# Governance, Audit and Risk Management Committee AGENDA

**DATE:** Thursday 4 April 2013

**TIME:** 8.00 pm

**VENUE:** Committee Room 5,
Harrow Civic Centre

**MEMBERSHIP** (Quorum 3)

**Chairman:** Councillor Bill Phillips

**Councillors:**

| | |
|---|---|
| Sue Anderson | Amir Moshenson |
| Mano Dharmarajah | Chris Mote |
| Varsha Parmar | Richard Romain |

**Reserve Members:**

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

**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. APPOINTMENT OF MEMBER

To note the appointment of Councillor Varsha Parmar as a Member of the Governance, Audit and Risk Management Committee in accordance with Council Procedure Rule 1.5 and following notification from the Labour Group.

## 2. 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.

## 3. 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.

## 4. MINUTES (Pages 1 - 16)

That the minutes of the meeting held on 29 November 2012, and the minutes of the meeting held on 23 January 2013, be taken as read and signed as a correct record.

## 5. PUBLIC QUESTIONS

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

## 6. 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).

## 7. DEPUTATIONS

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

8. **REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS**

(a) Reference from Cabinet - 14 February 2013 - Final Revenue Budget and Medium Term Financial Strategy 2013/14 to 2016/17 (Pages 17 - 52)

(b) Reference from Cabinet - 14 February 2013 - Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy (MRP) and Strategy 2013/14 (Pages 53 - 78)

9. **AUDIT PLAN 2012-13** (Pages 79 - 144)

Report of the Director of Finance and Assurance

10. **DRAFT INTERNAL AUDIT PLAN 2013/14** (Pages 145 - 158)

Report of the Corporate Director of Resources

11. **INFORMATION REPORT - ANNUAL GOVERNANCE STATEMENT 2011/12 ACTION PLAN UPDATE** (Pages 159 - 170)

Report of the Corporate Director of Resources

12. **TREASURY STRATEGY 2013-14**

Report of the Corporate Director of Resources

13. **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)<br>* Amir Moshenson<br>* Varsha Parmar (4) | * Richard Romain<br>* Victoria Silver<br>* 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;

(4) that, should the posts remain vacant, the Committee would seek to recommend a course of action to Council.

**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

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

## MINUTES

## 23 JANUARY 2013

| | | |
|---|---|---|
| **Chairman:** | * Councillor Bill Phillips | |
| **Councillors:** | * Sue Anderson<br>* Mano Dharmarajah<br>* Amir Moshenson | * Chris Mote<br>* Richard Romain<br>* Victoria Silver |
| **In attendance: (Councillors)** | * Graham Henson | Minutes 218, 219, 220, 221 |

* Denotes Member present

**213. Attendance by Reserve Members**

**RESOLVED:** To note that there were no Reserve Members in attendance.

**214. Declarations of Interest**

**RESOLVED:** To note that the following interests were declared:

<u>Agenda Item 9 – Half-Year 2012-13 Treasury Management Activity and Counterparty Policy Review</u>
Councillor Romain declared a non-pecuniary interest in that he was an investor in one of the institutions referred to. He would remain in the room whilst the matter was considered and voted upon.

**215. Minutes**

A Member expressed his concern that the minutes did not sufficiently reflect the strength of feeling and views expressed by a majority of Committee Members in respect of the discussion about staffing levels in the Internal Audit team. In addition, resolution 206(3) did not capture the Committee's intention to progress the matter if the staffing issue was not satisfactorily resolved.

**RESOLVED:** That the signing of the minutes of the meeting held on 29 November 2012 be deferred until the next meeting, to allow the Committee to consider and agree the amendments requested, namely the addition of the following resolution:

(4) that, should the posts remain vacant, the Committee would seek to recommend a course of action to Council.

**216. Public Questions, Petitions and Deputations**

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

**217. References from Council and other Committees/Panels**

**RESOLVED:** To note that none was received.

## RESOLVED ITEMS

**218. IT Disaster Recovery**

The Panel received the report of the Director of Customer Services and Business Transformation, which set out the current arrangements and position regarding IT disaster recovery. She explained that she had not attended the previous meeting because she had not known the item was to be discussed, as it had featured in a much longer report.

She defined disaster recovery (DR) and described the varying levels of preparation that could be put in place to ensure the security of data and systems in the event of major disruption. Level 1 was the most basic and involved the regular copying and storing of data in a separate and secure location; the Council had always practised this level of DR. Level 2 has 3 options, (hot, warm and cold), as detailed in the report.

When Capita took over delivery of IT in 2010, officers had considered the potential for increasing DR capacity as this would now be Capita's responsibility, and represented a significant performance indicator within their contract.

Services had been consulted as to their individual risk and DR requirement, and their responses had informed the current DR capacity, with telephony, Frameworki and the internet identified as the priority areas; all three now had DR in place which has been user tested.

The original intention had been to locate a primary data centre in Capita's West Malling site with a secondary data centre in Laindon, which would place all the risk and responsibility for DR with Capita, but at a cost. However, the continuing financial situation and budget constraints had led to a proposal to retain the primary data centre in Harrow with the secondary data centre in West Malling, which would reduce costs but also return an element of risk (as landlord and 'host' of the centre) to the Council.

A Member observed that the report, as it stood, did not enable him to understand or discharge his role as a Member of GARMC in monitoring risk management in this area. Without more detail on accepted industry standards, benchmarking with other, similar authorities, and an assessment of comparative data, he could not establish if Harrow's current practice was satisfactory, or provide meaningful comment. He proposed that the Committee refer IT Disaster Recovery to Performance and Finance Scrutiny Sub-Committee for consideration.

Members discussed the levels and types of risk across services, and how to balance optimum levels of DR against costs.

The Director of Customer Services and Business Transformation pointed out that many of the issues raised related to Business Continuity (BC) rather than DR and suggested that a further report on BC rather than DR might be beneficial. It was agreed this was the case.

The Corporate Director of Resources described the cost / benefit spectrum, and the difference in dynamic between the private and public sector. In general, local authorities were not as reliant as the private sector on sophisticated IT systems to deliver income streams from a cash-flow perspective following a disaster, but required data and communications to support vulnerable individuals and groups and to meet statutory obligations.

A Member enquired if CIPFA provided advice on suitable mechanisms to assess acceptable levels of risk and proportionate costs. The Director of Customer Services and Business Transformation explained that 'SOCITM' was the industry organisation; benchmarking information would be available in 6 to 8 months time and she agreed to submit a further update report to the Committee.

**RESOLVED:** That

(1) the report be noted;

(2) a further report on Business Continuity be submitted to a future meeting of the Committee;

(3) the matter of IT Disaster recovery be referred to Performance and Finance Scrutiny Sub-Committee for consideration.

**219. Half Year 2012/13 Treasury Management Activity and Counterparty Policy Review**

The Panel received the report of the Corporate Director of Resources, which set out a half year summary of Treasury Management activity for 2012-13, and included possible revisions to the Counterparty Policy.

Members considered the need for balance between achieving income and the security and liquidity of funds. A Member also commented on the need to be flexible and responsive when market conditions changed.

An officer advised on the optimum number of institutions in which funds might be placed, and how banks and institutions were assessed for security and viability in the current, uncertain economic climate. Members considered whether smaller institutions were worthy of consideration when investing funds, if higher returns mitigated against higher risk.

**RESOLVED:** That

(1) the treasury activity management for 2012/13 be noted;

(2) the proposed changes to the Counterparty Policy be approved.

**220. Risk, Audit & Fraud Division Activity Update Report (Q3)**

The Committee received the report of the Assistant Chief Executive and the Corporate Director of Resources which provided an update on the current work streams of the Risk, Audit and Fraud group of services.

Before considering the report, the Chairman noted that this would be the last attendance at GARMC by the Divisional Director for Risk, Audit and Fraud, and he recorded his thanks for the unwavering support he had received as Chairman, and the professionalism, knowledge and patience displayed by the Divisional Director in all his dealings with the Chairman and Committee. In particular he had appreciated his ease of communication and his ability to anticipate Members' needs.

Members concurred and added their own thanks, noting further that, notwithstanding differences and difficulties, he had always acted in a constructive and supportive manner and had never failed to deliver what had been asked for. Members concluded that it had been a pleasure to work with him and he would be missed.

The Divisional Director for Risk Audit and Fraud thanked Members for their comments and appreciation, and said it had been a pleasure to work with the Committee. He then introduced the report and outlined activity in the following areas:

<u>Occupational Health</u>
A new Occupational Health and Employee Assistance Programme had been procured delivering savings of £70k per annum, which would commence on 1 February 2013.

<u>Municipal Mutual Insurance</u>
The Council has made provision for existing and future liability, as advised by the actuary.

Statement of Risk Appetite
Members commented that the statement was both hard to read and hard to understand as insufficient detail had been provided to allow them to consider the statement in context, and what it was intended to achieve. They considered that training would be helpful in describing the process of assessment and in defining their role in relation to monitoring risk.

A Member suggested that the statement should be a strategic document to cover the 4 year term of an administration, and relate to the stated objectives.

The Corporate Director of Resources advised Members that the Risk Statement was a 'live' document, updated annually, which contained both 'acceptable' risks and 'manageable' risks and which provided a framework for defining and assessing risk.

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

**221. Any Other Urgent Business**

In accordance with the Local Governance (Access to Information) Act 1985, the Chairman agreed to consider the following matters which had arisen from the minutes of the previous meeting.

Training

Members discussed the content and timing of training, and having stated their individual circumstances and constraints, were unable to agree on an ideal combination. A Member suggested a form of distance learning, in which Members would receive training materials at home which could then be discussed and clarified during the group session before a meeting.

Members agreed to continue to plan for an hour's training session prior to the scheduled meeting, with the understanding that not all Members would be able to attend on time. It was also agreed to complete the CIPFA self-assessment exercise at the next training session, which would take place before the next scheduled meeting at 7.00 pm on 4 April 2013, with the Committee meeting following at 8.00 pm. It was, therefore,

**RESOLVED:** That

(1) GARMC Members will continue to receive training in one hour sessions prior to scheduled meetings;

(2) the next GARMC meeting will take place at 8.00 pm and will be preceded by a training session starting at 7.00 pm on 4 April 2013.

Internal Audit Staffing Levels

The Chairman began by describing the importance of the work of the Internal Audit team in being the major source of information for GARMC, and in driving efficiency and ensuring compliance with statutory requirements. As a result the Committee had had serious concerns on learning that the planned recruitment to 2 posts would be delayed, and these concerns remained as the Committee now learned that only one post would be filled. He considered it was vital to establish an appropriate level of staffing, and to determine what would be the minimum number of staff required to meet statutory obligations.

Members noted that the team had operated with 5 members of staff for the last 4 years, while the posts had remained vacant.

A Member commented that the work of the team continued to increase, and that a fully staffed team would be in a position to identify problems and address them quickly, reducing potential risk and cost to the Council. The Corporate Director of Resources commented that the work of the Internal Audit team was focused on governance and not efficiencies.

A Member disagreed that the views of the Committee were unanimous, and stated that incurring additional cost would undermine the attempts of the Council to meet its funding gap. Several members were of the view that, while acknowledging and sympathising with the administration in finding a solution within budget constraints, the role of GARMC Members was to support, promote and ensure good governance, and if they felt that the level of staff in key areas would impact negatively on this, then it was their duty to highlight and address the problem.

A Member expressed his frustration that the situation had continued for so many years as funding for the 2 posts had been promised and then withdrawn on 4 separate occasions. He agreed that financial considerations were a major obstacle, but believed that as GARMC Members, those present should support the request for full staffing, even though it would be understandable if they chose to vote differently on the wider issues in a different scenario.

The Portfolio Holder for Performance, Customer Services and Corporate Services agreed that, although the team was smaller than in other London boroughs, the wider budget implications were unavoidable and difficult decisions had to be made.

Members discussed the wording for their resolution, and were unable to agree unanimously on a formula. On the suggested, compromise wording of another member, the Chairman moved a motion which was seconded by Councillor Romain. The motion was agreed, and it was

**RESOLVED:** That

(1) GARMC believes that the Internal Audit team should comprise a minimum of 7 staff but recognises that due to budget constraints it will only be possible to fund 6;

(2) GARMC requests that if additional funding can be identified, recruitment for the remaining post should be considered a priority.

**222. Termination of the Meeting**

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

**RESOLVED:** At 9.55 pm to continue until the end of the meeting.

(Note: The meeting, having commenced at 7.35 pm, closed at 10.55 pm).

(Signed) COUNCILLOR BILL PHILLIPS
Chairman

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**LONDON BOROUGH OF HARROW**

**GARMC – 4 APRIL 2013**

**REFERENCE FROM CABINET – 14 FEBRUARY 2013**

**KEY DECISION - FINAL REVENUE BUDGET AND MEDIUM TERM FINANCIAL STRATEGY 2013/14 TO 2016/17**

Upon receiving congratulatory remarks from the Leader of the Council for proposing a balanced budget for two years and setting out a long term view, the Portfolio Holder of Finance introduced the report, which set out the final revenue budget for 2013/14 and the Medium Term Financial Strategy (MTFS) for 2016/17. He thanked all the Portfolio Holders and officers for assisting in the delivery of a two year balanced budget. He was proud to present a ‘people’ centred budget rather than one that was ‘place’ centred.

The Portfolio Holder for Finance provided the context in which the budget had been set and reflected on the changes since the draft budget had been considered by Cabinet in December 2012. The Portfolio Holder highlighted the unprecedented levels of cuts facing Councils, which were in the region of 28%, whilst government departments were averaging a cut of 8% only, which he considered to be unfair. Moreover, Harrow started with a low base as it received a low grant and he urged all to sign up to the ‘Campaign for a Fair Grant’ launched jointly with the Harrow Observer to persuade the government to improve Harrow’s share of government grant allocated to Councils each year.

The ‘Campaign for a Fair Grant’ should be seen in the context that Harrow would lose some £10m and £9m in the next two years before taking into account the inflationary and demographic pressures. He added that the increases in fares, levied by the Mayor of London, amounted to a ‘stealth’ tax, which for Harrow was a cost in the region of £700k, which adversely affected on the existing pressures to the budget. Another matter that had to be resolved was the financial situation inherited from the former administration which had required the reallocation of £4m from the Capital to Revenue Budget.

The Portfolio Holder for Finance was pleased to report that the contingency fund of £125k, a legacy of the previous administration, had been increased to £3m and that the reserves had been increased by 25% to help with risks associated with the budget. He outlined some of the key aspects proposed in the budget:

- an increase in Council Tax by 2%, a difficult decision for the Council to make due to an unfair grant from the government;

- a reduction in street sweeping;

- the hiring of additional social workers to safeguard the vulnerable, particularly children thereby ensuring that the Council's Corporate parenting role was not compromised;

- investment in the Harrow Help Scheme, to help those affected by the welfare cuts, Xcite Project and the borough's youth and a London Living wage for staff;

- retention of the Children's Centres and all libraries except that the Civic Centre and Gayton Road libraries would be merged;

- adequate contingency to meet the costs associated with the government's welfare cuts which would impact adversely on the Council. Harrow was expecting an increase in the number of homeless people;

- an increase in the overall budget for the grant giving function of the Council to the Voluntary Sector and listening to those affected by the grants given, such as Harrow Young Musicians;

- efficiency savings by improved procurement;

- helping local businesses by providing 20 minute free parking and the introduction of a Harrow Card, to help revitalise local businesses;

- provision of 'preventative' services, such as 'Circles of Support', and reablement.

Cabinet was informed of the risks associated with the budget, including those resulting from the government which was shunting its costs to the Councils whilst reducing the funding given. Additional shunting of costs from the Primary Care Trusts (PCTs) and future Clinical Commissioning Groups was also a factor which needed addressing.

In concluding his remarks, the Portfolio Holder for Finance stated that the Council had been positive in managing the demands of the budget process, whilst taking a long term view.

The Corporate Director of Resources, in her capacity as the Council's Chief Finance Officer, drew attention to the updated Risk Register, including the analysis undertaken on these risks. She drew attention to the Equality Impact Assessment (EqIA), which had been circulated to all Cabinet Members to show the cumulative impact of decisions relating to the budget.

The Corporate Director of Resources explained that some savings built-in to the budget would require further consultation. She commented on the robustness of the budget, including the adequacy of the contingency and reserves held and confirmed that these had the capacity to deal with the changes proposed. In her view, the budget was robust and that it would be monitored.

The Portfolio Holders for Performance, Customer Services and Corporate Services, and Adult Social Care, Health and Wellbeing welcomed a two year budget, which would protect the vulnerable, ensure that the services provided were sustainable with 'prevention' being a fundamental aspect in the health and wellbeing of people, whilst positioning the Council for further cuts beyond 2015.

**RESOLVED:** That

(1) the planned investment in services and efficiency programme, at Appendix 2 to the report, be noted;

**(2) the risk assessment, at appendix 8 to the report, be agreed and referred to the Governance, Audit and Risk Management Committee for consideration and monitoring;**

(3) in relation to the model Council Tax resolution at appendix 11 to the report, the Portfolio Holder for Finance, as advised by the s151 officer, be authorised to make minor amendments prior to Council;

(4) the Medium Term Financial Strategy at appendix 1 to the report be approved.

**Reason for Decision:** To ensure that the Council sets a balanced budget for 2013/14.

**Alternative Options considered and rejected:** As set out in the report.

**Conflict of Interest relating to the matter declared by Cabinet Member/Dispensation granted:** None.

**FOR CONSIDERATION**

Background Documents:

Draft minutes of the Cabinet - 14 February 2013

Contact Officer:

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| | |
|---|---|
| **REPORT FOR:** | **CABINET** |
| **Date of Meeting:** | 14 February 2013 |
| **Subject:** | Final Revenue Budget and Medium Term Financial Strategy 2013-14 to 2016-17 |
| **Key Decision:** | Yes |
| **Responsible Officer:** | Julie Alderson, Corporate Director of Resources |
| **Portfolio Holder:** | Councillor Sachin Shah, Portfolio Holder for Finance |
| **Exempt:** | No |
| **Decision subject to Call-in:** | Yes, except for the Recommendations to Council |
| **Enclosures:** | Appendices listed overleaf |



Harrow COUNCIL LONDON

| No | Appendix |
|---|---|
| 1 | Budget Summary |
| 2 | Budget Detail |
| 3 | Technical Commentary |
| 4 | Local Government Settlement |
| 5 | Levies, contributions and subscriptions |
| 6 | Policy on use of contingency |
| 7 | Schools budget |
| 8 | Risk assessment |
| 9 | Reserves policy |
| 10 | Report of the Chief Finance Officer |
| 11 | Model Council Tax Resolution |
| 12 | Reserves and provisions forecast |
| 13 | Stakeholder meetings and events and Consultation Feedback |
| 14 | Members' Allowances Scheme |
| 15 | Annual Pay Policy Statement for 2013-14 |

# Section 1 – Summary and Recommendations

This report sets out the final proposed revenue budget for 2013-14 and medium term financial strategy (MTFS) to 2016-17.

## Recommendations:

1) That Cabinet recommends the budget to Council for approval to enable the Council Tax for 2013-14 to be set
2) That Cabinet approves the Medium Term Financial Strategy at Appendix 1 for referral to Council
3) That Cabinet notes the planned investment in services and efficiency programme set out at Appendix 2
4) That Cabinet recommends to Council the policy on the use of the contingency (Appendix 6)
5) That, in relation to schools, Cabinet recommends to Council the schools budget (Appendix 7)
6) That Cabinet agrees the risk assessment (Appendix 8) and refers it to the Governance, Audit and Risk Management Committee for consideration and monitoring

7) That Cabinet recommends to Council the reserves policy (Appendix 9)
8) That Cabinet recommends to Council that the Members' Allowances Scheme set out in Appendix 14 is adopted for 2013-14
9) That Cabinet recommends to Council the model Council Tax resolution set out in 11 and delegates authority to the Portfolio Holder for Finance, as advised by the s151 officer, to make minor amendments prior to Council.
10) That Cabinet recommends to Council the Annual pay policy statement for 2013-14 at Appendix 15

**Reason: (For recommendation)**
To ensure that the Council sets a balanced budget for 2013-14

# Section 2 – Report

## Introductory paragraph

1. This is the final report in the current series of Budget reports for the Medium Term Financial Strategy covering the period 2013-14 to 2016-17. The Draft Revenue Budget report to the 13 December 2012 Cabinet set out the context and background for setting the Budget.

2. The 2013-14 Budget is balanced and for the first time the second year of the MTFS is also balanced, but there are still gaps in the following years.

**Context - Current Financial Situation:**

3. In 2010 the Government's austerity measures meant Local Government (along with the Welfare System) received the most challenging funding settlement in decades, resulting in a 28% cut to the Council's controllable costs over the 4 years to 2014/15, some £62m in Harrow's case from 2010/11 levels of expenditure. This has since increased by £13m to £75m as a result of adverse moves in grant funding and the impact of Welfare Reform. This is on top of the £45m we had already saved before this, meaning that by 2015 we will have been making savings of over £10m a year for the last nine years. By and large we have demonstrated a successful track record in delivering these savings by identifying efficiencies, adopting a more commercial approach to our major contracts and procurement to secure better value for money, taking advantage of new technologies in our libraries and refuse vehicles and introducing new and innovative ways of delivering services such as children's centres,

reablement and customer service. This has meant that we have been able to contain growth and inflation, reduce our costs and make real improvements to some areas whilst protecting frontline services. Efforts have also been made to reduce management and staffing costs through a commitment to reduce the number of senior managers from 30 to 20 and the staff terms and conditions project.

However Harrow, like all Council finds itself in an uncertain and volatile financial situation with a significant number of events, beyond our control, adversely impacting on our funding position and increasing demand for our services. Over the last year, the position we find ourselves in has changed considerably: Census results showed a 15% increase in population, putting more pressure on Council services; the economy re-entered recession; the Government's austerity measures were extended and the impacts of the legislative reform programme became clearer. The result is a virtual doubling of the level of savings we now find ourselves having to make over the next two years. This creates a very challenging environment for the role the Council can play in the community.

4. The budget set out in these papers is balanced in 2013-14 and also for the first time in 2014-15. The funding gaps in the remaining two years of the MTFS are as follows:

2015-16 £15.7m

2016-17 £14.2m

5. The budget includes a 2% increase in the Council Tax in 2013-14 and an indicative assumption for future years that Council Tax will increase at 2% each year. It should be stressed that at this stage this is an indicative assumption only. Particularly in the case of the final 2 years of the MTFS there are considerable uncertainties relating to the funding that will be available to the Council as well as the cost of service pressures.

**External Environment:**

6. The challenging environment we face is caused by a number of external factors, which whilst we were aware of them this time last year and recognised them as risks, we have only been able to start understanding the full budgetary implications of them as further detail became available during the year. In order to accommodate this major shift in risk from central government to local government we have had to make further provision to fund additional growth pressures over the next two years and review our approach to contingency in order to fund the following:

7. Harrow is one of the lowest funded councils in London. Harrow will receive the 7th lowest **formula grant** equivalent of funding per head of population in London in 2013-14. We also are funded at a much lower level than other boroughs in other areas of grant funding not included in the formula grant system. Our total level of grant funding in 2012-13 is £1,608 per person whereas Brent for example gets £3,317. The grant settlement for the next two years that we received provisionally on 19 December 2012 contained grant reductions of £20m over the next two years. The final Local Government Settlement is anticipated to be in the week commencing 11 February, but is not anticipated to vary significantly from the provisional settlement. If received before the Cabinet meeting an

update will be tabled. We do not yet know fully what the impact of the Government's deficit reduction programme will be in the following years but it is likely that there will be of the order of 20% funding cuts in the period to 2018 and perhaps further funding cuts until 2020.

8. Government grant has also reduced to take account of Councils being able to keep more of the **business rates** they raise from April 2013. The idea is that Councils will be able to keep 50% of any increase they achieve in business rate collection as an incentive to encourage local economic growth. Although Councils can keep 50% we have to share that 60:40 with the GLA so we only actually keep 30% of increases in Business Rates. Conversely we only suffer 30% of losses. Harrow's business rates have fallen by 17% over the last 10 years and the trend is continuing downwards as we are predominantly a residential borough and large employers have been either closing down or relocating out of the borough (Kodak etc).

9. The Government has announced **Council Tax Freeze Grants** as part of each Local government Finance Settlement over the last couple of years. But, the characteristics and impact of these has been different each year.

- In 2011-12 the Freeze Grant was payable to enable authorities setting a Council Tax increase at or below 2.5% to reduce the increase by 2.5%. For Harrow this was worth £2.58m and is payable for 4 years.
- 2012-13. The Freeze Grant also enabled authorities setting a Council Tax increase at or below 2.5% to reduce the increase by 2.5%. For Harrow this grant was worth £2.6m but was only payable for one year, the effect being to give a budget pressure of £2.6m in 2013-14 when the grant is no longer received.

