

# Audit, Pensions and Standards Committee

## Agenda

Monday 14 December 2015

7.00pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

### MEMBERSHIP

Administration:	Opposition
Councillor Iain Cassidy (Chair) Councillor Ben Coleman Councillor Adam Connell Councillor PJ Murphy Councillor Guy Vincent	Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson

**CONTACT OFFICER:** David Abbott  
Committee Co-ordinator  
Governance and Scrutiny  
☎: 020 8753 2063  
E-mail: david.abbott@lbhf.gov.uk

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Members of the public are welcome to attend. A loop system for hearing impairment is provided, along with disabled access to the building.

Date Issued: 04 December 2015

# Audit, Pensions and Standards Committee Agenda

14 December 2015

<u>Item</u>	<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING	1 - 6
2. APOLOGIES FOR ABSENCE	
3. DECLARATIONS OF INTEREST See next page for more detailed information about declarations of interest.	
4. TREASURY MANAGEMENT - MID-YEAR REVIEW	7 - 15
5. TREASURY MANAGEMENT - STRATEGY REPORT 2016-17	16 - 41
6. ANNUAL AUDIT LETTER 2014-15	42 - 48
7. RISK MANAGEMENT IN ADULT SOCIAL CARE	49 - 68
8. INTERNAL AUDIT - QUARTERLY REPORT Outstanding recommendations: <ul style="list-style-type: none"><li>• Children's Services</li><li>• Managed Services</li><li>• Mobile Device Security and Cloud Computing</li></ul>	69 - 91
9. RISK MANAGEMENT - HIGHLIGHT REPORT	92 - 129
10. CORPORATE ANTI-FRAUD SERVICE REPORT - 1 APRIL TO 30 SEPTEMBER 2015	130 - 140
11. EXTERNAL AUDIT - OUTSTANDING RECOMMENDATIONS AND ANNUAL GOVERNANCE STATEMENT ACTION PLAN	141 - 146
12. DATES OF FUTURE MEETINGS The next meeting is scheduled for 13 January 2016.	
13. EXCLUSION OF THE PUBLIC AND PRESS The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information,	

as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

- 14. EXEMPT MINUTES OF THE PREVIOUS MEETING**
- 15. RIVERSIDE STUDIOS REPORT (EXEMPT)**  
Report to follow.
- 16. INTERNAL AUDIT - MULTIPLE LOG-INS (EXEMPT)**
- 17. INTERNAL AUDIT - FOSTERING AND ADOPTION (EXEMPT)**
- 18. INTERNAL AUDIT - COMMERCIAL WASTE OPERATIONS (EXEMPT)**

### **More Information about Declarations of Interest**

If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.

At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken.

Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.

Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.

London Borough of Hammersmith & Fulham



## **Audit, Pensions and Standards Committee Minutes**

**Tuesday 15 September 2015**

### **PRESENT**

**Committee members:** Councillors Iain Cassidy (Chair), Ben Coleman, Adam Connell, PJ Murphy, Guy Vincent, Michael Adam, Mark Loveday and Donald Johnson

**Officers:** Nigel Pallace, Geoff Drake, Jane West, Selina Douglas, Mike Rogers, Rachael Wright-Turner, Ciara Shimidzu, Debbie Morris, Hitesh Jolapara, Nick Austin, Michael Sloniowski, and David Abbott

**Guests:** Andrew Sayers and Sally-Anne Eldridge (KPMG)

### **1. MINUTES OF THE PREVIOUS MEETING**

Page 2, **Item 5 – External Audit Plan** - A response on members questions around fee levels had been circulated by KPMG and members thanked them for the reduction of 25% from the previous year.

### **RESOLVED**

That the minutes of the meeting held on 17 June 2015 were agreed as a correct record and were signed by the Chair.

### **2. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Nick Botterill and apologies for lateness were received from Councillor Michael Adam (who arrived at 19:15).

### **3. DECLARATIONS OF INTEREST**

Councillor Ben Coleman declared a non-pecuniary interest as a Governor of Queensmill School.

#### **4. LBHF STATEMENT OF ACCOUNTS 2014-15**

Hitesh Jolapara introduced the report that presented LBHF's Statement of Accounts, including the Pension Fund, for 2014/15 and the external auditor's (KPMG) draft opinion on the accounts.

Andrew Sayers and Sally-Anne Eldridge (KPMG) talked through their draft opinion, noting that there were no significant risks that were not being addressed. It was felt that there was an overreliance on spreadsheets for financial processes but managed services would resolve those concerns.

The Chair noted that an updated version of the Statement of Accounts and Annual Governance Statement had been circulated prior to the meeting and an additional addendum and errata to the Statement of Accounts had been tabled at the meeting.

Members asked for more detail on the large variances between the budget and actual figures (summary outturn position - point 8).

#### **ACTION: Hitesh Jolapara to provide information outside the meeting**

Members asked if the level of reserves was a concern. Officers responded that all reserves were earmarked for specific purposes and were challenged at Officer Briefing Board.

Members asked when PFI debt would be paid back. Officers responded that the debt lasts for the duration of the PFI and would expire in 15 years.

#### **RESOLVED**

1. That the Committee noted the content of the auditor's 'Report to those Charged with Governance (ISA260)' (Appendix 2) stating that the accounts will receive an unqualified opinion, the Council has an adequate internal control environment and has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
2. That the Committee noted the auditor's findings, recommendations and the Council's response to those recommendations as set-out in the Report to those Charged with Governance (ISA260).
3. That the Committee approved the management representation letter (Appendix 3).
4. That the Committee approved the Statement of Accounts for 2014/15, including the Pension Fund (Appendix 1).

#### **5. ANNUAL GOVERNANCE STATEMENT**

Hitesh Jolapara introduced the report that presented the Council's Annual Governance Statement, a statutory document which explains the processes and procedures in place to enable to Council to carry out its functions effectively.

## **RESOLVED**

1. That the Committee considered and approved the 2014-15 Annual Governance Statement.
2. That the Committee agreed to monitor and track an agreed action plan to address significant weaknesses and ensure continuous improvement of the system of internal control.

## **6. ANNUAL CORPORATE HEALTH AND SAFETY REPORT**

Nick Austin presented the report that provided an overview of the health and safety performance of the organisation during the period 1 April 2014 to 31 March 2015. It was noted that accident rates were generally reducing or remaining static. Working from home presented new challenges to resiliency and added a more variable working environment but the authority took a pragmatic approach to risk management.

Members asked why the losses to the Council from successful claims had increased over recent years. Officers responded that there were two large claims that had significantly affected the figures. Members requested more information on the events that led to the claims and the actions taken to resolve those issues. Members also asked for information on all upcoming claims.

### **ACTIONS: Nick Austin**

Members noted that stress was the primary area for claims and asked if there were ways of tracking incidents of stress before they become major problems. Officers responded that the Council had a series of HR policies on stress management and followed good practice with occupational advice available to staff and back to work interviews for those who had taken time off due to stress. The annual staff survey contained six key questions on stress that were used to track performance.

Members noted that 15 percent of sickness was categorised as unknown. Officers responded that there was a facility for staff to report sickness to occupational health anonymously and more detailed information could be gathered from them. In future the report could provide a fuller picture.

## **RESOLVED**

1. That the Committee reviewed and commented on the organisations health and safety performance for the 12 month period.
2. That the Committee reviewed the annual report to satisfy itself that the Council is fulfilling its legal duty of care.

## **7. INTERNAL AUDIT QUARTERLY REPORT**

Geoff Drake presented the report that summarised internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2015. A summary of outstanding audit recommendations from departments was circulated to all members.

Members asked for more detail in the audit reports (date of report delivery, deadline for responses etc.) to better understand the process and why responses were not received when expected.

**ACTION: Geoff Drake**

Members noted the high number of outstanding recommendation related to schools and asked for an update from Children's Services officers at the next meeting.

**ACTION: Dave McNamara**

### **Data Storage and Backup Recovery Audit**

Members asked Ciara Shimidzu (Acting Head of Information Management) for an update on the outstanding recommendation related to data storage and backup recovery audit. Ciara Shimidzu responded that there had been delays related to the managed services programme and the move to Office 365. Officers would update the Committee with more detail from the project sponsor. Members requested that the recommendation be implemented by the end of the next financial year.

**ACTIONS: Ciara Shimidzu**

## **8. RISK MANAGEMENT REPORT**

Michael Sloniowski presented the report that provided an update on the status of strategic risks identified for 2015-16.

Members asked for clarity on point 1 of the risk register (page 216) where it seemed the risk was the move to managed services but the planned action was to move to managed services. Officers responded that it was not clear but there were risks still associated with the previous financial system, where the software provider went into liquidation, that it was envisaged these risks would be resolved by moving to the managed services system but clearly there were also new risk associated with the large scale transfer to a new system.

Members noted the negative direction of travel in Q2 under 'Information Management and Digital Continuity' (page 220). Officers responded that there had been an incident with managed services where sensitive information was mistakenly released to schools which increased the risk profile in that quarter.

Officers reported that two further incidents took place, one in housing and one in environmental services. Both were caused by inaccuracies with addresses. Members asked if the Council was at risk of a major fine from the Information Commissioner's Office (ICO). Officers responded that the risk was high but the ICO could see that the Council was making improvements to its processes in response to these issues.

Members suggested that in the cases of data breaches, there could be additional consequential costs and that these should be reflected in the register.

**ACTION: Michael Sloniowski**

Members suggested that for 'Information Management and Digital Continuity' (point 7, page 220) the threshold of £500k should be lowered to encourage the mitigation of risk at a far lower level. Officers ensured that action was taken at lower levels and would look to lower the threshold in the register.

**ACTION: Ciara Shimidzu**

Members asked how seriously the organisation took risk management. Officers responded that the senior management team took risk very seriously. The Council had a wide range of risk to manage but was very responsive to issues. Members asked how they could improve the culture of risk management throughout the organisation. Officers welcomed the offer and would discuss options outside of the meeting.

**ACTION: Michael Sloniowski**

Members noted the negative direction of travel under point 12 (page 224). Officers responded that the issue was that a contract was left to expire when it should have been re-let. The issue had been referred to internal audit for investigation.

#### **RESOLVED**

1. That the Committee noted the risk profile of the Shared Services risk register and the MSP Service perspective risk assessment.
2. That the Committee gained assurance that risk management is effectively implemented by departments, and to identified where further action is necessary.

### **9. EXCLUSION OF THE PUBLIC AND PRESS**

#### **RESOLVED**

That under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

### **10. EXEMPT - MINUTES OF THE PREVIOUS MEETING**

Members asked for an update on the recommendations under Item 16 (page 128 of the exempt agenda).

**ACTION: Geoff Drake**

#### **RESOLVED**

That the exempt minutes of the meeting held on 17 June 2015 were agreed as a correct record and were signed by the Chair.

### **11. EXEMPT - INTERNAL AUDIT LIMITED ASSURANCE REPORTS**

Members considered the following Internal Audit Limited Assurance Reports:



- Passenger Transport
- Shared Services – Residential Placements
- Audit Management Letter – DBS Employee Checks
- Data Migration Management Controls
- System Interface and Acceptance Tests

**12. EXEMPT - MANAGED SERVICES PROGRAMME UPDATE**

The Chair asked that discussion of this item was taken together with Item 12.

**RESOLVED**

That the Committee noted the contents of the report.

**13. EXEMPT - AUDIT REPORT ON MANAGED SERVICES SYSTEMS**

The Committee agreed to extend the guillotine of the meeting by 20 minutes to accommodate the following items.

Members discussed the report that identified MSP related risks and provided background information on the recent history of the programme.

**RESOLVED**

That the Committee noted the contents of the report.

**14. DATES OF FUTURE MEETINGS**

Future meetings of the Committee were scheduled for 14 December 2015 and 22 March 2016.


Meeting started: 7.04 pm  
Meeting ended: 10.20 pm

Chair .....

Contact officer: David Abbott  
Committee Co-ordinator  
Governance and Scrutiny  
☎: 020 8753 2063  
E-mail: david.abbott@lbhf.gov.uk

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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>14 December 2015</b></p>		
<p><b>MID-YEAR TREASURY REPORT 2015-16</b></p>		
<p><b>Report of the Director for Finance – Hitesh Jolapara</b></p>		
<p><b>Open Report</b></p>		
<p><b>Classification:</b> For review and comment</p>		
<p><b>Key Decision:</b> No</p>		
<p><b>Wards Affected:</b> None</p>		
<p><b>Accountable Director:</b> Hitesh Jolapara, Director for Finance</p>		
<p><b>Report Author:</b> Halfield Jackman, Treasury Manager</p>	<p><b>Contact Details:</b> Tel: 0207 641 4354 <a href="mailto:hjackman@westminster.gov.uk">hjackman@westminster.gov.uk</a></p>	

## 1. EXECUTIVE SUMMARY

- 1.1 This report presents the Council's Mid-Year Treasury Report for 2015/16 in accordance with the Council's Treasury Management Practices. It is a regulatory requirement for this report to be presented to Council.
- 1.2 There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the Council's borrowing and cash investments to the investments of surplus cash balances. This report covers:
- Treasury position as at 30 September 2015.
  - Investment activity to 30 September 2015.
  - Borrowing activity to 30 September 2015.
  - Compliance with the treasury limits and prudential indicators and
  - The UK economy and interest rates.

The borrowing amounts outstanding and cash investments for the 30 September period are as follows:

	<b>31 March 2014</b>	<b>31 March 2015</b>	<b>30 September 2015</b>
	£m	£m	£m
Total Borrowing	251	248	241
Total Cash Balances	(320)	(360)	(353)
<b>Net Surplus</b>	<b>(69)</b>	<b>(112)</b>	<b>(112)</b>

## 2. BACKGROUND

- 2.1 This report presents the Council's Treasury Management Mid Year Report to the 30 September 2015 in accordance with the Council's Treasury Management Practices.
- 2.2 The CIPFA Code of Practice on Treasury Management has been adopted by the Council. This Mid Year review has been prepared in compliance with the Code of Practice. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Receipt by the full Council of an Annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead, a Mid-Year Review Report (this report) and an Annual Report covering activities during the previous year.
- 2.3 This Council delegates the scrutiny of Treasury Management Strategy and policies to the Audit, Pensions and Standards Committee.

## 3. RECOMMENDATIONS

- 3.1 To note the Council's borrowing and investment activity up to the 30 September 2015.

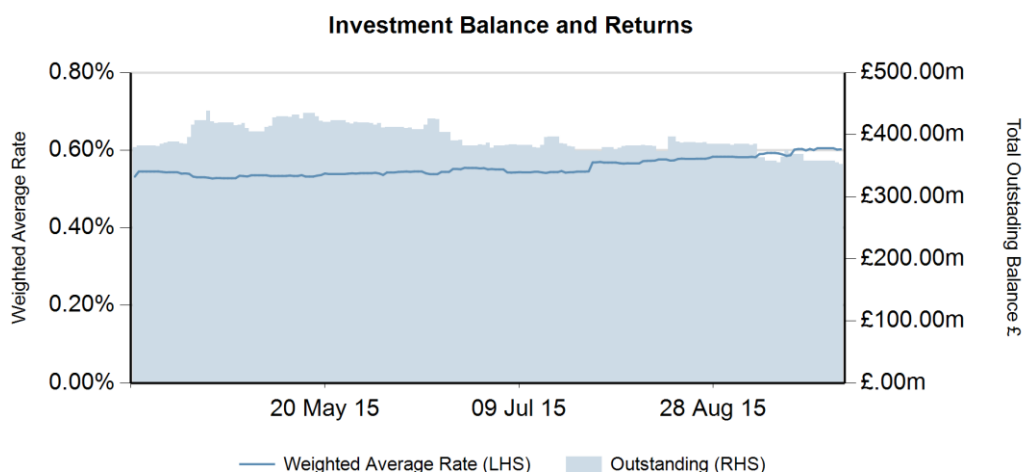
## 4. TREASURY POSITION AT 30 SEPTEMBER 2015

### Investment

- 4.1 The table below provides a schedule of the cash deposits, together with comparisons with 31<sup>st</sup> March 2015.

