Governance, Audit and Risk Management Committee AGENDA

DATE: Wednesday 23 January 2013

TIME: 7.30 pm

VENUE: Committee Room
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Bill Phillips

Councillors:

Sue Anderson	Amir Moshenson
Mano Dharmarajah	Chris Mote
Victoria Silver (VC)	Richard Romain

Reserve Members:

1. Ben Wealthy	1. Tony Ferrari
2. Ajay Maru	2. Kam Chana
3. Krishna Suresh	3. Anthony Seymour
4. Varsha Parmar	

Contact: Una Sullivan, Democratic & Electoral Services Officer
Tel: 020 8424 1785 **E-mail:** una.sullivan@harrow.gov.uk

Harrow COUNCIL
LONDON

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

3. MINUTES (Pages 1 - 8)

That the minutes of the meeting held on 29th November 2012 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS

To receive questions (if any) from local residents/organisations under the provisions of Committee Procedure Rule 17 (Part 4B of the Constitution).

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

8. IT DISASTER RECOVERY (Pages 9 - 12)

Report of the Director of Customer Services and Business Transformation

9. HALF YEAR 2012/13 TREASURY MANAGEMENT ACTIVITY AND COUNTERPARTY POLICY REVIEW (Pages 13 - 32)

Report of the Corporate Director, Resources

10. RISK, AUDIT & FRAUD DIVISION ACTIVITY UPDATE REPORT (Q3) (Pages 33 - 56)

Report of the Assistant Chief Executive and Corporate Director, Resources

11. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

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GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

MINUTES

29 NOVEMBER 2012

Chairman:	* Councillor Bill Phillips	
Councillors:	* Tony Ferrari (1) * Amir Moshenson * Varsha Parmar (4)	* Richard Romain * Victoria Silver * Ben Wealthy (1)
In attendance: (Councillors)	Graham Henson	Minutes 205, 206 and 208

* Denotes Member present
(1) and (4) Denote category of Reserve Members

200. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Members:-

Ordinary Member	Reserve Member
Councillor Sue Anderson	Councillor Varsha Parmar
Councillor Mano Dharmarajah	Councillor Ben Wealthy
Councillor Chris Mote	Councillor Tony Ferrari

201. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made by Members.

RESOLVED ITEMS

202. Minutes

RESOLVED: That the minutes of the meeting held on 24 September 2012 be taken as read and signed as a correct record.

203. Public Questions, Petitions and Deputations

RESOLVED: To note that no petitions were received, questions put or deputations received.

204. References from Council and other Committees/Panels

RESOLVED: To note that none was received.

205. 2011/12 Annual Governance Statement Action Plan

The Panel received the report of the Assistant Chief Executive which set out an action plan to address gaps identified in the 2011-12 Annual Governance Statement. An officer stated that action planning was now more robust as a result of better engagement with those officers responsible for its implementation.

Members then explored four particular areas of assurance.

<u>Security Incident Log</u>

The Assistant Chief Executive explained that there was now a 'security incident log' where breaches of security for sensitive information were recorded. These tended to be as a result of staff mistakes, such as papers being mailed to incorrect recipients, rather than malicious, high-tech intervention. Management were loath to respond harshly to such instances, as they did not wish to deter reporting, and once a breach was identified there was an opportunity to recover the situation. The log was not currently monitored at Member level, but he saw no problem in reporting to the committee in future.

<u>Information Management and Data Compliance</u>

An officer stated that whilst the Council had long standing data protection procedures, they were not necessarily communicated to staff or reviewed. An Information Manager had been recruited who would now take responsibility for such issues. The Chair commented that it did not suggest that there was no data protection process, but that there was no assurance process to ensure quality and compliance. The Assistant Chief Executive added that there were assurance processes, but that they were inconsistent.

Accounting Arrangements for West London Waste Authority

A Member sought clarification on progress with the separation of West London Waste Authority (WLWA) accounts from the Council's system, and the creation of a separate bank account, which had been identified as an audit risk some time ago.

The Corporate Director of Resources outlined the historical background to the situation and described the arrangement as 'Harrow effectively operating as an agency for WLWA'. The arrangement had been managed by a staff member in a robust manner, with clear year end separation of postings and figures, but when the tasks had been passed to another individual, confusion about the nature of the arrangement had caused concern on the part of the Council's auditors. Officers had investigated the scope for separate accounting arrangements but the set up of the 'SAP' system could not accommodate this, and it would be costly to re-configure the system. Furthermore, as WLWA was undergoing a procurement exercise, it was likely that transactions would reduce from many hundreds to an insignificant number. A project was underway to assess if it was possible to rectify the situation without incurring undue cost.

A Member queried the lack of handover between staff working on an important area of work. Another Member asked if the view of the District Auditor had been sought and asked to be present at the next meeting with the Council's auditors.

IT Disaster Recovery

A Member expressed his dissatisfaction with the continuing failure to address a significant gap in respect of IT disaster recovery, which he put down to a lack of commitment, further illustrated by the non-attendance of the Director of Customer Services and Business Transformation at the meeting. He believed the committee could not fulfil its obligations in a meaningful way unless Members had an opportunity to discuss serious issues and influence outcomes.

The Chair welcomed the Portfolio Holder for Performance, Customer Services and Corporate Services to the meeting and invited him to comment.

The Portfolio Holder described the issues delaying the full migration of IT systems to a more stable environment. The Assistant Chief Executive added that the matter had been complicated by ongoing consideration of whether or not to retain the data centre in Harrow as a cost saving measure.

RESOLVED: That

(1) the report be noted.

(2) a report on IT Disaster Recovery be submitted to the next meeting of the Committee.

206. Internal Audit Mid-Year Report 2012/13

Members queried why Appendix 4 to the report, provided as a Part II item, needed to be confidential, as they considered that it showed the Council in a positive light, in that the Council was prepared to correct any overpayments. With the agreement of officers and the Committee, the Chairman directed that Appendix 4 of the report should be published as a public document.

The Panel received the report of the Assistant Chief Executive which outlined progress against the 2012-13 Internal Audit Plan, and key issues arising from work undertaken in respect of this. An officer confirmed that while 100% of the Internal Audit targets had been met, 2 of the 3 Corporate Audit Indicators had not. All enquiries had received a response, but not as quickly as the team had hoped, although they appreciated that this might be a demanding task for officers in the current economic climate.

Members considered whether Contract Management was an area of concern, and were advised that although, historically, practice and performance had varied across departments, more work was being done with procurement to ensure that a good value and quality contract was set at the outset, and that contract managers received advice and guidance on good practice prior to being audited. “Awareness sessions’ were available for budget holders, and all requisitioners received mandatory training; processes had been tightened up and the new system enforced compliance. Repeated breaches of the procedures would incur disciplinary action.

In response to a query about the implementation of recommendations, an officer explained that outstanding items still assessed as red would be followed up, but any moving from red to amber would not be, as there were insufficient resources to pursue all identified risks.

A Member enquired about staffing levels, and asked if the situation had been remedied, given that he had stated his concerns a year ago and believed that the audit team was still the smallest across London. An officer said that recruitment had initially been approved but was now subject to the spending protocol. The team had explored the possibility of a shared service with other boroughs, but no opportunities existed at present.

The Corporate Director of Resources explained that as part of a wider review, in the continuing difficult economic climate, and with the possibility of a departmental restructure, managers were reviewing the Council’s approach to risk and balancing this with available resources. While the audit function was highly valued, it was not the time to embark on a recruitment exercise.

A Member stated his strong disapproval of both the decision not to recruit, and the fact that the committee had had no knowledge of or involvement in the decision. He added that if the committee was to serve merely as a rubber stamping exercise, he would stand down. The Corporate Director of Resources stated there had been no intention to deceive Members, and she apologised if anyone believed they had been misled. She added that the remit of the Committee was to advise Council on governance and risk management issues, and while the Committee had no power to rule on staffing matters, they could make recommendations. She added that as the Section 151 Officer for the Council, she too had to be satisfied that audit and governance functions were satisfactory. She would welcome better resourcing, but the unit had performed well for a number of years and was unlikely to be given priority for staffing when cuts were being made elsewhere. It was a matter of judgement whether resources were adequate, and in her opinion they were sufficient to fulfil statutory requirements as, although resources were tight, they were used effectively.

The Portfolio Holder for Performance, Customer Services and Corporate Services acknowledged that the team was small in comparison with other boroughs. Members considered what steps the Committee should take to address their dissatisfaction with staffing levels and highlight their concerns.

RESOLVED: That

(1) the report be noted;

(2) Appendix 4 of the report be published on the Council's website;

(3) the concern that two vacant posts in Internal Audit, for which recruitment had been approved, had now been placed under review, be noted.

207. Health and Safety Half Year Report

The Panel received the report of the Assistant Chief Executive and Corporate Director of Resources, which provided a summary of the Council's health and safety performance for the half year ending 30 September 2012, and information on outcome measures.

The Divisional Director of Risk, Audit and Fraud, explained that the service had experienced a challenging year and high staff turnover had delayed progress on the improvement plan. The team had reviewed policies and codes of practice, and the health and safety self-audit tool programme would be complete by December 2012. Of the planned 300 audits, 250 had begun, and site inspections and on-site training were continuing. The Occupational Health Service was due to be re-tendered, with a report going to Cabinet in December.

The Divisional Director of Risk, Audit and Fraud outlined the accident report statistics, for which there was no apparent or emerging trend. Members asked if statistics could include percentage figures, as it was difficult to draw conclusions from the current figures.

Members were informed about ongoing staffing issues, including difficulties with recruitment and plans to address the situation, and acknowledged the impact on the service in this interim period.

RESOLVED: That the report be noted.

208. Risk Audit and Fraud Activity Update

The Committee received the report of the Assistant Chief Executive and the Corporate Director of Resources which described the current work streams of the Risk, Audit and Fraud group of services. The Committee agreed to receive a tabled Part II document as an appendix to this item, which outlined proposals for savings within the Risk, Audit and Fraud Service.

The Divisional Director of Risk, Audit and Fraud Services updated the Committee on activity in Emergency and Business Planning Team, and the Insurance Service as follows:

- the work of the Emergency Business Planning Team had largely been taken up with the Olympics and Paralympics during this quarter, and all planned events and training exercises had concluded successfully. Following both Games, the team attended various debriefings to identify good practice and lessons learnt;

- Members were informed that a recent court decision around an issue relating to the failure of Municipal Mutual Insurance in 1990 had crystallised potential liabilities of £1.4m; the Council had identified funds to cover this although officers were of the view that the actuarial valuation was high;

- An officer reported on activity within the Corporate Fraud Team, including Housing and Benefit Fraud; Council Tax, Blue Badge, Direct Payment, Disabled Facility Grant, and Insurance Fraud; and Proceeds of Crime Cases;

- the Team had secured payments of fines of over £19K which was real income, and had generated savings/overpayments in excess of £400K and was on target to meet its objectives in respect of Housing, Benefit and Council Tax Fraud sanctions;

- no Blue Badge exercise had taken place in quarter 2, as all police resources had been diverted to Olympics and Paralympics duty;

- some good work was being undertaken in partnership with housing on tenancy fraud and misuse, with 9 council tenancies expected to be back in council control within the next few weeks which could be let to people currently in bed and breakfast.

- work undertaken on insurance fraud had been promising, with £4k being recovered from the first two cases, but the loss of a dedicated officer in this area was likely to impact on future results;

- work on recovering funds through the Proceeds of Crime Act was continuing, but involved a lengthy legal process, and the lack of a financial investigation officer meant that any funds recovered were reduced by the cost of procuring an investigation service;

- the officer updated the committee on plans for a Single Fraud Investigation Service (SFIS). There was little information as yet on how this would operate, but a pilot programme was running in Hillingdon, and officers expected to observe and learn from their experience;

- Changes to the law in relation to the Regulation of Investigatory Powers Act (RIPA) meant that activity had to be authorised by a Justice of the Peace from 01/11/12 onwards, and could now only be undertaken where the offence attracted a punishment of a term of imprisonment of 6 months. This change would require a policy and process change internally for the Council in respect of surveillance, deployment of human intelligence, and access to communications data which Legal Services were already working on. The Council was due to be inspected by the Office of Surveillance Commissioners on 04/12/12.