The 2013-14 Freeze Grant scheme allows authorities setting a Council Tax increase below 1% to reduce the increase by a further 1%. This grant, worth £0.9m would be payable for 2 years, but will not be received by Harrow as the proposed Council Tax increase of 2% is above the 1% threshold for receiving the grant. The effect of taking the freeze grant would have been to require yet further cuts to the council's expenditure base of £1.8m p.a. Given the difficulty of balancing the budget this has not been possible.

10. From April 1st 2013 the responsibility for paying for Council Tax benefits has changed. There will be a **Council Tax Reduction Scheme** which will transfer the ability to set the details of the scheme to the Council but with a 10% cut to what is a cash limited budget meaning Harrow Council has to save £3.8m to be able to fund the scheme in the first year alone. The impact will be that many people who have previously not had to pay council tax or received a reduction will now be asked to pay more towards their council tax bill. In November, after we closed our consultation on a new scheme Government announced a £100m grant to councils if they designed a scheme according to Government criteria. Unfortunately for Harrow, the cost of such a scheme would be an extra £1.67m and the grant Government are offering would only cover around £0.38m of this, still leaving us with a significant shortfall to find. There are also likely to be additional pressures arising from the localisation of this scheme to Council Tax collection rates which have been estimated as

being in the region of over £1m. The scheme that will operate from April 2013 was approved at Council on 21 January 2013.

11. Additionally, Government are also implementing the largest ever reform to the **benefits** system since 1940 in an effort to save £18bn from the welfare bill. The complex changes will affect the amount of housing benefit people can claim and put an overall cap on the amount of benefits families can receive each week to ensure people are better off in work. However, our analysis shows that there is a large correlation between those households likely to be impacted by welfare reform and those impacted by the Council Tax reduction scheme. The combined effect could push more people into poverty and homelessness and coming to the Council for help. To date our numbers of families in bed and breakfast accommodation have been some of the best in London due to innovative local solutions such as Help2Let. However, with an over-heating private rental market and the supply of suitable homes behind the market demand across London as a whole, the impact of the welfare changes and the general economic conditions are likely to create a significant unfunded financial pressure on the council to house families whose benefits cannot cover the rent they owe the council. We are therefore having to make provision for growth of £1m to help deal with this alongside a package of mitigation support.

12. The wide-ranging **Government reform agenda** also means that new responsibilities are being transferred to the Council that are often underfunded as the level of funding the Council is set to receive is insufficient to meet the current demands for these services, for example; children on remand, Youth Justice Board, Council Tax Support Scheme and the Social Fund. This means the council has to effectively implement new schemes that reduce the level of service on offer or find savings to make up the shortfall. This comes on top of additional cuts or delays to grants that also affect the council's budget including delayed business-rate payments, education grant being switched from local authorities to academies and an over £2m reduction in the early intervention grant being consolidated into Revenue Support Grant to pay for central government schemes.

13. The Health service is facing continuing pressures which create risks of pressures on the Council's social care budgets. The position is exacerbated by the dissolution of Primary Care Trusts at 31 March 2013 and the move to Clinical Commissioning Groups, which gives rise to uncertainty and also additional costs associated with change .

14. Finally, the 2011 **Census** data has started to be released this summer enabling us to update our demographic projections. The data shows there has been a 15% increase in population in the last 10 years with the biggest growth being in the birth rate with a 33% increase in 0-4 year olds and an estimated 1000 more people aged over 80 increasing the demand for both school and nursery places and adult social care which add a further £3.2m to our budget in 2013-14.

**Difficult Decisions:**

15. The reduction in spending we are facing will inevitably start to impact on some of the services residents value and trust the most, but it is clear we are no longer in a position to continue to fund the breadth, depth and quality of services we currently offer. We are therefore faced with some very difficult decisions, including whether or not to put up council tax in order to help prevent bigger cuts to some of our most important service areas and help fund some of the much needed improvements and demand pressures we are facing. Any proposal to raise council tax above a Government defined limit will require the Council to hold a referendum. For 2013-14 the proposed limit is 2%.

16. To this end the draft budget put forward in this report seeks to realign expenditure to key outcomes within the Council's Corporate priorities:

1. Keeping neighbourhoods clean, green and safe,
2. Supporting and protecting people who are most in need,
3. United and involved communities and
4. Supporting our town centre, our local shopping centres and businesses.

<u>And reflects 5 key principles:</u>

- Continuing to make savings in the Civic Centre
- Ensuring the services residents care about are protected from drastic cuts
- Protecting residents most in need, in particular, by helping them get out of poverty and back to work
- Encouraging growth and investment in Harrow, supporting the Town Centre, local businesses, district centres and by opening up our land to investment.
- Working with our partners and listening to our residents to make sure the right decisions are made for the community

17. As far as is possible we want to try to limit the levels of cuts and savings required from service areas that play a vital role in delivering key outcomes in priority areas. We are making provision to invest in house building, employment programmes, more social workers, and launch a Harrow Help scheme to help those affected by welfare reforms. We also want to do what we can to support our local businesses and district centres by delivering £1bn of regeneration investment over the next ten years, introducing a Harrow Card, and continuing to make improvements to Harrow town centre. This does not mean these areas are immune from having to find any savings at all, as there are always new ways of delivering the same outcome for less in a more effective, efficient and sustainable way. So we will continue to drive out as many savings from the civic centre as we can through improved procurement, modernising staff terms & conditions, reducing the number of senior managers from 30 to 20, trading services and reducing the number of formal committee meetings and the length and complexity of minutes.

18. Harrow Council will be a very different organisation in the future. A council that is even more innovative and ambitious in the way we deliver our services and that works even better with our community.

**Growth & Investment:**

19. Whilst there are some tough times ahead, by being clear about our priorities and the outcomes we want to achieve for Harrow we will be able to realign our expenditure and resources and even invest in certain priority areas.

20. The regeneration programme for Harrow will bring in £1bn worth of investment into the borough over 10 years in terms of house building and job creation which also in turn raise money from the Community Infrastructure Levy, Business Rate Retention and New Homes Bonus to invest in social infrastructure that the people of Harrow can be proud of. It is a once in a generation opportunity to make a real difference to Harrow and people's quality of life. It is only through encouraging growth in the local economy and building new houses that we can provide the much needed jobs for local people that will help reduce their dependency on benefits, meet their housing needs and alleviate the pressures on housing waiting lists and homelessness.

21. Housing Revenue Account reform has helped by enabling us to invest more in both the supply of affordable housing and repairs and major works which are allowing us to deliver work we would not previously have been able to. In addition, savings from more effective procurement mean that we will actually be able to deliver more improvements within the same budget. We are developing an Asset Management Strategy in full consultation with tenants and leaseholders that will detail how to invest the money saved.

22. We will also use our Capital Programme to support our regeneration ambitions by investing in additional school places, maintaining our roads and pavements, facilitating town centre improvement schemes and changing the way we work in the Civic Centre, reducing the need for staff to come into the office thus enabling them to spend more time with residents or out in the community and enabling us to reduce our office footprint and bring other business and partners into the same building to help provide better joined up services.

23. We are proposing to introduce a 'Harrow Card' for Harrow residents to obtain discounts at local Harrow businesses and council facilities as a way of supporting local businesses, residents and the local economy in these difficult economic times. We will put in place a 'Harrow Help Scheme' to help and support those worst affected by welfare reform and council tax changes to stay in the community and avoid spiralling problems as a result of multiple changes to benefits. And we want to be able to improve the way in which we support, supervise and empower young people to be involved in decision making and make an effective contribution to community life.

**Options considered**

24. Directorates were tasked with reviewing their services with a view to transforming services and delivering savings. The proposals developed were considered as part of a budget review process where Portfolio Holders, Corporate Directors and their teams presented a vision for the service whilst closing the identified funding gap. The then Leader, Portfolio Holders for Finance and Performance, Customer Services and Corporate Services, Chief Executive, Assistant Chief Executive and Corporate Director of Resources,

carried out the challenge to those proposals. This process ensured that all services and the methodology for delivering them are being reviewed and challenged, and that the budget proposed for each Directorate is realistic and savings, whilst ambitious and not without risk, are achievable.

## Budget Proposals

**2012-13 Budget Position**

25. The Council under spent in 2011-12 by £1.3m. The Revenue and Capital Monitoring Report for the third quarter of 2012-13 indicates a forecast net budget underspend of £1.96m, and we are targeting to increase that level of underspend considerably. There has also been no drawdown against the £1m contingency as yet, although there are a number of significant risks remaining so we know there is no room for complacency.

26. A Transformation and Priority Initiatives Fund was set up as part of the outturn for 2010-11. The balance remaining at the end of 2011-12 was £0.38m, to which was added £0.8m from the 2011-12 underspend to give £1.18m. The extent to which this fund can be used for the one off costs to achieve savings initiatives is being considered. The Council has also imposed a Spending Protocol in year in order to deliver the targeted under spend in 2012-13 described above to add to the funding available to fund start up costs for initiatives.

**2013-14 Budget**

27. The MTFS in summary form is attached at Appendix 1, with a detailed analysis of the proposed changes attached at Appendix 2. Some of the key achievements already made and details of the proposals per Directorate are set out below.

28. The budget requirement for 2013-14 can be summarised as follows:

| **Table 1: Budget Requirement for 2013-14** | |
|---|---|
| | **£m** |
| Budget Requirement 2012-13 | 173.1 |
| Capital financing costs and investment income | 1.1 |
| Technical changes including Specific Grant changes | 16.5 |
| Inflation | 2.8 |
| Investment / Budget Pressures | 10.0 |
| Savings including Transformation Programme | -22.4 |
| Budget Requirement 2013-14 | 181.1 |

29. The assumptions behind the technical changes and inflation provisions are explained in the commentary at Appendix 3 of this report. Significant items included in the budget are:

30. £0.545m additional Collection Fund surplus in 2012-13 compared to that projected in February 2012, but projected to decrease to zero over the following 2 years.

31. An additional 650 band D equivalents added to the Council Tax base from new build and bringing empty homes back into use.

32. Additional revenue costs of capital financing of £1.1m in 2013-14 and £1.3m in 2014-15. This is consistent with the capital programme that is being considered elsewhere on this agenda.

**Contingency**

33. The 2012-13 budget included a contingency of £1m in the base budget This is being maintained for 2013-14. The Contingency is intended to provide for unforeseen risks, especially but not limited to the following areas:

- Demographic pressures
- Social Care placements
- Cost pressures in relation to the services delivered jointly with Health partners
- Volume changes in Waste disposal costs
- To give flexibility so that where there are proposals requiring consultation and a full equalities impact assessment, decision makers have the option of making another decision that has a less negative equalities impact.

**Welfare Reform Contingency**

34. In recognition of the uncertainties and risks accompanying Welfare Reform, £2m is being provided in 2013-14. This is to allow for the risks we face, particularly in relation to Homelessness arising from Benefits changes but also other impacts such as potential increases in Social Care costs.

**Budget Planning Contingency**

35. A budget planning contingency of £171k is provided in 2013-14 and £2m in 2014-15 and £3m p.a. from 2015-16. The 2013-14 contingency is to allow for savings that may need to be phased following consultation. The provision from 2014-15 is provided in order to allow for budget pressures that cannot be readily quantified now.

36. Housing has growth of £1m built into the Budget for 2013-14 to address the anticipated pressure arising from homelessness arising from Housing Benefit changes that will occur during 2013-14, with the contingency providing further cover for unavoidable pressures.

**Inflation**

37. Pay awards have been zero for 3 years and are provided for at 1% in 2013-14 and 2014-15 in line with the government's public sector pay policy. They are assumed to be 2% p.a. subsequently.

38. Pension contributions are anticipated to increase from the current level of 19.10% by 0.25% in 2013-14 and then 0.5% p.a. from 2014-15 when the effect of the triennial review as at 31 March 2013 takes place. It should be noted that there is a risk that the actuary might require a higher level of increase than this, dependent on the results of the triennial review of the pension fund.

39. Prices inflation is provided for at 1.5% in 2013-14 and 2% thereafter. CPI was 2.7% in December but projected to fall from this level. Directorates will be expected to negotiate with suppliers to manage their expenditure within the cash available.

40. Utilities inflation is provided for at 10% in 2013-14.

41. Growth of £1.2m is anticipated in relation to the waste disposal levy by West London Waste Authority (WLWA). This reflects both increases in landfill tax and the need to replenish its balances. There is a potential for volume changes in the waste disposed which could increase the Pay As You Throw element of the charge from West Waste. This potential is provided for in the contingency.

42. The investment and efficiency programme totals for each Directorate for 2013-14 are summarised in the following table:

| **Table 2: Investment and Efficiency Programme for 2013-14** | | |
|---|---|---|
| **Directorate** | **Investment in services £m** | **Efficiency Programme £m** |
| Cross-Cutting Transformation | 0.1 | 2.3 |
| Community Health and Wellbeing | 3.9 | 6.2 |
| Children and Families | 1.8 | 2.9 |
| Environment and Enterprise | 2.6 | 7.1 |
| Resources | 1.6 | 4.0 |
| Total | 10.0 | 22.5 |

**Community, Health and Wellbeing**

43. Circles of Support -the Council has a strong commitment to building community capacity - £150k has already been allocated from the Harrow Strategic Partnership to pump prime the development of support in the community for vulnerable adult groups. In addition, the Council will now commit a further £300k to the development of this initiative from the Transformation and Priorities Initiatives Fund.

44. There are significant challenges facing the Community, Health and Wellbeing Directorate for 2013-14 onwards particularly given £14m efficiencies planned across the first two years of the MTFS. These challenges are referenced in the risk section of the budget. Demographic pressures in terms of adult social care placements are funded at £2.8m however, this excludes potential risks around continuing care and s117 cases which are currently funded by the PCT. Homelessness pressures are funded at £1m for 13-14 and reduce to £0.5m from 2014-15 on an ongoing basis however, there is considerable uncertainty around the true pressures particularly in light of the wider external economic position and the impacts of welfare reform.

45. The Council has savings / extra income targets that are predicated on close joint working with the health service. These have not yet been agreed with the health service.

46. There are also a number of ongoing pressures, including inflation which have not been fully funded in the 2013-14 budget, which in the context of the level of efficiency savings presents real risk in containing such pressures.

47. There are a number of legislative changes which are also expected. The White Paper is likely to place additional duties on Adult Social Care departments, however these have yet to be confirmed and any additional resources that may be attached to these responsibilities. In addition, it is expected that a cap around the Dilnott proposals will be announced. This is likely to increase spend in Adult Social Care, albeit not until 2015-16 at the earliest, and these impacts will need to be assessed and factored into the MTFS at a later date.

**Fees and Charges**

48. The proposed fees and charges for 2013-14, with many changes effective from January 2013, were agreed by Cabinet in December. The estimated effect of the changes proposed has been allowed for in the MTFS.

49. The individual service budget proposals (set out in Appendix 2) have been through the budget review process and have been subject to initial equalities impact assessments. Full equalities impact assessments have either been carried out or will be carried out prior to implementation where the initial assessment indicated this is necessary. An equalities impact assessment has been carried out on the whole budget, to ensure that decision makers are aware of any overall negative impact on any particular protected group. Some areas have the potential to produce significant disadvantage such as staff reorganisations and in the case of all staff re-organisations, a full EqIA has to be undertaken.

**One-Off Implementation Costs and Potential Redundancy Costs**

50. There are a number of one off implementation costs and potential redundancy costs that are not included in the draft MTFS, but that are necessary to deliver the savings included. These are summarised below:

| | £000 |
|---|---|
| **Implementation Costs** | |
| Environment and Enterprise – vehicle lease termination costs | 154 |
| Community, Health and Wellbeing project management and consultation costs | 550 |
| Arts Centre Commercialisation costs re master plan feasibility and marketing of potential development area | 200 |
| Sub total | 904 |
| Potential Redundancy Costs | 5,790 |
| Less provision for redundancy in 2013-14 MTFS | -1,000 |
| **Total** | **5,694** |

51. It should be noted that the redundancy cost figure has been estimated on the basis of posts being deleted over the next four years that are currently occupied. The Council is however working to avoid redundancies wherever

possible e.g. through redeployment or reducing the use of agency staff. It is therefore likely that the total actually needed to fund redundancies will be less.

52. The anticipated sources for funding the approximate £5.7m identified are:

- Transformation and Priority Initiatives Fund – current balance £1.18m.
- 2012-13 Underspend, £1.96m as reported at Q3 with potentially £1m if the contingency is not used.
- Further underspends arising from the spending protocol.

**Consultation**

53. In developing proposals consultation has been undertaken with various stakeholders. This included the following:

- A series of meetings with stakeholders in December and January to share information on the Council's budget plans and seek comments as set out in Appendix 13.
- An online consultation on the budget.
- The Overview and Scrutiny Committee has established a standing review of the budget.
- Detailed consultation has been carried out with staff and other stakeholders where appropriate on individual items in Appendix 2.

There are a number of items which are still subject to consultation. If members decide not to proceed or to proceed with a different saving following consultation, then any adverse cost pressure would be a priority call on the contingency.

**Consultation Feedback**

54. Summary feedback of the consultation meetings and online feedback is attached at Appendix 13. A range of views were expressed but there was a general recognition of the difficulties faced by the Council. The other stakeholder meeting minutes will be included in the background papers to this meeting.

55. Some items will be subject to separate cabinet reports in 2013/14 before they are implemented.

**Members' Allowances**

56. The proposed members' allowances scheme for 2013-14 is attached at Appendix 15. The amounts for the basic allowance and the different bands of Special Responsibility Allowance are unchanged from 2013-14 other than for the Leader, the Deputy Leader and Cabinet members. These were all reduced from 1 January 2013 by 1% to align with the 1% reduction to staff pay as part of Terms and Conditions. It is proposed that the Chair of the Health and Social Care Scrutiny Sub-Committee receive a Special Responsibility Allowance of £6,630 in line with that received by the Chair of the Performance and Finance Scrutiny Sub-Committee. There is also an additional role of Portfolio Adviser, with an SRA of £6,630.

**Public Health**

57. A separate report elsewhere on this agenda provides a more detailed analysis of the Public Health Funding allocation.

58. The ring fenced grant allocation for public health was announced on 10th January 2013 and indicated an allocation for Harrow for 2013-14 of £8.874m and for 2014-15 £9.146m. The DoH has set a minimum of 2.8% and maximum of 10% growth in budgets for each year – 17 local authorities are at the minimum in 2013-14 and 19 in 2014-15, 9 and 8 respectively are at the maximum. The increase for Harrow is 3.5% in 2013-14 and 3.1% in 2014-15, marginally above the minimum increase resulting in Harrow being the 4th lowest spend per head of population over the 33 London Boroughs (grant spend per head 2013-14 £36 compared with highest Westminster at £132 per head and the lowest Bexley at £29 per head).

59. The increased allocation provides some opportunities to develop Public Health provision in the borough, particularly with the planning certainty afforded by the two year grant allocation, however there are challenges and risks for the year ahead. It has not been possible at this stage to fully assess the implications of the increases in the grant funding, in particular to identify whether additional commitments have been placed on public health services e.g.; infection control, and therefore whether there are additional costs which will need to be included in operational plans and financial commitments.

60. The process of reviewing contracts is ongoing and some contracts which are based on national arrangements e.g.; genitourinary medicine (GUM) services; will not be fully controllable by the Council. In addition, work is ongoing to consolidate existing public health contracts both with existing Council contracts and across the shared service.

61. A prudent approach would suggest holding a contingency to mitigate some of these risks and taking time to consider appropriately how best to utilise this funding to meet both public health and wider Council objectives. It should be noted that the Council is likely to assume historic risks and liabilities but without any transfer of corresponding balance sheet reserves or contingency.

**Changes From December Draft MTFS**

62. The draft MTFS report to December Cabinet still had budget gaps of £5.2m in 2013-14 and £3.3m in 2014-15. There have been a number of changes to the MTFS since then and the gaps have been closed in the first two years. Changes take the form of various types as follows:

- Incorporating the effect of the Local Government Finance Settlement
- Refining estimates proposed in December
- Additional proposals not previously included.

63. The most significant changes are shown below, and a list of all of the changes is included at the start of Appendix 2. The changes identified have

all been included in the individual service MTFS sheets, but are shown separately to be clear what the changes have been.

64. The changes include:

- Reflecting the Local Government Finance Settlement.

- Increasing the contingency by £1m in 2013-14, before removing the £1m again in 2015-16 to reflect the uncertainties around the impact of Welfare Reform together with a range of other risks including working with Health partners.

- Removing the provision for the cost of ending the contracted out National Insurance rebate in 2015-16, following the government's announcement that this will now commence in 2017.

- Reducing the budget planning contingency in 2014-15 by £1m to reflect the greater certainty on the 2014-15 budget from a more detailed consideration of demographic changes.

- Providing a one off budget of £1m towards the cost of redundancies in 2013-14.

- Reducing the inflation provision in 2013-14 from 2% to 1.5%.

- £0.5m to be saved in 2013-14 by improved core and semi core procurement category management. The achievability of this has been endorsed by a procurement review with external support.

- £0.5m to be saved in 2013-14 by improved controls on the use of agency staff.

- £0.47m to be achieved by improved vacancy management, equivalent to ½% of the paybill.

- Bringing forward a range of savings originally planned for 2014-15 to 2013-14, together with a review of the one off implementation costs of savings proposals.

- Increased investment income of £0.47m arising from restricting the interest paid on monies held on behalf of other bodies to LIBOR.

- Health Integrated Commissioning saving of £0.8m in 2014-15.

**Future Years**

65. Work will now commence on identifying proposals for 2015-16 to 2016-17 to close the gaps in those years and to align the Council's finances with the reduced level of funding that will be available in the medium term.

**Proposals for General Reserves**

66. The detailed risk assessment of the budget has been updated to reflect the changing position affecting the council, in particular the substantial transfers of risk from central to local government arising from Welfare Reform

and Business Rates Retention. Cabinet agreed the following reserves policy in February 2012:

> **The risk assessment of the budget dictates the minimum level of general balances required.**
>
> **One of the calls on any under spend at the end of the year will be a contribution to general balances. The value of the contribution will be determined with regard to the size of the under spend, the underlying strength of the balance sheet, the need to support the transformation programme, and other priorities.**

It is proposed to update the policy to

> **The risk assessment of the budget dictates the minimum level of general balances required.**
>
> **The first call on any under spend at the end of the year will be to fund the one off cost to transition. A contribution to general balances will then be considered with regard to the size of the under spend, the underlying strength of the balance sheet and the need to support other priorities.**

67. Appendix 7 details the funding position for schools.

68. There is a separate report on Housing on this agenda that contains proposals for the Housing Revenue Account budget.

69. The proposed Capital Programme is also reported elsewhere on this agenda. The revenue implications of the capital programme have been included in the revenue MTFS. Where savings proposals rely on capital investment then the required investment is included in the proposed programme.

**Annual Pay Policy Statement**

70. Under the Localism Act, which came into force from April 2012, all public authorities must publish annual pay policy statements. The statement must set out the Authorities policies for the financial year relating to:

- Remuneration of its Chief Officers.
- Remuneration of its lowest paid employees.
- The relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers

The proposed statement is attached at Appendix 15 and Cabinet is requested to recommend it to Council for agreement.

**Council Tax Model Resolution**

71. The draft Council Tax Model Resolution is attached at Appendix 11. It should be noted that it is still subject to change consequent upon the final Local Government Finance Settlement, the laying of the principles to apply on

Council Tax referenda and also the GLA precept which has not yet been set. It is likely to need modification before submission to Council.

## Legal Implications

72. The budget sets an envelope of savings to be made. Appendix 2 shows how these savings are likely to be made, many of the proposals listed will be subject to more detailed consultation and equalities impact assessments and separate cabinet reports. Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

*A public authority must, in the exercise of its functions, have due regard to the need to:*

*(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
*(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
*(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

*Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:*

*(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;*
*(b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;*
*(c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.*

*The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.*

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

*(a) Tackle prejudice, and*
*(b) Promote understanding.*

*Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.*
*The relevant protected characteristics are:*

- *Age*

- *Disability*
- *Gender reassignment*
- *Pregnancy and maternity*
- *Race,*
- *Religion or belief*
- *Sex*
- *Sexual orientation*
- *Marriage and Civil partnership*

73. Equalities impact assessments have been completed and considered by decision makers alongside the results of consultation with stakeholders.

## Financial Implications

74. Financial matters are integral to this report.

## Performance Issues

75. There are significant performance issues across the authority associated with delivering the proposed savings, but these are beyond the scope of this report. Each Directorate has identified performance implications in developing their proposals and the impact on performance will continue to be analysed and managed as the programme is implemented.

## Environmental Impact

76. The budget incorporates the resources to meet the council's financial commitments under the Carbon Reduction Commitment – Energy Efficiency Scheme.

## Risk Management Implications

77. As part of the budget process the detailed budget risk register has been reviewed and updated. This helps to test the robustness of the budget and support the reserves policy and is attached at Appendix 8.