	31 March 2015		30 September 2015	
	Balance £m	Yield (%)	Balance £m	Yield (%)
Call Accounts	-	-	1	0.25
Money Market Funds (Constant NAV)	34	0.44	37	0.47
<b>Total Liquid Investments</b>	<b>34</b>	<b>0.44</b>	<b>38</b>	<b>0.47</b>
Notice Account	14	0.60	20	0.60
Term Deposit	100	0.64	100	0.75
Tradable securities (Cost value)	212	0.49	195	0.54
<b>Total other Investments</b>	<b>326</b>	<b>0.54</b>	<b>315</b>	<b>0.61</b>
<b>Grand Total/ Average Yield</b>	<b>360</b>	<b>0.53</b>	<b>353</b>	<b>0.60</b>

- 4.2 Liquid investments are managed through the Call accounts and Money Market Funds which offer same day liquidity. The Council has £38m invested in two money market funds run by Federated Investors and Blackrock and the Nat West Special Interest Bearing Account (SIBA). The funds return an average of 0.47%, both are rated AAA by at least two of the three main credit rating agencies.
- 4.3 The Council has a notice account with Handelsbanken which currently returns 0.60%.
- 4.4 The term deposits are invested with Lloyds Bank and Barclays Bank (£50 million each).
- 4.5 Tradable securities are highly rated short term investments that are held by Northern Trust (Custodian). Investments include UK Treasury Bills and bonds issued by Network Rail (Government guaranteed), Transport for London (TfL), Svenska Handelsbanken, Supranational banks and European Agencies.
- 4.6 The shaded area in the chart below<sup>1</sup> shows the daily investment balance during the first half year. The line shows the weighted average return of the investment portfolio, which has increased from 0.53% at the start of the year to 0.60% at the 30<sup>th</sup> September. This has been largely attributable to making longer duration investments.



- 4.7 All investment limits specified in the 2015/16 investment strategy have been adhered to. The table below shows the limits and exposures as at the 30<sup>th</sup> September 2015.

<sup>1</sup> LHS Left Hand Scale (Weighted Average rate) and RHS Right Hand Scale (Total outstanding balance).

Category	£ Limit per counterparty	Duration Limit	Counterparty Name	Exposure at 30/9/15 £m	Weighted Average Days (WAD)
UK Government	unlimited	unlimited	UK Government Treasury Bills	89.8	40
Supra national	£100m	5 years	Council of Europe Development Bank(COE)	10.5	68
			European Investment Bank (EIB)	15.2	68
European Agencies	£100m	5 years	Kreditanstalt fur Wiederaufbau (KfW)	15.7	68
Network Rail	£200m	37 years	Network Rail Infrastructure PLC	26.9	58
Transport for London	£100m	3 years	Transport For London	27.4	20
Money Market Funds	£25m per fund. £160m in total	n/a	Federated Investor	25.0	Instant
			Blackrock	11.5	Instant
UK Bank Deposit / Certificate of Deposit /Short Dated Bonds AA-/Aa3/AA-	£70m	5 years	Royal Bank of Scotland Plc (National Westminster Bank)	1.0	Instant
UK Bank Deposit / Certificate of Deposit /Short Dated Bonds A-/A3/A-	£50m	3 years	Lloyds Bank Plc	50.0	173
			Barclays Bank	50.0	130
Non-UK Bank A/A2/A	£30m	1 years	Svenska Handelsbanken <sup>2</sup>	19.9 9.9	35 239
<b>Total/ WAD</b>				<b>352.8</b>	<b>71</b>

### Borrowing

- 4.8 The borrowing strategy for the year 2015/16 was not to incur any new borrowing and given the prevailing low levels of interest rates, consider voluntary early repayments of borrowing as a way of making more efficient use of funds in the short term.
- 4.9 The table below shows the Council's external borrowing (as at 30 September 2015) is £241m split between General Fund and HRA at an interest rate of 5.27%. Principal repayments of £6 million pounds have reduced the average interest rates in both portfolios by 0.09%.

<sup>2</sup> As at the 30<sup>th</sup> September, the Council held two investments with Svenska Handelsbanken. £19.9m in a 35 Day Notice Account and £9.9m in a Bond(maturing 26/05/15).

	As at 31 <sup>st</sup> March 2015		As at 30 <sup>th</sup> September 2015	
	Principal Outstanding £m	Average Rate %	Principal Outstanding £m	Average Rate %
General Fund	42.2	5.38	41.1	5.27
HRA	205.0	5.38	199.9	5.27
Total	247.2	5.38	241.0	5.27

4.10 During the year in order to manage a liquidity position £5m was borrowed for 2 days at 0.40%.

## 5. COMPLAINTS WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1 During the first six months of the financial year the Council operated within its treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report.

External debt indicator	Approved limit (£m)	Maximum borrowing	Days exceeded
Authorised limit	320	247	None
Operational boundary	270	247	None

5.2 The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

5.3 The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability benchmark is used to determine the point at which any new external borrowing should take place. As a result of the significant level of cash balances, it is deemed unlikely that any new borrowing will be required in the foreseeable future.

5.4 The maturity structure of borrowing shows the proportion of loans maturing in each time bucket. The purpose of this indicator is to highlight any potential refinancing risk that the authority may be facing if any one particular period had a disproportionate level of maturing loans. The maturity structure as at

30<sup>th</sup> September 2015 was well within the limits set and does not highlight any significant issues.

	Upper Limit	Lower Limit	Actual as at 30 September 2015
Under 12 months	15%	0%	4.97%
12 months and within 24 months	15%	0%	3.65%
24 months and within 5 years	60%	0%	7.10%
5 years and within 10 years	75%	0%	13.02%
10 years and above	100%	0%	71.26%

- 5.5 The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the authority from any adverse movements in interest rates. The limits for 2015/16 were set to contain the exposure to rising interest rates which would have adverse implications for the cost of borrowing.

Upper limits on interest rate exposure	Approved maximum limit	Actual as at 30 September 2015
<b>Borrowing</b>		
Fixed interest rate exposures	100%	100%
Variable interest rate exposures	20%	0%

- 5.6 All borrowing undertaken is at fixed rates and therefore reduces exposure to rising interest costs. However, the Council is also exposed to interest rate risk within its investment portfolio and therefore the greatest contributor to net interest risk arises from this portfolio. As part of the strategic review of the investments outlined in Section 4 of this report and in recognition of a key risk management objective to reduce interest rate exposures, the mis-match between fixed and variable investment returns will be re-balanced in order to reduce interest rate risk to the organisation.

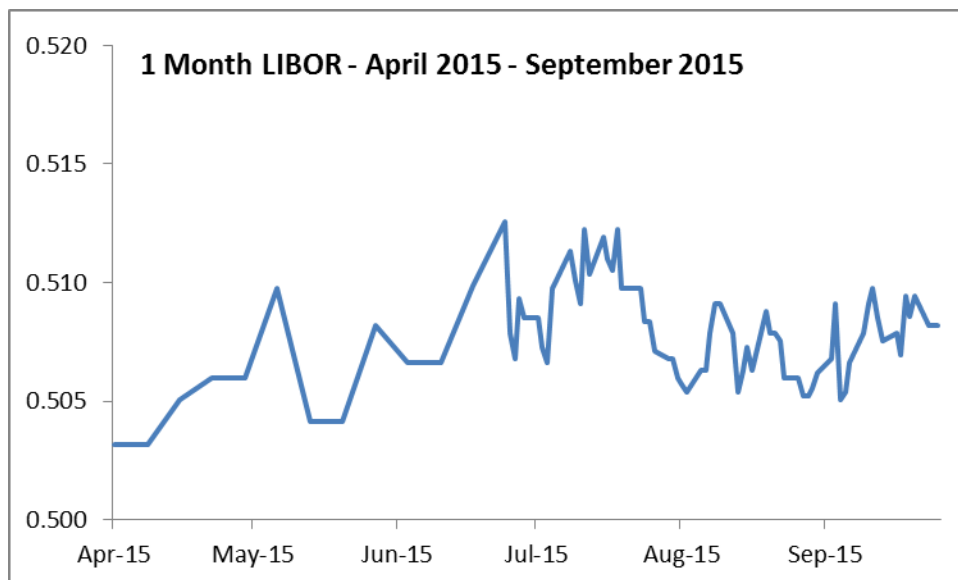
## 6. THE ECONOMY AND INTEREST RATES

- 6.1 UK GDP continued to rise in the first quarter of the financial year, posting a 2.4% year on year increase, resulting in the tenth consecutive quarter of increases. This is broadly in-line with pre-crisis averages over the last couple of years. Export growth has been hampered by weak domestic growth within the UK's main trading partners, but countered by healthy growth in household real incomes.

- 6.2 Consumer Price Inflation continued to undershoot the Monetary Policy Committee's (MPC's) target of 2%, largely as a result of external factors but also as a result of domestic cost pressures remaining weak. The Bank of England's quarterly inflation report in August projected inflation to increase to the target in 2 years time. This is largely as a result of past falls in energy and food prices falling out of the annual comparison. However, falls in energy

prices since the May 2015 report exerted more downward pressure than was expected earlier in the year.

- 6.3 At the August meeting of the MPC, the committee voted 8-1 in favour of leaving the Bank Rate on hold, with one member voting for a 25bps increase; the first vote for an increase since December 2014. The MPC felt there were various headwinds facing the UK economy, not least the downside potential of risks to activity in China and Europe. As a result, the committee felt that when interest rate increases do begin to take place, it will be undertaken at a more gradual pace than in previous cycles.
- 6.4 Short term rates remained relatively stable throughout the first half of the financial year as shown by 1 month LIBOR in the chart below. However, the market's expectations of interest rate movements increased slightly over the first half of the year, which consequently had a positive impact on the Council's Net Interest Income.



## 7. THE WAY FORWARD

- 7.1 Officers have been actively considering a variety of treasury initiatives, predominantly focusing on active risk management of the portfolios. Whilst the work is still in progress, there are a number of points that can be factored into the current and future years' portfolio management.
- 7.2 Long term cash flow forecasts have been developed and are being actively used to assist the authority's strategic decision making. These projections are able to be continually updated with the evolving spending plans of the organisation.
- 7.3 Furthermore, it has been determined that a balance of £50m needs to be retained on a liquid basis to meet peaks and troughs of cash flows on a daily basis. Therefore, there is an expected balance of over £200m that is not needed in the foreseeable future and can therefore be invested on a more strategic basis.



- 7.4 There are several options being explored for the use of this available cash balance, and some of these initiatives are yet to be concluded. However, it is clear investing for longer duration can lock in gains above short term rates. Furthermore this strategy would reduce interest rate risk and uncertainty as a lower proportion of the portfolio would need to be re-invested at unknown future rates.
- 7.5 Any recommendation as result of the options being explored will be presented to Members for approval as part of the Treasury Management Strategy for 2016/17.

## **8. EQUALITY IMPLICATIONS**

- 8.1 There are no equality implications as a result of this report.

## **9. FINANCE AND RESOURCES IMPLICATIONS**

- 9.1 The comments of the Director of Finance and Corporate Governance are contained within this report.

## **10. LEGAL IMPLICATIONS**

- 10.1 There are no direct legal implications for the purpose of this report.

## **11. RISK MANAGEMENT**

- 11.1 There are no direct risk management implications as a result of this report.

## **12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 12.1 There are no procurement or IT strategy implications as a result of this report.

## Capital Financing Requirement


At as at Q2 2014/15, General Fund debt - as measured by **the Capital Financing Requirement (CFR)** - was forecast to be **£45.2m** by the end of the financial year. The four-year forecast indicates that the CFR will rise to £58.3m by 2018/19.

This forecast is based on an assumption that capital receipts continue to be generated via the asset disposal programme and that surplus receipts are used to pay-down debt.

### Forecast Movement in the Capital Financing Requirement (CFR) at Q2 2015/16

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
<b>Opening Capital Finance Requirement (CFR)</b>	<b>45.18</b>	<b>47.89</b>	<b>48.48</b>	<b>57.26</b>
Revenue Repayment of Debt (MRP)	(0.08)	(0.19)	(0.21)	(0.56)
Internal Borrowing (Schools Window Replacement)	6.67	6.67	6.66	-
Application of Mainstream Programme (Surplus)	(3.87)	(5.90)	2.34	1.64
<b>Closing Capital Finance Requirement (CFR)</b>	<b>47.89</b>	<b>48.48</b>	<b>57.26</b>	<b>58.34</b>

# Agenda Item 5

<b>London Borough of Hammersmith &amp; Fulham</b> <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b> <b>14 December 2015</b>	 hammersmith & fulham
<b>TREASURY MANAGEMENT STRATEGY REPORT 2016/17</b>	
<b>Report of the Director for Finance – Hitesh Jolapara</b>	
<b>Open Report</b>	
<b>Classification:</b> For review and comment	
<b>Key Decision:</b> No	
<b>Wards Affected:</b> None	
<b>Accountable Director:</b> Hitesh Jolapara, Director for Finance	
<b>Report Author:</b> Halfield Jackman, Treasury Manager	<b>Contact Details:</b> Tel: 0207 641 4354 <a href="mailto:hjackman@westminster.gov.uk">hjackman@westminster.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1 The report sets out the Council's Treasury Management Strategy for 2016/17. It seeks approval for the Director for Finance to arrange the Treasury Management Strategy in 2016/17 as set out in this report.

## 2. RECOMMENDATIONS

- 2.1 That approval is given to the future borrowing and investment strategies as outlined in this report and that the Director for Finance be authorised to arrange the Council's cash flow, borrowing and investments in 2016/17.
- 2.2 In relation to the Council's overall borrowing for the financial year, to note the comments and the Prudential Indicators as set out in this report and the four year capital programme 2016/17 to 2019/20.
- 2.3 That approval is given to pay the Housing Revenue Account (HRA) investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest (approximately 0.60% p.a.) earned on temporary investments throughout the year with effect from 1 April 2015.

### 3. BACKGROUND

- 3.1 The Council is required to set a balanced budget, which means that income raised during the year is budgeted meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3 CIPFA<sup>1</sup> defines treasury management as:  
*"The management of the local 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."*
- 3.4 The Council is required to receive and approve, as a minimum, three main reports each year: a Treasury Strategy Report (this report), Mid-year report and an Outturn report. These reports are required to be adequately scrutinised before being recommended to the Council by the Cabinet. This role is undertaken by the Audit, Pensions and Standards Committee and the Finance and Delivery PAC.
- 3.5 The Treasury Management Strategy is set out in section 6 of this report, and the remainder of the report covers the list below. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and CLG Investment Guidance. These elements cover the:
- \* prospects for interest rates;
  - \* current treasury position;
  - \* proposed investment strategy;
  - \* borrowing strategy;
  - \* prudential indicators; and,
  - \* approach to debt rescheduling.
- 3.6 Section 6 of this report sets out the investment approach, and takes account of the specified and non-specified<sup>2</sup> approach. The Council is likely only to consider non-specified investments where an investment is made for longer than one year.