Members welcomed the successful work of the team and were concerned that vacancies would impact directly on performance, given the financial and reputational value of the work. They considered that a business case should be made to ensure vacancies were filled, as it appeared that the service paid for itself in terms of funds recovered. The Corporate Director of Resources commented that financial returns were not guaranteed by the investment in additional staff, but the Chair was of the view that public reassurance was also a material consideration in valuing the work of the service.

RESOLVED: That the report be noted.

209. Any Other Urgent Business - Training

A Member raised the issue of training for Committee Members, and suggested that any training should be tailored to the needs of Harrow Council, and delivered in Harrow. He described the training provided for Pension Fund Investment Panel Members, which took the form of an hour's session before the scheduled meeting, and which was successful in that the date was established in Members' diaries and allowed an opportunity to focus on a single issue. The Chair commented on the poor response to previous training initiatives but agreed that training was necessary and invited suggestions for subjects to cover. A Member stated that a CIPFA self-analysis exercise had been both enjoyable and informative; officers confirmed that this was still available and could be offered.

RESOLVED: That officers devise a training programme, to consist of an hour's session prior to a full committee meeting.

210. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reasons set out below:

Item	Title	Reason
11.	Risk, Audit and Fraud Activity Update – Appendix C (tabled item)	Information under paragraph 1 (contains information relating to any individual).

211. Risk, Audit and Fraud Activity Update - Appendix C

The Committee received the confidential tabled document on the grounds of urgency.

212. Termination of Meeting

In accordance with the provisions of Committee Procedure Rule 14 (Part 4B of the Constitution) it was

RESOLVED: At 9.59 pm to continue until 10.30 pm.

(Note: The meeting, having commenced at 7.30 pm, closed at 10.06 pm).

(Signed) COUNCILLOR BILL PHILLIPS
Chairman

REPORT FOR: **GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE**

Date of Meeting:	**23rd January 2012**
Subject:	**IT Disaster recovery**
Responsible Officer:	**Carol Cutler Director of Customer Services and Business Transformation**
Exempt:	**No**
Enclosures:	**None**

Section 1 – Summary and Recommendations

This report sets out the current arrangements and position regarding IT disaster recovery.

Recommendations:

None. This report is for information.

Section 2 – Report

Background

Disaster Recovery (DR) is the means by which an organisation secures its IT data enabling it to get up and running in the event that the primary data centre location and systems are unavailable for whatever reason. DR is part of Business Continuity preparations, the process by which an organisation ensures it can continue its business in the event of major disruption.

The foundation of DR (level 1) is to regularly take copies of system data and to store those copies in a different and secure location. This enables those systems to be restored onto alternative equipment. The problem with only having this level of DR is the time it can take to procure, set up and make available the alternative solution and the ability of the organisation to function in the meantime. It is likely to take at least a month to regain access to key systems and it is also likely to be expensive to procure in such an emergency.

The next level (level 2) therefore, is to have access to suitably configured equipment in an alternative data centre available on demand. Depending on risk and urgency there are 3 available options:-

1) Hot: an exact copy of the system available immediately with up-to-date data already loaded. i.e. an exact replica but not the same scale.
2) Warm: usually available within 24-48 hours with configured hardware but no data. The data would be loaded from the last back up.
3) Cold: space and connectivity available and not for our exclusive use – this can take up to 2 weeks to procure, configure and make available.

Current situation

The Council has always had level 1 DR and uses Iron Mountain to store copies securely off site. Capita took over this responsibility in November 2010 and one of the critical PI's is the completion of successful back ups.

Until 2005 the Council had no level 2 DR. As part of the Business Transformation Partnership project to introduce SAP for the major corporate systems hot DR was implemented for SAP. Capita provided a second set of servers in their West Malling data centre with mirroring of data.

Capita have tested that the mirroring is taking place as required and satisfied themselves that the service can be switched to the backup servers. For the full annual DR test required by the contract the Council has to provide a significant number of users to work over a weekend to test that the 'failover' has worked correctly. Due to the magnitude of tasks requiring weekend working by the SAP team this year the full test has not been completed. This is now scheduled to take place in February. It is only when this is completed that we can be fully satisfied that the solution works.

In 2010 when our IT was outsourced to Capita we added other elements of DR to the requirements. The level of DR required was determined following liaison with the business, to determine the speed with which they needed to regain use of their system in the event of a disaster. The contract provides:-

1) DR for telephony – this is at a level equivalent to 'hot' and the solution distributes our telephony resource over 3 sites for added resilience,.

2) Warm DR for Frameworki from contract start (within 48 hours)

3) Warm DR for the internet from contract start

4) Cold DR for all other key systems once transformed (within 2 weeks)

5) Reasonable endeavours for remaining systems

Telephony DR is in place and fully tested including user testing.

Frameworki DR is in place and fully tested including user testing.

The WAN provides multiple access point to the internet so DR is provided and has been fully tested.

Finalising the remaining DR has been delayed due to slippage in completing the transformation programme. However, Capita confirm that both space and connectivity are available and in the event of a disaster we could expect Capita to get the equipment in place as a matter of urgency.

More recently the Council has been considering an option to keep the primary data centre in Harrow in return for a budget saving. This proposal is included in the budget for 2013/4. Implementation of this would mean that the secondary data centre will be in Capita's West Malling site rather than Laindon.

Financial Implications

None specifically related to disaster recovery.

Risk Management Implications

This report is about risk management.

Equalities implications

None.

Section 3 - Statutory Officer Clearance

Name Julie Alderson Date: 9 January 2013	√	Chief Financial Officer
Name: Hugh Peart Date: 10 January 2013	√	Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Carol Cutler extension 6701

Background Papers: None.

REPORT FOR:	**Governance, Audit and Management Committee (GARM)**
Date:	**23 January 2013**
Subject:	**Half Year 2012/13 Treasury Management Activity**
Responsible Officer:	**Julie Alderson, Corporate Director of Resources**
Portfolio Holder:	**Sachin Shah (Portfolio Holder for Finance)**
Exempt:	**No**
Enclosures:	**Appendix 1 - Creditworthiness and Counterparty Policy** **Appendix 2 – Prudential Indicators** **Appendix 3 – Review of Counterparty Policy**

Section 1 – Summary and Recommendations

This report sets out a half year summary of Treasury Management activities for 2012/13. The report was referred by Cabinet to GARMC for review. An additional appendix 3 has been added discussing possible revisions to the counterparty policy.

Recommendation

(a) Review the half year treasury management activity for 2012/13.
(b) Consider the reasonableness of the proposed changes to the counterparty policy, as outlined in appendix 3.

Reason

To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 requirement to 'have regard to' the CIPFA Prudential Code and Treasury Management Code of Practice.

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Section 2 – Report

Referral to GARM

1. The paper that follows was discussed by Cabinet on 13th December 2012. In line with GARMC's role to scrutinise treasury management activities, Cabinet has referred this report to GARMC.

2. An additional appendix 3 has been added to the Cabinet report discussing a change in counterparty policy that we propose to include in the strategy for 2013-14. The proposal is to enable the use of enhanced cash funds as an investment. This has been discussed with the Council's treasury advisor (Sector) and who will advise on fund selection.

3. Otherwise, the report is identical to that presented to Cabinet.

Introduction

4. The Council approved a Treasury Management Strategy for 2012/13 on 16th February 2012, which complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (November 2009) and Prudential Code for Capital Finance.

5. The revised code recommends that members should be updated on treasury management activities at least twice a year. This report therefore helps to ensure that best practice is being followed in accordance with the code.

6. The overall objective of treasury management is to manage the Council's cash flow, borrowing and investments, and to control the associated risks, so as to maintain security, liquidity, maximise the return on investments and to minimise interest charges on debt with minimal risk to the Council's assets.

7. This report is the half year summary of performance on treasury management activities to 30 September 2012 and covers:
   - the half year forecast outturn position;
   - the economy in the first half of 2012/13;
   - the Treasury Management activity for the period ended 30 September 2012; and
   - compliance with Prudential Indicators.

Forecast outturn Position

8. There is a forecast net surplus of £372,000 on the capital financing and investment income budget as detailed in the table below:

	Latest Budget	Forecast Outturn	Variation	
	£000	£000	£000	%
Cost of Borrowing	8,140	8.225	85	+1.0%
Investment Income	-678	-1,135	-457	-67.4%
Minimum Revenue Provision	12,726	12,726	0	0
Total	**20,188**	**19,816**	**-372**	**-1.8%**

9. The main reasons for the variations are :

- Borrowing cost – gross interest is in line with budget and the variance is due to a lower recharge to Housing reflecting below expected capital expenditure. HRA is allocated a share of borrowing costs based on the depreciated cost of its capital expenditure.

- Investment income – the additional income is due both to higher investment balances than was anticipated (capital expenditure so far this year is below forecast) and from the average interest rate (see paragraph 10 below) exceeding the budget of 1.5%; and

- MRP – Is estimated to be in line with budget.

10. The short term cash portfolio of £110 million is managed both to protect its value and support the overall Council budget by generating a favourable risk adjusted return. The headwinds faced have increased measurably this year. Not only are bank base rates at an all time low of 0.5% but to stimulate the economy the Government has offered funds to the banks at a cost of 0.25%. In this context, the average interest rate of 2.1% as at October 2012 places Harrow's return well into the top 10% of UK Local Authorities. The Council has recently approved increased flexibility to invest with the part nationalised banks, making a significant contribution to the income earned this year.

11. It will not be possible to improve on this performance using traditional bank and building society deposits and alternative investments are under consideration. These include investment in high quality bonds and project funding e.g. the West London waste incineration facility under construction. While extra returns are appreciated, the security of the Council's funds remains the priority.

The Economy and Interest Rates

12. The economic update is provided by the Council's treasury advisor, Sector.

UK & Global economy

13. Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

14. With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

15. In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI @

2.7% in October), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession, before recording a 1% growth in the September quarter. This means that the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy. It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 3.5% below its peak in 2008.

16. This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

17. On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

<u>Outlook for the second half of 2012-13</u>

18. The risks in economic forecasts continue unabated from the previous treasury strategy. Concern has been escalating that the Chinese economy is heading for a hard landing, rather than a gentle slowdown, while America is hamstrung by political deadlock which prevents a positive approach to countering weak growth. Urgent action will be required early in 2013 to address the US debt position. However, on 13 September the Federal Reserve announced an aggressive stimulus programme for the economy with a third round of quantitative easing focused on boosting the stubbornly weak growth in job creation, and this time with no time limit. They also announced that it was unlikely that there would be any increase in interest rates until at least mid 2015.

19. Eurozone growth will remain weak as austerity programmes in various countries curtail economic recovery. However, in early September the ECB announced that it would purchase unlimited amounts of shorter term bonds of Eurozone countries which have formally agreed the terms for a bailout. This resulted in a surge in confidence that the Eurozone has at last put in place the framework for adequate defences to protect the Euro. However, it remains to be seen whether the politicians in charge of Spain and Italy will accept such loss of sovereignty in the light of the verdicts that voters have delivered to the politicians in other peripheral countries which have accepted such supervision and austerity programmes. The Eurozone crisis is therefore far from being resolved as yet. The immediate aftermath of this announcement was a rise in bond yields in safe haven countries, including the UK. Nevertheless, this could prove to be as short lived as previous "solutions" to the Eurozone crisis.