78. A significant feature of this year's MTFS compilation is the considerably increased risks facing the Council. The Government is driving an aggressive deficit reduction programme that adversely affects the Council's services. It is also transferring risk previously borne by the Government to local authorities. Examples of this are the localisation of Council Tax Benefits, the Business Rates retention scheme and the wider impact of Welfare Reform on Homelessness and Social Care.

79. Public sector funding cuts also affect key partners of the council such as Health and the Police. There is a risk particularly with Health partners that they will attempt to pass some of their pressures on to the Council. This is being resisted but we have been given indications that they will continue in this direction.

80. The MTFS includes very substantial savings over the next 2 years totalling £36m. Given the scale of change that is implied by this level of saving there are inevitably risks that not all savings will be fully achieved. The organisation

has been cutting staffing and there are likely to be some capacity issues in achieving the necessary change.

### Equalities Implications

81. An Equalities Impact Assessment has been undertaken of the budget. It has been identified that there are some proposals that may have differential impacts and these individual proposals will be the subject of full assessments prior to implementation. If it is determined that the implications are not acceptable the budget does have contingencies and there are reserves available that would allow different decisions to be taken.

### Corporate Priorities

82. The budget for 2013-14 supports delivery of the Council's vision and priorities and is consistent with the Corporate Plan elsewhere on this agenda.

## Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Julie Alderson<br>Date: 4 February 2013 | x | Chief Financial Officer |
| Name: Jessica Farmer<br>Date: 4 February 2013 | x | on behalf of the Monitoring Officer |

## Section 4 – Performance Officer Clearance

| | | |
|---|---|---|
| Name: Alex Dewsnap<br>Date: 22 January 2013 | x | Divisional Director Strategic Commissioning |

## Section 5 – Environmental Impact Officer Clearance

| | | |
|---|---|---|
| Name: Andrew Baker<br><br>Date: 22 January 2013 | x | on behalf of the Divisional Director (Environmental Services) |

## Section 6 - Contact Details and Background Papers

**Contact:** Steve Tingle, Finance Business Partner, Strategic Finance email steve.tingle@harrow.gov.uk

**Background Papers:**
Draft Revenue Budget and Medium Term Financial Strategy 2013-14 to 2016-17 to Cabinet 13 December 2012
http://www.harrow.gov.uk/www2/documents/b14791/%20Supplemental%20Agenda,%20Thursday%2013-Dec-2012%2019.30,%20Cabinet.pdf?T=9
Equalities Impact Assessment

| | |
|---|---|
| **Call-In Waived by the Chairman of Overview and Scrutiny Committee** | **NOT APPLICABLE**<br><br>*[Call-in does not apply to the Recommendations to Council]* |

**Appendix 8**

**Risk Assessment**

A risk assessment has been conducted. Whilst individually many of the risks are not particularly high, some are and also a view must be taken on the likelihood of a number of these risks materialising in any one-year, and the combined impact. Some of these risks could generate either an over-spend or underspend – for instance interest rates can go up or down. There are other examples of opportunities or windfalls that need to be taken into account such as rate rebates and additional grant income.

The following approach has been used:

| **Likelihood** | | | |
|---|---|---|---|
| Rating | Description | Range | Midpoint |
| A | Very High | >80% | 90% |
| B | High | 51-80% | 65% |
| C | Significant | 25-50% | 38% |
| D | Low | 10-24% | 17% |
| E | Very Low | 3-9% | 6% |
| F | Almost impossible | 1-2% | |

| **Impact** | |
|---|---|
| Rating | Description |
| I | Catastrophic |
| II | Critical |
| III | Marginal |
| IV | Negligible |

For each identified risk, the worst-case scenario in terms of possible overspend or income shortfall has been identified and multiplied by the likelihood. The risks have been quantified as shown in the table above.
The total value of risk that has been quantified for 2013-14 is £10.4m.

However, the budget for 2013-14 includes a contingency of £3m which is intended to cover unforeseen costs and risks (demography, waste tonnage, homelessness, income generation etc). Therefore the net risk is £7.4m.

The risk level is greater in 2014-15 due to the uncertainty of future events. The risk level is higher still in 2015-16 and 2016-17 due to the scale of the funding gaps, uncertainties surrounding Welfare Reform and the Governments spending plans for local government. It is partially offset by planned contingency increases.

# Budget Risk Register 2013-14

1. By-election
2. Inflation – pay
3. Inflation - prices
4. Inflation – utilities
5. Treasury Management
6. Asset management
7. Income collection
8. Welfare Reform
9. Outcome of Leisure and Library tendering process
10. Income from parking services
11. Changes to grant regime
12. Economic risk – capital receipts
13. Economic risk – demand for services
14. Litigation against the Council
15. Major Fraud
16. Increased Pension fund contributions
17. Levies, Precepts and Subscriptions
18. Financial control environment
19. Insurance claims
20. Demographic changes: additional demand for social care
21. System failure
22. Lack of disaster recovery capability
23. New policy/legislation
24. Safeguarding
25. Natural disaster /accident/terrorist incident
26. Adverse weather conditions
27. Non achievement of savings
28. Workforce –loss of permanent staff
29. Transformation programme
30. Breakdown of relationships - Strategic partnerships
31. Shared Services not meet partner aspirations
32. Commercial partnerships

| | | | | | |
|---|---|---|---|---|---|
| **Likelihood** | **A Very High** | Green | Orange | Red | Red |
| | **B High** | Green | Orange 12, 13, 24 | Red 23 | Red |
| | **C Significant** | Green | Orange 2, 3, 4, 9, 10,14,19, 21, 28 | Red 8,20,22, 27, 29, 30, | Red |
| | **D Low** | Green 1 | Green 11,18,26 | Orange 31, 32, | Orange |
| | **E Very Low** | Green 17 | Green 7, 15, 25 | Green | Orange |
| | F **Almost Impossible** | Green 16, | Green 5 6 | Green 4 5 | Green |
| | | **4 Negligible** | **3 Marginal** | **2 Critical** | **1 Catastrophic** |
| | | **Impact** | | | |

**Risk Register 2012-13 to 2014-15**

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ref | **Risks** | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Mitigation/Comments** |
| | **POLITICAL RISKS** | | | | | | | | | | | | | | | | | |
| 1 | By-Election | D 4 | 70 | 17% | 12 | D 4 | 70 | 17% | 12 | D 4 | 70 | 17% | 12 | D 4 | 70 | 17% | 12 | There is provision in the budget for the scheduled elections but not by-elections. Worst case is based on two by-elections in one year. |
| | **ECONOMIC / FINANCIAL RISKS** | | | | | | | | | | | | | | | | | |
| 2 | Inflation - Pay | C 3 | 950 | 38% | 361 | D 3 | 1000 | 17% | 170 | D 3 | 1500 | 17% | 255 | D 3 | 1500 | 17% | 255 | The 2013-14 and 2014-15 budget is based on 1% for pay in line with the Government's public sector pay policy. From 2015-16 2% p.a. is assumed. There is some risk as general inflation is running at a higher level and there is pressure from the Trade Unions for a higher increase. Given the current relatively depressed economy there is likely to continue to be downwards pressure on pay generally. The longer pay restraint continues the more likely there will be a rebound when the economy improves again. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ref | **Risks** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Mitigation/Comments** |
| | | | £000 | % | £000 | | £000 | % | £000 | | £000 | % | £000 | | £000 | % | £000 | |
| 3 | Inflation - Prices | C 3 | 1500 | 38% | 570 | D 3 | 1000 | 17% | 170 | D 3 | 1000 | 17% | 170 | D 3 | 1000 | 17% | 170 | The 2013-14 budget is based on 1.5% for prices and 2% subsequently. There is some risk as general inflation is running above 2%. It is however anticipated that given the general constraint on public spending that significant elements of the Council's spend can through negotiation be held below the general level of inflation. There are potential risks around fuel costs and major contracts with indexation terms |
| 4 | Inflation - utilities | C 3 | 200 | 38% | 76 | D 3 | 200 | 17% | 34 | D 3 | 200 | 17% | 34 | D 3 | 200 | 17% | 34 | The 2013-14 budget reflects an allowance for an increase of 10% in energy prices. The market is however volatile. |
| 5 | Treasury Management - investments and borrowing | F 2 | 10000 | 1% | 100 | F 2 | 10000 | 1% | 100 | F 2 | 10000 | 1% | 100 | F 2 | 10000 | 1% | 100 | The risk of losing a deposit is low given the use of a prudent lending list. The budget reflects the current base rate and anticipated borrowing costs. Note that Treasury Management decisions also affect the HRA and have the potential to impact the 30 year business plan. This in turn could impact homelessness. |
| 6 | Asset management. | F 3 | 1000 | 10% | 100 | F 3 | 1000 | 10% | 100 | F 3 | 1000 | 10% | 100 | F 3 | 1000 | 10% | 100 | Backlog maintenance is significant and the capital programme funds the highest priority work only. The creation of Academies has reduced the risk as these are no longer a Council responsibility. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Ref** | **Risks** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Risk rating** | **Worst case** | **Like - lihood** | **Net risk** | **Mitigation/Comments** |
| | | | £000 | % | £000 | | £000 | % | £000 | | £000 | % | £000 | | £000 | % | £000 | |
| 7 | Income collection: council tax, business rates, housing benefit overpayments, parking enforcement, sundry debtors, rents and service charges | E 3 | 1,000 | 10% | 100 | E 3 | 1,000 | 10% | 100 | E 3 | 1,000 | 10% | 100 | E 3 | 1,000 | 10% | 100 | Collection performance has improved considerably in the last few years, and the bad debt provision is reviewed quarterly. |
| 8 | Welfare Reform | C 2 | 4,000 | 40% | 1,600 | | 4,000 | 40% | 1600 | | 4,000 | 30% | 1200 | | 4,000 | 30% | 1200 | There are a number of areas of potential risk, some of them previously identified separately. The risks are however considerably increased because of welfare Reform and are linked. Council Tax Collection may be impacted in respect of Taxpayers who will now be expected to contribute more or start to pay Council Tax. Homelessness may increase as a result of Housing Benefits no longer covering all or as much of rent. Financially stressed clients may have increased Social Care interactions etc. Collection methods are being adapted to mitigate impacts and the Harrow HELP fund established but increased costs and loss of income is anticipated. |
| 9 | Outcome from Leisure and Library tendering process | C 3 | 200 | 25% | 50 | | 400 | 25% | 100 | | 400 | 25% | 100 | | 400 | 25% | 100 | |
| 10 | Income from parking services and parking enforcement | C 3 | 600 | 38% | 228 | C 3 | 600 | 38% | 228 | C 3 | 600 | 38% | 228 | C 3 | 600 | 38% | 228 | There have historically been pressures in this area however collection has improved in 2012-13. There is some ongoing risk given the current economic climate and improved compliance rates with parking restrictions. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Ref** | **Risks** | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Mitigation/Comments** |
| 11 | Changes to grant regime | D 3 | 300 | 17% | 51 | C 3 | 1,000 | 38% | 380 | C 3 | 1,000 | 38% | 380 | C 3 | 1,000 | 38% | 380 | The budget for 2013-14 reflects the local government settlement although a few grants have yet to be confirmed. There is more uncertainty from 2015-16 with no figures announced but the deficit reduction programme anticipated to continue. |
| 12 | Economic risk - capital receipts | B 3 | 0 | 0% | 0 | B 3 | 2,000 | 40% | 800 | B 3 | 1,600 | 40% | 640 | B 3 | 500 | 40% | 200 | The MTFS assumes capital receipts of £12m in 2013-14, £10m in 14-15 and £2m p.a. subsequently. There is always some risk until completion however the market has improved in recent years. |
| 13 | Economic risk - demand for services | B 3 | 500 | 65% | 325 | B 3 | 500 | 65% | 325 | B 3 | 500 | 65% | 325 | B 3 | 500 | 65% | 325 | There may be additional demands on services such as housing due to the recession. There are also risks to income earning services such as planning and building control from lower volumes. This is in addition to the risks specifically linked to Welfare Reform and identified separately. |
| 14 | Litigation against the Council | C 3 | 2,000 | 38% | 760 | C 3 | 2,600 | 38% | 988 | C 3 | 2,000 | 38% | 760 | C 3 | 2,000 | 38% | 760 | The MTFS includes an annual contribution to a provision for litigation including employment and planning related matters. Some of this risk will be covered by insurance, but individual cases can have significant cost. There is a heightened risk of a procurement challenge due to the EU remedies directive. There is also the potential for risk around the costs of Health and a possible risk of judicial review across a wide range of services, particularly Adult and Children's Social Care |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ref | **Risks** | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Mitigation/Comments** |
| 15 | Major fraud | E 3 | 200 | 6% | 12 | E 3 | 200 | 6% | 12 | E 3 | 200 | 6% | 12 | E 3 | 200 | 6% | 12 | No major cases in recent years. |
| 16 | Increased Pension Fund contributions | F 4 | 0 | 0% | 0 | D 3 | 500 | 17% | 85 | D 3 | 500 | 17% | 85 | D 3 | 500 | 17% | 85 | The MTFS provides for an increase in employers contributions at 0.25% in 2013-14 and thereafter 0.5% p.a. There is some risk that higher contributions will be required because of fund performance although it is anticipated that any further increases will still be in stages |
| 17 | Levies, Precepts and Subscriptions | E4 | 600 | 20% | 120 | E4 | 600 | 6% | 36 | E4 | 600 | 6% | 36 | E4 | 600 | 6% | 36 | The Council pays a range of levies, precepts and subscriptions. These are set by other bodies and usually known before the budget is approved. It is however possible for them to have in year financial problems requiring a supplementary levy. |
| 18 | Financial control environment | D 3 | 1,000 | 17% | 170 | D 3 | 1,000 | 17% | 170 | D 3 | 1,000 | 17% | 170 | D 3 | 1,000 | 17% | 170 | Risk mitigated by budget monitoring arrangements, refresher training, improvement boards. It is anticipated that the improvements contained in the Finance Transformation will further mitigate risks. |
| 19 | Insurance claims | C 3 | 1,000 | 38% | 380 | E 3 | 500 | 6% | 30 | E 3 | 500 | 6% | 30 | E 3 | 500 | 6% | 30 | An actuarial review has been carried out at regular intervals, the annual contribution is being steadily increased and the balance in the provision reflects the claims liability. MMI has gone into administration, however this has largely been provided for already and any further contribution to the provision will take place in 2012-13. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ref | Risks | Risk rating | Worst case £000 | Like - lihood % | Net risk £000 | Risk rating | Worst case £000 | Like - lihood % | Net risk £000 | Risk rating | Worst case £000 | Like - lihood % | Net risk £000 | Risk rating | Worst case £000 | Like - lihood % | Net risk £000 | Mitigation/Comments |
| | **SOCIAL RISKS** | - | - | | | | | | | | | | | | | | | |
| | - | - | - | | | | | | | | | | | | | | | |
| 20 | Demographic changes: additional demand for social care. | C 2 | 2000 | 40% | 800 | C 2 | 2000 | 40% | 800 | C 2 | 2000 | 40% | 800 | C 2 | 2000 | 40% | 800 | The MTFS reflects anticipated demand for social care for both Children and Adults. However, small fluctuations can generate considerable cost. There is the potential for some Health funded continuing care case currently in dispute to become Harrow's responsibility |
| | - | - | - | | | | | | | | | | | | | | | |
| | **TECHNOLOGICAL RISKS** | - | - | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| 21 | System failure | C 3 | 250 | 38% | 95 | C 3 | 100 | 38% | 38 | C 3 | 100 | 38% | 38 | C 3 | 100 | 38% | 38 | Environment is being moved onto more stable infrastructure. Performance issues have occurred during transition; however, the migration is reducing the risk of catastrophic failure |
| 22 | Disaster recovery | C 2 | 1000 | 38% | 380 | C 2 | 750 | 38% | 285 | C 2 | 750 | 38% | 285 | C 2 | 750 | 38% | 285 | The IT contract with Capita includes a comprehensive DR solution and critical systems have now been tested. Some recovery costs would be covered by insurance. The risk should reduce once the current transformation is complete. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ref | **Risks** | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Mitigation/Comments** |
| | - | - | - | | | | | | | | | | | | | | | |
| | **POLICY/LEGISLATIVE / REGULATORY** | - | - | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| 23 | New policy/legislation | B 2 | 1000 | 65% | 650 | B 2 | 5000 | 65% | 3250 | B 2 | 6000 | 65% | 3900 | B 2 | 6000 | 65% | 3900 | Generally changes have a long lead in time, but there are risks due to the extensive policy agenda of the new government and the speed of implementation of changes in some areas. A particular area of concern is welfare reform. |
| | | | | | | | | | | | | | | | | | | |
| | **SERVICE RISKS** | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| 24 | Safeguarding - recent high profile cases have resulted in a significant increase in referrals | B 3 | 1000 | 65% | 650 | B 3 | 1000 | 65% | 650 | B 3 | 1000 | 65% | 650 | B 3 | 1000 | 65% | 650 | Detailed plans put in place in Children's services including case reviews. There is a potential for significant costs in both Adults and Children |
| | - | - | - | | | | | | | | | | | | | | | |
| | **EMERGENCIES** | - | - | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| 25 | Natural disaster, accident or terrorist incident costing £2m in total | E3 | 832 | 6% | 50 | E3 | 843 | 6% | 51 | E3 | 832 | 6% | 50 | E3 | 832 | 6% | 50 | The government has a scheme (the Bellwin scheme) that covers authorities for 85% of costs of a major disaster over a threshold (£626k in 2012-13). The risk to the Council is 100% of costs below the threshold and the 15% above it, so if the total cost of the incident was £2m the council would be liable for £832k. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Ref** | **Risks** | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Mitigation/Comments** |
| 26 | Adverse weather conditions | D 3 | 400 | 17% | 68 | D 3 | 400 | 17% | 68 | D 3 | 400 | 17% | 68 | D 3 | 400 | 17% | 68 | There is some provision in the budget for seasonal work. This risk relates to exceptionally bad weather, which tends to be more frequent than previously. |
| | - | - | - | | | | | | | | | | | | | | | |
| | **EFFICIENCY RISKS** | - | - | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| 27 | Non-achievement of allocated savings included in the budget | C 2 | 3,000 | 38% | 1,140 | C 2 | 3,000 | 38% | 1140 | C 2 | 200 | 38% | 76 | C 2 | 200 | 38% | 76 | The MTFS includes efficiency savings totalling £22m in 2013-14 and £14m in 2014-15. Progress will be carefully monitored. |
| 28 | Workforce risk of loss of permanent staff requiring more expensive interims due to adverse reaction to terms and conditions changes, public sector pay restraint and increasing stress as workforce reduces but demands increase | C 3 | 1,000 | 20% | 200 | C 3 | 1,000 | 20% | 200 | | 1,000 | 20% | 200 | | 1,000 | 20% | 200 | The impact of any problems is likely to be uneven given the different labour markets that apply within the Council. Problems being mitigated by the council's workforce strategy. |
| 29 | Transformation programme fails to deliver substantial contribution to the funding gap in years 3 and 4 of the MTFS | | | | | | | | | C 2 | 4,000 | 38% | 1520 | C 2 | 5,000 | 38% | 1900 | There will clearly need to be a fundamental transformation of public sector services, including those provided by the Council over the next few years. Having balanced the budget for the next 2 years the Council can devote itself to addressing this requirement. |

| | | 2013-14 | | | | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ref | Risks | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Risk rating** | **Worst case** £000 | **Like - lihood** % | **Net risk** £000 | **Mitigation/Comments** |
| | **PARTNERSHIP / CONTRACTUAL RISKS** | - | - | | | | | | | | | | | | | | | |
| | - | - | - | | | | | | | | | | | | | | | |
| 30 | Breakdown of relationships with strategic partners (Health, Police, businesses, voluntary sector) | C 2 | 3,000 | 38% | 1,140 | C 2 | 4,000 | 38% | 1520 | C 2 | 4,000 | 38% | 1520 | C 2 | 4,000 | 38% | 1520 | The HSP governance arrangements have been revised. Good working relationships exist between partners. There are ongoing concerns about the PCT's financial position, but agreement was reached about liabilities for 2010-11. New potential liabilities have arisen during 2011-12 and identified as part of PCT action plans |
| 31 | Shared Services not meeting each of partner's aspirations | D 2 | 300 | 20% | 60 | D 2 | 300 | 20% | 60 | | 300 | 20% | 60 | | 300 | 20% | 60 | Harrow is developing partnerships with other boroughs for shared services such as Public Health and Legal Services. They are however not yet well established and it is possible they may not work as effectively as planned causing cost to the partners |
| 32 | Commercial Partnership failure (Capita, Apollo, May Gurney) | D 2 | 500 | 17% | 170 | D 2 | 500 | 17% | 85 | D 2 | 500 | 17% | 85 | D 2 | 500 | 17% | 85 | |
| | | | | | | | | | | | | | | | | | | |
| | **TOTAL** | | **39,402** | | **10,418** | | **47,063** | | **13587** | | **48,752** | | **13989** | | **48,652** | | **13929** | |
| | | | | | | | | | | | | | | | | | | |
| | Contingencies | | | | -3,000 | | | | -5000 | | | | -5000 | | | | -5000 | |
| | Remaining risk | | | | 7,418 | | | | 8587 | | | | 8989 | | | | 8929 | |

**LONDON BOROUGH OF HARROW**

**GARMC – 4 APRIL 2013**

**REFERENCE FROM CABINET – 14 FEBRUARY 2013**

**591. KEY DECISION - TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION (MRP) POLICY AND STRATEGY 2013/14**

The Portfolio Holder for Finance introduced the report, which set out the Council's Treasury Management Strategy (TMS) Statement, Prudential Indicators and Minimum Revenue Provision (MRP) Policy for 2013/14.

The Portfolio Holder outlined the amendments proposed to the Counterparty Policy, as follows:

- a maximum maturity return to 12 months for those banks that met the more demanding credit quality of specified investments;

- that the use of the money market funds was extended to enhanced cash funds, which had received cross-party support at the Governance, Audit and Risk Management Committee in January 2013.

**RESOLVED:** That the report be referred to the Governance, Audit and Risk Management Committee for review**.**

**Reason for Decision:** To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

**Alternative Options considered and rejected:** As set out in the report.

**Conflict of Interest relating to the matter declared by Cabinet Member/Dispensation granted:** None.

**FOR CONSIDERATION**

Background Documents:
Draft minutes of the Cabinet - 14 February 2013
Contact Officer:
Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881
Email:daksha.ghelani@harrow.gov.uk

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# REPORT FOR: CABINET

| | |
|---|---|
| **Date:** | 14 February 2013 |
| **Subject:** | Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision (MRP) Policy and Strategy 2013/14 |
| **Key Decision:** | Yes |
| **Responsible Officer:** | Julie Alderson, Corporate Director of Resources |
| **Portfolio Holder:** | Councillor Sachin Shah, Portfolio Holder for Finance |
| **Exempt:** | No |
| **Decision subject to Call-in:** | Yes, except for the Recommendations to Council |
| **Enclosures:** | Appendix 1 - Interest Rates & the Economy<br>Appendix 2 - Treasury Delegations<br>Appendix 3 – Enhanced Cash Funds |

## Section 1 – Summary and Recommendations

This report sets out the Council's Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision (MRP) Policy for 2013/14

**Recommendations:**
The Cabinet is requested to recommend the Council to approve:
- The Treasury Management Strategy and Prudential Indicators; and
- The Minimum Revenue Provision Policy and Strategy for 2013/14.

That Cabinet refers this report to GARM Committee for review.

**Reason: (For recommendation)**

To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

# Section 2 – Report

**Introduction**

1. Treasury Management is the management of the Council's investments and cash flows, its banking, money market and debt transactions together with the effective control of the risks associated with those activities.

2. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and Treasury Management Code of Practice to set treasury and Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3. The Act, the Codes and subsequent Investment Guidance (2010) therefore requires the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. CIPFA updated in 2011 both their Code of Practice and Prudential Code and the changes are fully reflected in this strategy statement.

4. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Code of Practice, increases in capital expenditure should be limited to a level whereby increases in charges to revenue from:-

   - increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
   - any increases in running costs from new capital projects

   are affordable within the projected income of the Council for the foreseeable future.

**CIPFA Requirements**

5. Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011). The primary requirements of the Code are as follows:

   (a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

(b) Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

(c) Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

(d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

(e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

6. Cabinet will approve the annual treasury strategy, including borrowing and investment strategies and receive a mid-year report and annual out-turn report on treasury activities.

7. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the S151 officer, who acts in accordance with the organisation's approved policy statement and TMPs. The Section 151 Officer chairs the Treasury Management Group (TMG) which consists of Deputy Section 151 Officer and the Treasury and Pensions manager, to monitor the treasury management activity and market conditions.

8. The Council has nominated GARM Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Further details of responsibilities are given in Appendix 2.