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<sup>1</sup> Chartered institute of Public Finance and Accountancy

<sup>2</sup> Specified and non-specified investments are defined in Section 6.19 and 6.20

- 3.7 The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 2011 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council. This is set out in Appendix A of this report.

#### 4. PROSPECTS FOR INTEREST RATES

- 4.1 The current economic outlook and structure of market rates and government debt yields have several key treasury management implications:
- 4.2 The Council's treasury advisors are Capita Asset Services and part of their service is to assist the Council to formulate a view on future interest rates. The table below gives their view.

##### Interest Rate Forecast

Future Date	Forecast Bank Rate %	PWLB Borrowing Rates % (including the certainty rate adjustment)			
		5 Year	10 Year	25 Year	50 Year
December 2015	0.50	2.30	2.90	3.60	3.50
March 2016	0.50	2.40	3.00	3.70	3.60
June 2016	0.75	2.60	3.10	3.80	3.70
September 2016	0.75	2.70	3.20	3.90	3.80
December 2016	1.00	2.80	3.30	4.00	3.90
March 2017	1.00	2.80	3.40	4.10	4.00
June 2017	1.25	2.90	3.50	4.10	4.00
September 2017	1.50	3.00	3.60	4.20	4.10
December 2017	1.50	3.20	3.70	4.30	4.20
March 2018	1.75	3.30	3.80	4.30	4.20
June 2018	1.75	3.40	3.90	4.40	4.30
September 2018	2.00	3.50	4.00	4.40	4.30
December 2018	2.00	3.50	4.10	4.40	4.30
March 2019	2.00	3.60	4.10	4.50	4.40

Source: Capita Interest rate forecast as at 11 Nov 2015

- 4.3 Over the last 2 years, UK GDP has above 2% the strongest growth rate of any of the G7 countries. The November Bank of England Inflation Report included a forecast for growth to remain around 2% over the next three years, driven mainly by strong consumer demand.

There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing the Bank Rate.

- 4.4 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the non-farm payrolls<sup>3</sup> figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

In January the European Central Bank (ECB) started a €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EuroZone (EZ) countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

- 4.6 Investment returns are likely to remain relatively low during 2015/16 and beyond;

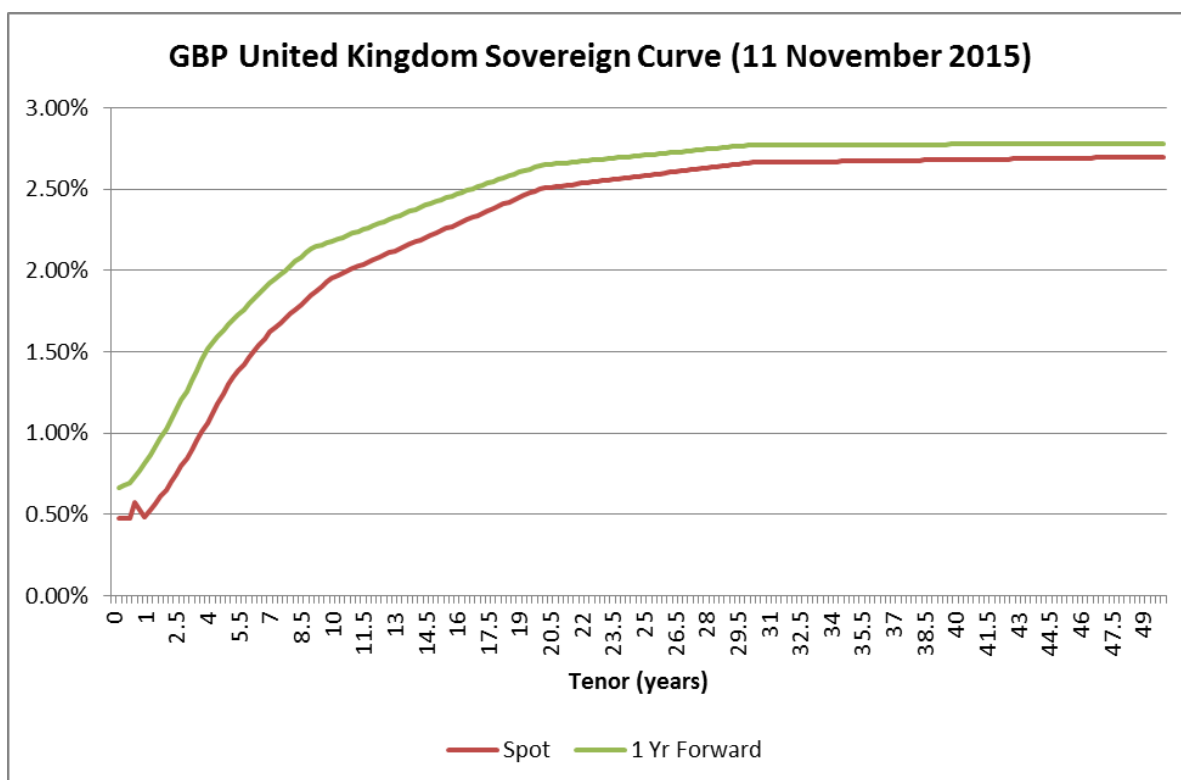
Borrowing interest rates have been volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years and this will be kept under review.

There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

The graph below shows the current Gilt rates and those projected (by investors) in a year's time. It is apparent, an increase in interest rates across all maturities is expected – though a limited increase rather than a material change. It should be noted that this has been the case for the last 3 or 4 years.

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<sup>3</sup> The US Bureau of Labor Statistics which represents the total number of paid US workers of any business (excluding general government employees and private household employees



Source: Bloomberg as at 17 Nov 2015

## 5. CURRENT TREASURY POSITION

- 5.1 At the end of November 2015, the Council had £350 million cash investments. The cash is made up of the Council's usable reserves, capital receipts and unspent government grants. The level of cash has remained broadly at the same level as the start of the financial year, it is anticipated the cash levels will reduce over the coming months and forecasted to end the financial year at approximately £330 - £350 million.
- 5.2 The forecast closing General Fund debt as measured by the Capital Financing Requirement (CFR) for 2015/16 is £47.89m. This is subject to the application of forecast capital receipt surpluses to debt reduction at the year-end.

### Forecast Movement in the GF Capital Financing Requirement (CFR)<sup>4</sup>

£m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Opening Capital Finance Requirement (CFR)	45.18	47.89	48.48	57.26
Revenue Repayment of Debt	(0.08)	(0.19)	(0.21)	(0.56)
Internal Borrowing (Schools Window Replacement)	6.67	6.67	6.66	-
Application of Mainstream Programme (Surplus)	(3.87)	(5.90)	2.34	1.64
<b>Closing CFR</b>	<b>47.89</b>	<b>48.48</b>	<b>57.26</b>	<b>58.34</b>

<sup>4</sup> It should be noted that because of the timing of the report process the CFR figures will change before reaching Full Council in February 2016.

- 5.3 The CFR measures an authority's underlying need to borrow for a capital purpose. It is considered by the Chartered Institute of Public Finance Accountancy (CIPFA) as the best measure of Council debt as it reflects both external and internal borrowing. It was introduced by the Government in 2004 and replaced the 'credit ceiling' as the Council's measure of debt.
- 5.4 The CFR is the difference between capital expenditure incurred and the resources set aside to pay for this expenditure. Put simply it can be thought of as capital expenditure incurred but not yet financed in-full and serves as a measure of an authority's indebtedness. An important caveat is that the CFR does not necessarily equal the outstanding loans of the authority. A council may be 'cash rich' and pay for a new asset in full without entering into new loans. However unless the council simultaneously sets aside reserves (either through recognising a revenue cost or transferring existing reserves from 'usable' to 'unusable') the CFR will increase. In this example the authority has effectively borrowed internally. The CFR should therefore be thought of as the total of internal and external borrowing.
- 5.5 There are 5 Prudential Indicators for 2015/16 relating to capital stated in the Capital Programme 2015/16 to 2018/19 report to Budget Council in February 2016, (to meet CIPFA's Prudential Code requirements).
- 5.6 The Council's borrowing and Capital Financing Requirement (CFR) positions are summarised in the tables overleaf.

#### Current Portfolio Position

£'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing at 1 April	250,511	247,599	231,897	224,822	217,405
Expected change in borrowing during the year	(2,912)	(15,703)	(7,074)	(7,418)	(4,564)
Actual Borrowing at 31 March	247,599	231,897	224,822	217,405	212,841
Total investments at 31 March	(360,000)	(350,000)	(330,000)	(300,000)	(300,000)
Net borrowing/(investment)	(112,401)	(118,103)	(105,177)	(82,595)	(87,159)

#### Split between the Housing Revenue A/c (HRA) and General Fund (GF): External borrowing (PWLB) position at Year End

£'000 External Borrowing only	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Housing Revenue A/c (HRA)	205,302	192,283	186,417	180,266	176,482
General Fund (GF)	42,297	39,614	38,406	37,139	36,359
Total borrowing at year end	247,599	231,897	224,823	217,405	212,841

#### Sets out the Capital Financing Requirement analysed between General Fund and HRA



<b>£'000 CFR only</b>	<b>2014/15 Actual</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>
General Fund CFR	45,180	47,890	48,480	57,260	58,340
HRA CFR	205,346	192,326	200,032	228,738	254,617
TOTAL CFR	250,526	240,216	248,512	285,998	312,957

## 6. ANNUAL INVESTMENT STRATEGY

- 6.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a rating 'uplift' due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed.
- 6.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into rating through the financial crisis. In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses on the Short and Long Term ratings of an institution as well as Credit Default Swaps (CDS).
- 6.3 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, the Council typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA+. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

### Investment Policy

- 6.4 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.
- 6.5 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum

<sup>5</sup> Credit ratings are based on historical information and Credit Default Swaps (CDS) reflect current market sentiment if the CDS value raises significantly over a short period this could be an early warning of possible changes in credit rating and trigger further investigation. (see Appendix C for a definition)

acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

- 6.6 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 6.7 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 6.8 This section sets out the Council’s annual investment strategy for 2016/17 and any proposed changes from the 2015/16 Treasury Management Strategy, the table overleaf summarises the maximum amounts and tenors of investments that the Council can hold. The table also shows the maximum proposed limits that Officers can work within.

<b>Institution Type</b>	<b>Minimum Long Term Credit Rating Required (S&amp;P / Moodys / Fitch)</b>	<b>Maximum Individual Counterparty Investment limit (£m)</b>	<b>Maximum tenor of deposit / investment</b>	<b>Treasury Management Strategy 2015/16</b>
<b>DMO Deposits</b>	UK Government Rating AA+	Unlimited	6 months	No change
<b>UK Government (Gilts / T-Bills / Repos)</b>	UK Government Rating AA+	Unlimited	Unlimited	No change
<b>Supra-national Banks</b>	AA- / Aa3 / AA-	£100m	5 years	No change
<b>European Agencies</b>	AA- / Aa3 / AA-	£100m	5 year	No change
<b>Network Rail</b>	UK Government Rating	£200m	Oct 2052	No change
<b>TFL</b>	AA- / Aa3 / AA-	£100m	3 years	No change
<b>GLA</b>	N/A	£100m	3 years	No change
<b>UK Local Authorities</b>	N/A	£10m per Local Authority, £50m in aggregate	1 years	No change
<b>Commercial Paper</b> issued in sterling by UK and European corporate	Long Term AA- / Aa3 / AA- Short Term F2/ P-2 /A-3	£20m per name, £80m in aggregate	1 year	Six months
<b>Covered Bonds</b> issued in sterling by UK and European corporate	AA+/Aa1/AA+ The bond issue; Investment grade of underlying assets	£100m	5 years	A move from the credit rating of the issuer to the underlying assets
<b>Money Market Funds MMF</b>	AAA by at least one of the credit agencies	£30m per fund manager, £200m in aggregate	Up to three day notice	£25m per fund manager
<b>Enhanced Money Funds</b>	AAA by at least one of the credit agencies	£20m per fund manager, £60m in aggregate	Up to seven day notice	No change
<b>UK Bank</b> Fixed Deposits / Certificates of Deposit / Short Dated Bonds	AA- / Aa3 / AA- and above (or UK Government ownership of greater than 25%) Short Term F2/ P-2 /A-3	£70m	5 years	No change
<b>UK Bank</b> Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A- / A3 / A- Short Term F2/ P-2 /A-3	£50m	3 years	No change

<b>Institution Type</b>	<b>Minimum Long Term Credit Rating Required (S&amp;P / Moodys / Fitch)</b>	<b>Maximum Individual Counterparty Investment limit (£m)</b>	<b>Maximum tenor of deposit / investment</b>	<b>Treasury Management Strategy 2015/16</b>
<b>Non-UK Bank</b> Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long term AA- / Aa2 / AA- Short Term F2/ P-2 /A-3	£50m	3 years	No change
<b>Non-UK Bank</b> Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A / A2 / A Short Term F2/ P-2 /A-3	£30m	1 year	No change

6.9 The remainder of this section six covers the following in further detail:

- Current investment types
- Proposed changes to investment limits and tenors
- Non-specified investments
- Creditworthiness criteria
- Country limits.
- Potential Alternative Investments

#### **Current Investment Types<sup>6</sup>**

6.10 As per the 2015/16 Treasury Management Strategy, it is proposed that for 2016/17 the Council can continue to invest in financial institutions, external funds and certain capital market instruments as set out below. All investments would be in Sterling. The investment types listed below are as per the current TMS.

- (i) Investment with the Debt Management Office with no financial limit (UK government)
- (ii) Investment in financial institutions of a minimum Long and Short Term credit rating, with the parent company domiciled only in certain jurisdictions;
- (iii) Investment in UK Treasury Bills (T-Bills) and Gilts (conventional or indexed-linked) with no financial limit (UK government guaranteed)
- (iv) Investments in UK Government repurchase agreements (“Repos” and “Reverse Repos”);
- (v) Lending to certain public authorities (Unitary Authorities, Local Authorities, Borough and District Councils, Met Police, Fire and Police Authorities)

<sup>6</sup> Appendix B provides more detail on the various asset classes.

- (vi) Investment in close to maturity AA-rated corporate bonds and commercial paper backed by UK Government guarantees;
- (vii) Investment in Supra-national Banks/European Agencies AA- rated issuer bonds and commercial paper;
- (viii) Investment in AAA-rated Sterling Money Market Funds and Enhanced Money Funds.
- (ix) Investment in commercial paper (CP) of UK domiciled entities with minimum short term credit rating of A3/P-2/F-2.