20. The Bank of England Quarterly Inflation Report in August pushed back the timing of the return to trend growth. Nevertheless, concern remains that the Bank's forecasts of a weaker and delayed robust recovery may still prove to be over optimistic given the world headwinds the UK economy faces. Weak export markets will remain a drag on the economy and consumer expenditure

will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears. The Coalition Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

21. The overall balance of risks is, therefore, weighted to the downside:

- We expect low growth in the UK to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.

- The expected longer run trend for PWLB borrowing rates is for rates to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.

- This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then the bank rate is likely to be depressed for even longer than in this forecast.

22. The Council's Treasury Advisers, Sector, provides the following forecast of bank base rate and PWLB borrowing rates:

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3m LIBID	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.90	1.10	1.40
6m LIBID	0.85	0.85	0.85	0.85	0.85	1.00	1.10	1.30	1.50	1.80
12m LIBID	1.30	1.30	1.30	1.40	1.50	1.70	1.90	2.10	2.30	2.60
5yr PWLB	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.30
10yr PWLB	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00	3.20	3.30
25yr PWLB	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30
50yr PWLB	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30	4.40	4.50

23. Based on the above forecast, interest rate rises are again delayed for longer than was previously forecast. The first base rate increase is expected to be in Q4 of 2014 increasing thereafter by 0.25% a quarter. Long term PWLB rates are projected to steadily increase from the 2nd half of 2013 to reach 4.5% by Q1 of 2015.

Treasury Management Activity for the period ending 30 September 2012

24. The Council's debt and investment position as at 30 September 2012 were as follows:

	31st March 2012	Average Rate	Average Life yrs	30 Sept 2012	Average Rate	Average Life yrs
	£M	%	Yrs	£M	%	Yrs
Fixed Rate Funding						
- PWLB	218.5	4.09	39.1	218.5	4.09	38.7
- Market	131.8	4.65	35.4	131.8	4.65	34.9
Total Debt	**350.3**	**4.30**	**37.8**	**350.3**	**4.30**	**37.3**
Investments:						
- In-House	89.3	1.65	219 days	112.3	1.73	198 days
Total Investments	**89.3**			**112.3**		

Investments

25. The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council permits investments for a range of periods from overnight to three years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer, although the average duration is less than a year.

26. A total of £112.3m (£118.3 million as at Sept 2011) investments were placed on deposit as at 30 September 2012.

27. The table below sets out the position as at 30 September 2012.

	2011/12 Sept 2011		March 2012		2012/13 Sept 2012	
	£m	%	£m	%	£m	%
Specified Investments						
Banks	81.2	68.6	0.1	0.1	19.9	17.7
Building Societies	15.0	12.7	0.0		0.0	
Money Market Funds	4.1	3.5	5.7	6.4	24.6	21.9
Non –Specified Investments						
Banks	13.0	11.0	63.5	71.1	59.8	53.3
Building Societies	5.0	4.2	20.0	22.4	8.0	7.1
Total	118.3	100.0	89.3	100.0	112.3	100.0

28. A detailed analysis of the investment portfolio as at 31st October 2012 is shown on appendix 1. Balances as at the end of October rather than September (as above) has been used to highlight the impact of the change in counterparty limits discussed in paragraph 33 below.

29. The credit ratings of the main UK banks were lowered in Q4, 2011. Prior to that all the counterparties in use as at September 2011 achieved the credit quality to be classified as the more secure "specified investments" and only those investments with a maturity of over 12 months were classed as "non specified".

30. Following the changes to credit ratings at the end of 2011, only one bank in use meets the criteria for specified investments, Svenska Handelsbanken, with all the others being non specified.

31. Cabinet and Council (February 2012) (supported by GARMC) agreed to lower the long term and short term threshold for non specified investments. This enabled continued use of Lloyds, RBS, Barclays and Nationwide as counterparties. Although Santander continues to meet the same criteria, on the advice of Sector it has been suspended as a counterparty.

32. With the fall in UK base rates in 2008/09 from 5% to 0.5%, the yield on offer for short term investments plunged. Although base rates have not changed subsequently the interest rates being paid on investments have declined further in the last year as UK monetary policy has been to provide cheap funding to banks. Interest rates for money market and call accounts have fallen to as low as 0.4%. For much of 2012, Lloyds and RBS paid significantly higher rates than the other banks. Combined with the longer maturities permitted for these two banks, they attracted most new deposits in the year.

33. To take further advantage of the higher rates on offer from these two banks, an urgent Council decision was approved in October 2012 raising the limit on deposits with Lloyds and RBS from £30 million each, to 50% of total investments with each bank. The £30 million limit, in place since February 2012, was already higher than the £20 million for all other banks.

34. Following the revision to deposit limits, a further £25 million was invested with Lloyds in October and balances on call and money market accounts were switched to a higher returning RBS deposit account. By the end of November, only three counterparties will hold funds – Lloyds (including BoS), RBS and Nationwide. The latter received 2 and 3 year deposits in 2011. A listing of all new investments since April 2012 is attached (appendix 1).

35. The impact of the changes in credit ratings and counterparty limits has been a drastic reduction in the number of banks and buildings societies in the portfolio. At the start of 2008 the portfolio consisted of 18 building societies and one bank. Only one of these now qualifies as a possible counterparty. Reduced diversification of the portfolio is a concern and the increased limits for Lloyds and RBS will be kept under review in discussion with GARMC.

36. The Council remains a cautious investor placing security and liquidity considerations ahead of income generation. As mentioned above, many banks and buildings societies in which we safely invested for many years have been removed from the counterparty list and maximum maturities have been reduced from 5 years to 3 years (Lloyds and RBS) and 3 months for all other counterparties. These changes have restricted the opportunity to add value to the short term investment portfolio. A fresh look at the risks and rewards of investment opportunities is underway e.g. corporate bonds, reverting to 2008 counterparties and various other opportunities. It is hoped to make proposals in the next few weeks, which may help partly to address the 2013/14 budget gap

37. The performance of the investment portfolio is benchmarked on a quarterly basis by Sector both against their risk adjusted model and the returns from other local authorities. As at 30 September 2012, the average yield on the

portfolio of 1.74% exceeded the model return by 0.23%. The average for all 183 local authorities was 1.23%. These figures compares favourably with the average 3 month Libid rate of 0.67%.

38. Following the additional Lloyds deposit mentioned in paragraph 31 above, the average yield for Harrow is approximately 2.1%, This would place us around 10th (out of 183) in terms of income. The income returns across the local authorities range from circa 0.25% to 2.75%. Those with the lowest rating avoid banks and invest with Government entities. Those with the highest returns, such as Harrow, have a high allocation to the part nationalised banks, a greater proportion in funds in longer maturities and were fortunate enough to place deposits before recent interest rate declines.

Long Term Borrowing

39. Total long term debt of £350.3m at September 2012 is made up £131.8m Bank loans and £218.5m PWLB loans. The most recent borrowing (£88.5 million) was used to fund the HRA settlement payment in March 2012. The current borrowing strategy is to use investment balances to fund capital expenditure rather than take on new borrowing.

40. The table below analyses the maturity profile of borrowing. Two methods to record the maturity of lender option borrower option (LOBO) loans are shown. The lenders of LOBOs are permitted to reset interest rates five years after advancing the loan (and annually thereafter) such that the loans may have to be repaid sooner than the permitted life if rates are increased. In total there are LOBO loans outstanding of £83.8 million. The table shows LOBO's using both their final maturity (LHS) and also using the earliest date that the interest rate can be changed as the final maturity (RHS).

	upper limit	**lower limit**	**LOBO final maturity**		**LOBO interest reset date**	
Maturity structure of borrowing during 2012/13	**%**	**%**	**£m**	**%**	**£m**	**%**
under 12 months	20	0	0.0	0.0%	33.8	9.6%
12 months and within 24 months	20	0	16.0	4.6%	16.0	4.6%
24 months and within 5 years	30	0	10.0	2.9%	60.0	17.1%
5 years and within 10 years	40	10	27.0	7.7%	27.0	7.7%
10 years and above	90	30	297.3	84.9%	213.5	60.9%
Total			350.3	100.0%	350.3	100.0%

Prudential Indicators

41. Appendix 2 compares the expected outturn for the prudential indicators with prior year and that approved by February 2012 Council.

42. Capital expenditure is forecast to be £15 million below the current strategy due mainly to slippage on the schools expansion programme. It is likely that the expenditure will end the year lower, and receipts higher, impacting favourably on the prudential indicators.

43. Most of the indicators are in line or slightly better than projected at the start of the year. The one exception is the impact of the cost of debt and depreciation

(MRP) linked to new capital borrowing on council taxes and rents (table 5). The substantial increase for the General Fund is due to lower capital receipts to date, which is therefore not available to offset the cost of short life assets in the MRP calculation.

44. These variations are all discussed in more detail in individual budgetary reports.

FINANCIAL IMPLICATIONS

45. Financial matters are integral to the report.

PERFORMANCE ISSUES

46. The Council meets the requirement of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practice for Treasury Management. The report above demonstrates how value for money has been achieved by maximising investment income and minimising borrowing costs, while complying with the Code and Council Policy.

ENVIRONMENTAL IMPACT

47. There is no environmental impact.

RISK MANAGEMENT IMPLICATIONS

48. Under the current economic climate there is a risk that the Council could lose its deposits due to failure of a counterparty.

Risk included on Directorate risk register? Yes
Separate risk register in place? No

Equalities implications

49. There is no direct equalities impact.

Corporate Priorities

50. This report deals with Treasury Management activity and the Prudential Code which underpin the delivery of the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson Date: 10 January 2013	√	Chief Financial Officer
Name: Jessica Farmer Date: 11 January 2013	√	On Behalf of Monitoring Officer

Section 4: Contact details and background papers

Contact: George Bruce (Treasury & Pension Fund Manager) tel: 020-8424-1170)

Background Papers: Report to February 2012 Cabinet.

Counterparty Policy

The counterparty policy for investments is reviewed annually and approved by both Cabinet and Council, the latest review being in February 2012. The table below identifies the banks in use at the year-end listed against the appropriate counterparty criteria as at **31st October 2012**. October's balances have been used to illustrate the impact of the revised counterparty policy discussed below.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories.

Counterparty limits are approved by the Section 151 Officer in accordance with the Council's Treasury Management Practices.

Specified investments are considered low risk and relate to funds invested for up to one year. Non-Specified investments sometimes offer the prospect of higher returns but carry a higher risk and may have a maturity beyond one year. All investments and borrowing are sterling denominated.

All credit ratings will be monitored in house with the help of Sector who alert the Council to changes in Fitch ratings through its creditworthiness service.

If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as an investment will be withdrawn immediately.

Specified Investments

All such investments will have maturities up to a maximum of 1 year, meeting the minimum rating criteria where applicable. The instruments and criteria to be used are set out in the table below.

Instrument	Minimum Credit Criteria	Max. maturity period	Year -end Counterparties	31.10.2012 Balances £'m
Debt Management Agency Deposit Facility	Government backed	12 months	N/A	0.0
Term deposits – other LAs	Local Authority issue	12 months	N/A	0.0
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support B Individual AAA Sovereign	12 months	Svenska Handelsbanken	10.0
Money Market Funds	AAA	daily	3 funds	0.0
Total Specified Investments				**10.0**

Non Specified Investments

	Minimum Credit Criteria	Max. maturity	Year -end Counterparties	31.10.2012 £'m
Term deposits – banks and building societies	A Long Term F1 Short-term 1 Support B Individual UK or AAA Sovereign	3 months	Nationwide BS	5.0
UK nationalised Banks [RBS & Lloyds / HBOS]	F1 Short-term 1 Support	36 months	Lloyds/HBoS RBS	55.0 39.0
Callable Deposits	F1 Short term A Long Term 1 Support	3 months		0.0
Total Non Specified Investments				**99.0**
Total Investments				**109.0**

The counterparty limits approved by Cabinet in February 2012, were £30 million for each of Lloyds and RBS and £20 million for all others. The Lloyds and RBS limits were each increased to 50% of total investments in October 2012. As these banks offer the most attractive rates, deposits were shifted from Barclays, Svenska, Nationwide and money market funds to the two part nationalised banks.