**Treasury Management Policy Statement**

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

10. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

11. Harrow council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

## Treasury Management Strategy for 2013/14

12. The suggested strategy for 2013/14 is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services. The Strategy covers:-

- treasury limits in force that will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness and counterparty policy
- the MRP strategy

13. It is not considered necessary to produce a separate treasury strategy for HRA in light of the co-mingling of debt and investments between HRA and the General Fund. Where appropriate, details of allocations of balances and interest to HRA are contained in this report.

## Treasury Limits for 2013/14 to 2015/16

14. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the "Authorised Limit" represents the legislative limit specified in the Act.

15. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

16. The term an "Affordable Borrowing Limit", relates to the financing of capital plans by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

## Prudential Indicators for 2013/14 to 2015/16

17. The Prudential Indicators are set out below.

    Table 1 shows the Council's treasury portfolio position as at 31 December 2012 and the limits for the maturity structure of fixed rate borrowing during 2012/13; and

    Tables 2 to 8 include estimates of capital expenditure; ratio of financing costs to the net revenue stream; capital financing requirement; the incremental impact of capital decisions; the authorised limits and operational boundary for external debt; upper limit for fixed rate interest rate exposure and total sums invested for more than 364 days.

**Table 1**

| **Treasury position as at 31 December 2012** | | **Principal** | | **Ave. rate** |
|---|---|---|---|---|
| | | £m | £m | % |
| Fixed rate funding | PWLB | 218.5 | | |
| | Market | 131.8 | 350.3 | **4.30** |
| Variable rate funding | | | 0 | |
| Other long term liabilities (PFI & leases) | | | 23.4 | |
| **Total Debt** | | | **373.7** | |
| | | | | |
| **Total Investments** | | | **115.8** | **2.01** |

In the table below, the maturity structure for debt for which the borrower has an option to increase the interest rate (and Harrow has the option to repay), known as Lender Option Borrower Option "LOBO" is now shown as the first date that the interest rate can be increased. Prior to 2012, the final repayment date was used to determine the maturity.

| **Maturity structure of fixed rate borrowing** | **As at 31.12.2012** | **Upper limit** | **Lower limit** |
|---|---|---|---|
| Under 12 months | 9.6% | 20% | 0% |
| 12 months to 23 months | 4.6% | 20% | 0% |
| 24 months to under 5 years | 17.2% | 30% | 0% |
| 5 years to under 10 years | 7.7% | 40% | 10% |
| 10 years and over | 60.9% | 90% | 30% |

Exposure to debt maturing in 5 to 10 years is below the lower boundary. The most recent borrowing has been long term to take advantage of the historically low interest rates on offer and also to protect against the impact of early LOBO repayment. The position will self correct in later years.

**The Capital Prudential Indicators 2011/12 to 2015/16**

18. The Council's capital expenditure plans are the key driver of the treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The indicators present in the tables below are those suggested in best practice guidance. The Council can add or modify the indicators should this be appropriate. The values shown in the tables below for 2011-12 and 12-13 are actual and not the strategy for those years.

## Capital Expenditure and Funding

| Table 2 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| | actual | forecast outturn | estimate | estimate | estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Capital Expenditure** | | | | | |
| Non - HRA | 29,226 | 39,936 | 41,768 | 25,300 | 22,800 |
| HRA - settlement funding | 88,461 | | | | |
| HRA - routine | 6,094 | 8,249 | 7,634 | 7,527 | 7,827 |
| **TOTAL Expenditure** | **123,781** | **48,185** | **49,402** | **32,827** | **30,627** |
| **Funding:-** | | | | | |
| Grants | 10,936 | 14,600 | 9,068 | 7,830 | 7,830 |
| Capital Receipts | 4,895 | 3,500 | 12,000 | 10,000 | 2,000 |
| Revenue Financing | 528 | | | 1,180 | 1,720 |
| Major Repairs Allowance | 0 | 8,149 | 7,534 | 6,317 | 6,077 |
| **Total Funding** | **16,359** | **26,249** | **28,602** | **25,327** | **17,627** |
| **Borrowing to Fund the Capital Programme** | **18,961** | **21,936** | **20,800** | **7,500** | **13,000** |
| **Borrowing - HRA settlement** | **88,461** | | | | |
| **Total new Borrowing** | **107,422** | **21,936** | **20,800** | **7,500** | **13,000** |

19. The above table summarises actual and expected capital expenditure plans and the sources of funding. Sources of funding being grants, capital receipts and in respect of HRA, major repairs reserve, which is an annual charge against revenue. The funding excludes Minimum Revenue Provision (depreciation on general fund assets) which offsets the need for external borrowing.

20. The net borrowing of £21.9 million in the current year is £3.2 million below the value projected at the start of the year. Future year's expenditure plans have also been restricted. For the General Fund, borrowing for the period 2013-14 includes self funding expenditure of £12.4 million which will only be initiated if projected revenue savings exceed capital financing

21. Since 31st March 2012, the HRA debt level has been at the Government imposed debt limit and new capital expenditure is fully funded from revenue.

## Ratio of Financing Costs to Net Revenue Stream

| Table 3 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| | actual | forecast outturn | estimate | estimate | estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Ratio of financing costs to net revenue stream** | | | | | |
| Non - HRA | 12.81% | 12.81% | 12.51% | 12.42% | 13.65% |
| HRA | 8.61% | 50.74% | 47.67% | 46.87% | 46.83% |

22. This section of the indicators considers the affordability of capital expenditure by comparing net interest costs and depreciation with net revenues. A rising allocation would be a concern as it would represent an increasing demand on resources. For the General Fund the ratio moves within a narrow range of 12-14%, despite net revenues declining by 3%. The General Fund benefits in 2012-13 from the impact of taking on the additional debt to fund the HRA reform, as the new borrowing incurs a lower interest rate than current debt. Over the five years, the upward trend is due to MRP on new capital expenditure exceeding the impact of assets becoming fully depreciated. The ratios for 2012-13 to 2014-15 are lower than was predicted last year.

23. The HRA ratio has undergone dramatic change following the finance reform, jumping from 25% in 2010/11 to 53% in 2012/13 due to the additional borrowing taken on to buy the Council out of its annual subsidy payment. If the subsidy payment had been treated as a capital cost in 2010-11, the ratio for that year would have been 52%. The impact of the reforms is therefore to reduce HRA's "fixed" costs in 2012-13 and beyond. The indicator for 2011-12 is reduced by the decision not to charge MRA in the year. For the current and next two years, HRA capital expenditure is maintained at around the £8 million p.a. by utilising revenue surpluses.

**Net Borrowing Requirements**

| Table 4 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| | actual | forecast outturn | estimate | estimate | estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Net borrowing requirement** | | | | | |
| brought forward 1 April | 195,898 | 294,681 | 274,232 | 280,908 | 275,274 |
| carried forward 31 March | 294,681 | 274,232 | 280,908 | 275,274 | 273,240 |
| **In year borrowing requirement** | **98,783** | **-20,449** | **6,676** | **-5,634** | **-2,034** |

24. The net borrowing requirement looks at the change in debt less investment balances from year to year. Net debt is forecast to fall over the 4 years as capital expenditure plans are financed from the cash generated by the depreciation of existing assets.

**Capital Financing Requirement**

| Table 5 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| | actual | forecast outturn | estimate | estimate | estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Capital Financing Requirement as at 31 March** | | | | | |
| Non – HRA | 253,069 | 259,201 | 264,487 | 261,975 | 260,248 |
| HRA | 149,614 | 149,614 | 149,614 | 149,614 | 149,614 |
| **Total** | **402,683** | **408,815** | **414,101** | **411,589** | **409,862** |
| **Annual change in CFR** | | | | | |
| Non – HRA | 1,599 | 6,132 | 5,286 | -2,512 | -1,727 |
| HRA | 94,417 | 0 | 0 | 0 | 0 |
| **Total** | **96,016** | **6,132** | **5,286** | **-2,512** | **-1,727** |

25. The Capital Financing Requirement is the historic outstanding capital expenditure which has not been paid for or allocated to revenue. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure which is not funded from revenue increases the CFR. The value of finance lease assets is included.

26. General Fund CFR will broadly remain around £260 million as the capital programme (net of grants and receipts) matches MRP in the three years from 1st April 2013. For HRA, all new expenditure is funded from revenue as HRA is at its borrowing limit.

27. Total CFR estimated at 31st March 2015 is £28 million less than projected last year reflecting the cut back in capital expenditure plans. The balance of £408.8 million as at March 2013 is in excess of actual external debt of £373.6 million (including finance leases) due to internal balances used to part fund capital expenditure.

**Incremental Impact of Capital Investment Decisions**

| **Table 6** | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
|---|---|---|---|---|---|
| | **actual** | **forecast outturn** | **estimate** | **estimate** | **estimate** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Incremental impact of capital investment decisions** | **£ p** | **£ p** | **£ p** | **£ p** | **£ p** |
| Increase in council tax (band D) per annum | 26.74 | 37.32 | 20.59 | 16.45 | 30.86 |
| Increase in average housing rent per week | -14.31 | 18.99 | -2.39 | -0.14 | 5.74 |

28. The incremental ratios compare the cost of debt and depreciation (MRP) linked to new capital borrowing with expected levels of council tax 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 depreciation charge, resulting in an overstatement of the impact.

29. For the General Fund, the ratio suggests that capital expenditure plans will have an upward pressure on Council tax. However, the earlier ratios indicate that new capital expenditure is being funded within existing debt levels. The ratio also excludes the impact of expenditure efficiency savings resulting from capital expenditure.

**Changes to Gross Borrowing**

| **Table 7** | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
|---|---|---|---|---|---|
| | **actual** | **forecast outturn** | **estimate** | **estimate** | **estimate** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Changes to Gross Borrowing** | | | | | |
| Debt 1st April | 261,800 | 350,261 | 350,261 | 340,261 | 334,261 |
| Expected change in debt | 88,461 | 0 | -10,000 | -6,000 | 0 |
| Other long term liabilities (OLTL) 1st April | 20,400 | 25,381 | 23,369 | 23,018 | 22,668 |
| Expected change in OLTL | 4,981 | -2,012 | -351 | -350 | -350 |
| Borrowings on behalf of External Bodies | -3,168 | -3,045 | -2,922 | -2,799 | -2,676 |
| Actual gross debt at 31st March | 372,474 | 370,585 | 360,357 | 354,130 | 353,903 |
| Capital Financing requirement 31st March | 402,683 | 408,815 | 414,101 | 411,589 | 409,862 |
| **Under / (over) borrowing** | 30,209 | 38,230 | 53,744 | 57,459 | 55,959 |

30. This is a new indicator that compares the value of debt with the value of capital assets as measured by the CFR. Debt outstanding should not normally exceed CFR. The expectation is that the under borrowing will increase as cash balances are used to fund debt repayment.

**Borrowing and Investment Limits**

| Table 8 | 2011/12 actual £'m | 2012/13 forecast outturn £'m | 2013/14 estimate £'m | 2014/15 estimate £'m | 2015/16 estimate £'m |
|---|---|---|---|---|---|
| **Authorised Limit for external debt** | | | | | |
| Borrowing and finance leases | 375 | 371 | 414 | 412 | 410 |
| **Operational Boundary for external debt** | | | | | |
| Borrowing | 350 | 350 | 352 | 356 | 358 |
| Other long term liabilities | 25 | 23 | 23 | 23 | 22 |
| **Total** | 375 | 373 | 375 | 379 | 380 |
| **Upper limit for fixed interest rate exposure** | | | | | |
| Net principal re fixed rate borrowing | 350 | 350 | 352 | 356 | 358 |
| **Upper limit for variable rate exposure** | | | | | |
| Net principal re variable rate borrowing | 0 | 0 | 0 | 0 | 0 |
| Upper limit for principal sums invested over 364 days | 18 | 23 | 25 | 25 | 25 |

31. The final set of indicators is the debt and investment limits. The operational boundary is based on current debt plus anticipated capital receipts in each of the next three years. The expectation is that the capital programme will be funded from existing cash balances. The authorised limit is based on CFR balances.

32. It is anticipated that all borrowing will be fixed rate and that the limit for investments maturing in excess of twelve months is retained at £25 million. The HRA debt limit for each year is £149.6 million.

**Interest Rate Outlook and Economic Background**

33. The base rate has remained unchanged at 0.5% since March 2009. The Council has appointed Sector as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

Sector Bank Rate forecast for financial year ends (March)

- 2012/ 2013 0.50%
- 2013/ 2014 0.50%
- 2014/ 2015 0.75%
- 2015/ 2016 1.75%

34. Appendix 1 sets out Sector's forecasts for short term (Bank Rate) and longer fixed interest rates together with comments on the economic background. The Bank base rate is anticipated to remain unchanged until Q4, 2014 and to rise steadily thereafter. Compared with last year, the first projected increase in bank rate has been delayed by 15 months. With growth in the UK expected to remain weak for a prolonged

period as both government and individuals seek to reduce debt, the risk probably lies on the side of delayed rate increases. Although UK inflation has declined in 2012, it remains above target levels, which is likely to be tolerated until signs of stronger growth emerge.

35. The prevailing low interest rates across the yield curve have impacted on both borrowing and investment. The interest cost on additional 50 year borrowing in March 2012 was a favourable 3.48%, which compares with 4.5% for existing PWLB debt.

36. Low interest rates have detracted from income earned on cash balances. The Government's provision of low cost funds to banks and building societies has seen 1 month Libid rates fall from 0.65% at the end of 2011 to 0.37% as at December 2012, both a far cry from the 5% plus rates earned on short term deposits pre the financial crisis. The poor environment for investing is not expected to improve in 2013-14.

37. PWLB borrowing rates are expected to drift upwards as and when quantitative easing ends and markets react to the greatly expanded stock of Government debt.

38. The spread between investment returns and borrowing rates continues to entail a cost if borrowing is made in advance of needs.

**Borrowing Strategy**

39. The Council has a debt portfolio of £350 million, mainly long term, with an average maturity of 37 years (LOBO debt measured to final maturity). Investment balances have held up better than was expected and are valued at £116 million (31st December 2012). With the investment portfolio yielding around 2% and the average cost of debt 4.3%, there is a short term cost to carrying excessive debt. The same picture is true if investment rates are compared with new borrowing rates.

40. The excess cost of debt is expected to continue and may in fact widen a little in the next 12-24 months. In these circumstances it is not proposed to seek any new borrowing unless conditions change or the cash balance falls below a safe level.

41. Previously there has been an assumption that future capital expenditure plans will require additional borrowing in the medium term. Net capital expenditure within the General fund is being constrained and the need for additional borrowing is less likely. Following the ending of the HRA subsidy system, it was agreed that there could be the ability for part of the General Fund borrowing capacity to be used to assist in delivering additional affordable housing. The only foreseen circumstances in which new long term borrowing in the next three years might be required therefore, are either if part of the LOBO portfolio had to be refinanced early, or if made available to fund new affordable housing development, on the basis that there was no revenue impact on the General Fund. Even then, the preference would be to reduce investment balances unless the gap between investment and borrowing rates has narrowed. Lower cash balances have the additional benefit of reducing exposure both to interest rate movements and also to counterparty default.

42. It may be necessary to resort to temporary borrowing from the money markets or other local authorities to cover mismatches in timing between capital receipts and payments. This is more likely as short term cash balances fall.

43. The Council has borrowed £83.8 million under Lender Option, Borrower Option (LOBO) structures with maturities between 2050 and 2078. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and half yearly thereafter) to reset the interest rate. If the rate of interest changes, Harrow is permitted to repay the loan at no additional cost. Guidance issued in November 2011 by CIPFA requires that such borrowing be shown as maturing at the first date that the borrower can amend the interest charge. This has considerably shortened the maturity profile of the debt portfolio as shown in paragraph 16. The change in guidance does not indicate an increased likelihood of interest rates changes on LOBO debt.

44. In the current environment caution will be adopted with regard to the treasury operations. The Treasury Management Group will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet at the first available opportunity.

45. The Council has adopted a single pooled approach for debt. Allocations to HRA are based on its capital finance requirement (”CFR”), with interest charged to HRA at the average rate on all external borrowing. With HRA's CFR expected to remain at its cap for at least the next three years, there will no change in HRA borrowing in that period. Longer term, HRA's ability to repay borrowing i.e. transfer the interest obligation to the General Fund, will depend on future capital expenditure plans.

46. HRA's maximum level of debt as measured by its capital finance requirement under the new self financing arrangements is £149.6 million

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

<u>Debt Rescheduling</u>

48. Opportunities to reduce the cost of debt by premature repayment or to improve the maturity profile are kept under review in discussion with the Council's treasury advisor. Early repayment of market loans is by negotiation and would only be considered if Harrow is approached by the lender. For PWLB loans, there are daily published prices for early repayment that allows analysis of the opportunities for restructuring. There is currently a spread of 0.8% (based on the PWLB “certainty rate”), which has generally made restructuring uneconomic. However, with longer term borrowing rates higher than short term rates and investment returns, there are potential savings from either repaying long term debt from cash balances or switching to shorter term debt. To date such opportunities have been declined as the overall debt level was expected to be maintained and any repaid debt would have to be replaced at a longer term adverse cost. With capital expenditure plans being constrained, the level of required debt will be monitored and if deemed excessive, early redemption will be considered.

49. Should any of the LOBO loans with interest rate reset dates in 2012-13 (£33.8 million) require refinancing, the most likely source will be a combination of internal

cash and external borrowing to protect the budget. The ratio will depend on the relative cost of the existing and replacement debt.

50. All rescheduling will be reported to Cabinet at the earliest meeting following the exercise.

## Annual Investment Strategy

Investment Policy

51. The Council approves a Treasury Management Strategy on an annual basis and has adopted the 'CIPFA code of Practice for Treasury Management in the Public Services'.

52. The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(a) The security of capital, and
(b) The liquidity of its investments.

53. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

54. The Council does not borrow monies purely to invest or on-lend.

Creditworthiness and Counterparty Policy

55. Managing the investment portfolio in recent years has faced two significant headwinds. Firstly the decline in yields available and secondly the downgrades to the credit ratings of banks. The impact has been a more concentrated portfolio and a decline in income.

56. As an example of the continued drop in yields, the best one year rate currently available is 1.1%, considerably lower than the 3% received last April. The yield enhancement for investing over 2 and 3 years has almost vanished. At the short end, rates on the one month notice account have fallen from 0.82% to 0.45%. Despite these changes, the average rate earned in 2012-13 is projected to be 1.8% compared with 1.65% last year.

57. The maximum maturity for counterparties was generally 5 years pre 2012. The current strategy permitted a maximum maturity of 3 years for Lloyds and RBS and only 3 months for all other banks. The maximum maturities are in line with guidance from Sector, with the extended maturities for the two part nationalised banks reflecting the increased security of their ownership by the UK Government. The combination of the greater security and the higher rates on offer from Lloyds and RBS enabled Council to approve 30% limits for each of these banks, compared with 20% for the other main UK banks. The limit for each of Lloyds and RBS was increased to 50% of total deposits in October 2012.

58. The investment portfolio has become concentrated with the two part-nationalised banks representing 93% of the portfolio at 31st December 2012. Diversification has been sacrificed in recognition of the increased security from part government ownership and also to take advantage of the higher yields on offer.

59. Looking forward, there are a number of factors that support a more diversified portfolio and a move towards normalisation of the maximum maturities for the UK banks. Firstly, the UK and world economies have stabilised as reflected in the recent strength of the stock market. Bank share prices and the cost of insuring against default, if not their credit ratings, have benefited from the more upbeat mood. For example, the share prices of RBS and Lloyds have doubled in the year and the cost of default insurance (CDS spreads) fallen by 60%. Secondly, the Government aims to sell its stake in Lloyds and RBS, which will remove the additional security offered by Government ownership. Finally, the rates offered by these two banks have moved closer to the rates of the other UK banks, eroding the additional return previously offered. Sector have recognised that the more negative scenarios for the banks are less likely and have removed the temporary three month maximum maturity for most banks that they recommended in 2011. For the better rated banks, recommended maximum maturities have increased to 12 months and occasionally more. Despite these favourable developments only limited change is proposed at present as wider change would not generate additional income opportunities.

60. Two amendments are proposed to the counterparty policy. Firstly, for banks that meet the more demanding credit quality of specified investments that the maximum maturity return to 12 months. Secondly, that the use of money market funds is extended to enhanced cash funds. These funds share many of the characteristics of money market funds but by allowing longer maturities are able to earn higher returns. Appendix 3 provides further details on these funds. This proposal was discussed with GARMC on 23rd January, who supported the use of enhanced cash funds and requested updates on the timing of the implementation.

61. The Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Specified investments are considered low risk and relate to funds invested for up to one year. Non-Specified investments normally 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.

Specified Investments

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

| 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<br>F1+Short-term<br>2 Support<br>AA- Viability<br>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<br>F1 Short-term<br>1 Support<br>A Viability<br>UK or AAA Sovereign | In-house | 50% | 3 months |
| Callable Deposits | F1 Short term<br>A Long Term<br>1 Support | In-house | 20% | 3 months |
| UK nationalised Banks [RBS & Lloyds / HBOS] | F1 Short-term<br>1 Support | In-house | 50% for each of the two Groups | 36 months |
| Enhanced Cash Funds | AAA | In-house | 25% (maximum £10 million per fund) | Minimum monthly redemption |

63. Unless specified above, individual bank & building society counterparty limits that are consistent with the above limits are approved by the Section 151 Officer in accordance with the Council's Treasury Management Practices.

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

65. 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.

Investment Strategy

66. The Council's funds are mainly cash flow derived and include the General Fund, West London Waste Authority and Housing Revenue Account balances. Balances are also held to support capital expenditure. From 1st April 2011, pension fund cash balances have been held separately from those of the Council. A separate investment strategy has not been developed for the pension fund. All its cash (circa £22 million as at December 2012) is held on overnight call account with RBS.

67. The counterparty policy recognises the greater uncertainty within the financial sector by limiting deposits to three months for those banks that are not UK government owned or the higher rated specified investments. Selective deposits with maturities of over three months will be made with Lloyds / HBOS and RBS to obtain the benefit of the higher rates on offer provided that prudent liquidity is maintained. In no event will more than £25 million be invested for maturities of more than 12 months. Enhanced cash funds will enable rates similar to 1-2 two year deposits to be obtained without sacrificing credit quality or liquidity.

68. Due to the low interest rates environment and uncertainties around Government funding for banks, setting expected income levels for 2013-14 and beyond is imprecise. Investment income (net of allocations) has been budgeted at £1,565,000 for 2013/14 (2012/13 £1,511,000). The income forecast assumes that the proposed changes in counterparty policy will be agreed and also factors in a revised basis of allocating interest income to third party balances.

**Minimum Revenue Provision**

What is a Minimum Revenue Provision?

69. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The accounting approach is to spread the cost over the period during which such assets are used to provide services to the local community. The mechanism for spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation but, from April 2009, is now determined under Guidance. The Minimum Revenue Provision (MRP) is the means by which capital expenditure which is financed by borrowing or credit arrangements is funded by council tax and rent payers. The purpose of MRP is to enable the Council to make prudent provision to redeem its debt liability over a period that is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

Minimum Revenue Provision Policy Statement 2013/14

*70.* The Council will assess their MRP for 2013/14 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

71. CLG guidance effective from March 2010 requires the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to

councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

I. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the existing practice (option 1) and MRP will follow the existing practice outlined in former CLG regulations. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year; and

II. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases), the MRP policy will be Asset life method (option 3) and MRP will be based on the estimated life of the assets in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

III. A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts and will be applied to the remaining life of the assets.

72. Estimated life periods will be determined under delegated powers and will generally follow those set out in the guidance. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate:

I. In the case of new capital expenditures which serve to add to the value of an existing capital asset, these will be estimated to have the remaining useful life as the asset whose value is enhanced.

II. Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.

III. To the extent that expenditures are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, in the case of long term debtors (e.g. West London Waste Authority) arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements, there will be no Minimum Revenue Provision made. The Council is satisfied that a prudent provision will be achieved after exclusion of these capital expenditures from the MRP requirements.

<u>Housing Revenue Account (HRA) Major Repairs Allowance (MRA)</u>

73. The National Subsidy system was replaced by Self Financing on 01 April 2012 as part of the Government's reform of the HRA. As a result, the Council will make a charge for deprecation in respect of its dwellings calculated on a componentised basis, which will be counted as a genuine charge against the HRA. Under the National Subsidy system, the Council made a charge equal to the Major Repairs Allowance receivable from Central Government thereby ensuring a nil overall effect for depreciation.

74. The Government has allowed Councils to continue to charge depreciation at an amount equal to the Major Repairs Allowance for the next five years under transitional arrangements to permit Council's to adapt to the new framework. The Council has decided, however, to move to componentised depreciation, as recommended by proper practices, as this gives a fairer reflection of future investment requirements.

75. As the value of housing stock is expected to increase broadly in line with inflation, HRA debt as a proportion of the value of housing stock will decline. If it is considered asset lives are not being sufficiently maintained, provision to repay borrowing will be made and reflected in the HRA Business Plan.