### **Certificates of Deposit**

- 6.11 Financial institutions as well as offering loans, also borrow through the issuance of Certificates of Deposit (CD). These are tradable instruments where the issuer borrows at a set rate for an agreed length of time, before repaying the principal at maturity. CD's tend to have a shorter length tenors, unlike bonds, and enable an investor to manage more actively any credit/ counterparty exposure, rather than waiting for a fixed term deposit to mature.
- 6.12 In determining whether to place deposits with any institution or fund, the Treasury Manager will remain within the limits set out above, but take into account the following when deciding how much to invest within the limit set out above:
- (x) the financial position and jurisdiction of the institution;
  - (xi) the market pricing of credit default swaps for the institution;
  - (xii) Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
  - (xiii) Core Tier 1 capital ratios; and
  - (xiv) other external views as necessary.
- 6.13 The investments portfolio has remained around £350 million throughout the year to date. The shape of the current yield curve, the likely low level of interest rates for the immediate future and the opportunities for investment, it is proposed that limits and tenors of investment also remains at the same for the majority of investment types.
- 6.14 Officers took advantage of last year's TMS changes to invest in longer dated maturities and as a result gained an additional 10 basis points(0.50% to 60%)or 20% yield pick-up.
- 6.15 The graph in paragraph 4 above shows a steep current and one-year forward yield curve, and that higher returns for tenors up to five years (for a core level of cash) would provide greater returns rather than a shorter investment. Given the predicted rise in interest rates however, the Council while wanting

to take advantage of higher rates for longer duration investments will also want to benefit from a rise in rates when they occur rather than locked in to then lower yielding investments.

6.16 In summary, the bank investment limits are shown in the table below (no change).

<b>Institution Type</b>	<b>Minimum Credit Rating Required (S&amp;P / Moodys / Fitch)</b>	<b>Maximum Individual Counterparty Investment limit (£m)</b>	<b>Maximum tenor of deposit / investment</b>
UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	AA- / Aa3 / AA- and above (or UK Government ownership of greater than 25%) Short Term F2/ P-2 /A-3	70	No change
UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A- / A3 / A- Short Term F2/ P-2 /A-3	50	No change
Non-UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long term AA- / Aa2 / AA- Short Term F2/ P-2 /A-3	50	No change
Non-UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A / A2 / A Short Term F2/ P-2 /A-3	30	No change

### **Proposed changes to investment limits and tenors**

#### **Covered Bonds**

6.17 Covered bonds are debt instruments issued by a financial institution, but where security has been granted over a pool of underlying assets (e.g. a pool of mortgage loan or public sector debt) to which investors have a preferential claim in the event of default. The covered bond issue would be rated by the rating agencies, and while the issuer would be allowed to 'swap' some of the underlying collateral, it is up to an independent custodian / agent to validate that what is being taken out of the pool is of no worse status than that being switched in. the issuance of covered bonds enables financial institutions to obtain lower funding in order grant mortgage loans for housing and non-residential property as well as to finance public debt.

It is proposed that this asset class is changed to reflect the credit rating of the underlying assets and not the issuer. In the unlikely event that a covered bond defaulted an investor has dual recourse to the underlying issuer as well as the pool of collateral. This would enable the Council to investment in AAA rated assets at a favourable rates (Appendix F).

- 6.18 The current MMF's limit is £25 million per fund (£200 million aggregate) and it is proposed that it is raised to £30 million per fund £200 million for MMFs the limit this would increase the level of liquidity available. EMFs will stay at £20 million (£60 million aggregate).

### **Non-specified investments**

- 6.19 Under section 15(1) of the Local Government Act 2003, restrictions are placed on Local Authorities around the use of so-called specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

- (i) The investment and any associated cash flows are denominated in sterling ;
- (ii) The investment has a maximum maturity of one year;
- (iii) The investment is not defined as capital expenditure; and
- (iv) The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

- 6.20 A non-specified investment is any investment that does not meet all the conditions above. The only likely non-specified investment that the Council may make is for any investment greater than one year. For such an investment, a proposal will be made to the Director for Finance on the recommendation from the Director of Treasury and Pensions after taking into account cash flow requirements, the outlook for short to medium term interest rates and the proposed investment counterparty.

- 6.21 Long term investments (for periods over 364 days) will be limited to no more than £120 million with a tenor of up to five year.

### **Creditworthiness Criteria**

- 6.22 As has been the case for 2015/16, the Council's investment priorities continue to be the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

- 6.23 In accordance with this, and in order to minimise the risk to investments, the Council has set the minimum acceptable credit quality of counterparties for inclusion on the lending list. As at present, if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum

criteria, any further use will be stopped immediately and any existing investments will be matured at the earliest possible convenience.

- 6.24 For the financial institution sector, the Council will invest in entities with a minimum credit as set out above (A-/A3/A- for a UK bank, and A/A2/A for a non-UK bank as appropriate), as long as that entity has a short term rating F2/P-2/A-3 or better. Where a split rating applies the lowest rating will be used. This methodology excludes banks with UK Government ownership. Banks would need to be rated by at least two of the three main credit rating agencies and where there was a split rating the lower rating would be used.
- 6.25 The limits can change if there are rating changes, however the maximum limit would never be more than specified by institution type in paragraph 6.8. Officers are likely to work well within these limits to ensure headroom for short term liquidity.

### **Country Limits**

- 6.26 The current TMS is based on a ratings approach to country of domicile, for 2016/17, it is proposed that deposits / investments are made with financial entities domiciled only in the following countries: Australia, Canada, Denmark, Finland, France, Germany, Japan, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK and USA (see Appendix E).

### **Potential Alternative Investments**

- 6.27 Officers' would like Members' views on the use of investments in Direct Property Investments or Property Trust Funds. It is proposed that a review session with Members' is arranged.
- 6.28 Direct property investments or Property trusts are not traditional treasury investment but average yearly yields have been around 4.5% over the last five years should be considered. However, the asset class should be viewed as a long term investment given the potential volatility (a minimum of 5 to 10 years). Given the charges for entry, annual management and exit fees.

The nature of local authority accounting practices, this investment approach would be suitable only for the capital funds as when a property investment is sold, the receipt would be deemed to be a capital receipt. In effect, this risks turning revenue cash into capital cash which can only be used for capital purposes. This is despite the recent announcements in the Comprehensive Spending Review (CSR) by the Chancellor, concerning the use of capital receipts to cover the revenue costs of transformation projects (for which details are pending).

## **7. BORROWING STRATEGY**

- 7.1 The Council is currently maintaining an under-borrowed (internal borrowing) position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's Reserves, balances and cash flow has been used as a temporary



measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

- 7.2 The HRA will fund its requirements from additional internal borrowing. The General Fund has no expectation of borrowing in the near future.
- 7.3 Against this background and the investment risks described in this paper, caution will be adopted with the 2016/17 treasury operations. The treasury team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances and advise the Director for Finance accordingly.
- 7.4 If there was a significant risk of a much sharper rise in long and short term rates than the currently forecast. Then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.
- 7.5 The General Fund has a debt strategy of no new borrowing and where borrowing has fallen due for repayment it has not been replaced. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with borrowing, as cash balances and cash flow has been used as a temporary measure instead. This strategy is prudent as investment returns are low and counterparty risk is high. HRA's funding requirements differ from the General Fund's and external borrowing may be required in 2016/17 as a result of the rent reduction, 1% each year for the next four years, imposed by Government in July 2015.
- 7.6 Under the regulatory requirement, there are three borrowing related treasury activity limits. The purpose of these are to monitor and control the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:
- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position.
  - Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
  - Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 7.7 The tables below sets out these treasury indicators and limits. The Council is currently compliant with all these indicators. The Council's existing level of fixed interest rate exposure is 100.0% and variable rate exposure is 0.0%.

## Interest Rate Exposure for borrowing

£m / %	2016/17		2017/18		2018/19	
Upper Gross Borrowing Limits on fixed interest rates	385	100%	385	100%	385	100%
Upper Gross Borrowing Limits on variable interest rates	77	20%	77	20%	77	20%

## Structure limits for debt maturity

Maturity structure of fixed rate borrowing during 2015/16	Upper Limit	Lower Limit	Actual Limits as at 30 September 2015
Under 12 months	15%	0%	5.0%
12 months and within 24 months	15%	0%	3.7%
24 months and within 5 years	60%	0%	7.1%
5 years and within 10 years	75%	0%	13.0%
10 years and above	100%	0%	71.2%

## 8. POLICY ON BORROWING IN ADVANCE OF NEED

- 8.1 Under CIPFA's Prudential Code, any decision to borrow in advance of need has to be:
- Within forward approved Capital Financing Requirement (CFR) estimates.
  - Would have to be considered carefully to ensure that value for money can be demonstrated;
  - And that the Council can ensure the security of such funds.

## 9. PRUDENTIAL INDICATORS FOR TO BORROWING ACTIVITY

- 9.1 The Prudential Code requires that the Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators, for the next three years ensuring the capital investment plans are affordable, prudent and sustainable.
- 9.2 The Authorised Limit for external borrowing. A control on the maximum level of borrowing and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

### Authorised Limit

£m	2014/15 Actual	2015/16	2016/17	2017/18	2018/19
Borrowing	325	325	325	325	325
Other long term liabilities	20	20	20	20	20
<b>Total</b>	<b>345</b>	<b>345</b>	<b>345</b>	<b>345</b>	<b>345</b>

- 9.3 The Operational Boundary. Is the focus of day to day treasury management activity within the authority and is set at £50m below authorised limit for borrowing. It is a means by which the Council manages its external debt to ensure that it remains within the self-imposed Authorised Limit. Sustained breaches of the Operational Boundary would give an indication that the Authority may be in danger of stepping beyond the Prudential Indicators it set itself.

### Operational Boundary

£m	2014/15 Actual	2015/16	2016/17	2017/18	2018/19
Borrowing	275	275	275	275	275
Other long term liabilities	15	15	15	15	15
<b>Total</b>	<b>288</b>	<b>290</b>	<b>290</b>	<b>290</b>	<b>290</b>

- 9.4 The HRA CFR is required to remain within a 'Debt Cap' as set by the Department for Communities and Local Government as part of the transition to HRA self-financing. The Council's debt cap is currently set at £254.67m. The Housing programme is forecast to remain £254.67m below this threshold for the period 2016/19.
- 9.5 The Strategic Director of Corporate Financial Services reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

## 10. DEBT RESCHEDULING

- 10.1 Consideration will be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 10.2 However, these savings will need to be considered in the light of the current treasury position and premia incurred in prematurely repaying debt. Given the current approach, Officers monitor the situation continually for an opportunity to repay voluntary any debt. The reasons for any rescheduling to take place will include:
- Generating cash savings.

- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

## **11. HOUSING REVENUE ACCOUNT**

- 11.1 For the period 2016/17 – 2019/20, based on the planned four year capital programme and other sources of capital resources, borrowing will be funded principally from internal resources.
- 11.2 The availability of internal borrowing is achieved through the use of monies received classed as capital receipts. Use of this money is classed as borrowing as although cash is received from developers on a phased basis, receipts are only deemed usable for funding purposes as assets transfer to the purchaser. This does not prevent the Council from spending the cash it receives, but until such time that assets transfer any such use is classed as borrowing. This borrowing unwinds when the receipt becomes usable. The total available to the HRA for the purposes of internal borrowing is the difference between the HRA CFR and the external borrowing in each year. This is shown in the table in paragraph 5.6 above.
- 11.3 Full details of the Housing Revenue Account's likely borrowing requirements is set out in the Long Term Financial Plan for Council Homes which is also being presented to Cabinet on the 8<sup>th</sup> February 2016.

## **12. TRAINING**

- 12.1 The CIPFA Code requires the lead officer to ensure that Members with Treasury Management responsibilities receive adequate training in Treasury Management. This especially applies to Members responsible for scrutiny. Members will be offered training and arrangements will be made as required.
- 12.2 The Council is a member of the CIPFA treasury management network which provides a forum for the exchange of views of treasury management staff independent of the treasury management consultants. Officers attend the CIPFA network and other providers meetings on a regular basis throughout the year to ensure that they are up to date at all times on developments in treasury management and continue to develop their expertise in this area.
- 12.3 The training needs of the Treasury Management team are periodically reviewed.

## **13. GOVERNANCE**

- 13.1 The revised CIPFA Treasury Management Code (2011) requires the Council to outline a scheme of delegation thereby delegating the role of scrutiny of treasury management strategy and policy to a specific named body (Audit, Pensions and Standards Committee). In this way treasury management performance and policy setting will be subject to proper scrutiny. The Code also requires that members are provided adequate skills and training to effectively discharge this function.

- 13.2 The role of the Section 151 officer is delegated to the Strategic Director of Corporate Financial Services (the S151 Officer), pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.
- 13.3 The S151 Officer may authorise officers to exercise on their behalf, functions delegated to them. Any decisions taken under this authority shall remain the responsibility of the S151 Officer and must be taken within the guidelines of the Treasury Management Strategy.
- 13.4 The S151 Officer has full delegated powers from the Council and is responsible for the following activities:
- Investment management arrangements and strategy;
  - Borrowing and debt strategy;
  - Monitoring investment activity and performance;
  - Overseeing administrative activities;
  - Ensuring compliance with relevant laws and regulations;
  - Provision of guidance to officers and members in exercising delegated powers.

### **Monitoring and Reporting**

- 13.5 The Treasury Management activities during the year will be included in the monitoring reports to the Audit, Pensions and Standards Committee.
- 13.6 The Council's Treasury Management Strategy will be approved annually by full Council and there will also be a mid-year report. The aim of these reporting arrangements is to ensure that those with the responsibility for treasury management policies and activities and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. The Council will adopt the following reporting arrangements in accordance with the requirements of the revised code:

<b>Area of Responsibility</b>	<b>Council / Committee / Officer</b>	<b>Frequency</b>
Treasury Management Strategy	Full Council	Annually, at meeting before the start of the financial year.
Scrutiny of Treasury Management Strategy	Audit, Pensions and Standards Committee	Annually
Treasury Management Strategy: Mid-year report	1. Audit, Pensions and Standards Committee 2. Finance and Delivery PAC	Annually, after the first half of the financial year

Treasury Management Strategy: Updates / revisions at other times	1. Audit, Pensions and Standards Committee 2. Finance and Delivery PAC 3. Full Council	As and when required
Treasury Out-turn Report	1. Audit, Pensions and Standards Committee 2. Finance and Delivery PAC 3. Full Council	Annually, after year-end
Treasury Management Monitoring Reports	Director for Finance	Monthly

#### **14. FINANCIAL AND RESOURCE IMPLICATIONS**

- 14.1 The comments of the Strategic Director of Financial Services are contained within this report.
- 14.2 This report is wholly of a financial nature.

#### **15. LEGAL IMPLICATIONS**

- 15.1 The statutory requirements are set out in the body of the report.
- 15.2 Implications verified/completed by: David Walker, Bi Borough Principal Solicitor, 0207 361 2211.

#### **16. COMMENTS OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE**

- 16.1 Any comments from the Committee will be reported verbally at the meeting.

**LOCAL GOVERNMENT ACT 2000  
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.

**THE TREASURY MANAGEMENT POLICY STATEMENT**

The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 2009 and 2011 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council.

CIPFA recommends that the Council's treasury management policy statement adopts the following form of words below to define the policies and objectives of its treasury management activities.

This Council defines its Treasury Management activities as:

- The management of the Council'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.
- This 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, and any financial instruments entered into to manage these risks.

This Council acknowledges 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.

## APPENDIX B

**UK T-Bills:** UK Government Treasury Bills (T-Bills) are short term promissory notes issued by the UK Government at a discount to par, for tenors of up to one year. T-Bills provide a greater yield than cash deposits with the DMO and can be bought at the primary sale (by market makers), or in the secondary market.

