear to show further reductions in the base rate during the year.

The forecasts are based on the assumption that, in Butlers' view, the slowdown in economic activity will provide scope for The Monetary Policy Committee (MPC) to cut official interest rates further during 2008 in the interests of the wider economy. The last cut was in December 2007 and there are likely to be further cuts early in 2008. However, the scope for the MPC to cut interest rates will depend critically on underlying inflationary pressures.

Market performance will remain very unpredictable in the short term, as will the squeeze on liquidity and credit. The money markets will continue to trade at a margin above the official Bank Rate, although this will be on a narrower basis than that experienced towards the end of 2007.

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 2008/09 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, although the Public Works Loan Board (PWLB) changed their arrangements during 2007 and there is no longer the same opportunities or benefits to reschedule debt.

HM Treasury have been asked to review this arrangement, which may make debt rescheduling a more attractive option.

Investment Strategy 2008/09

- 3.17 The Government issued investment guidance in March 2004, which applied from then 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 cash flow 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 unpredictable during 2008/09, given the market conditions detailed in sections 3.7 to 3.13. 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.

The credit crisis of 2007 has reaffirmed the need to adhere to the fundamental principles of Local Authority investment, which are: Security First, Liquidity Second and Yield Third.

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. These are distinct historic indicators, as opposed to the Prudential Indicators, which are predominantly forward looking.

	2008/09 %
DEBT	
Average Rate Movement Year on Year	No Change
INVESTMENTS	
Return compared with the 7 day LIBID Rate	+ 0.05

- 3.25 In effect, what these performance indicators mean is that we plan to manage our affairs so that there will be no change to the average rate of interest paid on external borrowings next year, whilst our investment returns will exceed the industry standard benchmark (the 7 day LIBID rate) by 0.05%. Actual performance against these indicators will be reported in the Annual Report for next year. 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 2008/09

- 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 for 2008/09 and the Transitional Plan for 2008/09, which has superseded the three-year Medium Term Financial Plan following the outcome of Local Government Review. The annual figures shown in the report and appendices recognise the inception of the new authority for County Durham from April 2009.

5.0 CONSULTATION

- 5.1 Consultation on the spending proposals contained in the Budget Framework 2008/09 is being undertaken including the involvement of the Council's Overview and Scrutiny Committees.

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.

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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
5. Treasury Management Strategy 2007/08 report to Audit Committee, January 2007
6. Treasury Management Strategy 2007/08 report to Cabinet, February 2007
7. Treasury Management Annual Review 2006/07 report to Council, July 2007

APPENDICES

1. Appendix A – Schedule of Specified and Non-Specified Investments.
2. Appendix B – Treasury Management Indicators.

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 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 type="checkbox"/>	<input checked="" type="checkbox"/>
4. The report has been approved by Management Team.	<input type="checkbox"/>	<input checked="" 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.

Specified Investment Category	Credit Rating	Max Period
UK Government – 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
Supranational Bonds – 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
Local Authority, Parish or Community Council	High security. No Credit rating criteria needed	1 year
Money Market Funds (Investment Schemes)	AAA rating by Fitch, Moody's and Standard and Poors	1 year
Highly Credit Rated Body – 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.

Non -Specified Investment Category	Limit (£)
Supranational Bonds greater than 1 year to maturity – 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
Gilt edged securities greater than 1 year to maturity – Government bonds providing the highest level of security.	£15m
Building Societies not meeting the basic security requirements under the specified investments – the Council may use such building societies which have a minimum asset size of £200m .	£15m
Any Bank or Building Society 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 Non rated subsidiary 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
Share capital or loan capital 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 will be asked to approve these indicators, which have been calculated as follows:

<i>Treasury Indicators</i>	<i>2008/09 % 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 relevant corporate plans. The actual capital expenditure that was incurred in 2006/07 and the estimates of capital expenditure to be incurred during 2007/08 and 2008/09 are shown below:

<i>Capital Expenditure</i>	<i>2006/07 Actual</i>	<i>2007/08 Estimated Outturn</i>	<i>2008/09 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	7,345	8,970	7,700
Non-Housing	8,109	11,030	12,300
Total	15,454	20,000	20,000

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 will be asked to approve the CFR for 2008/09 as follows:

<i>Capital Financing Requirement</i>	<i>2006/07 Actual</i>	<i>2007/08 Estimated Outturn</i>	<i>2008/09 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	9,927	10,140	10,270
Non-Housing	9,056	3,694	8,413
Total CFR	18,983	13,834	18,683

£5 million of unapplied capital receipts will be used in 2007/08 to voluntarily reduce the CFR. This will have a knock-on effect for 2008/09 of reducing the MRP by £200,000. During 2008/09 the capital receipts applied in 2007/08 will be used to finance the capital programme. This will return the CFR back to the 1st April 2007 position.