**Financial Implications**

76. Financial matters are integral to the report.

**Legal Implications**

77. The report has been reviewed by Legal Department and comments received are incorporated into the report.

**Environmental Impact**

78. There are no direct environmental impacts.

**Performance Issues**

79. The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

**Risk Management Implications**

80. There is a risk that the Council could lose a deposit due to the failure of a Counterparty and any movement in interest rates will have an impact on the investment income and borrowing costs.

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

**Equalities Implications**

81. Officers have considered any possible equalities impact and consider that there is no adverse equalities impact.

**Corporate Priorities**

82. This report deals with the Treasury Management Strategy which is a key to delivering the Council's corporate priorities

## Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Julie Alderson<br><br>Date: 21 January 2013 | x | Chief Financial Officer |
| Name: Jessica Farmer<br><br>Date: 23 January 2013 | x | on behalf of the Monitoring Officer |

## Section 4 – Performance Officer Clearance

| | | |
|---|---|---|
| Name: Alex Dewsnap<br><br>Date: 21 January 2013 | x | Divisional Director |

## Section 5 – Environmental Impact Officer Clearance

| | | |
|---|---|---|
| Name: John Edwards<br><br>Date: 28 January 2013 | x | Divisional Director |

## Section 6 - Contact Details and Background Papers

**Contact:** George Bruce (Treasury and Pension Fund Manager, Finance & Procurement) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

**Background Papers:** None

| | |
|---|---|
| **Call-In Waived by the Chairman of Overview and Scrutiny Committee** | **NOT APPLICABLE**<br><br>*[Call-in applies, except to the Recommendations to Council]* |

**Appendix 1**

## Interest Rates and Economic Background

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view:

| | 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% |
| 5yr PWLB rate | 1.50% | 1.50% | 1.60% | 1.60% | 1.70% | 1.70% | 1.80% | 2.00% | 2.20% |
| 10yr PWLB rate | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% |
| 25yr PWLB rate | 3.80% | 3.80% | 3.80% | 3.80% | 3.90% | 3.90% | 4.00% | 4.10% | 4.30% |
| 50yr PWLB rate | 4.00% | 4.00% | 4.00% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.50% |

<u>The Global economy</u>

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth of 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

The Eurozone sovereign debt crisis has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

<u>The UK economy</u>

The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012.

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. .

Appendix 2

## Treasury Management Delegations and Responsibilities

The respective roles of the Cabinet, GARMC, the Section 151 officer, the Treasury Management Group and the Treasury Team are summarised below. Further details are set out in the Treasury Practice Notes.

The main responsibilities and delegations in respect of treasury activities are:

Council

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual out-turn report on treasury activities.

Cabinet also approves revenue budgets, including those for treasury activities.

Governance, Audit and Risk Monitoring Committee

GARMC is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

Section 151 Officer

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. In particular, the Sector 151 Officer:

- Approves all new borrowing, investment counterparties and limits and changes to the bank mandate,
- Chairs the Treasury Management Group ("TMG"), and
- Approves the selection of treasury advisor and agrees terms of appointment.

Treasury Management Group

Monitors the treasury activity against approved strategy, policy, practices and market conditions.

Approves changes to treasury management practices and procedures.

Reviews the performance of the treasury management function using benchmarking data on borrowing and investment provided by Sector.

Monitors the performance of the appointed treasury advisor and recommends any necessary actions.

Ensures the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

Monitors the adequacy of internal audit reviews and the implementation of audit recommendations.

<u>Treasury and Pension Investment Manager</u>

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

<u>Treasury Team</u>

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures and recommends changes to these to the TMG.

## Enhanced Cash Funds

1. 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.

2. The key difference between money market funds (MMF) and enhanced cash funds (ECF) is the latter are permitted longer maximum average maturities. A rated MMF has a maximum weighted average maturity (WAM) of 60 days, while ECF typically have 360 days WAMs and some 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 differences between MMF and ECF:

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

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

4. As mentioned above, most ECF 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.

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

6. 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. We will avoid funds that use derivatives as the legality of these for local authorities is unclear. Implementation will involve both a switch from MMF and bank fixed term deposits. A maximum of £10 million will be invested with a single fund is proposed.

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| **REPORT FOR:** | **Governance, Audit and Risk Management Committee (GARM)** |
|---|---|
| **Date:** | 4 April 2013 |
| **Subject:** | **INFORMATION REPORT**<br>Audit Opinion Plan 2012-13 |
| **Responsible Officer:** | Simon George, Director of Finance & Assurance |
| **Exempt:** | No |
| **Enclosures:** | Appendix 1 – Audit Opinion Plan 2012-13<br>Appendix 2 – Pension Fund Annual Report Audit Plan 2012-13<br>Appendix 3 – Audit Report on Grant Certification 2011-12 |

## Section 1 – Summary and Recommendations

This Report provides the Committee with the opportunity to see the 2012-13 Accounts Audit Opinion Plan 2012-13 and the Pension Fund Annual Report Audit Plan 2012-13.

**Recommendations:**

The Committee is asked to note:

1. The 2012-13 Accounts Audit Opinion Plan and Pension Fund Annual Report Audit Plan; and
2. The Grants Certification Report for 2011-12.

To keep the Committee informed of planned work.

## Section 2 – Report

**Audit Plan for 2012-13**

1. The Accounts Opinion Audit Plan provides the Council with clarity about how the external audit of the accounts for 2012-13 will be conducted and highlights the key audit risks. It is an extremely useful document, as it will help the Council to plan and prioritise its work on the accounts. It also gives the Committee early sight of the issues that will be pertinent.

2. The Committee is asked to consider the plan and in particular the key audit risks. The External Auditor has already carried out some preparatory work for the audit of the 2012-13 accounts, and the Council is working to address the key audit risks.

**Grant Certification 2011-12**

3. The Report on Grant Certifications in relation to 2011-12 is attached as appendix 3 to this report. Four grant claims and returns were certified for 2011-12 of which two resulted in a qualified opinion.

**Section 3 - Financial Implications**

4. There are no direct financial implications arising from this report.

**Section 4 - Equalities Implications**

5. There are no equalities implications.

**Section 5 - Corporate Priorities**

6. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

## Section 6 – Statutory clearance

| | | |
|---|---|---|
| Name: Julie Alderson | √ | Chief Financial Officer (as at sign-off date) |
| Date: 15th March 2013 | | |

## Section 7 - Contact Details and Background Papers

**Contact:** Julie Alderson tel: 0208 424 1269 (ext. 5269 direct)
**Background Papers:** None

Deloitte.

London Borough of Harrow

# Our Planning Report to the Governance, Audit and Risk Management Committee on the year ending 31 March 2013 Audit

**13 March 2013**

Deloitte.

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Governance, Audit and Risk Management Committee
London Borough of Harrow
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UB8 1UW

13 March 2013

Dear Sirs

We have pleasure in setting out in this document our planning report to the Governance, Audit and Risk Management Committee ('GARMC') of the London Borough of Harrow for the year ending 31 March 2013, for discussion at the meeting scheduled for 4 April 2013. This report covers the principal matters that we will focus on during our audit for the year ending 31 March 2013.
In summary:

- The major issues, which are summarised in the Executive Summary, and how we plan to address them.
- The scope of our work is in line with the approach taken for the audit for the year ended 31 March 2012.
- There are a number of areas where significant management judgement will be required which we draw your attention in our report and which you should consider carefully.

We would like to take this opportunity to thank the management team for their on-going assistance.

Yours sincerely

Paul Schofield

Senior Statutory Auditor

# Contents

# Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for London Borough of Harrow for the year ending 31 March 2013.

The Financial Reporting Council ("FRC") has made it clear, in its 'Update for Corporate Committees' that it expects Audit Committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. Whilst the FRC report is designed for private and public companies, the messages are equally applicable to governance and Audit Committees in other organisations. This report will describe the work we undertake in order to support this activity.

| Status | Description | Detail |
|---|---|---|
| **Key changes in our audit plan this year** | | |
| **The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012** | The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012.<br>The principal change, arising from sector developments is:<br>• consideration of the changes to the Housing Revenue Account ("HRA") resulting from the Localism Act 2011 which we consider to be an area of significant audit risk. | Section 1 and 3 |
| **Audit scope** | | |
| **Our work is carried out under the Code of Audit Practice 2010, issued by the Audit Commission** | We conduct our audit in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the statement of accounts in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB").<br>The Code requires that we:<br>• issue an opinion on the financial statements of London Borough of Harrow;<br>• satisfy ourselves as to whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;<br>• consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work; and<br>• issue an assurance report to the National Audit Office on London Borough of Harrow "Whole of Government Accounts" return.<br>For the 2012/13 financial statements, we have estimated materiality of £4.846m (2011/12: £6.382m), which is based on estimated gross expenditure. Materiality has reduced by £1.5m, predominantly as a result of the derecognition of academy expenditure from September 2012 and due to the £88m HRA settlement payment made in 2011/12. Our preliminary assessment of the level at which we report unadjusted misstatements to the GARMC is £242,000 (2011/12: £300,000). We will also report other adjustments that we consider to be qualitatively material.<br>We will update our assessment during the planning visit based on latest outturn expectations and inform you of any change in our final report. | Section 1 |

# Executive summary (continued)

| Status | Description | Detail |
|---|---|---|
| **Internal controls** | | |
| **We will evaluate the design and test the implementation of key controls relevant to the audit** | To assist us in planning our work, we will evaluate the design and test the implementation of key controls relevant to the audit, including controls which mitigate the significant risks of material misstatement we have identified.<br>We continue to rely on the work of the Council's internal audit function to inform our risk assessment. | Section 1 |
| **Significant audit risks** | | |
| **We summarise the key audit risks identified at this stage** | The significant audit risks which we have identified as part of our overall audit strategy are:<br>1. **Recognition of grant income:** Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.<br>2. **Revaluation of properties:** Properties are revalued every 5 years under a rolling programme. The valuation of the Council's property is sensitive to judgements on key assumptions.<br>3. **Valuation of the pension liability:** This continues to be an audit risk in view of the size of the liability and complexity of judgements in this area. The amount of the net liability at 31 March 2012 was £270 million.<br>4. **Housing Revenue Account (HRA) self-financing:** The impact of the Localism Act 2011, which increases the significance of depreciation charges on HRA fixed assets, is a new accounting requirement for 2012/13.<br>5. **Management override of key controls:** Our response to this presumed risk will focus on the testing of journals, significant accounting estimates (including those above) and any unusual transactions in the year. | Section 2 |
| **Other issues** | | |
| **We reported a number of findings in 2011/12 that we will follow up on in 2012/13** | In our final report to the GARMC, issued on 12 September 2012, we reported findings in relation to other audit issues:<br>• Disclosure of senior officers' remuneration;<br>• Ledger codes for Academy schools that are no longer council assets were 'closed' and removed from the chart of account without the required approval;<br>• Identification of audit errors and inconsistencies in reporting at West London Waste Authority (WLWA) highlighted weaknesses in the governance and allocation of cash and borrowings between the Council and WLWA; and<br>• As a result of the weaknesses identified above and compounded by a finance team lacking capacity, the prevalence of manual adjustments outside the accounts software system was more apparent.<br>We will follow up on these areas as part of our 2012/13 work. | N/a |

# Executive summary (continued)

| Status | Description | Detail |
|---|---|---|
| **Sector developments** | | |
| **The Localism Act 2011 devolves more powers to Councils. The Local Government Finance Act 2012 makes amendments to Council tax support and Non domestic rates** | The Localism Act 2011 received Royal Assent in November 2011 and contains a number of measures that devolve more powers to Councils. The key changes are:<br>• replacing the subsidy method of financing the Housing Revenue Account ("HRA") with a self-financing system;<br>• introducing a new general power of competence;<br>• abolition of the Standards Board regime.<br>The Local Government Finance Act 2012 contains amendments to two areas of local government finance: council tax support and non domestic rates<br>There are a small number of changes to the Code of Practice on Local Authority Accounting in the United Kingdom, which we have highlighted in Section 3. | Section 3 |
| **Prior year uncorrected misstatements including disclosure misstatements** | | |
| **Prior year uncorrected misstatements reduced net assets and reserves by £0.3m** | We take this opportunity to remind you of the misstatements identified in the prior period. There was one uncorrected misstatement in 2011/12 reducing net assets and reserves by £0.3 million in relation to a provision held in reserves.<br>We would also like to remind you of the disclosure misstatements identified in the prior year with a view to addressing these at an early stage of the current year reporting process. These are detailed in Appendix 1. | Appendix 1 |
| **Operational features of our audit plan** | | |
| **Our planned audit approach is similar to prior year's** | Appendix 2 sets out our approach to considering fraud in relation to the audit.<br>Appendices 3 and 4 set out our service team and timetable respectively. | Appendices 2, 3 and 4 |

# Executive summary (continued)

| Status | Description | Detail |
|---|---|---|
| **Independence and fees** | | |
| **We confirm our independence. Proposed audit fees for 2012/13 are £198,365** | We confirm we are independent of the London Borough of Harrow. We will reconfirm our independence and objectivity to the GARMC for the year ending 31 March 2013 in our final report to the GARMC.<br>Our responsibilities and those of the Council are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010.<br>We propose an audit fee of £198,365 (2011/12: planned fee of £330,608) for the audit of the Council's financial statements, the assurance report on the whole of government account return and value for money conclusion. This is in line with the scale fee set by the Audit Commission. The 2012/13 scale fees set by the Audit Commision include reductions of up to 40% on 2011/12 fees as a result of savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.<br><br>Further information is provided in Appendix 5. | Appendix 5 |

# 1. Scope of work and approach

## Key areas of responsibility

We have four key areas of responsibility under the Audit Commission's Code of Audit Practice:

**Financial statements**

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.

**Annual Governance Statement**

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by The Council.

**Value for Money conclusion**

We are required to satisfy ourselves that The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and issue a conclusion on value for money. Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

**Assurance report on the Whole of Government Accounts return**

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on The Council's whole of government accounts return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

## Working with internal audit

**We will liaise with internal audit in planning our work and utilise their findings in our risk assessment**

We will meet with the internal audit team to plan our combined approach in the year.

Following an update of their assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit team, we will review the findings of internal audit and adjust our audit approach as is deemed appropriate. This normally takes a number of forms:

- discussion of the work plan for internal audit; and
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

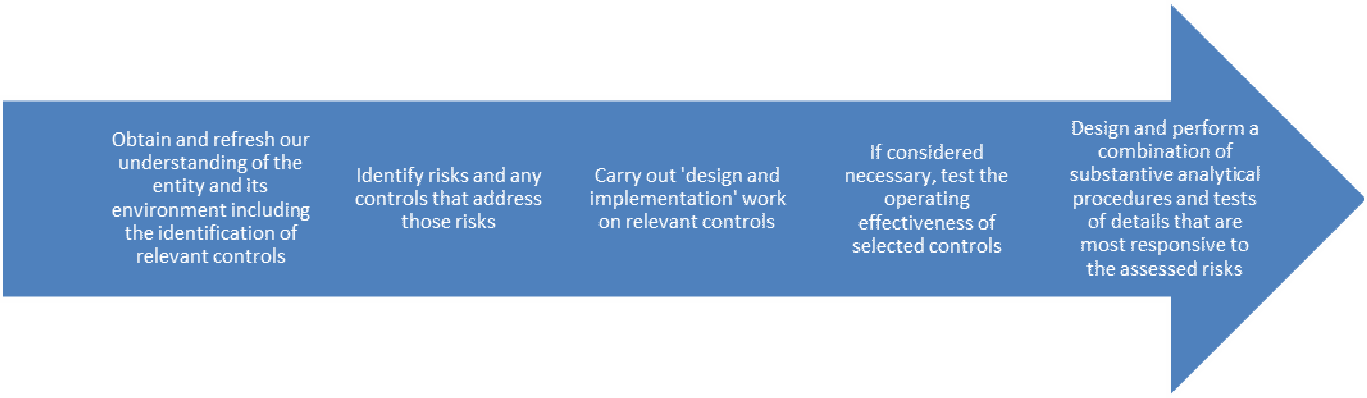
We will continue to review all internal audit reports issued during the year and utilise them to assist our risk assessment.

# 1. Scope of work and approach (continued)

## What audit work do we do on controls?

**We will evaluate the design and implementation of controls relevant to the audit**

As set out in "Briefing on audit matters" circulated to you with this document, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I"). Our audit approach consists of the following:




The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Group, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

## Scoping of material account balances, classes of transactions and disclosures

**We will report to you any significant findings from our scoping work**

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

# 2. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

| Recognition of grant income | | Deloitte response |
|---|---|---|
| **Evaluating compliance with grant terms and conditions can involve significant judgement** | We have identified a significant audit risk in relation to the recognition of grant income. This is due to the fact that for those grants with conditions attached, income should only be recognised when such conditions have been met.<br>Determining if there are conditions attached to a grant and if these conditions have been met can involve significant management judgement. In the prior year revenue grant income amounted to £431,097k and capital grant and contributions income amounted to £40,364k. | We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.<br>We will follow up on our control recommendation from the 2011/12 audit to ensure that adequate central controls are in place. |

| Revaluation of properties | | Deloitte response |
|---|---|---|
| **The valuation of property is sensitive to judgements on key assumptions** | The Council has a substantial portfolio of property, amounting to £610,410k at 31 March 2012, which is subject to a rolling revaluation programme. The current and recent economic volatility has affected property values, generally, and the Council has recorded significant gains and losses over the last three years. We have identified this as a risk because of the significant value of the asset base and the fact that valuations are sensitive to judgements on key assumptions. | We will consider the qualifications, expertise and independence of the Council's valuation expert and the instructions and sources of information provided to the expert.<br>We will evaluate the arrangements in place around the property valuation as part of our interim audit.<br>We will use our internal valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used by the Council in valuing their property. |

| Valuation of pension liability | | Deloitte response |
|---|---|---|
| **The valuation of the pension liability continues to be an audit risk in view of the complexity of the judgements and sensitivity of the valuation to small changes in individual assumptions** | The net liability relating to the pension scheme is substantial, amounting to £270,287k at 31 March 2012, so its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment. | We will consider the qualifications, expertise and independence of the actuary engaged by The Council and the instructions and sources of information provided to the actuary.<br>We will include a specialist from our team of actuaries in our engagement team to assist in the review and challenge of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries. |

# 2. Significant audit risks (continued)

| Housing Revenue Account (HRA) self-financing | | Deloitte response |
|---|---|---|
| **The Localism Act 2011 replaces the subsidy method of financing the Housing Revenue Account with a system of self-financing** | In the year ending 31 March 2012, the Council made a HRA self-financing settlement payment of £88,461k, which will allow it to retain surpluses on the HRA account going forward. As a result, all HRA revenue and capital expenditure is expected to be funded from existing resources meaning that rent collection, depreciation and impairment of HRA assets have a real impact on the HRA surplus or deficit.<br><br>There are transitional arrangements in place for a 5 year period that allow the Council to defer the impact of depreciation or impairment of HRA dwellings by reducing the impact of depreciation on the bottom line.<br><br>This is a new requirement in the current year and there is a risk that the impact of depreciation and impairment of HRA properties is understated; therefore it is considered a significant audit risk. | We will understand and challenge the estimate that management has made for depreciation on HRA properties. We will test the entry posted by management to the major repairs reserve, owing to the judgement that can be applied by management here in choosing either to use calculated depreciation, a notional major repairs allowance or another amount.<br><br>In so doing, we will verify that the treatment is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination. |

| Management override of key controls | | Deloitte response |
|---|---|---|
| **We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year** | International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. | Our work will focus on the testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.<br><br>As a result of our ongoing dialogue with management, we will also focus our attention on: provisioning in relation to restructuring to ensure that the conditions to provide are met; and consider any one off transactions impacting reserves in light of the low reserves position. |

# 3. Sector developments

| Localism Act 2011 | |
|---|---|
| **The Localism Act 2011 devolves more powers to Councils** | |

**Self-financing the housing revenue account ("HRA")**

The Localism Act 2011 replaced the previous subsidy method of financing the HRA with a system of self-financing. The Council made a one off payment in 2011/12 of £88m to central government so that it can retain the surpluses made on the HRA going forward.

From 2012/13 authorities will no longer receive housing subsidy or Major Repairs Allowance (MRA) income. Instead the Council will be expected to fund all HRA revenue and capital expenditure from existing resources.

The impact on depreciation and impairments to HRA property has been considered a significant risk within Section 2.

**General power of competence**

The previous well-being powers of local authorities, contained in section 2 of the Local Government Act 2001, have been replaced by a new 'general power of competence' in the Localism Act 2011.

The general power of competence enables local authorities to do anything which an individual can do, unless other legislation specifically prevents it. Councils may use the power to do things for a commercial purpose, although they must do so through a company. Applying the new power is still subject to legal interpretation and advice. The general power may facilitate new income generation schemes and new ways of providing and funding services, such as joint working arrangements.

**Governance, scrutiny and standards**

Changes to the Council's arrangements for governance, scrutiny and standards have been introduced by the Localism Act 2011. The Act abolishes: the requirement for councils to adopt a national code of conduct; the requirement to have a standards committee that oversees the behaviour of councillors and receives complaints; and the Standards Board for England, the central body set up to regulate standards committees.

All councils now have a duty to 'promote and maintain high standards of conduct by members and co-opted member of the authority'. Each council must:

- develop a local code of conduct dealing with the conduct of members and co-opted members of the authority;
- maintain and publish a register of interests; and
- appoint at least one independent person to act as an adviser to the council on any allegations it may be considering and to members who may be the subject of the allegation(s).

Members who fail to comply with the requirement to register interests will now be committing a criminal offence. The Council itself must decide what action to take if it finds that a member has failed to comply with the Code.

# 3. Sector developments (continued)

## Local Government Finance Act 2012

**The Local Government Finance Act 2012 contains amendments to council tax support and non-domestic rates**

### Council tax support

The Local Government Finance Act 2012 includes provisions designated to localise council tax support. Council tax benefit will disappear and individual local authorities will be responsible for preparing their own council tax reduction ("CTR") schemes. The current system means that central government reimburses the Council for all correctly awarded council tax benefit. Going forward, it is intended that the source of funding for each authority's CTR scheme will be the proportion of business rates retained by authority.

### Non domestic rates

The provisions allow the Secretary of State to move money around by deciding how much of the non-domestic rate income collected by the Council should be retained by the Council, paid to central government and paid out by central government to local authorities for local government purposes.

CIPFA will use the 2013/14 Code update to cover the accounting implications of these changes.

## Code of Practice on Local Authority Accounting in United Kingdom 2012/13

**Changes introduced by the Code 2012/13 are not significant**

### Housing Revenue Account ("HRA")

The impacts of the changes to the HRA due to the Localism Act 2011 have been discussed in more detail above and in the significant risks section (Section 2).

### Carbon Reduction Commitment ("CRC") scheme

As the obligation to meet CRC responsibilities arises during 2012/13, the obligation should be accounted for at 31 March 2013. Where any allowances are purchased prospectively (i.e. in respect of 2013/14), authorities will need to account for the allowances as assets. The provision has historically not been material; therefore we do not consider this to be significant audit risk of material misstatement.

### Exit packages

The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. The value of exit packages historically not been material; therefore we do not consider this to be significant audit risk of material misstatement.

### Accounting for non-current schools' assets

The CIPFA/LASAAC board is still considering the accounting for non-current schools' assets. It intends to issue guidance to authorities to improve the consistency of the accounting for these assets and a potential accounting treatment was consulted on as part of the 2013/14 code. Since CIPFA/LASAAC is not able to issue guidance for 2012/13, the situation remains the same as for the 2012/13 year. There is no change in guidance and no issues were noted from testing in the prior; therefor accounting for schools' non-current assets is not considered a significant audit risk.

# 3. Sector developments (continued)

## Code of Practice on Local Authority Accounting in United Kingdom 2012/13 (continued)

**Content of the explanatory foreword**

On an annual basis CIPFA produces a Code of Practice on local authority accounting. The Code of Practice for 2012/13 applies all International Financial Reporting Standards and interpretations which are in effect for the accounting periods commencing on or before 1 January 2012. One of the key changes in the 2012/13 edition of the Code relates to the content of the Explanatory Foreword.

The purpose of the Foreword is and has been to offer interested parties an easily understandable guide to the most significant matters in the accounts and on this basis it has historically provided some commentary on the major factors which influence the income, expenditure, cash flows and resources of the Authority. Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages local authorities to take into the consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. Unlike the FReM, the Code does not include a specific requirement to prepare a sustainability report which would show the Authority's use of finite resources, but neither does it prevent an authority from including such information in its Explanatory Foreword.

Authorities electing to prepare an Explanatory Foreword in accordance with the requirements of the FReM would need to disclose the matters required for disclosure under section 417 of the Companies Act 2006. In doing so they would need to take into consideration the recommendations made by the Accounting Standards Board's Reporting Statement *Operating and Financial Review* as interpreted by the FReM for a public sector context. Specific additional disclosure that would be required include, but are not limited to, a brief history of the authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members and sickness absence data.