**UK Gilts:** UK Government Gilts provide a greater yield than cash deposits with the DMO. At present, there are a limited number of gilts that will mature in the next two years, and as the shorter dated gilts were issued in a higher interest rate environment than at present, the coupons on these gilts are higher than current interest rates.

**UK Government repurchase agreements (Repos):** UK Government repurchase agreements are the purchase of UK Government securities with an agreement to resell them back at a higher price at a specific future date. By their nature, repos are short term secured investments in UK Government bonds which provide a greater return than cash deposits with the DMO. Ownership of the UK Government bond is temporarily transferred to the Council, thereby providing security over the funds invested.

**Commercial Paper (CP)** is similar to a very short term bond issue (up to one year), issued to investors on a discounted basis, and with the interest rate based on prevailing rates at the time of pricing.

**Supra-national institutions** are those that sovereign backed or supported institutions that span more than one country, such as the European Investment Bank, the European Bank of Reconstruction and Development, the World Bank, etc.

**Network Rail:** All Network Rail infrastructure debt is directly and explicitly backed by a financial indemnity from the Secretary of State for Transport acting for and on behalf of the government of the United Kingdom of Great Britain. The financial indemnity is a direct UK sovereign obligation of the crown and cannot be cancelled for any reason (prior to its termination date in October 2052). Propose to change TMS limit to unlimited and set the maximum maturity to Oct 2052.



## APPENDIX C

A Credit Default Swap (CDS) is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The reference entity is the third party on whom the contract is based. A credit event depends on the Doc Clause (terms and conditions) of the CDS agreement but this usually includes events such as default on coupon payments, restructuring of debt, bankruptcy etc.

The contract essentially gives protection, or “insurance”, to the buyer of the CDS in the case of a credit event of the reference entity. As the CDS market is currently unregulated, it cannot technically be seen as insurance as the seller of the contract does not have to set aside any reserves for any possible future credit event.

As with all swap contracts, a CDS has 2 legs: a fee leg and a contingent leg. The fee leg of the CDS is the leg in which the buyer of the protection pays quarterly payments to the seller. The contingent leg of the CDS is the leg in which the seller of the CDS pays the buyer if a credit event occurs.

The fee leg payments are based on the spread currently traded in the market. The spread of a CDS indicates the market perception of the likelihood of a credit event occurring.

The higher the spread, the higher the cost of protecting against a credit event, the more likely the market considers a credit event will occur. The spread can be likened to an insurance premium paid on.

CREDIT RATING AGENCY NOMENCLATURE

<b>Long term ratings</b>	<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
<i>Investment Grade</i> Focuses on liquidity and ability to meet payment obligations on time	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
<i>Non-investment grade (junk)</i> Focus on recovery percentage in the event of partial or total default	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC	Caa	CCC
	CC	Ca	CC
	C	C	C
	D		D

<b>Short term ratings</b>	<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
Investment Grade	F1+	Prime-1	A-1+
	F1	Prime-2	A-1
	F2	Prime-3	A-2
	F3		A-3
Non-investment grade	B	Not Prime	B
	C		C
	D		D

**Approved countries for investments - November 2015**

**AAA**

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland


**AA+**

- Finland
- Hong Kong
- Netherlands
- UK
- USA

## Indicative Rates - October 2015

<u>Covered fixed</u>	Coupon	Maturity date	Moody's/S&P/Fitch	Yield	ISIN
Bank of Scotland plc	4.88%	08/11/2016	Aaa/AAA	0.97%	XS0274407039
Yorkshire Building Society	4.75%	12/04/2018	Aaa/AAA	1.20%	XS0616210752
Coventry Building Society	4.63%	19/04/2018	Aaa/AAA	1.20%	XS0618833635
Leeds Building Society	4.25%	17/12/2018	Aaa/AAA	1.30%	XS0635000036

# Agenda Item 6

<b>London Borough of Hammersmith &amp; Fulham</b> <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b> <b>14 December 2015</b>	 hammersmith & fulham
<b>ANNUAL AUDIT LETTER 2014/15</b>	
<b>Report of the Director for Finance – Hitesh Jolapara</b>	
<b>Classification:</b> For information	
<b>Key Decision:</b> No	
<b>Wards Affected:</b> None	
<b>Accountable Director:</b> Hitesh Jolapara, Director for Finance	
<b>Report Author:</b> Christopher Harris, Head of Corporate Accountancy and Capital	<b>Contact Details:</b> Tel: 020 8753 6440 christopher.harris@lbhf.gov.uk

## 1. EXECUTIVE SUMMARY

- 1.1. KPMG, as the Council's external auditor, have issued their Annual Audit Letter. The letter – which is appended to this report - confirms that the Council's 2014/15 accounts received an unqualified opinion on 18<sup>th</sup> September 2015. The 2014/15 audit is now certified as concluded. The letter also summarises the findings of the 2014/15 audit which were previously presented to the Committee in September 2015. It further reports that the audit fee for 2014/15 was £239,600 (comprising the main audit at £218,600 and the Pension Fund audit at £21,000), and was in line with the planned fee.

## 2. RECOMMENDATIONS

- 2.1. To note the contents of auditor's letter.

### LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

### LIST OF APPENDICES:

**Appendix 1** – KPMG Annual Audit Letter 2014/15



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# Annual Audit Letter 2014/15

Page 43

London Borough of Hammersmith and Fulham

October 2015

**The contacts at KPMG in connection with this report are:**

**Andrew Sayers**

Partner

Tel: +44 [0] 207 694 8981

andrew.sayers@kpmg.co.uk

**Sally-Anne Eldridge**

Senior Manager

Tel: +44 [0] 207 311 2146

sally-anne.eldridge@kpmg.co.uk

Page 44

## Report sections

- Headlines

Page

2

## Appendices

1. Summary of reports issued

3

2. Audit fees

4

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This report summarises the key findings from our 2014/15 audit of the London Borough of Hammersmith and Fulham (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

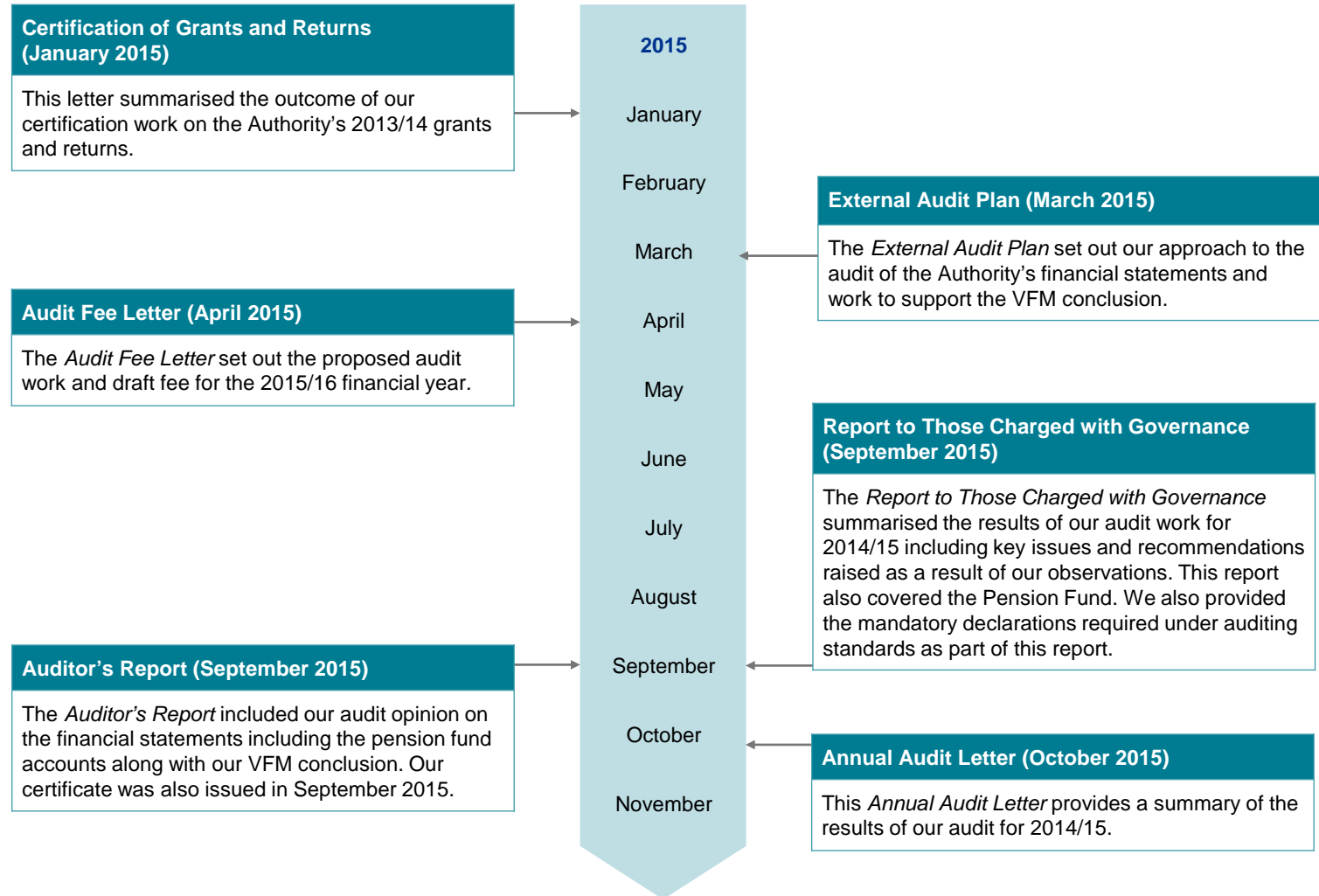
<b>Financial statements audit</b>	<p>Our audit has identified two audit adjustments in relation to key disclosures with a total value of £704.5k. The impact of these adjustments is to:</p> <ul style="list-style-type: none"> <li>■ Increase the disclosures over Senior Office Remunerations as at 31 March 2015 by £23.5k; and</li> <li>■ Decrease the disclosures over Exit Packages for the year by £681k</li> </ul> <p>There was no impact on the General Fund balance. A number of other amendments focused on presentational improvements were also made to the financial statements.</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 18 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.</p>
<b>Pension fund audit</b>	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.</p>
<b>VFM conclusion</b>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 18 September 2015. This means we are satisfied that the Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
<b>Annual Governance Statement</b>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>
<b>Certificate</b>	<p>We issued our certificate on 30 September 2015. The certificate confirms that we have concluded the audit for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
<b>Audit fee</b>	<p>Our fee for 2014/15 was £239,600 excluding VAT. This is in line with the scale fee for the audit of the Council and Pension Fund financial statements. Further detail is contained in Appendix 1.</p>



## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

Page 46



**This appendix provides information on our final fees for the 2014/15 audit.**

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

#### **External audit**

Our final fee for the 2014/15 audit of the Authority was £218,600, which is in line with the planned fee.

Our final fee for the 2014/15 audit of the Pension Fund was in line with the planned fee of £21,000.

#### **Certification of grants and returns**

Under our terms of engagement with Public Sector Audit Appointments, we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

#### **Other services**

We will be undertaking additional audit-related services for the certification of the Teachers Pension Agency and Pooling of Capital Receipts return, which are outside of PSAA's certification regime. The fees for these works are £3,500 each. In 2013/14 the Pooling of Capital Receipts return was part of the PSAA's certification regime.



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<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>14 December 2015</b></p>	
<p><b>RISK MANAGEMENT IN ADULT SOCIAL CARE</b></p>	
<p><b>Report of the Executive Director for Adult Social Care</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification:</b> For review and comment</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> All</p>	
<p><b>Accountable Director:</b> Liz Bruce, Executive Director, Adult Social Care &amp; Health</p>	
<p><b>Report Authors:</b> Shelley Gittens Public Health, Performance Manager</p> <p>Mike Rogers Adult Social Care, Head of Business Analysis, Planning &amp; Workforce</p>	<p><b>Contact Details:</b> Tel: 020 7641 7443 <a href="mailto:sgittens@westminster.gov.uk">sgittens@westminster.gov.uk</a></p> <p>Tel 020 7641 2425 <a href="mailto:mrogers@westminster.gov.uk">mrogers@westminster.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. The Audit Pensions and Standards Committee has responsibility for reviewing the scrutinising arrangements in place for identifying and managing key risks across the Council.
- 1.2. At its meeting on 11 February 2015, the Committee requested that a forward plan be put in place to enable each department to attend and present, one department per Committee meeting, their risk management arrangements and high-level risk register to the Committee.
- 1.3. In accordance with that forward plan, this risk management report is a joint report covering both Adult Social Care and the Public Health services within the Shared Services Adults Social Care and Health department. It is presented to the Committee for their information and review.

## 2. RECOMMENDATIONS

- 2.1. The Committee is requested to review the risk management arrangements that have been put in place by both the Adult Social Care and Public Health services

and to endorse the mitigating actions for each key high-level strategic risk identified in Section 4 below and note the respective Strategic Risk Registers attached as Appendices. (**Public Health - Appendix 1**; Adults **Social Care - Appendix 2.**)

### **3. RISK MANAGEMENT ARRANGEMENTS**

#### **3.1. Background**

3.1.1 The Public Health (PH) service transferred into local government from the NHS on 1 April 2013 and is a shared service across the three authorities (RBKC, LBHF and WCC). Initially a standalone service area, hosted by WCC, it has formed part of the overall Adult Social Care & Health department in the portfolio of the Executive Director, Adult Social Care, since mid-2014. The Director of Public Health has a solid reporting line to the Executive Director, Adult Social Care following the WCC corporate re-organisation at that time.

As a WCC-hosted service, the Public Health service initially adopted the WCC corporate Risk Management Strategy as the basis of its risk management arrangements, and over the intervening period has adapted this as necessary to fit its particular situation as a shared service area across three boroughs.

3.1.2 Adult Social Care (ASC) services came together across Hammersmith & Fulham, Kensington & Chelsea and Westminster in April 2012, as one of the first three borough, shared services. At the time there were three different corporate, borough based business planning and risk management policies and processes in place. An internal audit of ASC risk management arrangements was carried in 2013. This identified the need for a more robust and consistent approach to risk identification, ownership, management and mitigation across all service areas and embedding this within the business and programme planning processes of the service. With the assistance of Corporate risk colleagues in February 2013 a new risk management policy and process was implemented across ASC, This was followed by an extensive programme of awareness raising and support to management boards and teams to embed the new approach.

3.1.3 In essence both the Public Health and Adult Social Care directorate's approach to risk management is a pragmatic one, based on and complying with the principles of the internationally-recognised AS/NZS 4360:2004 Risk Management standard. This Standard is principally concerned with ensuring that health and social care organisations have the basic building blocks in place for managing risk through development and implementation of a robust risk management system. Both services approach to risk management fully conforms to Shared Services corporate risk management standards, including in respect of managing hazards, incidents, complaints and claims.

#### **3.2. Outline of Adult Social Care & Health Risk Management processes**

Within Adult Social Care & Health, there is a clearly-defined structure and process in place for capturing and managing risks. This is structured as follows:

### **3.2.1 Senior Accountable Officers**

The Executive Director of ASC and Director of Public Health, are the relevant senior accountable officers, who have the responsibility for ensuring the risks identified by the ASC and Public Health directorates respectively, are managed effectively. The accountable officers champion and have overall ownership of the risk management process. They ensure that appropriate commitment and compliance to the process occurs throughout the services.