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 future capital financing requirements.

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 will be 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>2006/07 Actual</i>	<i>2007/08 Estimated Outturn</i>	<i>2008/09 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gross Borrowing	18.640	18.600	18.556
Investments	(27.260)	(27.000)	(23.000)
Net Borrowing	(8.620)	(8.400)	(4.444)

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 will be asked to approve the following authorised limits:

<i>Authorised Limit</i>	<i>2006/07 Actual</i>	<i>2007/08 Estimated Outturn</i>	<i>2008/09 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	30,000	30,000	30,000
Long Term Liabilities	-	-	-
Total	30,000	30,000	30,000

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 will be asked to approve the following operational limits:

<i>Operational Boundary</i>	<i>2006/07 Actual</i>	<i>2007/08 Estimated Outturn</i>	<i>2008/09 Estimated</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	22,000	22,000	22,000
Long Term Liabilities	-	-	-
Total	22,000	22,000	22,000

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 will be 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>2006/07 Actual</i>	<i>2007/08 Estimated Outturn</i>	<i>2008/09 Estimated</i>
Housing	45.0%	39.6%	30.2%
Non-Housing	(2.0%)	(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 short 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.

The Council will ballot its tenants during 2008/09 regarding the transfer of the Council's housing stock. The outcome of this ballot could affect borrowing and investment decisions post December 2008.

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>2007/08 Actual</i>	<i>2008/09 Projection</i>
Council Tax at Band D	£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 Actual</i>	<i>2008/09 Projection</i>
Weekly Housing Rent	£0.00	£0.00

Item 6

AUDIT COMMITTEE

28 January 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

REVIEW OF THE AUDIT CHARTER

1. SUMMARY

- 1.1 The Audit Charter at Sedgefield Borough Council establishes the purpose, authority and responsibility of the Internal Audit function. A review of the existing Charter has recently been undertaken because of changes in Audit regulations and codes of practice. The revised Charter will assist in promoting the revised service throughout the Authority and ensure all departments are aware of the work of Internal Audit.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 The Audit Committee approves the attached Audit Charter.

3. CHARTER

- 3.1 The Internal Audit section first established an Audit Charter in November 2001, which was ratified at that time by the Director of Finance. The Charter was initially based on the CIPFA Code of Practice 2000. The CIPFA Audit Panel has since issued an update Code of Practice in 2006.
- 3.2 It is important that the function and terms of reference of Internal Audit are regularly reviewed to ensure continuing relevance to the Council. Best practice also requires that a committee of the Council formally approves the Audit Charter and it is felt that the Audit Committee is the appropriate body to do this. The Charter takes into account relevant aspects of the Accounts and Audit Regulations 2003, which were also updated in 2006.
- 3.3 The attached Audit Charter is laid out in booklet format and covers a broad range of activities including:

- Purpose
 - Statutory Role and Responsibilities
 - Other Responsibilities
 - Staffing and Training
 - Audit Reports
 - Access
 - Independence
 - Statement by the Director of Resources
- 3.4 The Audit Charter will continue to be reviewed in light of changes in legislation and codes of practice, which impact on the function to ensure continuing relevance.

4. RESOURCE IMPLICATIONS

- 4.1 There are no associated resource implications.

5. CONSULTATION

- 5.1 There are no consultation issues arising from the contents of this report.

6. OTHER MATERIAL CONSIDERATIONS:

6.1 Links to Corporate Objectives / Values

Internal Audit activity effectively supports all services in the delivery of the Council's priorities. The Audit Charter demonstrates how this is done.

6.2 Risk Management

Internal Audit work relates to minimizing the risk to the Council of major system problems and failure of the internal control arrangements. The Charter demonstrates the steps taken to do this.

6.3 Equality and Diversity

No material considerations have been identified.

6.4 Legal and Constitutional

The Charter recognises the statutory framework associated with services and the corporate governance framework.

6.5 **Other Material Considerations**

None.

7. **LIST OF APPENDICES**

7.1 Audit Charter

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Wards: Not ward specific
Key decision validation: Not applicable

Background Papers:

1. Audit Charter
2. Accounts and Audit Regulations 2003 (amended in 2006)
3. CIPFA Code of Practice for Internal Audit in Local Government 2006

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 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 type="checkbox"/>
4. The report has been approved by Management Team.	<input type="checkbox"/>	<input type="checkbox"/>

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Sedgefield Borough Council Internal Audit Section

AUDIT CHARTER

Introduction

This Charter establishes the purpose, authority and responsibility of the Internal Audit function within Sedgefield Borough Council.