# 3. Sector developments (continued)

**Code of Practice on Local Authority Accounting in United Kingdom 2013/14**

**A number of changes are proposed by the 2013/14 Code**

**IFRS 13: Fair value accounting**

The 2013/14 Code will introduce the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances. Non-financial non-profit generating assets are taken out of the scope of this standard and will be carried at a ‘public sector valuation’, which is presumed to reflect the assets’ service potential.

As a result of the adaption the Council would not be required to measure property, plant and equipment in accordance with IFRS 13; however in order to meet the disclosure requirements of the standard the Code makes it necessary for authorities to consider which level of the fair value hierarchy the valuation technique they have used will apply.

The Council will need to ensure that the valuer is made aware of the introduction of IFRS 13 and the Code’s adaption of it. Where the change is expected to be a material to the accounts, the Council will need to disclose in its 2012/13 financial statements:

- the title of the new or amended standard;
- the nature of the change of accounting policy;
- the date at which the change of accounting policy is required; and
- a discussion of the impact that initial application of the IFRS is expected to have on the financial statements.

**Other amendments**

Other changes include:

- amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements*;
- amendments to IAS 19 *Employee Benefits* including changes to definitions and terminology, changes to the recognition requirements and clarification of the disclosure requirements;
- a number of clarifications and augmentations of the provision of the Code as a result of the CIPFA/LASAAC IFRS post implementation review;
- amendments to IAS 12 *Income Taxes*;
- new definitions and clarification for service concession arrangements that are assets under construction or intangible assets;
- clarification on the treatment of overdrafts; and
- amendments to IFRS 7 *Financial Instruments: Disclosures* requiring information that will enable users to evaluate the potential effect of netting arrangements;

As discussed above, a change to accounting for non-current school assets is currently being consulted on.

# 4. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you with this document and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the Members and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

**Deloitte LLP**

Chartered Accountants

St Albans

13 March 2013

# Appendix 1: Prior year uncorrected disclosure misstatements

## Disclosure misstatements

Auditing standards require us to highlight significant disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we considered required consideration by the committee in the prior year:

| Disclosure | Source of disclosure requirement | Quantitative or qualitative consideration |
|---|---|---|
| The related party note includes a creditor with West London Waste Authority (WLWA). At the time of concluding the financial statements of the Council the audit work at WLWA was ongoing. Errors have been identified at WLWA that will impact this creditor balance however they are not material to the Council's financial statements and so the disclosure has not been amended. | CIPFA Code of Practice on local authority accounting 2011/12 | Quantitative |
| The accumulated depreciation balance in the plant, property and equipment note includes depreciation that is required to be reversed out into the revaluation reserve for assets which have been revalued during the year. There is no effect on the net book value of these assets. | CIPFA Code of Practice on local authority accounting 2011/12 | Qualitative |
| Paragraph 3.18 of the Annual Governance Statement states that the value for money conclusion will not be published until January 2013, however under the current reporting regime our value for money conclusion is issued as part of our audit opinion, in September 2012. | CIPFA Code of Practice on local authority accounting 2011/12 | Qualitative |

We obtained written representations from management confirming that after considering all these disclosure deficiencies (and the numerical misstatement noted in the executive summary of this report), both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

# Appendix 2: Consideration of fraud

## Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

## Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

## Fraud inquiries

We will make the following inquiries regarding fraud:

| Management | Internal Audit | Governance, Audit and Risk Management Committee |
|---|---|---|
| Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments.<br>Management's process for identifying and responding to the risks of fraud in the entity.<br>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.<br>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.<br>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity. | Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. | How the GARMC exercises oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.<br>Whether the GARMC has knowledge of any actual, suspected or alleged fraud affecting the entity. |

# Appendix 2: Consideration of fraud (continued)

We will make inquiries of others within the Council as appropriate.  We will also inquire into matters arising from your whistle blowing procedures.

## Concerns

As set out in Section 2 above we have identified the risk of fraud in grant income recognition and management override of controls as a key audit risk for your organisation.

## Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

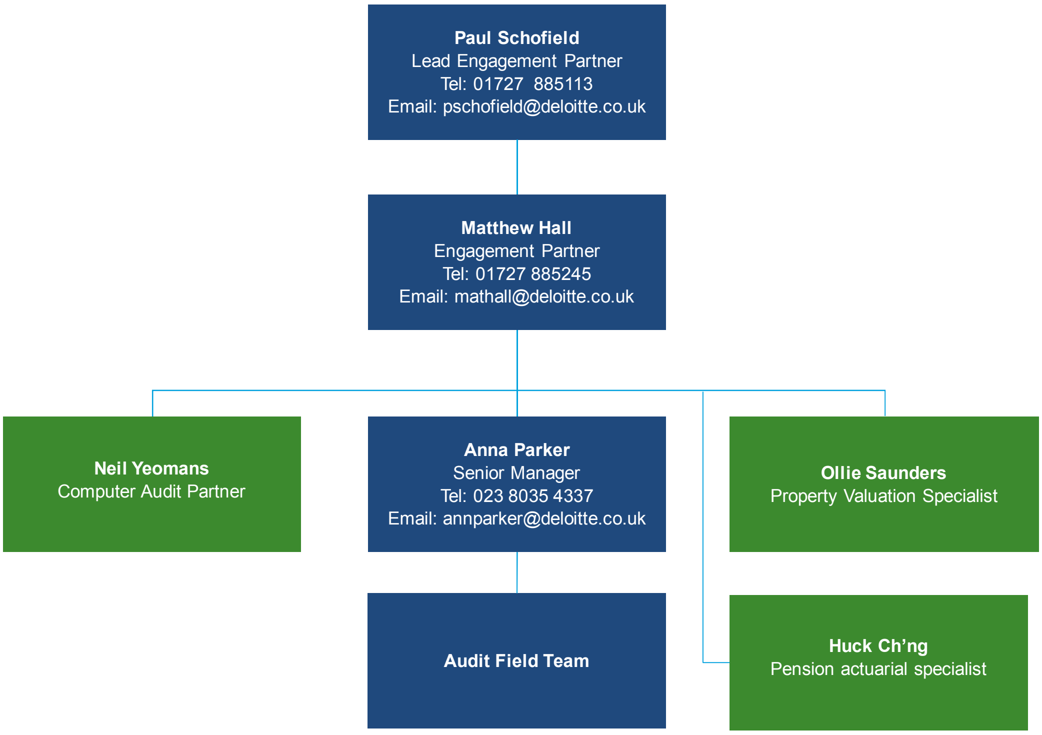
  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 3: Audit engagement team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and which draws on the expertise of our local government industry group and relevant specialists within the firm.



# Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with management and those charged with governance.

| Planning | Interim audit | Year end fieldwork | Reporting | Post reporting |
|---|---|---|---|---|
| Planning meetings to:<br>• confirm risk assessment; and management response and<br>• agree on key judgemental accounting issues<br><br>Agree audit plan | Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks<br><br>Review of relevant internal audit work<br><br>Document and test design and implementation of key controls<br><br>Update understanding of systems, controls and developments in the business<br><br>Performance of work in support of value for money conclusion | Performance of substantive testing<br><br>Finalisation of work in support of value for money conclusion<br><br>Review of annual accounts<br><br>Audit issues meeting<br><br>Work to support assurance statement on WGA return | Final Audit Committee Meeting<br><br>Issuance of:<br>• audit report and opinion;<br>• value for money conclusion<br>• limited assurance opinion on WGA return | Audit feedback meeting<br><br>Issue of annual audit letter |
| **February 2013** | **March – April 2013** | **June – August 2013** | **August – Sept 2013** | **Sept – October 2013** |

**Ongoing communication and feedback**

# Appendix 5: Audit fees

The indicative fee for the audit of the London Borough of Harrow for 2012/13, excluding the audit of the pension scheme and certification of claims and returns, is £198,365 (exclusive of VAT), which compares to the planned fee of £330,608 for 2011/12.

The 2012/13 scale fees set by the Audit Commission include reductions of up to 40% on 2011/12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fee excludes:

- fees for the certification of grant claims. For 2012/13, the Audit Commission has replaced the previous schedule of hourly rates with a composite fee for certification work for each body. The composite indicative fee which the Audit Commission has set for 2012/13 is £42,700. This is based on the actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40% reduction (similar to the 40% reduction in the audit fee described above). The fee is based on assumptions on the grants requiring certification, the scope of work required and the availability of good quality working papers to support the claims;
- the fee for the audit of the pension scheme annual report, which is discussed in a separate audit plan;
- any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
- any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately;
- any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
- value added tax which will be charged at the prevailing rate.

We have also assumed that:

- good quality draft of the financial statements, together with good quality working papers and records to support the financial statements, will be provided by the agreed start date for the final audit visit; and
- good quality working papers will be available by the deadline for submission of the WGA return to auditors to support the WGA return.

# Appendix 6: Briefing on audit matters

## Published for those charged with governance

This document is intended to assist directors to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

## Approach and scope of the audit

### Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the shareholders on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework;
- to express an opinion as to whether the accounts have been prepared in accordance with the Companies Act;
- to form an opinion on whether adequate accounting records have been kept by the company; and
- to express an opinion as to whether the directors' report, including the business review, is consistent with the financial statements.

### Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to the directors. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

### Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

**Materiality (cont'd)**

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also local considerations of subsidiaries and divisions of the group, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

For local statutory reporting purposes, individual materiality levels will be set for each of the subsidiary companies.

**Uncorrected misstatements**

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and the directors will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

**Audit methodology**

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to shareholders and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give directors and shareholders the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);

**Audit methodology (cont'd)**

- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

**Other requirements of International Standards on Auditing (UK and Ireland)**

ISAs (UK and Ireland) require we communicate the following additional matters:

| ISA (UK & Ireland) | Matter |
|---|---|
| ISQC 1 | Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements |
| 240 | The auditor's responsibilities relating to fraud in an audit of financial statements |
| 250 | Consideration of laws and regulations in an audit of financial statements |
| 265 | Communicating deficiencies in internal control to those charged with governance and management |
| 450 | Evaluation of misstatements identified during the audit |
| 505 | External confirmations |
| 510 | Initial audit engagements – opening balances |
| 550 | Related parties |
| 560 | Subsequent events |
| 570 | Going concern |
| 600 | Special considerations – audits of group financial statements (including the work of component auditors) |
| 705 | Modifications to the opinion in the independent auditor's report |
| 706 | Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report |
| 710 | Comparative information – corresponding figures and comparative financial statements |
| 720 | Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements |

## Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

**Safeguards and procedures**

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to the directors our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

**Safeguards and procedures (cont'd)**

- In the UK, statutory oversight and regulation of auditors is carried out by the Financial Reporting Council (FRC). The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

**Independence policies**

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

**Remuneration and evaluation policies**

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

**APB Revised Ethical Standards**

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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Deloitte.

# London Borough of Harrow Council

## Report to the Governance, Audit and Risk Management Committee

## Audit Plan for the Pension Fund Audit year ending 31 March 2013

March 2013

Governance, Audit and Risk Management Committee
Harrow Council
Station Road
Harrow
HA1 2XY

19 March 2013

Dear Sirs

We have pleasure in setting out in this document our planning report to the Governance, Audit and Risk Management Committee of London Borough of Harrow Council for the year ended 31 March 2013, for discussion at the meeting scheduled for 6 April 2013. This report covers the principal matters that we will focus on during our audit for the year ended 31 March 2013.
In summary:

- The major issues, which are summarised in the Executive Summary, and how we plan to address them.
- The scope of our work follows that of previous years

We would like to take this opportunity to thank George Bruce and his team for their assistance and co-operation during the planning of our audit work.

Paul Schofield

Senior Statutory Auditor

# Contents

# Executive summary

| Status | Description | Detail |
|---|---|---|
| **Audit scope** | | |
| **Audit scope is unchanged from previous years** | Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.<br>Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.<br>The pension fund accounts remain part of the accounts of the Authority as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Authority accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Commission to issue an audit report for inclusion in the annual pension fund report. | Section 1 |
| **Materiality** | | |
| **Materiality is limited by that of the authority** | We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £4.8 million (2012: £6.3 million). We will report to the Governance, Audit and Risk Management Committee on all unadjusted misstatements greater than £242,000 (2012: £300,000).<br>We will update our assessment when the year end results become available.<br>Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements. | |

# Executive summary (continued)

| Status | Description | Detail |
|---|---|---|
| **Key audit risks** | | |
| **Audit risks focus on contributions, benefits and investments** | The key audit risks which we have identified as part of our overall audit strategy are:<br>1. In view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay, we have included the calculation and payment of contributions as areas of audit risk.<br>2. As there are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits, we have identified benefits payable as an area of specific risk.<br>3. The pension fund is invested in unquoted investment vehicles such as the Pantheon private equity fund and the Aviva property fund. The fund is also invested in derivative financial instruments with Record. Such investments can give rise to complexities in accounting, disclosure and measurement; accordingly we will treat the appropriateness of the accounting and disclosure of these investments as a risk.<br>4. Auditing standards (ISA 240) require auditors to consider management override of controls to be a presumed area of risk for all audit engagements. | Section 2 |
| **Other issues** | | |
| **Changes to the bank account process** | Whilst not considered to be a significant audit risk we note that the authority is now using a separate bank account for the pension fund. We set out our response to this in section3 | Section 3 |
| **Prior year uncorrected misstatements including disclosure misstatements** | | |
| **No uncorrected misstatements identified in the prior year** | There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2011/12 accounts | |

# Executive summary (continued)

| Status | Description | Detail |
|---|---|---|
| **Timetable** | | |
| **Timetable is in line with prior year** | The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Authority's financial statements.<br>We plan to finalise our audit report included within the Pension Fund Annual Report at the same time as that included in the Authority's accounts. | Section 5 |
| **Independence** | | |
| **We confirm our independence** | Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.<br>These are set out in the "Independence policies and procedures" section included in our briefing on audit matters.<br>We will reconfirm our independence and objectivity to the Governance, Audit and Risk Management Committee for the year ending 31 March 2013 in our final report. We have discussed our relationships with the Authority in our separate audit plan for the audit of the Authority's financial statements. | |
| **Fees** | | |
| **Our fee is in line with the Audit Commission scale** | Our feefor the audit of the pension fund for the year ending 31 March 2013 is £21,000.The 2012-13 scale fees that the Audit Commission has set include reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies.<br>Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you. | |
| **Matters for those charged with governance** | | |
| **Briefing on audit matters** | We have included in Appendix 1 our "Briefing on audit matters" which includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements. | Appendix 1 |
| **Engagement team** | | |
| **Paul Schofield will lead the audit** | Paul Schofield will lead the audit and will be supported by David Hobson as Senior Manager and David Boyd who will be the day to day contacts on the engagement. | |

# 1. Scope of work and approach

## Overall scope and approach

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

Local LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice 2012/2013 on Local Authority Accounting in the United Kingdom (the "Code of Practice").

For pension fund statements, we have initially considered the net assets of the fundas the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £4.8 million. Our separate audit plan for the audit of the Authority's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

# 1. Scope of work and approach (continued)

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the statement of accounts:

- comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the pension fund accounts; and
- where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.

The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.

# 2. Significantaudit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

| Contributions | | Deloitte response |
|---|---|---|
| **Tiered contribution rates increases complexity** | Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. However, this remains a material income stream for the pension fund and in view of the complexity introduced by the participation of more than one employer in the fund, and a structure with tiered contribution rates, we have identified these areas as specific risks. | We will perform the following procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule:<br>• Review the design and confirm the implementation of key controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies identified and calculated correctly.<br>• Recalculate contributions for a sample of individual members to ensure that they are calculated in accordance with the schedule of rates.<br>• Perform analytical review procedures to gain assurance over the total contributions received in the year.<br>• Reconcile the membership movements in the year to the Financial Statements, ensuring that these include members from the admitted bodies.<br>We note that the authority is not responsible for the calculation of contributions and will therefore perform such tests with the assistance of the other scheduled and admitted bodies. |

# 2. Significantaudit risks (continued)

| Benefits | | Deloitte response |
|---|---|---|
| **There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits** | The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk.<br><br>In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement; and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum.<br><br>In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above.<br><br>The completion of the legislation leading to the change in the revaluation basis to Consumer Price Index added further complexity to the above calculations. | We will perform the following procedures to ensure that the benefits payable have been calculated correctly in accordance with the fund rules.<br><br>• Review the design and confirm the implementation of key controls present at the Fund for ensuring benefits are calculated correctly.<br><br>• Recalculate a sample of benefit calculations made in the year<br><br>• Perform analytical review procedures to gain assurance over the total pensions paid figure in the year. |

# 2. Significantaudit risks (continued)

| Financial instruments | | Deloitte response |
|---|---|---|
| **The fund is invested in some non-quoted investment vehicles** | The majority (70%) of the portfolio is invested in pooled equity investments, these are typically easy to value as it is possible to obtain independently quoted values. The fund also invests in non-quoted investment vehicles, such as the Pantheon private equity investments and the Aviva property fund of funds.<br><br>Private equity funds and property fund of funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.<br><br>The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements. | For the private equity funds and property fund of funds we will seek to understand the approach adopted in the valuation of such investments and inspect documentation such as cash flow reports, quarterly investment advisor reports and audited financial statements. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end.<br><br>Derivatives can be complex in terms of accounting, measurement and disclosure requirements. We will first understand the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Practice. The use of expert advice may be required for testing these balances. |

# 2. Significantaudit risks (continued)

| Management override of controls | | Deloitte response |
|---|---|---|
| **Management override of controls is a presumed risk** | We are required by ISA 240 'The auditors' responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control. | Our audit work will include:<br>• Reviewing analysis and supporting documentation for journal entries, key estimates and judgements.<br>• We will perform substantive testing on journal entries to confirm that they have a genuine, supportable rationale;<br>• We will review ledgers for unusual items and on a test basis investigate the rationale of any such postings;<br>• We will review significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and<br>We will make enquiries of those charged with governance as part of our planning and detailed audit processes. |

# 3. Other issues

Whilst not considered to be a specific audit risk we set out our response to the significant change to the accounting systems this year

| New bank account in operation | | Deloitte response |
|---|---|---|
| **The new bank account has required changes to the accounting system** | In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the authority opened a separate bank account for the pension fund in 2011.<br>The authority has now changed the accounting systems so that cash flows relating to the pension fund areprocessedthroughthe fund's own account. | We understand from discussions with the officers, during our planning work, that the changes to the software are not complete and as such there are a number of manual reconciliations performed on balance sheet accounts.<br>We will review these reconciliations as part of our audit process. |

# 4. Consideration of fraud

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

ISA (UK and Ireland) 240 – 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in London Borough of Harrow Pension Fund and the internal control that management has established to mitigate these risks.

We will make inquiries of management, internal audit and others within the Authority as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Authority. In addition we are required to discuss the following with the Governance, Audit and Risk Management Committee:

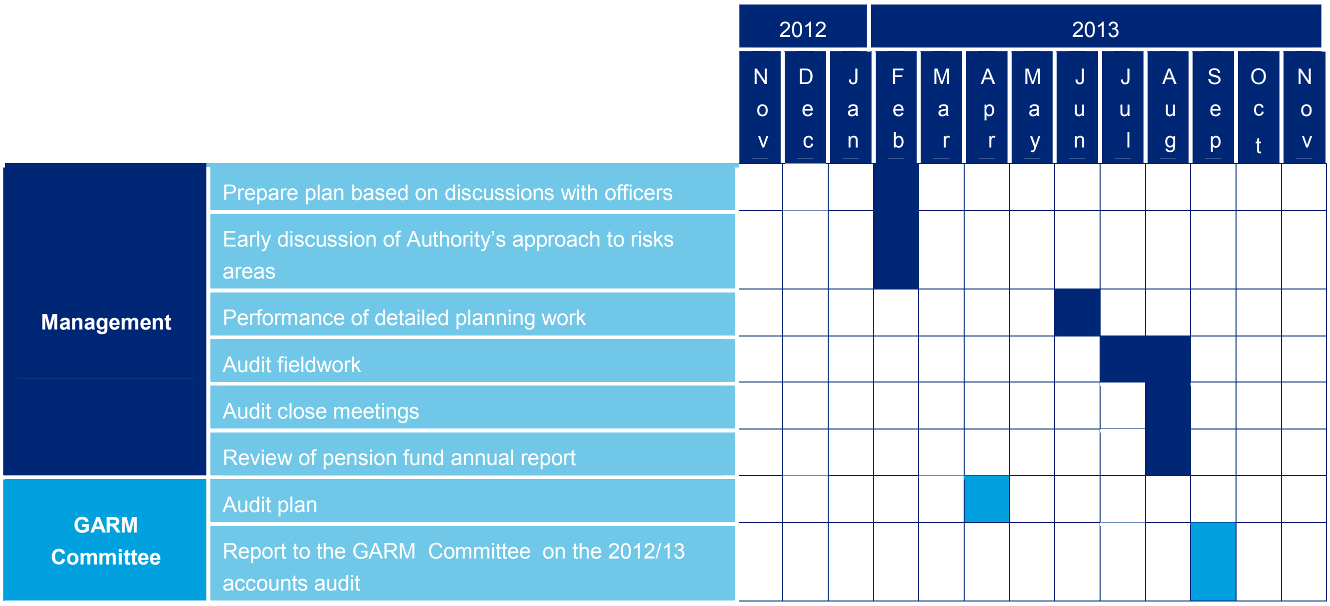
- Whether the Committee has knowledge of any fraud, alleged or suspected fraud?
- The role that the Committee exercises in oversight of:
    - London Borough of Harrow Authority's assessment of the risks of fraud in respect of the pension fund; and
    - the design and implementation of internal control to prevent and detect such fraud?
- The Governance, Audit and Risk management Committee's assessment of the risk that the pension fund financial statements and annual report may be materially misstated as a result of fraud.

# 5. Internal control

## Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters", for controls considered to be ‘relevant to the audit’ we are required to evaluate the design of the controls and determine whether they have been implemented (“D & I”). The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered. Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Authority or its pension fund administration, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

# 6. Timetable




Our work during these visits will be closely co-ordinated with the work carried out on other parts of main audit of the London Borough of Harrow.

# 7. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the “Briefing on audit matters” attached at Appendix 1 and sets out those audit matters of governance interest which came to our attention during the audit to date. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members of the London Borough of Harrow Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

**Deloitte LLP**
Chartered Accountants

St Albans
19 March 2013

# Appendix 1 Briefing on audit matters

## Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately.  Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

## Approach and scope of the audit

### Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB").  Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the trustees on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework; and
- to form an opinion as to whether the financial statements contain the information specified in regulation 3 and the schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

### Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance.  This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

# Appendix 1 Briefing on audit matters (continued)

**Materiality**

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements. We use a different materiality for the examination of the summary contributions to that used for the financial statements as a whole.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

The materiality in relation to the audit of the pension scheme's financial statements will not necessarily coincide with the expectations of materiality of an individual member of the scheme in relation to his or her expected benefits. Our judgments about materiality are made in the context of the financial statements as a whole and the account balances and classes of transactions reported in those statements, rather than in the context of an individual member's designated assets, contributions or benefits.

**Uncorrected misstatements**

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

# Appendix 1 Briefing on audit matters (continued)

**Audit methodology**

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and those charged with governance whilst minimising a “box ticking” approach.

Our audit methodology is designed to give trustees the confidence that they deserve.

**Audit methodology (cont’d)**

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

**Other requirements of International Standards on Auditing (UK and Ireland)**

ISAs (UK and Ireland) require we communicate the following additional matters:

| ISA (UK & Ireland) | Matter |
|---|---|
| ISQC 1 | Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements |
| 240 | The auditor’s responsibilities relating to fraud in an audit of financial statements |
| 250 | Consideration of laws and regulations in an audit of financial statements |
| 265 | Communicating deficiencies in internal control to those charged with governance and management |
| 450 | Evaluation of misstatements identified during the audit |
| 505 | External confirmations |
| 510 | Initial audit engagements – opening balances |
| 550 | Related parties |
| 560 | Subsequent events |
| 570 | Going concern |
| 600 | Special considerations – audits of group financial statements (including the work of component auditors) |
| 705 | Modifications to the opinion in the independent auditor’s report |
| 706 | Emphasis of matter paragraphs and other matter paragraphs in the independent auditor’s report |
| 710 | Comparative information – corresponding figures and comparative financial statements |
| 720 | Section A: The auditor’s responsibilities relating to other information in documents containing audited financial statements |

# Appendix 1 Briefing on audit matters (continued)

## Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

**Safeguards and procedures**

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.

**Safeguards and procedures (cont'd)**

- Periodic rotation takes place of the audit engagement partner and, where appropriate, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Financial Reporting Council (FRC). The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

# Appendix 1 Briefing on audit matters (continued)

**Independence policies**

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

**Remuneration and evaluation policies**

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

**APB Revised Ethical Standards**

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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Deloitte.