New Investments from 1st April 2012

Listed below are the longer term investment transactions made in the year. Daily liquidity deals are not separately quantified.

Month	Bank	Value	period	Interest rate
Apr-12	Lloyds	£3m	12 months	3.00%
May-12	RBS	£10m	12 months	2.25%
May-12	RBS	£5m	6 months	1.26%
Jun-12	RBS	£5m	12 months	2.25%
Jun-12	Lloyds	£5m	12 months	3.00%
Jul-12	Nationwide	£3m	3 months	0.60%
Aug-12	Lloyds	£2m	24 months	3.20%
Sep-12	Lloyds	£5m	24 months	3.10%
Oct-12	Lloyds	£25m	12 months	2.25%
various	Svenska		35 day notice	0.87% dropping to 0.45%
daily	Money market fd		daily	average 0.45%
daily	RBS deposit a/c		daily	0.75%

Prudential Indicators

Capital Expenditure and Funding

Table 1	2011/12	2012/13	2012/13
	actual	Approved	Forecast Out-turn
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	29,226	53,192	39,349
HRA - settlement funding	88,461		0
HRA - routine	6,094	9,383	8,333
TOTAL Expenditure	**123,781**	**62,575**	**47,682**
Funding:-			
Grants	10,936	17,684	14,500
Capital Receipts	4,895	9,822	3,600
Revenue Financing	528	1,757	5,349
Major Repairs Allowance	0	8,875	2,884
Total Funding	**16,359**	**38,138**	**26,333**
Borrowing to Fund the Capital Programme	**18,961**	**24,437**	**21,349**
Borrowing - HRA settlement	**88,461**	**0**	
Total new Borrowing	**107,422**	**24,437**	**21,349**

The above table summarises capital expenditure and sources of funding. Further details are contained within the Revenue and Capital Monitoring Report. Anticipated General Fund capital expenditure of £39 million is £14 million lower than that most recent approved budget mainly due to slippage in the schools expansion programme (£9 million). The final outcome is likely to be lower expenditure than forecast. Similarly, capital receipts are only those sales completed to date and the final outcome may be higher. HRA's capital expenditure of £9 million is entirely funded from revenue sources.

Ratio of Financing Costs to Net Revenue Stream

Table 2	2011/12	2012/13	2012/13
	Actual	Approved	Forecast Out-turn
	£'000	£'000	£'000
Ratio of financing costs to net revenue stream			
Non - HRA	11.72%	12.88%	13.05%
HRA	8.61%	52.83%	51.55%

These ratios consider the affordability of capital expenditure by comparing net interest costs and depreciation with net revenues. A ratio that increases indicates that capital costs take a larger share of resources.

The General Fund ratio is broadly in line with expectation, with the increase compared with 2011-12 due to a rise in MRP on short life assets.

Net Borrowing Requirement

Table 3	2011/12	2012/13	2012/13
	Actual	Approved	Forecast Out-turn
	£'000	£'000	£'000
Net borrowing requirement			
brought forward 1 April	195,898	297,546	294,681
carried forward 31 March	294,681	311,355	305,317
In year borrowing requirement	**98,783**	**13,809**	**10,636**

The net borrowing requirement looks at the change in debt less investment balances. The increase of £10.6 million is less than the capital expenditure of £21.3 million (table 1 above) indicating that cash has been generated by revenue transactions.

Capital Financing Requirement

Table 4	2011/12	2012/13	2012/13
	Actual	Approved	Forecast Out-turn
	£'000	£'000	£'000
Capital Financing Requirement as at 31 March			
Non – HRA	253,069	270,318	261,604
HRA	149,614	152,123	149,601
Total	**402,683**	**422,441**	**411,205**
Annual change in CFR			
Non – HRA	1,599	12,655	8,535
HRA	94,417	0	-13
Total	**96,016**	**12,655**	**8,522**

The Capital Financing Requirement is the historic outstanding capital expenditure that has not been allocated to revenue. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure that is not funded from revenue increases the CFR. The value of finance leases is included. The value is greater than the outstanding borrowing (including finance leases) of £372 million, indicating the level of cash generated by revenue balances.

The increase in the year represents net new capital expenditure less MRP.

Incremental Impact of capital Investment Decisions

Table 5	2011/12	2012/13	2012/13
	actual	Approved	Forecast Out-turn
	£'000	£'000	£'000
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	26.74	19.65	56.53
Increase in average housing rent per week	-14.31	21.94	20.66

The incremental ratios identifies the impact of the cost of debt and depreciation (MRP) linked to new capital borrowing on council taxes and rents. A high or growing ratio would suggest that council taxes or rents will have to increase to fund the capital expenditure programme.

The ratio ignores the favourable impact of assets that have become fully depreciated and drop out of the MRP charge.

The substantial increase for the General Fund is due to lower capital receipts to date, which is therefore not available to offset the cost of short life assets in the MRP calculation. The final outcome is likely to be more favourable due to less expenditure and more receipts than provided for in the calculation.

Ratio of Net to Gross Borrowing

Table 6	2011/12	2012/13	2012/13
	Actual	Approved	Forecast Out-turn
	£'000	£'000	£'000
Net to Gross Debt Limit			
Gross borrowing	375,254	375,254	350,261
Net borrowing	294,681	311,355	295,297
Net debt percentage	79%	83%	84%
Minimum ratio		75%	75%

This indicator is designed to highlight borrowing in advance of needs, when large investment cash balances are carried relative to debt. The ratio is expected to increase (which is deemed favourable) as cash balances are reduced to fund the capital programme.

Borrowing and Investment Limits

Table 7	2011/12	2012/13	2012/13
	Actual	Approved	Forecast Out-turn
	£'m	£'m	£'m
Authorised Limit for external debt			
Borrowing and finance leases	375	432	372
Operational Boundary for external debt			
Borrowing	350	376	350
Other long term liabilities	25	28	22
Total	375	404	372
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	375	376	350
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	0	0	0
Upper limit for principal sums invested over 364 days	18	25	23

The approved operational boundary for debt is based on actual debt at the start of the year plus the net projected capital expenditure in the year. The authorised limit is based on CFR balances and includes an allowance for delayed capital receipts. Total borrowing is within both limits during the year. Investments with greater than 12 months to maturity of £23 million are within the £25 million limit.

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The Counterparty Policy

Introduction

1. The counterparty policy considers the entities to which the Council will invest its cash balances and the maximum balance it will invest with each entity. Historically, funds have been invested with UK and international banks, UK building societies and money market funds. Prior to 2008, confidence in the creditworthiness of financial institutions was high and credit ratings didn't play quite such a central role in counterparty selection. For example, Harrow and other LBs were prepared to invest in unrated building societies.

2. Since 2008 the challenges faced in investing Council funds has intensified. Financial institutions have defaulted and credit ratings continue to fall below levels that would in the past be considered safe. Bank that were once rated AAA are now A- and might soon be BBB. Part of this is a realisation that historic ratings were overly generous. An added challenge is the fall in interest rates that requires credit and / or duration risks to be taken to generate returns in excess of 0.5%.

3. In response to these developments, Harrow's counterparty policy has been amended twice in the last year and the portfolio is very different to how it looked pre 2008. The amendments have involved recognition that Lloyds and RBS, being part owned by the UK Government, are in a different, lower, risk category than other banks and merit higher maximum allocations. We have therefore raised the maximum limit on deposits with each of these two banks from 20% to 30% and most recently to 50% each of total deposits. Secondly, the required long term and short term ratings have been lowered by one or two levels to A (from AA-) and F1 (from F1+). Full use has been made of the increased limits for Lloyds and RBS as these banks throughout 2012 offered substantially higher returns on deposits. As a consequence, the portfolio has become much more concentrated with Lloyds and RBS now representing over 90% of investments.

4. Keen to stimulate lending and boost the economy, the Government and the Bank of England funding have made available low cost funds to banks and building societies. The impact has been that the rates on offer for one year and longer terms collapsed in 2012 and are now hovering below or just above 1%. In 2011, rates as high as 3% were briefly available for 1 year deposits.

Enhanced Cash Funds

5. The potential investment universe is wide and there are many types that Harrow does not currently utilise. One category that we would like to introduce into the portfolio is enhanced cash funds (also known as short dated bond funds). These share many of the characteristics of money market funds, which Harrow already uses:

   - Stand alone fund, mainly a Dublin plc, that invests in bank and corporate bonds, bank deposits and other financial instruments.
   - An appointed fund manager determines which investments to hold.
   - Investment is through the purchase of units.
   - Most have an AAA credit rating.

6. The key difference between money market (MM) funds and enhanced cash (EC) funds is the latter are permitted longer maximum average maturities. A rated MM fund has a maximum weighted average maturity (WAM) of 60 days, while EC funds typically have 360 days WAMs and many longer. This allows them to generate a higher return from buying longer dated securities. As a consequence of the longer WAM, there are a number of consequential differences between MM and EC funds:

- The value of investments in EC funds can vary being based on the underlying value of the investments. In a MM fund, any change in value is relatively small (unless a counterparty defaults) and is reflected in the declared income.
- MM funds are dealt daily with cash moving in and out on trade date. With EC funds the notice and settlement period can be up to 5 days and the funds are not suitable for intra day liquidity.
- EC funds employ a wider range of instruments and sometimes use derivatives.

7. EC funds are attractive to Harrow in that they offer a higher return than MM funds and compared with direct investments in bonds offer high levels of diversity while maintaining an overall high quality credit exposure.

8. As mentioned above, most EC funds have a credit rating, usually AAA. There is also a separate volatility rating that measures the sensitivity of the value of the fund to changes in interest rates. When market interest rates increase, the impact on the value of longer term investments is higher than short term investments. Despite the longer WAM, many have the lowest volatility ratings because they have strict policies on selling investments when prices change.

9. The attraction of EC funds is the higher returns. MM funds generally have net returns at present of between 0.3% and 0.6%, where as an EC fund with a WAM of 360 days is currently in the range 1% to 2%.

10. The use of such funds has been discussed with the Council's treasury advisor who are supportive provided the exposure is limited to 20-25% of the total deposits and we invest with higher security / lower volatility funds. Sector has an established service to advise on fund selection, priced at approximately £5,000. We will avoid funds that use derivatives as the legality of these for local authorities is unclear. Implementation will involve both a switch from MM funds and bank fixed term deposits. A maximum of £10 million invested with a single fund is proposed.

11. A proposed counterparty policy including the use of EC funds is shown below.

Other opportunities

12. In reviewing the universe of opportunities, we also considered:

- Increasing the maximum maturities for Barclays and Nationwide from 3 months to 12 months.
- Introducing new counterparties e.g. Co-op banks and smaller building societies with a 12 month maximum maturity.
- Repaying existing debt

13. Each of these offered immediate gains. However, the first two offered returns either in line with or lower than EC funds. Repaying debt had a long term significant cost due to the premiums payable.

Revised Counterparty Policy

Specified Investments (no changes)

Maximum maturity 12 months

Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	A Long Term F1 Short-term 1 Support UK or AAA Sovereign	In-house	50%	3 months
UK nationalised Banks [RBS & Lloyds / HBOS]	F1 Short-term 1 Support	In-house	50% for each of the two Groups	36 months
Callable Deposits	F1 Short term A Long Term 1 Support	In-house	20%	3 months
Enhanced Cash Funds	**AAA Credit V1 or V2 volatility Minimum fund size £500 million**		**25% Maximum £10 million per fund**	**N/A**

14. Maturities for term deposits with banks and buildings societies that meet the credit quality threshold for specified investments will also be restricted to three months.