Purpose

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation in the control environment by evaluating its effectiveness in achieving the organisation's objectives.

It objectively assures, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources.

Statutory Role and Responsibilities

The Local Government Act 1972, section 151 requires that the Council "makes arrangements for the proper administration of financial affairs and shall ensure that one of the officers has responsibility for the administration of those affairs."

The Accounts and Audit Regulations 2003 (amended in 2006) specifically require that "a

relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices."

Internal Audit is concerned with independently appraising the adequacy of the systems of internal control, thereby contributing to the requirement for the proper, economic, efficient and effective use of resources across all of the Council's services.

To this end it is the responsibility of Internal Audit to evaluate and report on the soundness and adequacy of these controls in promoting the following:

- Completeness, accuracy, and reliability of records for the production of effective, accurate management information and final accounts.
- Compliance with the Council's established policies, procedures and regulations.
- Protection of all of the Council's assets and interests.
- The securing of best value and value for money in the provision of all services.

It should be understood that it is the responsibility of management, and not Internal Audit, to ensure that the appropriate controls are introduced, managed and maintained for all systems. Internal Audit shall have no responsibility for the operations that it audits, over and above the provision of recommendations and advice to management regarding systems and controls.

Other Responsibilities

Internal Audit will also provide the following services:

- Give advice to management on the systems of control and any other related issues.
- Carry out any necessary investigations into matters of fraud, probity, and compliance.
- Carry out any reviews or other assignments as may be agreed with senior management.
- Cooperate with and assist the Audit Commission in the completion of the annual audit of the Council's systems and accounts through the managed audit process.

Internal Audit is required to produce an annual audit plan, agreed with the Director of Resources and approved by the Audit Committee, and to perform the audits specified in the plan to the necessary professional standards as detailed in the Chartered Institute of Public Finance's Code of Practice for Internal Audit, as well as any other relevant codes or guidelines.

As part of effective corporate governance reports to Audit Committee are provided as follows:

- Agree annual audit plan detailing work to be undertaken during course of the year.

- Provide a report during the year on progress against the annual audit plan, any significant matters arising or other issues of concern.
- Present an annual report detailing actual work completed and any other matters arising.
- Bring to the attention of the Audit Committee any appropriate matters.

Staffing and Training

Internal Audit shall be staffed with persons of appropriate qualifications and experience. The Audit & Resources Manager, in conjunction with the Head of Financial Services will ensure that formal and effective training takes place to enable all staff within Internal Audit to carry out their work in accordance with the required standards laid down in the Audit Manual.

Training needs of all staff will be reviewed annually and discussed with them as part of the Employee Development Programme.

Audit Reports

All audit findings and recommendations will be discussed and agreed with the relevant service providers immediately following the completion of an audit.

The recommendations will then be communicated to the appropriate manager by means of an audit report memo, which will

outline the work carried out and the reasons for recommendations made. Service managers will then be expected to implement any audit recommendations within an agreed timescale.

Performance targets for Audit reports are:

- Audit memo to be dispatched to Service Manager within three weeks of completion of audit.
- Reminder to Service Manager within three weeks of the original memo.
- Full response from Service Manager to audit points detailed in audit memo within one month of the original memo.

Following this, management satisfaction surveys are issued to officers responsible for implementing recommendations.

Quarterly summary reports are issued to Heads of Service and progress reported to the Council's Audit Committee.

Access

Internal Audit's role applies to all functions and services for which the Council is responsible. The scope for Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to all records and assets deemed necessary in the course of the audit.

In addition the Audit & Resources Manager has direct access to all levels of management,

all employees and all elected members and particularly those charged with governance.

Management must assist and co-operate with Internal Audit to enable them to carry out the work.

Independence

Internal Audit is required to provide an objective audit service in accordance with professional auditing standards. Auditors are independent of the activities they audit and maintain an objective approach to their areas of responsibility. Independence allows impartial and unbiased judgement which are essential to the proper conduct of an audit.

The Audit & Resources Manager has direct access and freedom to report to all senior management including the Chief Executive.

Statement by the Director of Resources

The Internal Audit Section occupy a key role in helping me fulfil my statutory responsibility to ensure the affairs of the Council are secure and effective corporate governance arrangements are in place. The Council and I obtain a great deal of assurance from the work of Internal Audit, and to operate effectively, it is essential that it's approach is widely understood by both members and officers at all levels.

Alan Smith, Director of Resources