London Borough of Harrow

# Report to the Audit Committee on the year ended 31 March 2012 Certification work

## Final Report

Issued 21 January 2013

# Contents

# 1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Harrow ("the Authority") for the year ended 31 March 2012. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

**Certification deadlines**

We have certified all 4 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2012. All claims and returns we reported on were certified by the original required deadline.

**Results of our claims and returns certification work**

As a result of errors identified through the performance of our procedures, adjustments were made to 3 of the 4 claims/returns prior to certification. We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. We have included additional comments below the table where we issued qualification letters on the claims/returns in 2011/12:

| Claims/returns | Value of claim £ | Number of cells adjusted | Financial impact Increase/ (Decrease) £ | Qualified in 2010/11 | Qualified in 2011/12 |
|---|---|---|---|---|---|
| Housing Revenue Account Subsidy ("HOU01") | 72,524,408 | 13 | 5,099 | NO | NO |
| National Non Domestic Rates ("NNDR") | 47,094,605 | 10 | 310,939 | - | YES |
| Housing and Council Tax Benefit Subsidy ("BEN01") | 152,731,464 | 12 | (22,107) | YES | YES |

**Summary of qualification letters**

**1. Housing and Council Tax Benefit Subsidy ("BEN01")**

Our initial sample testing of 80 cases on this claim identified 14 errors, one of which was confirmed as isolated and amended on the subsidy claim. As a result of these, additional testing of 160 cases was undertaken, highlighting 14 further errors. As a result of prior year errors, additional testing of 120 cases highlighted 2 errors. We have included details of all errors in our qualification letter. Apart from the isolated error, the subsidy claim was not amended for these errors.

**2. National Non Domestic Rates Return ("LA01")**

We issued a qualification letter on the LA01 return in respect of 1 point.

Our testing identified two cases where two serviced offices within a larger property were empty in a particular month per the tenancy schedules but the authority's ledger had not been amended. This will be amended retrospectively in 2012-13. The error we identified was £158.62 and will be reimbursed to the tenants in 2012-13.

See Section 3 for more details.

**Fees**

Total fees charged in respect of the work performed on the 4 claims and returns (2010: 8) certified by Deloitte were £96,392 (2010: £107,832).

Section 4 of this report sets out the fees charged on each of the 4 claims and returns we certified.

# 2. Introduction

### Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2011/12 certification work. This Letter will be published on the Authority's website.

### Our responsibilities

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the audited grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

Any claims that we are asked to certify outside of the Audit Commission framework contract will be subject to a separate engagement letter between Deloitte, the Authority and any other party who will be relying on the results of our grant audit work. This engagement letter sets out the responsibilities of all parties involved in the engagement, the scope of our work and our terms of business.

### The scope of our work

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return; or
- maximise the authority's entitlement to income under it.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the certification procedures. Our aim is to deliver a high standard of service which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your cooperation and support.

# 3. Results of our claims and returns certification work

### Claims and returns certified without adjustment or a qualification letter

We were able to certify the following claim/return without adjustment or a qualification letter:

- Teachers' Pensions ("PEN05").

### Claims and returns certified with adjustment and without a qualification letter

We were able to certify the following return with adjustments and without a qualification letter:

| HOU01 – Housing Revenue Account ("HRA") subsidy return | |
|---|---|
| **Adjustment details** | The original HOU01 return was required to be submitted on 30 September 2012, the Authority met this deadline.<br>A number of minor differences in property numbers were noted between the initial HOU01 return provided for testing and both the financial statements and HOU02 (a return that did not require auditor certification in 2011/12).<br>Additionally the capital financing balance was understated by £1.4m in the return, at both 1 April 2011 and 31 March 2012 due to a double counting of an adjustment.<br>The tests in the certification instruction were clear in their expectation for these values to be equal. |
| **Deloitte response** | We discussed the adjustment with the Authority who agreed with our assessment. The return was amended by the Authority to ensure consistency between all three data sources. The impact on the return was 0.01% on the interest rate, equating to £5,099. |

### Claims and returns certified with adjustment and a qualification letter

The following claims and returns were certified with adjustments and a qualification letter:

| LA01 – National non-domestic rates ("NNDR") return | |
|---|---|
| **Adjustment details** | The original LA01 return was required to be submitted on 22 June 2012, the Authority met this deadline.<br>Similar to the previous year the rates supplement collected in relation to Cross Rail had been included in the return. It is not appropriate for the Cross Rail supplement (of £27,593) to be included within the return as, although it is collected by the Authority, it is not part of NNDR reporting.<br>The adjustment had no impact on the overall gross amount or contributions to the NNDR pool. |
| **Qualification details** | Our testing identified two cases where two serviced offices within a larger property were empty in in a particular month per the tenancy schedules but the authority's ledger had not been amended. This will be amended for retrospectively in 2012-13. The error we identified was £158.62 and will be reimbursed to the tenants in 2012-13. |
| **Deloitte response** | We discussed the Cross Rail supplement adjustment with the Authority who agreed with our assessment. The Authority chose to amend the return to reflect the £27,593 adjustment.<br>We discussed the empty property cases with the Authority who agreed with our findings. The Authority chose not to amend the return and will instead reimburse the tenants in 2012-13. |

# 3. Results of our claims and returns certification work (continued)

### Claims and returns certified with adjustment and a qualification letter (continued)

The Housing and council tax benefit subsidy ("BEN01") was certified with 1 amendment and a qualification letter.

In 2011/12 we identified errors on 30 cases, 1 of which was amended (2010/11: 8 cases). We were able to group similar errors types together across the 30 cases to give a total of 2 different error types: incorrectly classified expenditure and overpaid benefit. Both of these errors resulted in an overstatement of an individual's benefit entitlement or subsidy or both.

Where errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing to ascertain whether the errors are isolated.

We undertook additional work on the overstated error types and concluded that one was wholly isolated – this was amended. We were not able to conclude that the other errors were isolated and hence we could not conclude that the claim was fairly stated. Accordingly, we were required to include in our qualification letter extrapolation calculations for the remaining unadjusted errors (all of the overpaid or overstated errors where we did not test 100% of the population).

Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 subsidy claim that would have allowed us to conclude that it was fairly stated. We have set out a summary of our findings in the table below:

| BEN01 – Housing and council tax benefit subsidy | |
|---|---|
| **Qualification details** | **Council tax benefit (cell 142)**<br>**Total expenditure £23,520,303**<br>Our testing of council tax benefits identified 11 errors, 2 from our initial testing and 9 from the additional 40+ testing required by the approach.<br>9 of these cases had no financial impact on the claim and 1 further case related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose.<br>The final error, which was not adjusted for related to incorrectly classified expenditure.<br>*Conclusion*<br>The un-amended error we determined was not isolated, so we included these within our qualification letter and extrapolation. |
| | **Rent rebates (Tenants of HRA properties – cell 055)**<br>**Total expenditure £16,779,669**<br>Our testing of rent rebates (tenants of HRA properties) ("rent rebates") identified 7 errors.<br>1 of these cases had no financial impact on the claim and 5 further cases related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose.<br>The final error, which was not adjusted for related to miscalculating the claimant's weekly income.<br>*Conclusion*<br>The un-amended errors we determined was not isolated, so we included this within our qualification letter. |

# 3. Results of our claims and returns certification work (continued)

| BEN01 – Housing and council tax benefit subsidy | |
|---|---|
| **Qualification details (continued)** | **Rent allowances (cell 094)**<br>**Total expenditure £113,723,396**<br>Our testing of rent allowances ("RA") identified 11 errors – all but 2 were in relation to income assessment.<br>1 error was able to be isolated and the claim form was amended with a net decrease to the value of the claim of £22,107.<br>6 of these cases had no financial impact on the claim as they do not impact eligibility for subsidy and as such were not classified as an error for subsidy purpose.<br>The 3 errors that were not adjusted were each the result of a different reason: miscalculation of the claimants weekly income; understating the number of joint tenants for a property; and the incorrect time frame to claim a pension.<br>As a result of the testing undertaken in relation to prior year income miscalculation errors, further testing was only required in relation to joint tenants and pension time frames.<br>*Conclusion*<br>Aside from 1 error, the other 3 errors impacting subsidy we were not able to isolate, so we included those in our qualification letter. |

| BEN01 – Housing and council tax benefit subsidy | |
|---|---|
| **Recommendation** | Since certifying the claim form we have provided management with a summary of the errors found to allow early planning for next year's testing.<br>We do not have any specific control recommendations as a result of the work performed for the 2011/12 claim.<br>It was evident from our testing of prior year errors that the controls in these areas have improved (only 2 errors noted from a sample test of 120 cases). However it is clear from our other testing that there were some systematic errors, the reasons for which need to be understood by management to further improve the control environment. We do however acknowledge that management attention has been drawn to future changes to the benefits systems which was potentially a cause of the error rate this year. |
| **Deloitte response** | Given the number of transactions and the volume of manual processing required for the benefit calculation, we understand that it is not unusual for the BEN01 subsidy claim to be qualified. Our experience with this on other Local Authorities indicates that the types of errors we have identified are similar to those identified at other Local Authorities. |

# 4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2012 is now complete and the table below summarises the results of this work and our billings by claims and returns.

Under the Audit Commission framework agreement we bill our grant work on a time incurred basis. Significant differences on fee when compared to 2011 are explained beneath the table.

| Certification instruction | Within Audit Commission framework | Claim/ return | 2012 value of claim (£) | 2012 results of audit work | 2012 audit fee (£) | 2011 audit fee (£) |
|---|---|---|---|---|---|---|
| BEN01 | Yes | Housing and council tax benefits subsidy | 152,731,464 | Amended and qualified | 76,206 | 50,490 |
| HOU01 | Yes | HRA subsidy | 7,252,408 | Amended | 5,937 | 5,420 |
| LA01 | Yes | National non-domestic rate return | 47,094,605 | Amended and qualified | 7,539 | 9,705 |
| PEN05 | Yes | Teachers' pension return | 10,977,888 | Satisfactory | 3,581 | 4,415 |
| General/admin | | | | | 3,131 | 11,857 |
| No longer requiring certification in 2011/12* | | | | | - | 25,945 |
| **TOTAL** | | | | | **96,392** | **107,832** |

* There was no requirement to certify ECY02, HOU02 and HOU21 for year ended 31 March 2012. CRB06 fell below the certification threshold for year ended 31 March 2012.

# 4. Certification information (continued)

We have kept the finance team updated on costs on a regular basis. The table below explains variances on fees between 2011 and 2012 which are over £2,000.

| Certificate instruction | Variance (£) Increase/(decrease) | Reason for variance |
|---|---|---|
| BEN01 | 25,716 | 30 errors were identified in the course of our work this year, in comparison to 8 in the prior year. Additionally errors found in our current year testing were different to those noted in the prior year and this increased the amount of additional cases that required testing in line with the Certification Instructions. |
| LA01 | (2,166) | The scope of the testing was consistent with the previous year, however explanations and information sought from management was effectively and efficiently supplied. |
| General/admin | (8,725) | The number of grants we are required to certify has decreased and as such the related administration time has also reduced. |

# 5. Responsibility statement

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our certification procedures and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report sets out those matters of interest which came to our attention during the certification procedures. Our work was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

**Deloitte LLP**

Chartered Accountants

St Albans

21 January 2013

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| | |
|---|---|
| **REPORT FOR:** | **GOVERNANCE, AUDIT & RISK MANAGEMENT COMMITTEE (NON-EXECUTIVE)** |
| **Date of Meeting:** | 4th April 2013 |
| **Subject:** | Draft Internal Audit Plan 2013/14 |
| **Responsible Officer:** | Tom Whiting – Corporate Director of Resources |
| **Exempt:** | No |
| **Enclosures:** | Appendix1: Draft Internal Audit Plan 2013/14 |

## Section 1 – Summary and Recommendations

This report sets out the draft Internal Audit plan for 2013/14

**Recommendations:**
The Committee is requested to:

(a) Note the process employed to develop the plan.

(b) Consider and comment on the draft plan, in particular to provide the Committee's view on risk to assist with prioritising and developing the final plan.

Harrow COUNCIL LONDON

# Section 2 – Report

## Background

1.1 The CIPFA Code of Practice for Internal Audit requires the Audit Committee (GARM) to approve (but not direct) the Internal Audit Plan.

## Plan Development

1.2 This report sets out the draft Internal Audit annual plan of work for 2013/14 (Appendix 1). A top-down approach was adopted to the development of the audit plan in –line with the recommended CIPFA practice.

1.3 The initial draft plan was developed after consideration of the risk maturity of the organisation; a review of the Council's Corporate Plan 2013/14; a review of the current Corporate and Directorate Risk Registers; a review of previous Internal Audit work covering the Council's internal controls; a review of previous Internal Audit coverage of key areas, and consideration of key pieces of new legislation impacting on the Authority.

1.4 Consultation then took place with the Finance Business Partners on key areas of financial risk; specific middle managers, as appropriate; Corporate Directors, including the (outgoing) S151 Officer, and the Chief Executive to seek views on which areas are considered high risk and to help develop the audit approach to individual reviews.

1.5 Further consultation will be undertaken with the Directorate Management Teams (senior managers); the External Auditors; the Corporate Strategy Board (CSB) on 27th March, this Committee on 29th March and with the incoming S151 Officer before the plan is finalised.

1.6 Once the consultation process is complete an audit risk assessment will be undertaken to rank the projects on the plan, based on materiality and risk, as high, medium or low along with an estimate of the internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review. This information will be used to produce the final Internal Audit plan which will focus on high risk ranked areas.

## Plan Structure

1.7 The projects set out in the plan are grouped under the following headings:

- Reliance/Assurance Reviews
- New/Developing Risk Areas
- Fraud Risk – reviews of controls in place to prevent fraud
- IT Reviews

- Corporate Risk Based Reviews
- Directorate Risk Based Reviews
- Schools Reviews
- Support, Advice and Follow-up

1.8 Included under the Reliance/Assurance Reviews is the work undertaken on the Council's core financial systems which the council's external auditors, Deloitte LLP, rely on to inform their risk assessment that guides the external audit approach. This grouping also covers audit work that contributes to assurance required for the organisation's annual review of governance.

1.9 Projects grouped under the heading New/Developing Risk Areas cover professional audit advice on risk and control in new and developing areas.

1.10 IT Reviews cover reviews of IT applications and operating systems and specialist IT Auditors will be engage for some of this work.

1.11 Reviews under the heading Fraud Risk are areas that have been identified by the Audit Commission as high risk across all Local Authorities and before inclusion in the final plan will be specifically risk assessed to Harrow. These reviews will specifically concentrate on controls in place to mitigate the risk of fraud.

1.12 Corporate Risk Based Reviews are reviews that will have impact across the Council and involve sample testing across the council with the aim of increasing transparency, consistency and compliance.

1.13 The group headed Directorate Risk Based Reviews covers suggested reviews specific to directorates, a number of which are linked to the Corporate Risk Register and corporate priorities.

1.14 And finally under the grouping Support, Advice and Follow-up a small allowance has been made for providing ad-hoc professional audit advice throughout the year, for investigating suspected irregularities and for following up the implementation of agreed audit recommendations.

1.15 Next to each risk based review on the draft plan is an indication of the main driver of the review identified in the planning process i.e. the Corporate Risk Register; the Corporate Priorities/Plan; Internal Audit (based on cumulative audit knowledge); management; Corporate Finance or a combination of these.

## Financial Implications

1.13 The functions of the Internal Audit service are delivered within the budget available.

## Risk Management Implications

1.14 The work of Internal Audit supports the management of risks across the council and the Internal Audit Annual Plan is developed from the review of the Corporate Risk Register and the Corporate Plan and risks identified by management.

### Equalities implications

1.15 None.

### Corporate Priorities

1.16 The work of Internal Audit supports the corporate priorities as described above.

## Section 3 - Statutory Officer Clearance

| | | |
|---|---|---|
| Name: Steve Tingle<br><br>Date: 19/03/13 | √ | On behalf of<br>Chief Financial Officer |
| Name: Jessica Farmer<br><br>Date: 20/03/13 | √ | On behalf of<br>Monitoring Officer |

## Section 4 - Contact Details and Background Papers

**Contact:** Susan Dixson – Service Manager Internal Audit ext. 2420

**Background Papers:**

If appropriate, does the report include the following considerations?

| | | |
|---|---|---|
| 1. | Consultation | YES / NO |
| 2. | Corporate Priorities | YES / NO |

# DRAFT INTERNAL AUDIT PLAN 2013/14

# Background

Internal Audit is a statutory service. The Accounts and Audit Regulations 2011, which came into force on 31st March 2011 (previously the Accounts and Audit Regulations 2003 (as amended)[1], state that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

Guidance accompanying the Accounts and Audit Regulations 2003 (as amended) states that, for principal local authorities, proper internal control practice for internal audit are those contained within the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The Internal Audit Service at Harrow Council is provided by a dedicated in-house team situated in the Resources Directorate. The CIPFA code has been adopted and implemented by the Council's Internal Audit section and reference is also made to the professional standards laid down by the Institute of Internal Auditors (IIA).

# Annual Plan Process

Annually a plan of work is developed to reflect the Internal Audit Strategy and is supported by the Delivery Plan which outlines the key service activities/development projects and service performance indicators. The plan is designed to provide the GARM Committee, the Chief Executive, the S151 Officer, Corporate Directors and other senior managers with assurance on the Council's control environment. Internal Audit adds value to the organisation and contributes to its objectives and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.

A top-down risk-based approach was adopted to the development of the audit plan in –line with the recommended CIPFA practice.

[1] As amended by the Accounts and Audit (Amendment)[England] Regulations 2006

# How Internal Audit Links to the Corporate Vision and Priorities

The Corporate Vision for 2013/14 is:

**Working together: Our Harrow, our community**

With the following specific Corporate Priorities;

- **Supporting and protecting people who are most in need**
- **Keeping neighbourhoods clean, green and safe**
- **United and involved communities; and**
- **Supporting our town centre, our local shopping centres and businesses**

The corporate vision and priorities are taken into account when developing the Internal Audit annual operational plan of work. Where appropriate specific audit reviews will be scheduled to support individual priorities or related priority actions. In addition each year reviews are undertaken of systems that support the delivery of the corporate priorities.

# Draft Plan

The first draft of the plan is developed after:

- consideration of the risk maturity of the organisation;
- review of the Council's Corporate Plan/Priorities 2013/14;
- review of the current Corporate and Directorate Risk Registers and the Risk Appetite Statement;
- review of the 'audit universe'[2] and previous Internal Audit work covering the Council's internal controls (including an indicative audit risk rating);
- identification of significant local and national issues and risks, including new legislation;
- review of the External Audit plan;
- consultation with Finance Business Partners on key areas of financial risk;
- consultation with the Chief Executive, Corporate Directors, including the S151 Officer and key managers as appropriate.

[2] The 'audit universe' is all the areas/processes/systems of internal control of the Council that can potentially be subject to an internal audit review

The draft plan will be presented formally to CSB (on 27th March) and the GARM Committee (on 4th April) for review/comment.

## Final Plan

Once the consultation process is complete the final plan is developed by undertaking a detailed risk assessment of all reviews contained in the draft plan to rank the projects on the plan, based on materiality and risk, as high, medium or low.

The number of audit days available for the 2013/14 plan will be determined via a detailed resource calculation for each auditor taking into account available days, actual days 2012/13 and allowances for annual leave, training etc. A realistic but challenging target will then be set for each member of the team and the combination of these targets will determine the days available for the Internal Audit Plan. 914 audit days were identified for the 2012/13 plan based on an average of 191 days per auditor and 150 days for the Service Manager.

The internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review, will be estimated and a final plan developed ensuring that, at a minimum, all high risk reviews are included.

Table 1 below shows the draft internal audit plan 2013/14 and includes:

- the type of review to be undertaken - Reliance/Assurance Reviews
  - Professional Advice - New /Developing Areas
  - Fraud Risk – reviews of controls in place to prevent fraud
  - IT Reviews
  - Corporate Risk Based Reviews
  - Directorate Risk Based Reviews
  - Schools Reviews
  - Support, Advice & Follow-up
  - WLWA Reviews (overview only for completeness)

- the main driver for each review - KEY: IA - Internal Audit; EA - External Audit; CGG - Corporate Governance Group; CP - Corporate Priority; CR - Corporate Risk; M - Management and CF - Corporate Finance; PPP – Protecting the Public Purse 2012; CAFT – Corporate Anti-fraud Team

- a summary of the proposed audit coverage – this will be refined before the start of each review

## Table 1 – Draft Internal Audit Plan 2013/14

| Draft Plan 13/14 | Main driver | Reasoning for inclusion/risks | Proposed Audit Coverage |
|---|---|---|---|
| | | **Reliance/Assurance Reviews** | |
| Payroll | IA/EA | Three year cyclical plan agreed with External Auditors | Key Control Review, Walkthrough Test, Update of System Notes |
| Treasury | IA/EA | Three year cyclical plan agreed with External Auditors | Key Control Review, Walkthrough Test, Update of System Notes |
| Council Tax | IA/EA | Three year cyclical plan agreed with External Auditors | Key Control Review, Walkthrough Test, Update of System Notes |
| Housing Rents | IA/EA | Three year cyclical plan agreed with External Auditors | Self Assessment, Walkthrough Test, Update of System Notes |
| Corporate Accounts Payable | IA/EA | Three year cyclical plan agreed with External Auditors | Self Assessment, Walkthrough Test, Update of System Notes |
| Corporate Accounts Relievable | IA/EA | Three year cyclical plan agreed with External Auditors | Self Assessment, Walkthrough Test, Update of System Notes |
| Business Rates | IA/EA | Three year cyclical plan agreed with External Auditors | Self Assessment, Walkthrough Test, Update of System Notes |
| Housing Benefit | IA/EA | Three year cyclical plan agreed with External Auditors | Self Assessment, Walkthrough Test, Update of System Notes |
| Capital Expenditure | IA/EA | Three year cyclical plan agreed with External Auditors | Self Assessment, Walkthrough Test, Update of System Notes |
| Corporate Governance | IA/CCG | Requirement under the Accounts & Audit Regulations 2011 | Co-ordination of the annual governance review, drafting of AGS |
| Management Assurance | IA/CCG | Requirement of the governance framework | Co-ordination of the annual management assurance exercise |
| Risk Management | IA | Reduction of the risk management budget | Maintenance and update of risk registers in second half of year |
| Compliance Testing | M | To provide assurance on compliance with key policies/procedures | To be determined in consultation with management |
| | | **Professional Advice - New /Developing Areas** | |
| IT Working Group | IA | To support the implementation of the IT Transformation Projects | Attendance of working group providing professional advice on control and risk mitigation |
| On-line Social Care Shopping Portal | CP/M | To support the development and implementation of the on-line social care shopping portal | To provide ongoing risk and control advice on the development of a financial payment process for the Shop4Support on-line social care shopping portal |
| E-invoicing | IA/M | To support proposals for introduction of e-invoicing | To provide professional advice on control and risk mitigation |

| | | | |
|---|---|---|---|
| Public Health Integration | CP/IA/M CR8/CR9 | New responsibility/systems | Professional advice control and risk management on integration |
| **IT Reviews** | | | |
| Access Control – Network/SAP/EMS/SIMS/CITRIS Remote Access | IA | Data security/unauthorised access | Set up and removal, parameters, password configuration, reset frequency. |
| Framework – I - Application Review | IA/CF | Key system in Adult's and Children's social care | Covering access controls, data entry, processing, output, interfaces, back-up and recovery. |
| Northgate Housing Repairs – Application Review | CF | Key system in Housing | Covering access controls, data entry, processing, output, interfaces, back-up and recovery |
| IWorld/Northgate Housing Benefit – Operating System Review | IA/M | Key system in Resources/new module | To assess the control process built within Northgate Housing Benefits System including the localised CT Benefit module and the cloud based Harrow Emergency Scheme |
| IT Data Centre - Landlord Risks | M | New responsibility | Covering environmental controls and security |
| Council Tax Discounts & Exemptions | M | Risk of Incorrectly set parameters leading to income loss | Checking that system parameters are consistent with executive decisions |
| Public Health Compliance | M | New responsibilities | Ensuring compliance with IT requirements |
| Cloud Based systems – VERTO/ Occ Health | M | Internet hosted systems | Access security, data recovery |
| Data Security Breaches | M | High risk of fines/bad publicity/risk of reoccurrence | To assess action taken after breaches identified to close gaps and improve processes |
| **Fraud Risk** | | | |
| Procurement | PPP | High risk across local Authorities/collusion/inferior goods or services/inflated performance info | Assessing risk of procurement fraud and preventative controls in place. |
| Business Rates | PPP/M | High risk across local authorities/falsely claiming relief/failure to declare occupancy/falsely using insolvency status/non disclosure of info | A review of controls in place to prevent fraud with particular emphasis on partial occupation; completion notices and charity status |
| Right to Buy | PPP | High risk across local authorities (increase in allowance)/false documents/unlawful occupation | A review of controls in place to prevent fraud *CAFT sent copy of every application* |
| Public Health – Local Enhanced Schemes/Services | CF CR8/CR9 | New risk/fraudulent claiming for health checks | A review of controls in place to prevent fraud |
| Council Tax Discounts | PPP | High risk across local authorities/ fraudulently claimed discounts and property exemptions | A review of controls in place to prevent fraud |
| Purchase Invoice Fraud | PPP | High risk across local authorities/ | A review of a sample of purchase invoices across the council to ensure that payment is only being made on bonafide invoices |