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REPORT FOR:	**Governance, Audit and Risk Management Committee**
Date of Meeting:	23rd January 2013
Subject:	**INFORMATION REPORT – Risk, Audit & Fraud Division Activity Update**
Responsible Officer:	Julie Alderson, Corporate Director of Resources Tom Whiting, Assistant Chief Executive
Exempt:	No.
Enclosures:	

Section 1 – Summary

This report outlines the current work streams of the Risk, Audit and Fraud group of services.

FOR INFORMATION

Section 2 – Report

2.1 This report sets out progress made and future work planned in respect of the Risk, Audit and Fraud group of services, which the GARM Committee is responsible for monitoring as part of its terms of reference.

2.2 The focus of this monitoring is quarter 3 in 2012-13, October to December 2012.

2.3 As requested at the GARM Committee meeting on 29th November 2012, this report also includes an update of progress in respect of information management risks.

Emergency Planning & Business Continuity Team

2.4 In Quarter Three, the Emergency Planning & Business Continuity Team (hereafter Emergency Planning Team) was busy preparing for the integration of the emergency planning function, of Public Health into the local authority. Much of the national guidance and regional arrangements have yet to be finalised by the Department of Health. Workshops and training exercises have started to be held by the health authorities to identify and address the gaps.

2.5 In the October, the Emergency Planning Team attended a multi-agency health exercise in Hounslow. This was a well attended event with around 50 officers from the NHS Commissioning Board, Public Health England (PHE), PCTs, Local Authorities, Police, Fire, Ambulance, Environment Agency, MoD, Red Cross and St John Ambulance.

2.6 Exercise Brisbane was held in October, our annual 'Rest Centre' training exercise for the council's Emergency Response Officers (ERO). Here the EROs are able to practise their skills in looking after displaced residents during a major incident, such as an explosion or fire.

2.7 Business Continuity (BC) was promoted to local small and medium size businesses at a 'Harrow Means Business' event on the 15th October in the Members Lounge. This event was organised by the Council with partners from the local business community, including Harrow In Business, banks, lawyers, accountants, the tax office and other organisations. This all day event was well attended with a footfall of around 200.

2.8 A new schools SLA for primary schools, secondary schools and academies was developed, to offer our emergency planning and business continuity services to schools; ranging from assistance with developing emergency plans to a full day training exercise.

2.9 During November, joint work commenced on scoping a West London Alliance (WLA) BC Proposal to share 100 workstations during a disaster, and so reduce our costs in relation to the provision of a remote work site for key staff, during a business continuity incident. This work is ongoing with the other West London Boroughs.

2.10 On the 15th November, the Council hosted a multi-agency ‘Silver Command’ training exercise for our EROs and the emergency services. This event was well attended with nearly 50 officers in attendance from the Police, Fire, Ambulance, NHS, PHE, government departments and Council EROs. Here the EROs were able to practise their role as Council ‘Silver Commander’ and Local Authority Liaison Officer (LALO).

2.11 Training for Elected Members was provided on the ‘Role of a Councillor during a Major Incident’ as part of the Member Development Programme on 20th November 2012, at 7pm. Full details were sent to all councillors by the Member Development Panel. There was a good attendance level and excellent feedback was received.

2.12 During November and December, the team took part in three ‘Gold Command’ training sessions held by the London Fire Brigade (LFB), for the Chief Executive and his Gold Support Team, in his role as duty London Local Authority Gold (LLAG). The Chief Executive was on duty as the LLAG during the Christmas Holiday period. The Gold Support Team was made up of 10 officers from the Emergency Planning Team and selected EROs.

2.13 In December, the team also represented the West London Boroughs at the London Local Resilience Forum – London Risk Advisory Group meeting, to review the risks facing London.

Quarter 4 Future planned activities

2.14 January 2013

- London Multi-Agency Partnership health briefing
- London Local Resilience Forum – Local Authorities Panel – Olympic Review
- London Health Restructure emergency planning update
- Business Continuity Plan and Information Governance Toolkit health review
- Further examination of the potential for joint working with LB Barnet
- LLAG workshop for EROs
- Public Health transfer project meetings

2.15 February 2013

- Gold training exercise for Senior Managers
- Annual Borough Emergency Control Centre (BECC) training for EROs
- Continuing the review of the BT Smartnumbers service

2.16 March 2013

- Exercise Geelong – annual Cross Council Emergency Duty and LALO training
- Further IT Disaster Recovery discussion with Capita IT Service
- Review the BC plans in the council post restructure

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Health & Safety Service

External Assurance

2.17 A series of improvements have been introduced in waste and recycling arrangements following a review and follow up letter from the local HSE inspector. These include supervisory and monitoring arrangements and a traffic management review on the Civic Amenity site.

Improvement Plan

2.18 The Corporate Health & Safety Service is continuing to work through the two year improvement plan. Particular focus has been made on training.

Health and Safety Policy and Guidance

2.19 Health and safety codes of practice continue to be revised. The following documents were approved at the December 2012 Corporate Health & Safety Group meeting.

- HSCOP 02 - Manual Handling
- HSCOP 04 - Control of Substances Hazardous to Health
- HSCOP 41 - New & Expecting Mothers
- HSCOP 22 - Hand and Arm Vibration
- HSCOP 15 - Portable Electrical Appliance Testing

Health and Safety Groups

2.20 The Directorate & Corporate Health and Safety groups, including the Health at Work group, have continued to meet in quarter three, with the exception of the schools forum which meets every term

Health and Safety Visits, Inspections and Audits

2.21 The service has continued to provide health and safety support to the organisation including on site training & inspections, incident investigation and completion of the e-self audit tool.

Education Outside the Classroom

2.22 The Service has continued to review educational visits for schools, including residential, activity based and overseas trips.

Occupational Health

2.23 A procurement exercise has been completed in this period for the provision of an Occupational Health and Employee Assistance Programme and the contract has been awarded to a new provider. Considerable savings have been made in procuring this contract which will commence on the 1st February 2013.

Accidents at Work

2.24 The Council continues to scrutinise quarterly, half yearly and annual accident data for monitoring by the Health and Safety Groups.

2.25 There have been approximately 140 incidents in this period, 12 of which have required reporting to the Health and Safety Executive under the RIDDOR regulations. This is broadly consistent with previous years.

2.26 The majority of incidents continue to occur in the Children & Families Directorate (90), principally in schools. The majority of reportable incidents (11) relate to non employees, generally pupils, who have sustained an injury either in the playground or in a P.E. lesson.

Health and Safety Training Data

2.27 The Corporate Health and Safety Service has continued to offer training across the Council in line with the published training programme. Thirteen courses have been delivered in this period including fire safety awareness and control of substances hazardous to health. Work has also commenced on developing e-learning training courses to ensure the service delivers the Council's health and safety training needs.

Management Assurance

2.28 The Directorate and Corporate Health and Safety groups continue to monitor and enable implementation of the two year improvement plan.

Plans for January 2013 - March 2013

2.29 The key actions for the remainder of 2012/13 include the following:

- Completion of the implementation of the audit tool across the Council.
- Continued delivery of the two year improvement plan.
- The provision of a new contract for the delivery of the Occupational Health Service and the Employee Assistance Programme.
- Continued health and safety support and advice within Harrow Council.
- Delivery of proactive and reactive data to the Health and Safety Groups and forums to enable effective monitoring.
- Commencing the recruitment of a permanent team in the Corporate Health and Safety Service.

Insurance Service

Municipal Mutual Insurance

2.30 Before 1992 Municipal Mutual Insurance (MMI) underwrote approximately 95% of all local government insurance, including the insurance for London Borough of Harrow. Following significant losses in the early 1990s MMI ceased to write new business and 'went into run off' on 30 September 1992. In order to ensure a smooth 'run off', a contingent Scheme of Arrangement became effective in January 1994 under which the Company would continue to pay all creditors in full and be managed by the Directors unless at any time in the future a solvent run-off cannot be foreseen, at which point the payment provisions of the Scheme would be triggered and management of the Company would pass to the Scheme Administrator.

2.31 As verbally reported to the last meeting of the Committee, on 13th November the Scheme of Arrangement was triggered, as the Directors could no longer foresee a solvent run-off.

2.32 As a result the Council, along with all other ex-MMI insured organisations, will have a liability for a 'clawback' of certain claims already paid and only a reduced percentage of claims outstanding and future claims would be paid. The Scheme Administrators are legally obliged to report no later than 90 days from the date upon which the Scheme was triggered (i.e by 13 February 2013) to confirm the amount of clawback the Council is obliged to pay and following this the Council will have no less than four weeks to make payment, as per the scheme rules.

2.33 In anticipation of the scheme being triggered, the Council's external insurance actuary was commissioned to (a) provide an estimate of the council's liabilities under the clawback arrangements and (b) a more detailed forecast of total potential future uninsured losses based on the Council's historic risks.

2.34 The total estimated potential liability is £2m, inclusive of the clawback, equating roughly to £1m in relation to the clawback and £1m in relation to future claims no longer payable in full by MMI (or uninsured). £1.1m has already been provided for in the 2011-12 accounts. There is also an insurance reserve of £0.5m that is proposed to add to the provision. The extent to which a further provision is required will be reviewed as part of the overall insurance provision at the year end.. It should be noted that it will take many years before the full extent of claims will crystalise and the provision will be continually reviewed in the light of actual claims made.

2.35 The figure of £2m is very low in comparison with the actuary's similar work on other authorities. In the actuary's view this is expected for Harrow due to its relatively low clawback amount and lack of material asbestos-related claims to date.

Integration of Public Health services

2.36 Joint working with Barnet and the Council's insurers has commenced to ensure that any additional risks arising through the Public Health transition are adequately insured. Early indications are that any clinical risks can be covered under the Clinical Negligence Scheme for Trusts (CNST) administered by the NHS Litigation Authority. Non-clinical risks will be covered by extension to the Council's existing insurances with Zurich Municipal.

Driver Age Restrictions

2.37 A project has commenced to explore the viability of removing current age restrictions for drivers of Council vehicles and to identify the associated cost and risks to the Council.

Tender of Insurance contracts

2.38 Re-tendering of the Insurance London Consortium (ILC) contracts for Motor, Crime and Terrorism insurance, and the Engineering inspection contract is underway. Invitations to Tender were issued at the start of December and so far several expressions of interest have been received across the various classes of business.

Insurance for Academies

2.39 In conjunction with other ILC members a project has commenced that, it is hoped, will culminate in the creation of a scheme for offering insurance to Academies.

Main tasks for the next period:

2.40 During the final quarter the following work streams will be service priorities:

- Ensure that the Council's insurance arrangements are extended, as required, to cover Public Health duties.
- Evaluation of the ILC tender responses for the external insurance contracts for Motor, Terrorism and Crime insurance, and the Engineering Inspection contract.
- Renewal of the Council's Property and Liability insurance contracts in line with existing long-term agreements.
- Launch of the LACHSweb online reporting module to internal departments and schools to facilitate more efficient reporting of claims.
- Completion of an engineering audit in conjunction with the Council's insurers to ensure the accuracy of the Council's engineering inspection schedule.

- Completion of a tree root risk management initiative to identify and recommend proposals for cross-Council working to reduce the cost of tree root claims against the Council.

- Conclusion of the project exploring driver age restrictions for the use of Council motor vehicles and, if appropriate, implementation of the revised policy.