### **3.2.2 Senior Management Teams (Senior Management Team (SMT) in Public Health, Adults Leadership Team (ALT) in Adult Social Care)**

A key responsibility of the senior management teams is to:

- monitor, manage and report on risks to the business

The senior management teams have primary responsibility for ensuring that appropriate systems and processes are in place to deliver effective risk management, across all the services for which they are responsible. The senior teams review the strategic risk registers on at least a quarterly basis; this is more frequent with significant strategic risks which are subject to change.

In addition to their key role in reviewing and mitigating current risks, the ASC ALT and PH SMT also ensure that:

- there is full consideration of risk in the directorates annual business planning processes and that actions from identified risks are fully factored into developing targets and objectives as part of business planning activities;
- there is regular horizon-scanning by all boards and teams for emerging risks, both strategic and operational. All intelligence on such potential new risks are fed into the risk management and business planning processes.

### **3.2.3 Directors, Deputy Directors & Heads of Service**

Each ASC Director, PH Deputy Director & Heads of Service are responsible for ensuring that risk management processes are adopted within their service area and that risks are appropriately and timely managed, i.e. included directorate, programme, project or team Risk Registers and escalated/de-escalated as appropriate.

### **3.2.4 Line managers and staff**

All line managers and staff are expected to:

- Be aware of and comply with each directorate's risk management policy and processes.
- Participate fully in regular risk review processes.

- Assume responsibility for risks and mitigating controls within their own areas of work.

### **3.2.5 Public Health Strategic Risk Register**

The PH strategic risk register holds a record of all identified high-level and strategic risks likely to impact on the service area as a whole. This Risk Register is maintained by the directorate's nominated Risk Officer, with each risk being subject to review on at least a monthly basis.

For ease of reference, all risks in the PH directorate Risk Register are categorised under one of the following four headings:

- **Public Health Risks**
- **Contracts/Finance/Performance Risks**
- **Governance Risks**
- **Public Health Team Risks**

The PH strategic risk register is presented quarterly to SMT for their review and recommendation on mitigating actions. PH SMT takes the view that management of these risks will be most effective and efficient when undertaken in common, collective and portfolio terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different PH teams.

A number of the current strategically significant risks in the Public Health strategic risk register are outlined in section 4 below and a summary is attached as Appendix 1. The full PH risk register can be made available to members on request.

### **3.2.6 Adult Social Care Strategic Risk Register**

The whole business of adult social care is associated with the management of risk at an individual customer and carer, case level, to strategically meeting the care needs of adult residents.

The Adult Social Care Strategic Risk Register holds a record of all identified high-level and strategic risks likely to impact on the service area as a whole. This Risk Register is maintained by the directorate's nominated Risk Officer, with each risk being subject to ongoing review.

On occasion risks can arise from an individual case which could have strategic significance to the service and Council. All risks are assessed by using the corporate rating for impact and likelihood. Strategic risks are those rated with significant potential impact. These are included in the strategic risk register and reported to ASC ALT Team on a quarterly basis as part of routine performance management arrangements.

A number of the current strategically significant risks in the Adult Social Care risk register are outlined in section 4 below and a summary is attached as Appendix 2. The full ASC risk register can be made available to members on request.

### 3.2.7 Assessing and Rating risks

All identified risks are assessed by using the corporate scales for rating both impact and likelihood. Impact is assessed across a number of domains:

- **Financial**
- **Reputational**
- **Service Delivery**
- **Impact on Life**
- **Environmental**

Likelihood is evaluated by use of a scale ranging from *Likely to Extremely Unlikely*. A risk score is then derived by multiplying the two resultant values together.

At any time, a risk which is assessed as having a high impact rating, (irrespective of likelihood) is considered a strategic risk. These are included on the strategic risk register and reported to Public Health SMT and/or ASC ALT at least on a quarterly basis as a key part of performance management arrangements.

### 3.2.8 Public Health Team Risk Registers

In addition to the Public Health strategic risk register, each of the PH Teams manages and maintains its own team risk register. These are intended to identify and hold risks which are more operational in nature, and specific to that team's work. These team risk registers are reviewed at least monthly as a standing item by each team at their scheduled monthly team meeting.

However, both strategic and team risk registers are considered holistically within the Public Health service area. If considered appropriate, risks can be escalated from a team risk register to the corporate risk register or alternatively de-escalated from the corporate risk register to a team risk register in line with monthly reviews of actions taken to address risks and mitigating measures put in place.

### 3.2.9 Adult Social Care - Board Risk Registers

To ensure effective risk management across the whole of ASC business there are a number of key governance boards which have responsibility for maintaining risk registers. These cover risks related to, transformation, key projects, operations, commissioning, financial, safeguarding and other strategic, operational and service related areas:

- **Portfolio Delivery Steering Group** – covers the whole of the ASC transformation programme, including 'whole systems' with health, the Better Care Fund and delivery of the medium term financial strategy. Also reviews implementation, delivery and monitoring of impact of new duties as a result of the Care Act.
- **Contracts and Commissioning Board** – covers all procurement and



commissioning activities, including the development of new commissioning strategies.

- **Workforce Development Board** – covers the internal workforce issues including, learning and organizational development, staff recruitment and retention.
- **Operations Board** – covers the operational activities of the social work services for older people and adults with a physical or learning disability.
- **Mental Health Management Board** – covers the operational social work services and partnership arrangements with West London Mental Health Trust.
- **Safeguarding Adults Board** – oversees safeguarding strategy and processes across agencies.
- **Home Care Board** – this is a project board, but has strategic significance as it oversees the implementation of the new home care framework contracts and monitors demand for and take up of home care services.
- **Customer Journey Board** – this is a project board, but has strategic significance as it oversees the redesign of social work and community independence services.
- **IT Programme Board** – oversees the implementation of the ASC IT strategy and related systems.
- **Information Governance Board** – shared with Children’s Services, oversees information governance and information sharing issues.
- **Provided Services Board** – covers the management and operation of in house provided services for all care groups.

### 3.2.10 Internal Audit support

Although risk management and internal controls are management’s responsibility, Internal Audit has a significant role to play in supporting the maintenance of effective internal control through its annual programme of audit work and reports.

Internal Audit adopts a risk-based approach to planning its work, and is likely to reference the various PH and ASC risk registers when identifying areas for undertaking audit work.

The PH and ASC corporate risk review process also includes an annual self-assessment of the Risk Management Controls Assurance Standard. Substantive compliance (i.e. 75% or above) is required, This standard is one of three core standards identified by the National Audit Office and is also therefore subject to independent verification by Internal Audit each year.

## 4. MANAGING CURRENT STRATEGIC RISKS

- 4.1. A summarised version of the Risk Registers for both Public Health and Adult Social Care, are provided at Appendix 1 and 2. These include a record of all current key strategic which impact on the business and activities of both service areas. These are subject to quarterly management review by the senior management teams of both services

with associated mitigating actions escalated or de-escalated as necessary. Key strategic risks for the information of the committee are described in more detail below:

## **4.2. Public Health strategic risks**

### **4.2.1 Public Health grant reductions and removal of the ring-fence (Appx. 1 Risk ref 1)**

In October 2015 the Department of Health (DH) announced that Public Health budgets would be reduced nationally by 6.2% after a national consultation exercise. The government had initially proposed substantial cuts to each of the three councils' agreed public health budgets. The most generous of the consultation options would see the Public Health directorate's budgets cut by 6.2%.

Autumn Statement for Public Health Finance saw the government announce that the Public Health grant spending will be maintained for 2016/17 and 2017/18.

The statement also announced that Councils had to deliver annual average real terms savings of 3.9% over the next 5 years.

*To mitigate the risks outcomes being impaired through the reduction to the grant and the potential removal of the ring-fence after 2017-18, Public Health:*

*Finance managers are currently modelling various savings scenarios to mitigate the impact of the proposed budget cuts.*

*Commissioners are reviewing service specifications, contracts and new ways of working to establish whether contracts can be commissioned differently, more collaboratively to release efficiencies.*

*The directorate continues to explore how councils continue to meet its public health outcomes and the council's medium-term plans.*

### **4.2.2 Clinical governance (APPX 1, Risk ref 3)**

Clinical governance is a system through which NHS organisations are accountable for continuously improving the quality of their services and safeguarding high standards of care by creating an environment in which excellence in clinical care will flourish

Adequate assurances are required of our providers and their clinical governance processes.

Without these, we are not fully assured that services fully meet clinical governance requirements.

*To mitigate these risks, contracts have clinical governance clauses placed within*

*them; placing a duty on providers to comply.*

*A review of current monitoring mechanisms will be undertaken, to ensure that these are up to date and provide sufficient assurances.*

*Clinical governance policies are to be developed,*

*Staff to be provided with clinical governance guidelines*

#### **4.2.3 Consequences of reprocurement and the untoward consequences of the procurement process. (Appx 1 Risk Ref 2)**

Could destabilise service delivery. This has wider implications to across the councils and could affect wider, unrelated services.

*To mitigate this risk, Public Health commissioning and procurement managers have taken steps to stimulate competition in the market-place by developing stakeholder interest. At the same time it has developed and put in place appropriate service continuity and contingency arrangements designed to help mitigate these risks.*

#### **4.3. Adult Social Care strategic risks**

##### **4.3.1 Reducing resources to support people with care needs and increasing demand due to demographic pressures (Appx 2, Risk ref 1)**

In the financial year there is a funding hole nationally in ASC of £3bn. Through the MTFs LBH&F have already made efficiencies and savings in recent years as the resources available for social care have significantly reduced. There is a risk that savings required the likelihood of this risk occurring remains very high. As a result of demographic changes the Council is already supporting greater numbers of people with care needs and increasing numbers with complex needs who would previously been supported more through health services.

##### **4.3.2 Responding to changing legislation (Appx 2 Risk ref 2)**

The Care Act began to be implemented from April 2015. There was a comprehensive programme in place in LBH&F to ensure that ASC was compliant with the new requirements. Although implementation of some parts of the Act (e.g. the 'care cap') have been delayed until 2020 by the Government; ASC are left with delivering new responsibilities such as for self funders, carers and the wider health and wellbeing, without additional resources. There continues to be a lack of clarity from Government about available funding to support additional demands for services,

*To mitigate these risks we are continuing to:*

- *Further change our service model to put a greater focus on short term, re-abling, interventions to help people regain skills and look after themselves for longer delaying the need for social and health care; through both the Customer Journey programme where we are refining our approach to*

*reablement as part of the integrated Community Independence Service and also in the new home care model.*

- *Pursue opportunities to develop more integrated and closer working with health colleagues, through initiatives such as the Better Care Fund and 'whole systems' programme.*
- *Develop a new Commissioning Strategy which is exploring different mechanisms to resource and commission services in the future using 'care pathways', and different procurement models.*
- *Develop an approach to prevention which focuses on reducing demand for social care and utilises some Public Health and wider Council resources to help achieve this.*
- *Manage resource planning through the Department of Health, ADASS network and LGA in relation to the Care Act.*

#### **4.3.3 Reducing customer satisfaction (Appx 2, Risk ref 3)**

There is increasing risk that customer and carer satisfaction and outcomes will reduce. The scale of change around frontline social work and provider services and the greater emphasis on individuals finding their own care solutions, time limited interventions and reablement, may lead to reduced satisfaction of some customers especially those who have been supported for some time.

*To mitigate this risk we are:*

- *Developing a communications strategy and plan which informs residents of changes in the approach to health and social care services locally.*
- *Closely analysing all customer and carer feedback, including that through complaints and the statutory user and carer surveys and using this to help inform our planning.*
- *Redesigning frontline social work services in the Customer Journey project, based on the 'customer voice' research which identified what was important to people who use our services.*
- *Exploring more, new opportunities for co-production and design of new services with customers and carers to ensure their needs and ideas are central to our approach.*

#### **4.3.4 Workforce risks (Appx2 Risk ref 4)**

The recent Adult Social Care Peer Review highlighted a recruitment and retention risk across London for social care staff. There is a risk that this is exacerbated locally as terms and conditions are not as competitive as some authorities elsewhere. Additionally there is significant change fatigue across the ASC shared service and added complexity of working across three boroughs, which together create a significant recruitment and retention risk. The whole commissioning service is currently in the middle of a restructure with 39 of the 63 posts in the new service requiring external recruitment.

*To mitigate this risk*

- *Established a Workforce Board which is overseeing an ASC Workforce Plan*
- *Exploring alternative ways to reward staff, for example through tailored development programmes.*
- *Improved internal staff communications from the senior management team by the use of blogs, team meetings and through the TriAngles staff newsletter.*

- *Used the results of the Your Voice survey to address service, team and staff concerns.*
- *Key change programmes have dedicated learning and development plans attached to them, i.e. Customer Journey, Commissioning Review and home care implementation.*
- *The Commissioning Review includes detailed transition planning including, knowledge and skills transfer; prioritisation of business over transitional period.*

#### **4.3.5 Market unable to provide services required (Appx 2 Risk Ref 5)**

The ASC market is fragile and there is a risk that it is not able to develop in the ways we will require in the future to meet local need; there is significant risk of market failure.

*To mitigate this risk commissioners have:*

- *Developed an updated Market Position Statement setting out our future commissioning intentions and direction of travel.*
- *EY are supporting the development of our new Commissioning Strategy and procurement forward plan.*
- *Engaged with providers and undertaking more market warming exercises in particular through LCAS and other forums.*
- *Helped providers to plan better by publishing forward plans for tenders etc.*
- *Developed a Provider Failure and Service Interruption Policy*

#### **4.4. Common strategic risk**

##### **4.4.1 Managed Services Programme (including Agresso System implementation). (Appx 1 Risk ref 10, Appx 2 Risk ref 5)**

Both services are continuing to experience risks arising from a difficult implementation of the Managed Services Programme. In addition to some problems around payment to suppliers, there are also significant issues around the accuracy of staff information which have resulted in some staff getting incorrectly paid and lack of clarity about leave arrangements. This situation if not resolved could have a significant impact on the end of year accounts and financial controls.

*To mitigate these risks,*

- *the Adult Social Care, Public Health finance and commissioning managers have been where necessary arranging for ad-hoc emergency payments to be made to the smaller and more vulnerable providers and suppliers.*
- *Some legacy systems have been retained (e.g. Abacus) to minimise the impact on customers and charging.*
- *Working with HR to improve staffing information on Agresso.*
- *Continue to lobby Corporate for more training and technical solutions.*

## **5. CONSULTATION**

5.1 Not applicable to this Report

## **6. EQUALITY IMPLICATIONS**

6.1 Not applicable to this Report

## **7. LEGAL IMPLICATIONS**

7.1 Failure to manage risk effectively may give rise to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.

## **8. FINANCIAL AND RESOURCES IMPLICATIONS**

8.1 Exposure to unplanned risk could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity, reduced value for money and less positive customer and system outcomes. There are no direct financial implications with the report

## **9. RISK MANAGEMENT**

9.1 It is the responsibility of management to mitigate risk to an acceptable level. Appropriate and proportionate mitigating actions to known risks are expressed in the Shared Services Risk and Assurance Register and subject to review as part of planned audit work and the Annual Governance Statement.

## **10. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

10.1 Failure to address risk in procurement may lead to a reduction in the expected benefits (Value for Money, Efficiency, Resilience, Quality of Service) and leave the council exposed to potential fraud and collusion as identified in the Bribery Act.