| | | | |
|---|---|---|---|
| Mandate Fraud Risk | PPP | High risk across local authorities/redirection of payments intended for legitimate creditors | A review of controls in place to prevent fraud |
| Housing Benefit | PPP | High risk across local authorities | A review of controls in place to prevent fraud including response to CAFT reports |
| Duplicate Payments | PPP | High risk across local authorities | A review of controls in place to prevent duplicate payments |
| Housing Assessments | CAFT | Management request via CAFT | Review of the robustness of the assessments process to mitigate the risk of fraud |
| **Corporate Risk Based Reviews** | | | |
| Data Quality | AGS | Updated policy/risks identified in specific area/Scrutiny concern | Reviewing a sample of areas where data quality is important to establish compliance with standards |
| Delegations | MA/CF | Gaps in delegations highlighted via management assurance exercise and by Corporate Finance | A review of delegations in place across the council to establish whether appropriate and to provide support and guidance where gaps identified |
| Freedom of Information | IA/M | New approach being considered | Review of the policy and process employed by the Council for dealing with FOI requests to ensure appropriate and proportionate. |
| Purchase Cards | IA/M | New procurement controls may increase Purchase Card use | Review of controls over the issue and use of procurement cards including compliance with policy, payment, authorisation and the prevention of fraud. |
| Commissioning | IA/M | Commissioning is a key function for the Authority | A review of commissioning across the Council to ensure robust processes are in place and good practice is shared |
| Debt Management | CF/M | Inconsistency of approach leading to loss | To ensure that a joined up corporate approach is taken to debt management |
| Business Continuity/IT Disaster Recovery | IA/M/AGS CR13 | Corporate Risk | Covering adequacy and effectiveness of controls over the arrangements that are in place for the prevention of system downtime through adequate resilience arrangements and that systems are appropriately backed up |
| **Directorate Risk Based Reviews<br>Resources** | | | |
| Pensions | IA | Key system not reviewed for over 3 years | Risk based system review to include fraud risk |
| Cashiers | IA/M | New IT system/change of management | IT System, petty cash, income and banking, separation of duties, refunds |
| Harrow HELP Scheme | IA/CR11 | New scheme under Welfare Reform | Risk based system review to include fraud risk |
| Localised Council Tax Support | IA/M/CR11 | New responsibilities for Local Authorities | Review of the implementation of the new scheme to ensure controls appropriate to mitigate risks |
| Finance Restructure | IA | Major restructure in progress | Maintenance of Key Controls (after restructure) |

| | | | |
|---|---|---|---|
| **Community, Health & Wellbeing** | | | |
| Housing Repairs contract Management | IA/M | Self –assessment undertaken by management 12/13 | Contract Management Review |
| Housing Rents - Target Rents | CF | Potential for increased income | A review of the process to ensure that target rents achieved wherever possible |
| Leaseholder Charges | CF | Complex process/risk of error | Risk based system review |
| Libraries & Leisure Contract Management | M | Potential new contract | Contract Monitoring Review |
| **Children & Families** | | | |
| Schools | IA/SFVS | A three year programme of school reviews covering the adequacy, application and effectiveness of financial controls and governance procedures in place | Financial Control & Governance Reviews – SFVS assessments to feed into final plan |
| Families First (Troubled Families Grant) | CF | New funding arrangements and responsibilities. | Minimum grant certification |
| Special Education Needs (SEN) | CF/M | Government reform/introduction of personal budgets | Provide professional advice on control and risk mitigation in the development of personal budgets |
| Education Penalty Notices | CF/M | New process using the parking system to issue penalty notices | Risk based systems review |
| **Environment & Enterprise** | | | |
| Parking Enforcement - PCNs | IA | Concerns raised regarding cancellation of PCNs | Risk based system review to include fraud risk |
| Waste Management – Trade Waste | CAFT/CF | Follow-up of CAFT work undertaken 2012/13 | Risk based system review to include fraud risk |
| PRISM/Property restructure | IA/CF | Major restructure in progress | Maintenance of key controls within Directorate and to ensure appropriate controls in place for Licensing |
| Community Infrastructure Levy (CIL) | CF/M | New power that will enable the Council to raise funds for infrastructure from new development | To review governance arrangements and whether income is maximize and used appropriately to benefit Harrow |
| Disabled Adaptations (Harrow Home Improvement Agency) | IA | Programme expanding to cover people who can pay for adaptations | Review of governance arrangements |
| Carbon Reduction Commitment | IA/M/CR20 | Legal Requirement | Audit review and sign-off of CRC Annual Report |
| **Support, Advice & Follow-up** | | | |
| Suspected Financial Irregularities + Control Reviews | IA | Internal Audit required to maintain overview of SFIs and provide support to managers | Support & guidance to managers on investigations |
| Professional Advice | IA | Enables audit team to provide advice to managers on control and risk management on areas not specifically covered by plan | Advice on risk mitigation & control |

| | | | |
|---|---|---|---|
| Follow-up | IA | Provides assurance on the implementation of audit recommendations | Follow-up of Red, Red/Amber & Amber reports |
| Liaison with External Audit | IA | Supply of information to EA to support their work for the Authority | On-going liaison throughout the year |
| Audit Management | IA | | e.g. planning, GARM reporting |
| **WLWA Reviews** | | | |
| Separate Plan agreed with WLWA | IA/M | Requirement to provide internal audit services to WLWA | To be agreed with WLWA |

**Susan Dixson**
**21st March 2013**

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| **REPORT FOR:** | **GOVERNANCE, AUDIT & RISK MANAGEMENT COMMITTEE** |
| **Date of Meeting:** | 4th April 2013 |
| **Subject:** | **INFORMATION REPORT – 2011/12 Annual Governance Statement Action Plan Update** |
| **Responsible Officer:** | Tom Whiting – Corporate Director of Resources |
| **Exempt:** | No |
| **Enclosures:** | 2011/12 AGS Action Plan Update |

## Section 1 – Summary

This report sets out the action planned to close the gaps identified in the 2011/12 Annual Governance Statement and the progress to date.

**FOR INFORMATION**

## Section 2 – Report

2.1 The 2011/12 Annual Governance Statement was presented to the GARM Committee on 4th September 2012 with a further report to the Committee on the 29th November on the progress made. This report provides a further update and indicates whether the gap was closed for 2012/13 or will need to be reported again as a gap in the 2012/13 Annual Governance Statement. Only two of the fourteen gaps are considered significant.

2.2 In the updated action plan (attached) whether the gap identified in 2011/12 has remained a gap in 2012/13 is traffic-lighted. Green indicates that there is no longer a gap, amber indicates that there is still a gap but that it is smaller and red indicates that the gap remains. Of the twelve non-significant gaps identified in 2011/12 three have been fully closed, three have been partially closed and five remain. Of the two significant gaps one has been partially closed and the other remains.

2.3 A significant amount of work is underway and will be completed in Q1 2013/14 to address many of the gaps given a red assurance rating for 2012/13.

## Section 3 – Financial Implications

3.1 Financial implications have been shown, where relevant, in the action plan attached.

## Section 4 – Equalities Implications

4.1 There are no equalities implications.

## Section 5 – Corporate Priorities

5.1 The annual governance process contributes to all the corporate priorities by assessing the robustness of the governance mechanisms that directly or indirectly support these priorities.

| | | |
|---|---|---|
| Name: Steve Tingle | √ | on behalf of the Chief Financial Officer |
| Date: 21/03/13 | | |

## Section 7 - Contact Details and Background Papers

**Contact:** Susan Dixson, Internal Audit service Manager

**Background Papers:** None

# 2011/12 AGS Action Plan Update

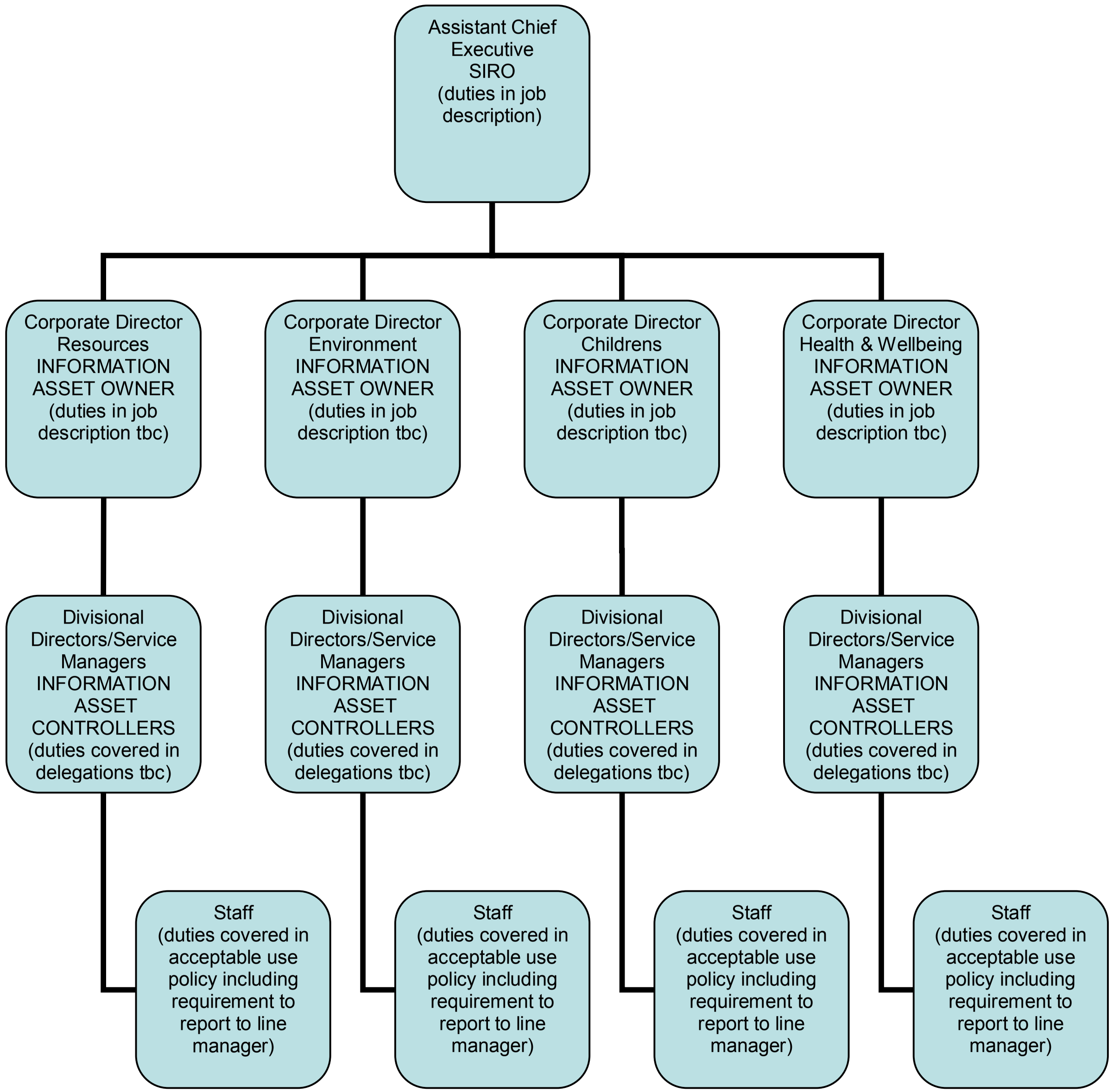
| AG Review Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Gap 2012/13 | Progress March 2013 |
|---|---|---|---|---|---|---|
| 3.4 c/f | The CAFT pages have been updated on the hub so that there is now information surrounding fraud affecting the authority and how employees can report it. There is no direct link to the Corporate Anti-Fraud Policy as this is under review.<br><br>No awareness sessions etc. are run. | Policy review to be completed.<br><br>Link to policy to be incorporated.<br><br>The government has recently launched a new 'Fighting Fraud Locally' strategy and toolkit for implementation in local government and part of this toolkit is a free fraud awareness package endorsed by CIPFA that authorities can roll out within their organisation. The tool disk was provided in August and has been sent to the learning pool for incorporation into Harrow's Learning & Development programme. | Corporate Anti-fraud Service Manager<br><br>HRD | Nov 2012<br><br>End Nov 2012<br><br>End Dec 2012 | R<br><br>Risk of gap shown as green in last report. | Policy review on hold as will need to reflect new requirements under the Welfare Reform Act and proposals for single service.<br><br>It has not been possible to incorporate the toolkit into Harrow's learning pool as the current format is not compatible with our system. This has been raised as an issue and a compatible format is being prepared. |
| 3.7 c/f | Management Assurance Exercise identified directorate/service specific schemes of delegation covering HR / service specific responsibilities not consistently in place across the Council.<br><br>2011/12 Management Assurance Exercise shows a 2% corporate improvement to 58% working well. | Reminder on the requirement for a directorate/service specific scheme of delegation to be put in place provided to CSB August 2012.<br><br>Management Assurance Action plans for Childrens, Adults and RAF require action to be taken to develop Directorate delegations. | Corporate Directors | Dec 2012 | A<br><br>Risk of gap shown as Amber in last report. | Delegations drafted for Adults and RAF (although these will now need to be updated to reflect change in structure).<br><br>Childrens yet to be drafted.<br><br>Review of delegations included in IA Draft Plan 2013/14. |

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Gap 2012/13 | Progress March 2013 |
|---|---|---|---|---|---|---|
| 3.34 c/f | There is no consistent approach for validating information from third parties as it is the responsibility of the contract 'owner'<br><br>Information Management Team now taking this on. | The data Quality Procedures will be reviewed and communicated to management using the new policy compliance software.<br><br>Taken on by Information Manager August 2012 | Information Manager | March 2013 | R<br><br>Risk of gap shown as red in last report. | Delayed by bigger task of implementing the Information Governance Toolkit for the integration of Public Health – will be completed by end April 2013.<br><br>. |
| 3.35 New | Currently no monitoring or compliance testing of policies. | Policy compliance software to be purchased in 2012 which will monitor and test policy compliance.<br><br>Software identified and costed (£20k + implementation costs). Hope to secure capital funding. Negotiating project details and costs of implementation with CAPITA (as a BTP project). | Information Manager | In place by April 2013 | R<br><br>Risk of gap shown as red in last report. | New policy compliance software to be implemented Q1 2013/14. |
| 3.36 New | Lack of robust reporting mechanisms (on data security breaches) to senior management. | Risk approach to Information Management/Data security to be reviewed in 2012/13 (this will include more robust reporting mechanisms to senior management)<br><br>Planned structure (see below) will improve reporting. | Information Manager | January 2013 | R<br><br>Risk of gap shown as green in last report. | Planned structure being implemented via workshops with Corporate and Divisional Directors Q1 2013/14. |

# 2011/12 AGS Action Plan Update

## Information Risk Management/Security Reporting Structure




Information Asset Owners (IAOs) are supported by Information Asset Controllers (IAC), who are responsible for managing risks to information assets within their respective directorate. The IAOs are responsible for ensuring that information risk is managed appropriately and for providing assurances to the Information Governance Board (IGB) and the Senior Information Risk Owner (SIRO). The SIRO in turn provides assurances on the controls and procedures for managing Information to the Chief Executive.

The aim is to ensure that the approach to information risk management:

- Takes full advantage of existing authority and responsibility structures where these are fit for this purpose;
- Associates tasks with appropriate management levels;
- Avoids unnecessary impacts on day-to-day business;
- Ensures that all the necessary activities are discharged in an efficient, effective, accountable and visible manner.

Whilst this is the proposed structure individual directorates may find it more appropriate to allocate the role of IAO to another senior officer such as a Divisional Director.

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Gap 2012/13 | Progress March 2013 |
|---|---|---|---|---|---|---|
| 3.37 c/f | The Council has complied with the Governments Code of Connection and was formally certified on 1st Sept 09 and updated 29/07/11. However CAFT moved 01/08/11 to open plan office that does not, in the opinion of the CAFT Service Manager and the Information Management Service Manager comply with the relevant code of connection: **All hosts and network equipment are to be located in secure accommodation.**<br><br>The latest compliance statement for GCSX submitted in July 2012 stated:<br>All hosts and networking equipment are located in locked secure accomodation.<br><br>In addition: GCSx users are restricted to defined areas at two physical locations (Civic1 and Civic 6 buildings) at Harrow Council. Their access to the GCSx system is controlled via firewall rules.<br><br>There remains a risk that the open plan nature of the accommodation will not be deemed suitably secure should we be audited plus the London Public Sector Network regulations coming in 2013/14 are more rigorous. | Harrow Council has been Authorised to remain connected to GCSX. However, following review of our Code of Connection (CoCo) documents, some non-compliance issues were identified. As a result, we have been asked to provide updates to the following on a quarterly basis (end of March, June, September & December) to the Compliance Team, PSNA:<br>1. IT Health Check remedial action plan (if there were Critical or High risks identified).<br>2. CoCo - MUST/RECOMMENDED controls where you were unable to state as 'Yes' to compliance.<br><br>Key issues include the security required for remote access and environment controls including patching and device lockdown.<br><br>The risk re the open plan accommodation is only part of the compliance requirements according to the Architecture & Security Assurance Manager but is considered to be high risk by the CAFT Manager.<br><br>**Action:**<br>Quarterly updates to be provided to the Compliance Team , PSNA<br><br>Continue to work towards closing gaps identified in the CoCo & IT Health Check.<br><br>To explore use of glass screening for CAFT with Property Services. | Head of Business transformation Partnership<br><br>Divisional Director RAF/CAFT Manager | Through out 2012/13<br><br>Nov 2012 | R<br><br>Risk of gap shown as red in last report | Quarterly updates have been provided to the Compliance Team, PSNA. Currently running an ITHC (IT Health Check) of the GCSX environment. Once we have the results we will write and submit, to the PSNA, a remedial action plan for any vulnerabilities found.<br><br>Exploration of Glass screening for CAFT to be considered through final phase of office move programme in Civic 1. |

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Gap 2012/13 | Progress March 2013 |
|---|---|---|---|---|---|---|
| 3.38 c/f | When Capita took over the ITO a full suite of policies was implemented by the Capita ICT Security Manager that meet ISO Standards.<br><br>Whilst the Council has a full suite of Information Management Policies in place these need to be reviewed and updated. | Full suite of Information Policies currently being reviewed by Information Manager/Information Governance Board. | Information Manager | January 2013 | G<br><br>Risk of gap shown as green in last report | Completed and ratified by Information Governance Board March 2013 |
| 3.39 New | A security incident log is now in place and is monitored by Council's Client Team. Polices and procedures have also been improved through improvement reviews conducted by the client team i.e. Incident reporting and management procedure. However, the Council can only capture what is reported as a breach or incident and there may be many more out there un-reported. | An awareness campaign on security incidents and reporting of will be launched soon. | Information Manager | January 2013 | G<br><br>Risk of gap shown as green in last report | Awareness campaign consisting of posters and comms implemented.<br><br>Further awareness to be raised via floor walking exercise April 2013 |

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Risk of Gap 2012/13 | Progress March 2013 |
|---|---|---|---|---|---|---|
| 13.11 c/f | Although there is an integrated Children's Workforce Strategy and joint induction arrangements for those working with children across local partners this does not exist to any significant extent in other Directorates.<br><br>Workforce strategies and plans continue to be developed but are not yet in place in all Directorates. Where appropriate Directorate workforce strategies / plans include joint planning with partners | This has been identified in the Strategy for People 2010-2012 as an action for 2011 therefore no further action is needed here.<br><br>Workforce Strategies are now in place for all Directorates with the exception of Resources which is currently being developed (although strategies are in place for number of Divisions within the Directorate) and where relevant partners are identified. | Jon Turner | Dec 2012 | A<br><br>Risk of gap shown as green in last report | Given the Finance restructure it has not been possible to develop a workforce strategy for the whole of the Resources Directorate although other Divisions within Resources have them. |

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Gap 2012/13 | Progress February 2013 |
|---|---|---|---|---|---|---|
| GF7 c/f | A **significant gap** relates to IT Disaster Recovery which was recognised as a significant governance gap in the 2008/09 Annual Governance Statement and remained a gap throughout 2009/10, 2010/11 and 2011/12.<br><br>There are arrangements in place to meet this requirement however the main project to support this is the migration of the council's IT applications to the Capita West Malling site, which was due to commence in September 2011 on a phased programme to be completed in April 2012. This programme has been delayed as the Council is considering keeping the data centre on-site in order to deliver a cost saving. Given the delay this necessitates a plan is now being put together to test disaster recovery of the systems as they stand.<br><br>There is a continuing risk until this project is complete although the wider business continuity plan takes this into account and the risk is no greater than it has been historically over a number of years. | A disaster recovery plan is now being put together for the main systems; SAP, Framework I + Telephony and a test will be carried out mid December. | Head of IT Client Team | End December 2012 (reliant on CAPITA) | A<br><br>Risk of gap shown as amber in last report | Plan in place and recovery tested. User acceptance testing delayed until Q1 2013/14 due to year-end procedures. |

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Gap 2012/13 | |
|---|---|---|---|---|---|---|
| OGF8 c/f | Health & Safety<br><br>Management Assurance Exercise identified that Health & Safety not working well across all areas of the Council.<br><br>A comprehensive review of H&S has been carried out and a new restructure and a two year improvement plan is commenced in 2011/12. | Progress made i.e. audit tool rolled out, but will not be fully implemented until 2013 as it is a two year plan. | Divisional Director Risk, Audit & Fraud | April 2013 | R<br><br>Risk of gap shown as red in last report | Timescale for full implementation extended to July 2013. |
| 3.42 c/f | Although a well publicised Energy Saving Campaign was run in 2008/09 it is recognised that a more pro-active engagement with staff is needed.<br><br>Reduced staffing levels and a freeze on recruitment during 2010/11 have meant that it has not been possible to devise a pro-active engagement programme on the Council's approach to reducing its impact. | 2010/11 AGS agreed action : To devise a pro-active engagement programme on the council's approach to reducing its impact on the environment.<br><br>Not implemented during 2011/12 due to lack of resources and this is not expected to change in the near future.<br><br>Whilst the Council will continue to engage with staff on individual campaigns it is recognised that it will not be possible to undertake an extensive pro-active engagement programme. Whilst not ideal this is not considered to be a significant governance risk. | Head of Climate Change | n/a | G<br><br>Risk of gap shown as green in last report | n/a |

# 2011/12 AGS Action Plan Update

| AGS Ref | Gap Identified | Agreed Action/November 2012 Update | Responsible Officer | Timescale | Risk of Gap 2012/13 | |
|---|---|---|---|---|---|---|
| 16.5 New | This **significant gap** relates to the lack of separation in the Council's main accounting system between the Council's financial records and those of the West London Waste Authority (WLWA) and the fact that, whilst the WLWA is a separate legal entity, a separate bank account is not in operation. Although the account has been operating in this way for many years a number of issues arose during the course of the audit, that the External Auditors and the Council's Corporate Finance team have worked together to resolve, which highlighted the risks of no separate bank account. | Action will be agreed as part of the 2011/12 AGS Action Plan to ensure that this situation does not re-occur in the future.<br><br>A new treasurer for WLWA is about to be appointed and a decision taken as to whether the Finance back office will transfer to another authority under the new treasurer. It will be for the new treasurer to determine the appropriate action to be taken however if Harrow are no longer involved in WLWA finance this will cease to be a governance issue for Harrow. | Treasurer WLWA/Treasury Management | New treasurer to be agreed by end Dec 2012 | G<br><br>Risk of gap shown as green in last report | The new WLWA Treasurer is reviewing the current arrangements for financial support but is likely to seek authority from its Board with effect from 1 April 2014, for a<br>• Separate bank account<br>• Independent VAT number; and<br>• A Stand alone finance system<br><br>External Audit's view on this to be sort and reported verbally to the GARM Committee on 04/04/13. |
| 16.6 New | Ledger codes for Academy schools that are no longer council assets were 'closed' and removed from the chart of accounts without the required approval. Hence income and expenditure was omitted from the draft financial statements. | Management will review the approval processes in place. We will write to all finance staff and the ERP team to reinforce the importance of this control.<br><br>IA – This should be included in a Financial Procedure linked to Financial Regulations.<br><br>Review complete and responsibility for authorising action agreed and communicated to relevant staff. (Evidenced)<br><br>Formal Financial Procedure to be drafted. | Finance Business Partner, Financial Accounting, Capital & Taxation | Dec 2012 | A<br><br>Risk of gap shown as green in last report | Formal Financial Procedure still to be drafted as Financial Regulations currently being reviewed.<br><br>However additional checks implemented to ensure that the cost centres are not moved between the LBH and Non – LBH hierarchy. |

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