Internal Audit

2.41 The tables below set out the internal audit work progressed in Q3:-

Reviews finalised:

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING	ACTION PLAN OWNER(S)
Core Financial Systems Key Control Review Corporate Accounts Receivable 2011/12 Assurance Rating = Amber	27.11.12	Overall, 79% (11) of the controls were operating effectively, with a further 21% (3) partially operating. Although these percentages indicate an amber/green assurance, the report has been rated as amber assurance due to the 4 high risk recommendations. Each of the 14 key controls is made up of a number of individual elements that were each tested. A total of 6 of the 7 recommendations have been agreed for implementation. The remaining recommendation has been partially agreed which relates to creating a workflow route for authorisation of a debtor request.	Service Manager, Access Harrow/ Service Manager, Pensions & Corporate Accounts Payable Receivable

Reports issued:

REPORT	ISSUE DATE	RESPONSE DUE	ASSURANCE RATING/CONTROLS OPERATING	ACTION PLAN OWNER(S)
Transformation Programme – Engagement & Culture Change Reablement Project Report Assurance Rating = Green	18.12.12	11.01.13	Green report. Overall 80% of the expected controls were found to be in place and operating effectively, 8% were substantially operating and 12% were partially in place.	Director of Adult Social Services

Transformation Programme – Engagement and Culture Change Procurement Report Assurance Rating = Red/Amber	18.12.12	11.01.13	Red/Amber report. Overall 17% of the expected controls were found to be in place and operating effectively, 38% were substantially operating, 33% were partially in place with a further 13% not operating.	Interim Head of Procurem ent
Transformation Programme – Engagement and Culture Change Customer Contact Access and Decide (CCAD) Report Assurance Rating = Green	19.12.12	14.01.13	Green report. Overall 72% of the expected controls were found to be in place and operating effectively and 28% were substantially operating.	Head of Service, Access Harrow
Longfield Primary School Governance & Financial Controls review Assurance Rating = Amber/green	6.12.12	10.01.13	Amber/green report. Overall 67% of the expected controls were found to be in place and operating effectively, 12% were substantially operating and 21% were partially in place. 16 recommendations have been made to address the weaknesses identified, 2 were rated as high risk, 9 were rated as medium risk and 5 were rated as low risk.	Headteac her
Earlsmead Primary School Governance & Financial Controls review Assurance Rating = Amber/green	10.12.12	16.01.13	Amber/green report. Overall 77% of the expected controls were found to be in place and operating effectively, 11% were substantially operating, 10% were partially in place with a further 2% not operating. Although percentages indicate a green assurance rating, the report is rated as Amber/Green due to one high risk recommendation.	Headteac her
Stag Lane Junior School Governance & Financial Controls review Assurance Rating = Amber/green	17.12.12	14.01.13	Amber/Green report. Overall 75% of the expected controls were found to be in place and operating effectively, 13% were substantially operating, 10% were partially in place with a further 2% not operating. Although percentages indicate a green assurance rating, the report is rated as Amber/Green due to two high risk recommendations.	Headteac her

Transformation Programme – Engagement and Culture change Independent Living (For Young Care Leavers) report Assurance Rating = Green	19.12.12	14.01.13	Green report. Overall 81% of the expected controls were found to be in place and operating effectively, 13% were substantially operating and 6% were partially in place. The different nature of a lean project means that some of the controls cannot be applied in the same way as for a larger project.	Divisional Director Early Interventi on Services/ Service Manager – Children's & Commissi oning

Follow-ups issued:

REPORT	DATE OF FOLLOW-UP MEMO	CONCLUSION
Norbury School CCTV – Follow up Original assurance rating = Amber/green Re-assessed assurance rating = Green	5.11.12	It was established that the action plan to address all 5 recommendations has been fully implemented and evidence has been obtained to support this.
Stanburn Junior School – CCTV Follow up Original assurance rating = Red/amber Re-assessed assurance rating = Green	5.11.12	It was established that the action plan to address all 7 recommendations has been fully implemented and evidence has been obtained to support this.

2.42 The team have also been working on a number of other school financial control reviews, a review of personalisation, several reviews at the West London Waste Authority and a review of the management assurance process. Progress against the plan has however been impacted by a team member breaking her wrist and her work being redistributed amongst the team.

Corporate Anti-Fraud Service

2.43 A comprehensive mid year report for anti-fraud work was provided at the last meeting and a full year report will be provided to the June meeting, therefore this is an interim update on work undertaken during quarter 3.

2.44 In December a further blue badge fraud drive took place in conjunction with the Greenhill Safer Neighbourhood Team and the Parking Enforcement Team and 6 offenders were identified in Greenhill Way. They were each issued with Penalty charge Notices and will be subject to further fraud enquires in the coming weeks.

2.45 6 Housing properties were returned to Council management as a result of identified tenancy fraud and misuse.

2.46 The service continued to enjoy good media coverage with local press on successful cases.

Risk Management

2.47 During Quarter 3 work has been on-going to produce the annual Statement of Risk Appetite of the Council as required by the UK Corporate Governance Code, which will be incorporated into the 2013/14 risk management strategy and reported to the Committee early in the new financial year.

2.48 This is the second time an annual risk appetite statement has been produced and to give the Committee an insight into the process, three examples of individual risk appetite statements are attached at the appendix, which will collectively feed into an overall corporate statement of risk appetite. The Committee's comments are welcomed and will be incorporated as appropriate before the corporate document is submitted to Cabinet for approval in February.

2.49 Although the exercise is ongoing, early indications are that the Council will take on a medium level of business risk in 2013/14, with specifically the ability and the capacity to manage its financial risks being the critical factor**.** This is an increase in the risk appetite from the current year as the financial climate dictates a higher level of taking managed risks.

Information Management

2.50 Progress in Quarter 3 was specifically around the following:

CSB/CLG Health Checks

2.51 The Client Team has completed one-to-one discussions with most CSB members and many other Directors to discuss the information security strategy, understand how they personally work with sensitive information and offer any advice on improving the handling of this data.

Fax Machines

2.52 Faxes were raised as a potential source of data loss through operator error on sending faxes as well as incoming material being open to view. An audit identified 41 fax machines (in Civic Centre) of which, in consultation with the business, we are able to decommission some of these machines. We will now arrange for the non-essential machines to be disconnected, rerouting the phone numbers to another fax where necessary or otherwise decommissioning the lines.

Confidential Paper Waste

2.53 After recognising that the white bin sacks currently used for confidential waste are not secure and that confidential waste is also being disposed of in the general recycling, we have been working with Facilities to select a supplier who will manage the disposal of all paper waste in a secure manner. The supplier will manage collection of locked wheelie bins (to be located on each floor of the civic centre) and the secure shredding of the paper on Council site premises.

Revised Policies & Procedures

2.54 The Council's complex set of information management policies has been reviewed and consolidated into a single Information Governance and Security Policy. This policy contains within it the Acceptable Use Policy, which has been radically rationalised, simplified and clarified so that it summarises everything that every staff member needs to understand about our information security.

Secure Document Bags & USB Sticks

2.55 We have sourced lockable document bags for transporting sensitive documents. These should be used by anyone who is carrying sensitive documents such as personal data on social care clients and politically or corporately sensitive papers unless they have another lockable carrier. We have also sourced a new supply of encrypted USB memory sticks branded with the Harrow Logo so that they can easily be distinguished from sticks that may be given away free at events and shows or personal USB sticks.

Awareness Campaign

2.56 The main cause of data security breaches within the council is a lack of awareness and understanding of the risks and the policies, procedures and processes the Council has established to mitigate them. We have been working with Communications to develop a campaign that will be fronted by the fictional robot SID (**S**ecure **I**nformation & **D**ata). The campaign will help to develop a good level of information security awareness so that staff can perform their day-to-day duties and make sensible information security decisions.

Work Streams for the remainder of 2012/13:

Information Security Campaign

2.57 Through the campaign we will be introducing the new Information Governance and Security Policy, distributing secure document bags and USB sticks and encouraging the adoption of a clear-desk policy. There will be a soft implementation of policies as we encourage staff to highlight problems in the way they handle their data currently and work with us on resolving these gaps. Once the risks are well understood and we have taken measures to address the obvious breaches then we can enforce a harder line on compliance supported by the compliance software solution. Civic Centre/Out buildings floor walking to commence at the end of January 2013.

Information Architecture

2.58 Working with Capita to develop and implement a Corporate Information Architecture to be used for the Mobile and Flex corporate project.

Information Security On-Line Training module

2.59 The information security module will be re-vamped to reflect Harrow Council local procedures and new policies with a view of all staff being requested to undertake the training again from the 1st April 2013.

Implement Compliance Software

2.60 The Client Team has identified a policy compliance solution to simplify, achieve, and sustain business compliance across the authority. This solution can also be deployed for staff who are not office-based and do not use IT on a regular basis as part of their duties. This product would enable us to track training, publish policies and restrict access accordingly, providing accurate data on compliance to the organisation and to line managers. It will provide a vehicle for an ongoing awareness campaign allowing updates and reminders to be published to users as they connect to the IT systems.

Nominating Information Asset Owners

2.61 CSB has previously endorsed Tom Whiting to be the individual to act as the 'Senior Information Risk Owner' who will provide assurances on the controls and procedures for managing information to the Chief Executive. We now need to extend that governance to appoint *Information Asset Owners* (IAO) to own and be responsible for each Directorate's information assets and *Information Asset Controllers* (IAC) to manage specific assets within their respective Directorate.

2.62 We will be holding workshops to get the IAO and IACs together in each directorate to understand what these roles are, what the assets of the Directorate are and what risks and issues they need to be manage.

Physical Security

2.63 To eliminate the risk of unauthorised access to buildings and data, disclosure of personal information, data theft, accidental and environmental damage etc, ISO best practice guidelines recommend that physical security perimeters (such as card controlled entry systems and staff identification) shall be used to protect areas that contain information and information processing facilities. We have been working with Facilities to agree a process that would ensure that everyone in the Civic Centre, other than day visitors, will be issued with a photo-id and also to implement other physical security controls that will ensure that our buildings are protected at all times.

Section 3 – Further Information

3.1 None

Section 4 – Financial Implications

4.1 The work of the Risk, Audit and Fraud division is carried out within the budget available and supports the achievement of financial objectives across the Council. Specific comments on financial implications within service areas are contained in the main body of the report.

Section 5 - Equalities implications

5.1 Each service within the division has undertaken an Equalities Impact Assessment and no equalities implications have been identified.

Section 6 – Corporate Priorities

6.1 Collectively the work of the division contributes to the delivery of all the corporate priorities through supporting the Council as a whole to achieve its targets and objectives.

Name: Steve Tingle	X	on behalf of the Chief Financial Officer
Date: 10 January 2013		

Section 7 - Contact Details and Background Papers

Contact: David Ward, Divisional Director – Risk, Audit & Fraud.
Tel: 020 8424 1781

Background Papers: None.

STATEMENT OF RISK APPETITE 2013-14

APPENDIX

Environment & Enterprise Directorate

Overall and in the main during 2013-14 the Environment and Enterprise directorate will have a Cautious to Open appetite for risk.

In terms of our general business strategy we will seek during the current period of austerity to re-design the nature of our public service offering to ensure our services are affordable, are value adding to Harrow residents and also continue to improve. We will have relatively open appetite for risk in this area and will be prepared to invest for targeted reward and to be innovative and flexible in alterations to service delivery models provided these can be managed to medium and acceptable levels of risk and maintain service standards.

However in regard to financial risk we will be more cautious in risk terms and will ensure (given the current financial climate of reducing resources) that all directorate spending is prioritized, efficiently deployed and stays within our available cash envelop with value for money being our primary concern.

In terms of legal and regulatory risk we will be similarly cautious in the amount of risk we are willing take on as a lot of our work and services are statutory and involve acting in an enforcement role (where we must be resilient) and which can be susceptible to a relatively high degree of legal challenge and so we would want to be reasonably sure we would win any such challenge.