### **LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.

**Appendix 1** - Public Health Strategic Risk Register

**Appendix 2** - Adult Social Care Strategic Risk Register

**Appendix 3** - Adult Social Care & Health – Risk Assessment & Scoring

**Appendix 1 - Public Health Strategic Risk Register**

Risk Ref	Brief description	SMT owner	Risk manager	Next review date	Consequences	Type of risk					Inherent Risk	Residual Risk score			Movement of risk exposure since last review	Mitigating actions  What actions are planned to mitigate the risk ?
						Reputational	Financial	Service Delivery	Impact on life	Environment	Initial risk score	Current likelihood score	Current impact score	Current risk score		
1	<b>PUBLIC HEALTH GRANT REDUCTIONS AND REMOVAL OF THE RING-FENCE</b>	Mike Robinson	Mike Robinson	Quarterly Review	Health outcomes will be impaired by the reduction of the Public Health grant reductions and Public Healths ability to deliver against the Councils' medium term plans	Yes	Yes	Yes	Yes	No	20	4 - Probable	4- High	16	ñ	1. PH Finance Business partners continue to undertake scenario planning and prepare various budget proposals about future reductions that the Public Health grant will be subject to , an annual average 3.0% reduction (in real terms) over the next 5 years 2. The announced in-year reduction to the grant of 6.2% has been met. 3. Review of commissioning, contracts and procurement programmes to identify where efficiencies can be achieved for future years.
2	<b>CONSEQUENCES OF REPROCUREMENT</b> and the untoward consequences of the procurement process	Mike Robinson	Mike Robinson	Quarterly Review	Could destabilise service delivery. This has wider implications to across the councils and wider unrelated services.	Yes	Yes	Yes	Yes	No	15	3 - Occasional	4- High	12	ñ	1. Stimulate the market through stakeholder and market development events 2. Develop service continuity contingency plan 3. Horizon scanning
3	<b>CLINICAL GOVERNANCE</b> Adequate assurances are required of our providers and their clinical governance processes	Ike Anya	Ike Anya	Quarterly Review	Lack of focus on clinical safety and quality	Yes	No	No	Yes	No	12	3 - Occasional	4- High	12	ó	1. Clinical governance policies to be developed. 2. Staff to be provided with clinical governance guidelines 3. Monitoring mechanisms to be put in place

## Appendix 2 - Adult Social Care Strategic Risk Register

Risk Ref	Brief description	ALT owner	Risk manager	Review Board	Next review date	Consequences	Type of risk					Inherent Risk		Residual Risk score			Movement of risk exposure since last review	Mitigating actions  What actions are planned to mitigate the risk ?
							Reputational	Financial	Service Delivery	Impact on life	Environment	Initial risk score	Current likelihood score	Current impact score	Current risk score			
1	<b>Reducing resources</b> to support people with care needs and increasing demand due to demographic pressures	Liz Bruce	Rachel Wigley	ALT	Quarterly Review	In the financial year there is a funding hole nationally for adult social care of £3bn. Through the MTFs LBH&F have already made efficiencies and savings in recent years as the resources available for social care have significantly reduced. There is a risk that further savings which will be required will make it very difficult to meet the needs of the increasing numbers of disabled and older people. As a result of demographic changes the Council is already supporting greater numbers of adults with care needs an increasing proportion of this group have very complex needs who would previously have been supported more by health services.	Yes	Yes	Yes	Yes		16	4-Probable	4-High	16	↔	<ul style="list-style-type: none"> <li>- Further change our service model to put a greater focus on short term, re-abling, interventions to help people regain skills and look after themselves for longer delaying the need for social and health care; through both the Customer Journey programme where we are refining our approach to reablement as part of the integrated Community Independence Service and</li> <li>- Pursue opportunities to develop more integrated and closer working with health colleagues, through initiatives such as the Better Care Fund and 'whole systems' programme.</li> <li>- Develop a new Commissioning Strategy which is exploring different mechanisms to resource and commission services in the future using 'care pathways', and different procurement models.</li> <li>- Develop an approach to prevention which focuses on reducing demand for social care and utilises some Public Health and wider Council resources to help achieve this.</li> <li>- Manage resource planning through the Department of Health, ADASS network and LGA in relation to the Care Act.</li> </ul>	
2	<b>Responding to changing legislation</b>	Liz Bruce	Martin Calleje	Portfolio Delivery Board	Quarterly Review	The Care Act began to be implemented from April 2015. There was a comprehensive programme in place in LBH&F to ensure that ASC was compliant with the new requirements. Although implementation of some parts of the Act (e.g. the 'care cap') have been delayed until 2020 by the Government; ASC are left with delivering new responsibilities such as for self funders, carers and the wider health and well being, without additional resources. There continues to be a lack of clarity from Government about available funding to support additional demands for services.	Yes	Yes	Yes	Yes		16	4-Probable	4-High	16	↔	<ul style="list-style-type: none"> <li>- Pursue opportunities to develop more integrated and closer working with health colleagues, through initiatives such as the Better Care Fund and 'whole systems' programme. This includes the use of some health resources to fund some of the additional demand for home care as a result of these programmes.</li> <li>- Develop a new Commissioning Strategy which is exploring different mechanisms to resource and commission services in the future using 'care pathways', and different procurement models.</li> <li>- Develop an approach to prevention which focuses on reducing demand for social care and utilises some Public Health and wider Council resources to help achieve this.</li> <li>- Manage resource planning through the Department of Health, ADASS network and LGA in relation to the Care Act.</li> </ul>	
3	<b>Reducing customer and carer satisfaction</b> and reducing self reported 'outcomes'.	Liz Bruce	David Evans	ALT	Quarterly Review	Scale of change around frontline and provider services and greater emphasis on time limited interventions and reablement, may lead to reduced satisfaction of some customers, especially those who have been supported for some time. This could lead to poorer outcomes for customers and reputational risk to the Council. There is an increasing risk that customer and carer satisfaction and outcomes will reduce.	Yes		Yes	Yes		12	4-Probable	4-High	16	↑	<ul style="list-style-type: none"> <li>- Developing a communications strategy and plan which informs residents of changes in the approach to health and social care services locally.</li> <li>- Closely analysing all customer and carer feedback, including that through complaints and the statutory user and carer surveys and using this to help inform our planning.</li> <li>- Redesigning frontline social work services in the customer Journey project, based on the 'customer voice' research which identified what was important to people who use our services.</li> <li>- Exploring more, new opportunities for co-production and design of new services with customers and carers to ensure their needs and ideas are central to our approach.</li> </ul>	
4	<b>Workforce risks</b> around morale, change fatigue, recruitment and retention and complexity of three borough working.	Liz Bruce	Felicity Thomas	Workforce Board	Quarterly Review	The recent Adult Social Care Peer Review highlighted a significant recruitment and retention risk across London for social care staff. Locally there is a risk that this is exacerbated as terms and conditions are not as competitive as some authorities elsewhere. Additionally there is significant change fatigue across the ASC shared service and the added complexity of working across three boroughs. The consequences could be increasing recruitment problems and difficulty holding onto the most able staff at a time of service change.	Yes	Yes	Yes	Yes		16	4-Probable	4-High	16	↔	<ul style="list-style-type: none"> <li>- Established a Workforce Board which is overseeing an ASC Workforce Plan</li> <li>- Exploring alternative ways to reward staff, for example through tailored development programmes.</li> <li>- Improved internal staff communications from the senior management team by the use of blogs, team meetings and through the TriAngles staff newsletter.</li> <li>- Using the results of the Your Voice survey to address service, team and staff concerns.</li> <li>- Key change programmes have dedicated learning and development plans attached to them, i.e. Customer Journey, Commissioning Review and home care implementation.</li> </ul>	
5	<b>Market unable to provide</b> services required	Selina Douglas	Paul Rackham & Mary Dalton	CoCo	Quarterly Review	The ASC market is fragile and there is a risk that it is not able to develop in the ways we will require in the future to meet local need; there is significant risk of market failure. This could result in significant unmet needs and higher dependency levels of customers making it more difficult to achieve savings. In the event of provider failure the Council will need to contingency plans in order to meet the needs vulnerable residents in the in a timely and safe manner.	Yes	Yes	Yes			16	4-Probable	4-High	16	↔	<ul style="list-style-type: none"> <li>- Developed an updated Market Position Statement setting out our future commissioning intentions and direction of travel.</li> <li>- EY supporting development of new Commissioning Strategy and procurement forward plan.</li> <li>- Engaging with providers and undertaking more market warming exercises in particular through LCAS and other forums.</li> <li>- Help providers to plan better by publishing forward plans for tenders etc.</li> <li>- Developed a Provider Failure and Service Interruption Policy.</li> </ul>	
6	<b>Risks arising from the Managed Services Programme</b> implementation.	Liz Bruce	David Evans	ALT	Weekly Review	Continuing to experience risks arising from a difficult implementation of the Managed Services Programme. In addition to some problems around payment to suppliers, there are also significant issues around the accuracy of staff information which have resulted in some staff getting incorrectly paid and lack of clarity about leave arrangements. This situation if not resolved could have a significant impact on the end of year accounts and financial controls.	Yes	Yes	Yes			12	4-Probable	4-High	16	↔	<ul style="list-style-type: none"> <li>- The Adult Social Care, Public Health finance and commissioning managers have been where necessary arranging for ad-hoc emergency payments to be made to the smaller and more vulnerable providers and suppliers.</li> <li>- Some legacy systems have been retained (e.g. Abacus) to minimise the impact on customers and charging.</li> <li>- Working with HR to improve staffing information on Agresso.</li> <li>- Continue to lobby Corporate for more training and technical solutions.</li> </ul>	



Risk Ref	Brief description	ALT owner	Risk manager	Review Board	Next review date	Consequences	Type of risk					Inherent Risk		Residual Risk score			Movement of risk exposure since last review	Mitigating actions
							Reputational	Financial	Service Delivery	Impact on life	Environment	Initial risk score	Current likelihood score	Current impact score	Current risk score			
7	<b>Complexity of change</b> programmes in ASC and NHS	Liz Bruce	Rachel Wigley	ALT	Quarterly Review	The change programme in Adult Services and in whole systems with the NHS is very complex and there are risks arising from interdependencies, mis alignment of projects and double counting of benefits. There are also risks of slippage due to need for significant leadership, management capacity and additional programme resources to deliver. There are also risks of delays in decision making due to complex bureaucracy	Yes	Yes	Yes			16	3 - Occasional	4- High	12	↓	New ASC leadership team now in place. Customer Journey will align operational services. Commissioning Review to deliver new commissioning structure. Robust programme management approach and shared governance arrangements with NHS. ASC new whole systems lead to ensure consistent approach to working with CCGs. Business case for additional resources costs have been signed off and recruitment commenced to some posts.	
8	<b>Risk of exposure to judicial challenge</b> resulting from the Care Act reforms and lack of clarity in the regulations and guidance.	Liz Bruce	Kevin Beale	ALT	Quarterly Review	Lack of clarity in the regulations and guidance, potentially impact on local decisions about service users, self funders, and carers.	Yes	Yes	Yes	Yes	Yes	16	3 - Occasional	4- High	12	↔	Lobby DH through regional ADASS about any concerns issues resulting from the final publication of care act regulations and guidance in October. Learn from Case Law, as it arises nationally post April 2015. Our legal team are working with the London Lawyers Group to monitor specific issues related to the Care Act Guidance. There are some parts of the guidance that are ambiguous and therefore require close contact with the DoH if any related JRs are upheld.	
9	<b>Better Care Fund benefits could be less than expected.</b>	Stella Baillie / Selina Douglas	Martin Calleja	Portfolio Delivery Board	Quarterly Review	Risk that BCF benefits/savings could be lower than expected re: - Integrated Operational Services and - Integrated contracting and commissioning of residential and nursing care.  Benefits could be delayed or reduced and overlap with other contract efficiency savings - and risk achievement of savings targets. Particular risk that CIS service does not achieve the required volumes / throughput to achieve benefits.	Yes	Yes				12	4 - Probable	4- High	16	↔	Benefits Tracker developed across the programme. External evaluation taking place of increased demand for social care, from health. Group A savings contingent on Community Independence Service: regular data collection and review in progress via Lead Providers Oversight Group (LPOG) meeting. Savings gaps flagged at Joint Finance Oversight Group (JFOG), Joint Executive Team (JET) and Better Care Fund Board. Workshop in Autumn to consider other opportunities. Heads of Finance agree composite picture for savings and investment. Monitor spending against projection regularly and report any deviations as priority.	
10	<b>Safeguarding risks</b>	Liz Bruce	Helen Banham	ALT	Quarterly Review	Risk of serious safeguarding incident, death or serious injury of vulnerable residents	Yes		Yes	Yes		8	2 - Remote	4- High	8	↔	Robust safeguarding processes in place in operational and provider services and partner organisations. Regular auditing and QA of processes and measuring effectiveness reporting to Safeguarding Adults Board. SIPS meeting includes CQC and regular discussions about quality and safety of providers.	
11	<b>Reduction in Adult Social Care expenditure and Commissioning budget</b> leading to services being commissioned that are not 'good' quality and not able to deliver outcomes.	Selina Douglas	Mary Dalton and Paul Rackham	CoCo	Quarterly Review	Since 2009 Officers have continually sought ways to drive efficiencies in contracted services whilst striving to improve service quality. As need to find efficiencies has increased there is a real risk that we are not able to guarantee the quality of our service provision.	Yes	Yes	Yes	Yes	No	16	4 - Probable	4- High	16	↔	Commissioning Strategy being developed to explore new approaches to commissioning services in the context of reducing resources including enterprise, outsourcing and new purchasing and community agencies.	
12	<b>Failure to deliver an effective ASC service model to meet requirements of the Care Act</b>	Liz Bruce	Martin Calleja	Portfolio Delivery Board	Quarterly Review	Operational services and commissioning delivering the Care Act requirements at a time of significant other transformation. Target operating model requirements not clearly defined given the complexity of Transformation Portfolio Delivery with all its projects and programme interdependencies and / or inability to effectively deliver the future state through a controlled approach.	Yes	Yes	Yes	Yes	Yes	14	2 - Remote	4- High	8	↓	Interdependencies between projects and programmes was mapped. and compile benefits plan to track successful delivery. Follow national programme office tools and guidance across DoH, LGA and ADASS which supports local authorities to implement the Care Act. A set of standard operating procedures have been rolled out to the ASC teams to enable staff to follow Care Act compliant processes. Staff have opportunity through various channels to feedback if any of the SOPs are unworkable or misleading so that any corrections can be made immediately. Phase 1 successfully implemented; Phase 2 deferred by Govt until 2020.	
13	<b>Effective management of contracts</b> due to limited resources	Selina Douglas	Sherifah Scott	CoCo	Monthly Review	The procurement team are responsible for managing 250 contracts. Alongside that they are scheduled to carry out a large number of procurements. This means there is a risk that some high value contracts are not being monitored effectively and some contracts are not being monitored at all.	Yes	Yes	Yes			16	3 - Occasional	4- High	12	↓	A Managing Supplier Performance Framework has been developed which sets a framework for the amount of contract monitoring resource to be allocated to each contract, thus ensuring that the highest risk/highest value/lowest performing contracts are monitored appropriately. Commissioning Review will better combine contract management with service development and commissioning enabling a more holistic approach and address capacity issues. Commissioning Plan will look at new models of procurement to reduce the amount of contracts directly required monitoring etc.	
14	<b>Lack of integrated and coherent partnership approach to mental health commissioning</b>	Selina Douglas	Paul Rackham / Pauline Mason	CoCo	Quarterly review	A risk that joint commissioning priorities will be lost or subjected to the wider NHS agenda. This might impact on LA ability to deliver an integrated offer to individuals with mental health needs resulting in an increased pressure on social care, housing, employment and benefit agencies.	Yes	Yes	Yes	Yes		15	3 - Occasional	4- High	12	↓	Executive management oversight of mental health priorities through Whole Systems Review process. Senior management ownership of MH priorities through MH Integrated Plan and MH Programme Board. Clear identification of work areas and clarification about which organisation will lead following transition. ASC MH commissioner now in place to provide capacity around day services. Further liaison with CCGs to improve co-ordination.	