Notwithstanding this, we will pursue a relatively open appetite for reputation and credibility risk as we realize that the re-design of our public service offer to residents, which is necessary given the current financial climate of austerity, and also desirable in order for those services to continue to improve, could expose the Directorate to scrutiny and also potential adverse public criticism. In such circumstances we will manage any potential risk to reputation in a proactive, controlled and measured way so that exposure in this area is minimized.

For further information on Environment and Enterprise directorate risk appetite in 2013-14 please see the Strategic Risk Profile and its Risk Appetite Influencing Factors attached below at Appendix A and B respectively

Caroline Bruce
December 2012

Strategic Risk Profile (as indicated by the shaded areas)

Appetite / Risk Type	AVERSE	MINIMALIST	CAUTIOUS	OPEN	SEEKING
	Avoidance of risk & uncertainty is a key organisational objective	Preference for very service delivery options that have a low degree of inherent risk and only have a potential for limited reward.	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (quality, value for money etc).	Eager to be innovative and to choose service delivery options offering potentially higher customer satisfaction/quality (but despite greater inherent risk).
Strategic	Activities confined to existing services and business /delivery models with no departure from these unless enforced. Strong central senior management control.	Activities strongly confined to existing services and business /delivery models. Variations only considered if they have a low degree of inherent risk. Strong central senior management control.	Only prepared to accept essential and incremental changes in existing services, and business/delivery models Variations undertaken provided risk after mitigation is managed to low level. Strong central senior management control. Risks, costs and control often shared/spread via joint ventures/partnerships.	Prepared to invest for targeted reward and to be flexible in alterations service/business/delivery models provided these are managed to medium /acceptable levels of risk. Strong but looser central senior management control. Joint ventures and partnerships still a strong option.	Council service delivery models under constant review. Organization highly geared and flexible to respond rapidly to self-created or emergent opportunities. Expansion actively sought. "Early-mover" in local authority terms. High levels of resourcing and risk taking. High levels of strategic autonomy in directorates & business units.
Financial & VFM	Avoidance of financial loss is a key objective. Only willing to accept the low cost option. Resources withdrawn from nonessential activities.	Only prepared to accept the possibility of very limited financial loss if essential. VfM is the primary concern.	Prepared to accept the possibility of some limited financial loss. VfM still the primary concern but willing to also consider the benefits. Resources generally restricted to core operational targets.	Prepared to invest for increased service quality and then minimize the possibility of financial loss by managing the risks to a tolerable level. Value and benefits considered (not just cheapest price). Resources allocated in order to build on potential opportunities	Prepared to invest for the best possible quality/return and accept the possibility of financial loss (although controls may be in place). Resources allocated without firm guarantee of return – 'investment capital' type approach.
Operational & Service Delivery	Protective approach to objectives – aim to maintain or protect, rather than to consider change. Priority for tight management controls and oversight with limited devolved decision making authority. General avoidance of systems / technology and developments.	Innovations avoided unless essential. Decision making authority held by senior management. Only essential systems / technology developments to protect current services.	Tendency to stick to the status quo. Innovations generally avoided unless necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvements to or protection of current services.	Innovation is supported, with demonstration of commensurate improvements in service delivery and management control. Systems / technology developments considered to enable service delivery. Powers for non-critical decision-making may be devolved	Innovation/radical change pursued – desire to break the mould' and challenge current working practices. New technologies viewed as key enablers of service delivery. High levels of devolved authority/task culture – management by trust rather than tight control
Legal & Regulatory	Avoid anything which could be challenged even unsuccessfully. Play Safe.	Want to be very sure we would win any challenge.	Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge	Challenge will be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing are high and consequences serious. But a win would be seen as a great coup.
Reputation & Credibility	Minimal tolerance for any actions/decisions that could possibly lead to Member, regulatory, media or public scrutiny /adverse criticism of the Council or the Directorate.	Tolerance for risk taking limited to those events where there is no chance of any significant Member, regulatory, media or public criticism of the Council or the Directorate	Tolerance for risk taking limited to events where there is little chance of Member, regulatory, media or public criticism of the Council or the Directorate should there be a failure	Appetite to take decisions with potential to expose the Council or Directorate to scrutiny and adverse criticism but only where appropriate steps have been taken to minimize any exposure.	Appetite to take decisions that are likely to bring scrutiny by Members, regulators, media and the public but where potential benefits outweigh the risks.

Risk Appetite Influencing Factors

APPETITE	FACTORS INFLUENCING E&E RISK APPETITE IN 2013-14
Strategic	In 2013-14 we will have an Open appetite for strategic risk and will be innovative and flexible in the design and implementation of alternative business and service-delivery models in E&E and will choose those models that are most likely to result in successful/improved delivery while also at the same time providing an acceptable level of return (eg improved efficiency and value form money) for the Council. Key factors influencing our appetite in this area are firstly that the current models are no longer affordable by the Council within its cash envelop and secondly also as models they need to be changed in order that they can continue to improve services. PRISM is a key example in practice of our open approach to strategic risk.
Financial & VFM	We are Minimalist to Cautious in our attitude to financial risk. The key drivers of this attitude are firstly that E&E finances must be managed within the existing cash envelop in budgetary discipline terms (particularly as the Council has a relatively low level of reserves to offset against any overspends) and secondly our finances must also represent value form money in how they are spent. However we will at the same also look at the benefits of any spending as part of our approach to financial risk and consider carefully and proportionately to our resources how service-quality as well as service-cost can be best optimized.
Operational & Policy Delivery	We have an Open appetite for service delivery risk. Key factors driving our appetite are as outlined above in regard to strategic risk and importantly both innovation and technology will be key enablers of the service (eg as in PRISM above) that we will offer to residents and both will be supported with demonstration of commensurate improvements in service delivery so placing us in the Open category. Levels of innovation required in service re-design and delivery (for example in the rationalization of property assets and the development of our strategies for jobs and entrepreneurial opportunities in the borough) will also require relatively more devolving of non-critical decision-making powers to divisional, service and front-line managers themselves and their teams rather than management of such managers via tight central control, which further places us in the Open category.
Legal & Regulatory	We will have a Cautious appetite for legal and regulatory risk. We are a directorate with responsibility for delivering universal statutory services (such as in planning, building control, environmental health and parking) and are custodians of the relevant statutory duties in regard to those services. This requires us to behave with care and with caution in regard to legal and regulatory risk and also to be seen to be doing this, particularly as we act in an enforcement role which can be susceptible to legal challenge. To be challenged successfully would carry significant financial, professional and reputation costs for the Directorate and also for the wider Council and this drives our cautious appetite.
Reputation & Credibility	We will have an Open appetite for reputation and credibility risk as we realize that the re-design of our E&E public service offering to residents, which is necessary given the current financial climate of austerity, and also desirable in order for those services to continue to improve, could also expose the Directorate and/or the Council to scrutiny and also potential adverse public criticism. In such circumstances we will manage any potential risk to reputation in a proactive, controlled and measured way so that any exposure in this area is minimized.
OVERALL RISK APPETITE RATING	CAUTIOUS TO OPEN

(Model Source: HM Treasury - Thinking About Risk - Managing Your Risk Appetite 2006)

PMO

During 2013-14 we will, in the main have a Cautious to Open appetite for risk.

The PMO (working in conjunction with council directorates and organizational partners who lead on projects) will be willing to consider all potential service delivery options in project evaluation. The PMO will support choosing those projects that are most likely to result in successful and improved service delivery to our residents but which will also provide an acceptable level of reward/return to the Council (eg in quality, value for money and customer focus but also in the areas of efficiencies, savings, cost improvement and economies of scale). In this respect we will be relatively risk-seeking.

However the PMO will have a more cautious risk appetite, particularly in regard to the level of financial risk we will take and in our attitude to legal and regulatory risks. In terms of our finances, we have to deliver more with significantly less resources and therefore cannot afford to take a significant level of financial risk in project work. In terms of legal and regulatory risk, we will be cautious as we would want to be sure of winning any legal challenge (as previous challenges have been successful, at both a local level and at a wider local authority level) and we will only take this risk after seeking strong and clear advice from the Council's legal services department.

For further details please see the PMO Strategic Risk Profile and its Risk Appetite Influencing Factors attached at Appendix A and B respectively.

Mala Kripalani
December 2012

PMO Strategic Risk Profile

Appetite / Risk Type	AVERSE	MINIMALIST	CAUTIOUS	OPEN	SEEKING
	Avoidance of risk & uncertainty is a key project objective	Preference in projects and project objectives for very safe service delivery options that have a low degree of inherent risk and only have a potential for limited reward.	Preference in projects and project objectives for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.	Willing to consider all potential delivery options in projects and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (quality, value for money etc).	Eager to be innovative in projects and project objectives and to choose service delivery options offering potentially higher customer satisfaction/quality (but despite greater inherent risk).
Strategic	Project objectives confined to existing services and business /delivery models with no departure from these unless enforced. Strong central senior management control.	Projects strongly confined to existing services and business /delivery models. Variations only considered if they have a low degree of inherent risk. Strong central senior management control.	Projects are prepared to accept essential and incremental changes only in existing services, and business/delivery models Variations undertaken provided risk after mitigation is managed to low level. Strong central senior management control. Risks, costs and control often shared/spread via joint ventures/partnerships.	Projects are prepared to invest for targeted reward and to be flexible in alterations service/business/delivery models provided these are managed to medium /acceptable levels of risk. Strong but looser central senior management control in projects. Joint ventures and partnerships still a strong option.	Service delivery models in projects under constant review. Organization highly geared and flexible to respond rapidly to self-created or emergent opportunities. Expansion actively sought. 'Early-mover" in local authority terms. High levels of resourcing and risk taking. High levels of strategic autonomy in directorates & business units.
Financial & VFM	Avoidance of financial loss is a key objective of projects. Only willing to accept the low cost option. Project resources withdrawn from nonessential activities.	Only prepared to accept the possibility of very limited financial loss if essential in key projects. VfM is the primary concern.	PMO prepared to accept the possibility of some limited financial loss in projects. VfM still the primary concern but willing to also consider the benefits. Resources generally restricted to core operational targets.	PMO prepared to invest for increased service quality in projects and then minimize the possibility of financial loss by managing the risks to a tolerable level. Value and benefits considered (not just cheapest price). Project resources allocated in order to build on potential opportunities	Prepared to invest for the best possible quality/return in projects and accept the possibility of financial loss (although controls may be in place). Project resources allocated without firm guarantee of return – 'investment capital' type approach.
Operational & Service Delivery	Protective approach to project objectives - aim to maintain or protect, rather than to consider change. Priority for tight management controls and oversight with limited devolved decision making authority. General avoidance of systems / technology and developments.	Innovation avoided in project objectives unless essential. Decision making authority held by senior management. Only essential systems / technology developments addressed in projects in order to protect current services.	Tendency to stick to the status quo in projects. Innovations generally avoided unless necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvement of current services.	Innovation is supported in project objectives, with demonstration of commensurate improvements in service delivery and management control. Systems / technology developments considered to enable service delivery. Responsibility for non-critical decisions may be devolved	Innovation/radical change pursued in project objectives – desire to break the mould' and challenge current working practices in projects. New technologies viewed as key enablers of service delivery in projects. High levels of devolved authority/task culture – management by trust rather than tight control
Legal & Regulatory	Avoid anything in project objectives which could be challenged even unsuccessfully. Play Safe.	Want to be very sure we would win any challenge as a result of work undertaken in projects.	Limited tolerance for sticking our neck out in project work. Want to be reasonably sure we would win any challenge	Challenge will be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing are high and consequences serious. But a win would be seen as a great coup for the PMO.
Reputation & Credibility	Minimal tolerance for any actions/decisions in projects that could possibly lead to Member, regulatory, media or public scrutiny /adverse criticism of the Council or the	Tolerance for risk taking limited to projects where there is no chance of any significant Member, regulatory, media or public criticism of the Council or the Directorate	Tolerance for risk taking limited to events where there is little chance of Member, regulatory, media or public criticism of the Council or the Directorate should there be a failure	Appetite to take decisions in projects with potential to expose the Council or Directorate to scrutiny and adverse criticism but only where appropriate steps have been taken to minimize any exposure.	Appetite to take decisions in projects that are likely to bring scrutiny by Members, regulators, media and the public but where potential benefits outweigh the risks.

	Directorate.				

Risk Appetite Influencing Factors

APPETITE	FACTORS INFLUENCING PMO RISK APPETITE IN 2013-14
Strategic	We have an Open appetite for strategic risk. The key factor here is the compelling need for projects to be wide-ranging, innovative and transformational in structures, technology and service delivery (all of which carry increased risks to the project) in order that we can meet the deep and challenging reduction in our resources as required by the Councils MTFS and which extends to 2016/17. We have to do more with significantly less resources over these years. Partnerships and joint ventures are key projects aspect of how we will achieve this. For example, in establishing a Community Budget concept in our partnerships, this goes beyond generating savings, efficiencies and creating economies of scale, but also requires the innovative, re-engineering of services (all of which will impact on residents) and which will in turn require a more Open attitude to risk. Further examples of key projects which need to have a similar Open appetite for risk in order to be successful include PRISM, Families First and reviews of Adults Social Care.
Financial & VFM	We have a Cautious appetite for financial risk. This is driven by the fact that in projects our finances are tight, often reducing and additionally subject to annual Commissioning Panel challenge. We therefore cannot afford, and do not have the risk capacity, to take a significant level of financial risk in our project work. Key projects which reflect this attitude to financial risk include Mobile & Flexible Working, Transfer of Public Health and Civic Centre Consolidation.
Operational & Service Delivery	We have an Open to Seeking appetite for risk in this area as outlined in the Strategic Risk Profile model above. Key factors driving this appetite include the factors outlined above in regard to strategic risk wherein in order to meet our savings targets we must deliver radical change and re-configuration in how the Council operates and delivers services to residents. Successfully achieving this, in both cost and quality terms, will require the taking of a relatively high level of business-process risk, and this is reflected in projects as above.
Legal & Regulatory	We have a Cautious appetite for Legal and Regulatory risk and further to the model above have only a limited tolerance for sticking our neck out in project work and we would want to be reasonably sure we would win any challenge. We always act in regard to legal matters or implications only after seeking advice from the Council legal department and who are also often fully integrated members of project teams themselves and all key reports/project outcomes recommending action are proactively scrutinized by the legal department before any decision is taken. The factors driving this include a previous history of successful challenges (eg locally the FACS case and on a wider local authority level the Birmingham case).
Reputation & Credibility	We believe we are in the Open category in regard to this type of risk. This is because the Council in its project working no longer can contain the amount of change and re-engineering of services without this significantly affecting and impacting on residents. These changes have the potential to expose the Council to public criticism. However we always act and consult very closely with PHs and the leadership group at the Council in respect to any reputational issue/risk arising from the work of projects. Key projects reflecting this relatively Open appetite for reputation risk include Adults Consultation, Localisation of Council tax Support, Voluntary Sector Commissioning.
OVERALL RISK APPETITE RATING	Cautious to Open

(Model Source: HM Treasury - Thinking About Risk – Managing Your Risk Appetite 2006)

Corporate Services & Finance Portfolio Holders

Overall and in the main during 2013-14 we will have a Cautious to Open appetite for risk.

Whilst we have a preference for safe delivery options which have a low degree of inherent business risk, we will however during the current period of challenge and austerity in public finances, be relatively open in risk appetite terms and be willing to consider all potential strategic and service delivery options, and choose those that are most likely to result in successful delivery (increased level and quality of key services to our residents) while at the same time will provide an acceptable level of return to the Council (particularly in terms of improvement in its operating costs, in increased savings, efficiencies and economies of scale). This will be required so the Council can deliver on its expenditure reduction targets over the medium-term to 2017/18.

In regard to financial risk however we will be more cautious in risk terms and will ensure (given the current financial climate of reducing resources), that the MTFS is achieved and all Council spending is prioritized, efficiently deployed and stays within our available cash envelop. If necessary, we will raise our risk appetite in response to the financial climate if this is required and this will be incremental.

We will have a more minimalist appetite for legal and regulatory risk and will take strong steps to ensure the Council is not placed at risk of a successful legal challenge as to be challenged successfully would carry significant financial, professional and reputation costs for the Council.

Similarly, we will have a more minimalist appetite for reputation risk. The council strongly protects its reputation with local residents, particularly as it has a history of changing political complexions and so is sensitive to shifts in public opinion. Therefore tolerance for risk-taking in this area is limited to those events where there is little significant chance of any major member, regulatory, media or public criticism of the Council.

In conclusion, in broad overall and aggregate terms, we will be Cautious to Open in the amount and type of risks we are willing to take on in pursuit of the Council's objectives and where such risks arise these will be identified and managed in a proactive, measured and controlled way.

Sachin Shah
Graham Henson
December 2012

Strategic Risk Profile (as indicated by the shaded areas)

Appetite / Risk Type	AVERSE	MINIMALIST	CAUTIOUS	OPEN	SEEKING
Appetite / Risk Type	Avoidance of risk & uncertainty is a key organisational objective	Preference for very service delivery options that have a low degree of inherent risk and only have a potential for limited reward.	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (quality, value for money etc).	Eager to be innovative and to choose service delivery options offering potentially higher customer satisfaction/quality (but despite greater inherent risk).
Strategic	Activities confined to existing services and business /delivery models with no departure from these unless enforced. Strong central senior management control.	Activities strongly confined to existing services and business /delivery models. Variations only considered if they have a low degree of inherent risk. Strong central senior management control.	Only prepared to accept essential and incremental changes in existing services, and business/delivery models Variations undertaken provided risk after mitigation is managed to low level. Strong central senior management control. Risks, costs and control often shared/spread via joint ventures/partnerships.	Prepared to invest for targeted reward and to be flexible in alterations service/business/delivery models provided these are managed to medium /acceptable levels of risk. Strong but looser central senior management control. Joint ventures and partnerships still a strong option.	Council service delivery models under constant review. Organization highly geared and flexible to respond rapidly to self-created or emergent opportunities. Expansion actively sought. 'Early-mover' in local authority terms. High levels of resourcing and risk taking. High levels of strategic autonomy in directorates & business units.
Financial & VFM	Avoidance of financial loss is a key objective. Only willing to accept the low cost option. Resources withdrawn from nonessential activities.	Only prepared to accept the possibility of very limited financial loss if essential. VfM is the primary concern.	Prepared to accept the possibility of some limited financial loss. VfM still the primary concern but willing to also consider the benefits. Resources generally restricted to core operational targets.	Prepared to invest for increased service quality and then minimize the possibility of financial loss by managing the risks to a tolerable level. Value and benefits considered (not just cheapest price). Resources allocated in order to build on potential opportunities	Prepared to invest for the best possible quality/return and accept the possibility of financial loss (although controls may be in place). Resources allocated without firm guarantee of return – 'investment capital' type approach.
Operational & Service Delivery	Protective approach to objectives – aim to maintain or protect, rather than to consider change. Priority for tight management controls and oversight with limited devolved decision making authority. General avoidance of systems / technology and developments.	Innovations avoided unless essential. Decision making authority held by senior management. Only essential systems / technology developments to protect current services.	Tendency to stick to the status quo. Innovations generally avoided unless necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvements or protection of current services.	Innovation is supported, with demonstration of commensurate improvements in service delivery and management control. Systems / technology developments considered to enable service delivery. Powers for non-critical decision-making may be devolved	Innovation/radical change pursued – desire to 'break the mould' and challenge current working practices. New technologies viewed as key enablers of service delivery. High levels of devolved authority/task culture – management by trust rather than tight control
Legal & Regulatory	Avoid anything which could be challenged even unsuccessfully. Play Safe.	Want to be very sure we would win any challenge.	Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge	Challenge will be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing are high and consequences serious. But a win would be seen as a great coup.
Reputation & Credibility	Minimal tolerance for any actions/decisions that could possibly lead to Member, regulatory, media or public scrutiny /adverse criticism of the Council or the Directorate.	Tolerance for risk taking limited to those events where there is no chance of any significant Member, regulatory, media or public criticism of the Council or the Directorate	Tolerance for risk taking limited to events where there is little chance of Member, regulatory, media or public criticism of the Council or the Directorate should there be a failure	Appetite to take decisions with potential to expose the Council or Directorate to scrutiny and adverse criticism but only where appropriate steps have been taken to minimize any exposure.	Appetite to take decisions that are likely to bring scrutiny by Members, regulators, media and the public but where potential benefits outweigh the risks.

Risk Appetite Influencing Factors

APPETITE	FACTORS INFLUENCING RISK APPETITE IN 2013-14
Strategic	We have an Open to Seeking appetite and attitude to strategic risk. We keep council service delivery models under constant review and will be prepared to invest for targeted reward and to be flexible and innovative in any alterations service/business/delivery models provided this can be managed to acceptable levels of risk. The key influencing factor in our appetite is the Council's financial position, and further to the MTFS, our requirement to make significant and deep reductions in our expenditure through to 2017/18. A further influencing factor and following on from the financial position is the need for the Council to be innovative in its business processes and to attract and retain innovative people in the organization through the Council's strategic journey. This places us the Open to Seeking category further to the models above.
Financial & VFM	We are Cautious in regard to financial risk. Our financial reserves are not high and achieving the MTFS will be demanding and for this reason we cannot carry any material or significant overspends or inefficiencies and any losses should be avoided or else must be very limited in their nature. Delivering on our savings (eg procurement) targets and other efficiencies targets (whilst maintaining and growing the quality of our services via investing for targeted reward, eg innovation) will be financially demanding/tight for us and as above will extend over the medium term through to 2018. These considerations make us cautious in regard to financial risk and recognize the fact that we do not have the risk capacity to take on high levels of financial risk.
Operational & Policy Delivery	We will have an Open to Seeking appetite for service delivery risk. Innovation at the Council will be supported with demonstration of commensurate improvements in service delivery and we see new technologies as key enablers of service delivery that will increase its quality whilst at the same time lower our operating costs which is required for us to meet our savings targets. Examples of this appetite in practice include PRISM, changes to staff terms and conditions, the restructuring of corporate finance, inter-borough working on legal services and the re-ablement programme in CHW.
Legal & Regulatory	Further to the model above we have a Minimalist appetite for legal and regulatory risk. We take strong steps to ensure the Council is not placed at risk of a successful legal challenge. To be challenged successfully would carry significant financial, professional and as above reputation costs for the Directorate and also for the wider Council and this drives our minimalist appetite. For example, we have an Equalities Task Force in place to mitigate any risk in this area, subsequent to the Birmingham case. Our Complaints Team also records one of the lowest levels of Ombudsman complaints of any London borough. Additionally, a lot of the Council's work and services are statutory and often involve acting in an enforcement role which can be susceptible to a relatively high degree of legal challenge and so we would want to be sure we would win any such challenge.
Reputation & Credibility	Similarly we are Minimalist in our appetite for reputation risk. The council strongly protects its reputation with local residents, particularly as it has a history of changing political complexions and is sensitive to the changing shifts of public opinion and so tolerance for risk taking in this area is limited to those events where there is little significant chance of any major Member, regulatory, media or public criticism of the Council.
OVERALL RISK APPETITE RATING	Cautious to Open

(Model Source: HM Treasury - Thinking About Risk - Managing Your Risk Appetite)

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