Risk Ref	Brief description	ALT owner	Risk manager	Review Board	Next review date	Consequences	Type of risk					Inherent Risk	Residual Risk score			Movement of risk exposure since last review	Mitigating actions
							Reputational	Financial	Service Delivery	Impact on life	Environment	Initial risk score	Current likelihood score	Current impact score	Current risk score		
15	<b>Inconsistent Multi Disciplinary Team service designs in local CCGs.</b>	Liz Bruce	Chris Neal	ALT	Quarterly Review	There is a risk that because the Central London CCG Whole Systems model of geographic 'villages' is not consistent with the BCF proposals in West London and Hammersmith and Fulham, there will be a negative impact on the potential to develop single models of service (e.g. CIS, Long Term Social Work service, Home Care) across the ASC shared service. Risk that social care included in x3 CCG MDT models differently; inconsistent involvement and influence of ASC in design of MDTs			Yes			15	3 - Occasional	4- High	12	↓	<p>Ensure positive engagement with WS Early Adopters design processes by operational Heads of Service.</p> <p>ASC CIS, Hospital discharge and long term social work teams all part of Customer Journey redesign.</p> <p>New Whole Systems ASC Director now appointed to improve co-ordination.</p> <p>New Head of Whole Systems appointed</p>
16	There is a risk of <b>poor quality service provision in care homes where the Council has spot purchased beds</b> which could result in poor care outcomes for individuals.	Selina Douglas	Sherifah Scott	CoCo	Quarterly Review	At present there is significant spend with a number of residential/nursing care providers with no block contract in place, only individual contracts relating to the care for the customer. As a result we are not able to impact the quality of the overall home due to no formal contractual relationship being in place.	Yes		Yes	Yes		14	3 - Occasional	4- High	12	↓	<p>The Placement Review function is now situated within the placement and brokerage team and the review process has been redesigned so that Officers also pick up information about the home which is then fed back to the brokerage and review team.</p> <p>There are a number of homes identified to be moved onto a block contract based on the number of customers.</p> <p>The Commissioning Review will create more resources to focus on this area.</p> <p>Placement Board to be reestablished to identify and resolve issues as they arise.</p> <p>Regular SIPS meeting involves CQC and focuses on homes where there are quality and safety concerns.</p>
17	<b>Deprivation of Liberty Safeguards applications continue to rise</b> and the resources to process them remain fixed	Stella Baillie	Helen Banham	ALT	Quarterly Review	As a result of the Care Act, in Q1 14/15, 99 DOLS applications received; Q 1 15/16 264. At the end of Quarter 1 15/16 151 applications have been assessed (57% applications received). A risk of legal challenge for unauthorised detentions remains. Community DOLS are being scoped & applications to the COP made.	Yes	Yes	Yes	Yes		16	4 - Probable	4- High	16	↔	<p>Priorities for assessment (e.g. urgent referrals where the person may be objecting) are determined using ADASS guidelines. A system to ensure deaths in DOLS are notified to the Coroners is in place. Community DOLS requiring authorisation in the COP are being scoped and applications made.</p> <p>The risk of legal challenge is low for 3B as all local authorities in the same situation. 3B ASC are making submissions to the Law Commission Review of DOLS. A system to ensure deaths in DOLS are notified to the Coroners is in place. Community DOLS requiring authorisation in the COP is being scoped and applications made.</p>
18	<b>Operational services do not achieve the level of change</b> to head count, and changes to methods of working and behaviour or is insufficient.	Stella Baillie	Matthew Castle	Customer Journey	Monthly Review	Insufficient change in practice risks the efficiency savings not being realised and targets missed. Associated risk that ICT changes aren't delivered in time to support the practice changes.		Yes	Yes			16	4 - Probable	4- High	16	↔	<p>Staff changes are factored into the Customer Journey programme at all stages with clear staff engagement and expression of what the future will look like.</p> <p>Dedicated IT workstream established in Customer Journey programme..</p>
19	Fundamental <b>change to the way that home care providers deliver services.</b>	Selina Douglas	Christian Markandu	Homecare	Monthly Review	New model of home care has personal support planning and re enabling elements. These are key to achieving efficiencies and improved outcomes.		Yes	Yes			16	3 - Occasional	4- High	12	↓	<p>Partnership working between local authority and new providers. Support training and development of care workers Learning &amp; Organisational Development supporting this.</p>
20	There is a risk that <b>new providers are not able to mobilise a team to pick-up existing packages.</b>	Selina Douglas	Christain Markandu	Homecare	Monthly Review	If this risk materialises, then this will slow down transfer of customers on new contract	Yes	Yes	Yes			12	3 - Occasional	4- High	12	↓	<p>Robust implementation plan including built-in contingency plan and risk rating of new providers.</p>
21	<b>Dual IT systems in Mental Health Services / no interoperability/ poor IT hardware / systems access and IT support for the specific needs of MH services.</b>	Stella Baillie	SW Lead / Trust managers	MH management	Quarterly Review	Significant challenges with IT systems within MH partnerships with two different IT systems being used. Difficult to get whole picture, difficult to get accurate management information, impact on practitioners efficiency having to use two different systems for accessing and recording information. Wide group of stakeholders key group being staff and customers. Particularly difficult re WLMHT.	Yes	Yes	Yes	Yes	Yes	15	5 - Likely	4- High	20	↔	<p>Define minimum core MH dataset for social care system (Fwi) to support MSP, operational and strategic information needs.</p> <p>Negotiate with WLMHT around provision of data and achieving improvements in data quality..</p> <p>Support for use of Agresso to ensure providers receive payment.</p>
22	<b>Risk to quality and continuity of provided services</b> as a result of failure of major third party/partner supplier relationships to provide facilities management and infrastructure.	Stella Baillie	Kevin Williamson	Provided Services Board	Quarterly Review	Risk that provided services do not meet quality standards adversely affecting customers satisfaction and personal outcomes and risking reputation.	Yes	Yes	Yes	Yes	Yes	8	2 - Remote	4- High	8	↔	<p>Effective monitoring of the contracts at every level.</p> <p>Effective contract / int SLA specs from the outset, with partners and third parties properly understanding the service need.</p> <p>Robust plans and partnership arrangements.</p> <p>All stakeholders working to ensure effective relationships built and maintained (inc internal partners such as Assessment Teams).</p>

Risk Ref	Brief description	ALT owner	Risk manager	Review Board	Next review date	Consequences	Type of risk					Inherent Risk	Residual Risk score			Movement of risk exposure since last review	Mitigating actions
							Reputational	Financial	Service Delivery	Impact on life	Environment	Initial risk score	Current likelihood score	Current impact score	Current risk score		
23	IT collaboration tools to support three borough working and partnerships with NHS	Rachel Wigley	Brian Vallis	IT Board	Quarterly Review	It is challenging working across 3 boroughs despite there being a number of freely available pieces of software to share calendars, files and information (for example Huddle, Media fire, Doodle). We are also working very closely with Health Partners in delivering the Better Care Fund there are currently no workable file sharing applications which we can use to facilitate this work. This will effect staff and customers. Ultimately the inability to keep up with technology will reflect on the services we provide. From both an operational and strategic perspective the use of multi case management systems across the NHS and social care creates particular risks.	Yes	Yes	Yes	Yes		15	3 - Occasional	5- Very High	15	↔	<p>What actions are planned to mitigate the risk ?</p> <p>Actively lobbying corporate IT.</p> <p>Piloting system solutions (e.g. SYSONE) to support joint operational working with NHS.</p> <p>Exploring greater use of mobile technology.</p> <p>Engaged with NWL CCGs in developing NWL data warehouse to provide strategic capability and support development of whole systems working and evaluation.</p>

# Adult Social Care & Health Risk Assessment and Scoring

## Scoring risk – Impact

Page 66

	Very Low (Score 1)	Low (Score 2)	Medium (Score 3)	High (Score 4)	Very High (Score 5)
<b>Cost/Budget Impact</b>	£0K- £50K	£50K-£100K	£100K-£500K	£500K-£1m	> £1m
<b>Service Delivery</b>	Fail to meet ind op target	Fail to meet series of op targets	Failure to meet critical target	Fail to meet series of critical targets	Fail to meet most Perf. Inds – poss special measures
<b>Impact on Life</b>	Temp disability-illness-injury < 4WK & <10 people	Temp disability-illness- injury > 4WK & >10 people	Permanent disability-illness-injury	Individual fatality	Mass fatality
<b>Reputation</b>	Internal rep decrease/no media attention	Internal rep decrease within service/ limited local media short term	External rep decrease local/ media attention on failure/short to medium term	External rep decrease regional/media attention regional/ short to med term	External rep decrease national/media attention national/ long term
<b>Environment</b>	Minor short term damage – local	Short term harm to immediate ecology or community	Damage contained to ward – medium term	Borough-wide damage – medium/long term	Major harm/regional/ long term





## Scoring risk – Likelihood and probability

Likelihood	Probability
<b>Certain (Score 6 – Emergency planning only)</b>	100%
<b>Likely (Score 5)</b>	81% to 99%
<b>Probable (Score 4)</b>	51% to 80%
<b>Occasional (Score 3)</b>	21% to 50%
<b>Remote Possibility (Score 2)</b>	6% to 20%
<b>Improbable/extremely unlikely (Score 1)</b>	0% to 5%



# Visibility and escalation of risk

<b>IMPACT</b>	<b>5</b>	5	10	15	20	25
	<b>4</b>	4	8	12	16	20
	<b>3</b>	3	6	9	12	15
	<b>2</b>	2	4	6	8	10
	<b>1</b>	1	2	3	4	5
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
		<b>LIKELIHOOD</b>				

Page 68

By multiplying the IMPACT score and LIKELIHOOD scores together

Risks that score 1 to 9 rated green

- Owned/monitored/managed at lower operational/project/strategic level with a lower frequency (quarterly) requirement to be re-scored for residual risk


Risks scored 10 to 14 rated amber

- Owned/monitored/managed at mid-level operational/project/strategic level with mid-range frequency (monthly) requirement to be re-scored for residual risk. Particular attention should be paid to risk at the upper end (13-14) of the range as they are most likely to turn red

Risks scored 15 to 25 rated red

- Owned/monitored (but not necessarily managed) at high-level operational/project/strategic level with mid-range frequency (monthly) requirement to be re-scored for residual risk. Red risk should be managed at the highest practical frequency to ensure the effects of controls and mitigating actions are having the intended effect



<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>14 December 2015</b></p>	
<p><b>INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2015</b></p>	
<p><b>Report of the Director for Audit, Fraud, Risk and Insurance</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification:</b> For review and comment</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> None</p>	
<p><b>Accountable Director:</b> Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance</p>	
<p><b>Report Author:</b> Geoff Drake, Senior Audit Manager</p>	<p><b>Contact Details:</b> Tel: 0208 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2015 as well as reporting on the performance of the Internal Audit service.

## 2. RECOMMENDATIONS

- 2.1. To note the contents of this report

## 3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

## 4. INTRODUCTION AND BACKGROUND

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2015.



## **5. PROPOSAL AND ISSUES**

### **5.1. Internal Audit Coverage**

- 5.1.1. The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 5.1.2. A total of 11 audit reports were finalised in the second quarter of 2015/2016 from 1 July 2015 to 30 September 2015 (this excludes the DBS report which was issued in this period but was presented early to the last Committee meeting). This includes 6 shared services audits. In addition, 1 follow up report was issued. There were no management letters issued
- 5.1.3. A summary of each of the limited and nil assurance reports is provided at Appendix D. Three limited or Nil assurance reports were issued in this period:
- 5.1.3.1. The review of Adoption and Fostering identified 2 high, 5 medium and no low priority recommendations. None of these were yet due for implementation at the time of writing.
  - 5.1.3.2. The review of Commercial Waste was given a split assurance opinion of Satisfactory for operations and Limited for income management. The review identified 3 high, 3 medium and 4 low priority recommendations,. None of these were due for implementation at the time of writing.
  - 5.1.3.3. The review of Multi user Logins identified 5 high and 1 medium priority recommendation. None of the recommendations have yet been reported as implemented.
- 5.1.4. One follow-up was undertaken in the period on Supply Chain Resilience. 1 of the 7 recommendations raised was found to be not implemented and 2 partly implemented. The results of our follow up can be found in Appendix A.
- 5.1.5. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.
- 5.1.6. Departments are given 10 working days for management agreement to be given to each report and for the responsible Director to sign it off so that it can then be finalised. There are no outstanding draft reports for the current period.
- 5.1.7. There are now 17 audit recommendations where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or the auditee has not provided any information on their progress in implementing the recommendation. This compares to 39 outstanding

as reported at the end of the previous quarter and represents an improvement in position. We continue to work with departments and HFBP to reduce the number of outstanding issues.

5.1.8. The breakdown of the 15 outstanding recommendations between departments are as follows:

- Adult Social Care - 1
- Children’s Services (Non Schools) - 3
- Corporate Services – 8
- Environment Leisure and Residents Services – 1
- Transport and Technical Services - 2

5.1.9. 8 of the recommendations listed are over 6 months past the target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.

5.1.10. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the council.

<b>Year</b>	<b>Number of recommendations due</b>	<b>Number of recommendations implemented</b>
2012/13	271	268
2013/14	293	291
2014/15	246	235
2015/16	22	21

## **5.2. Internal Audit Service**

5.2.1. Part of the CIA’s function is to monitor the quality of Mazars’ work. Formal monthly meetings are held with the Mazars Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for quarter 2 of the 2015/16 financial year.

## Performance Indicators 2015/16

Ref	Performance Indicator	Target	Pro rata target	At 30 September 2015	Variance	Comments
1	% of deliverables completed	95%	47.5%	40%	-7.5%	35 deliverables issued out of a total plan of 88
2	% of planned audit days delivered	95%	47.5%	47%	-0.5%	491 days delivered out of a total plan of 1052 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	94%	-1%	16 out of 17 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	100%	+5%	14 out of 14 draft reports issued within 10 working days of exit meeting.
5	% of Final reports issued within 5 working days of the management responses	95%	95%	100%	+5%	7 out of 7 final reports issued within 5 working days.

### 5.3. Audit Planning

- 5.4. Amendments to the 2015/16 year Internal Audit plan agreed by the Committee are shown at Appendix C.

## LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

### LIST OF APPENDICES:

Appendix A	Audit reports issued 1 July to 30 September 2015
Appendix B	Summary of Outstanding Audit Reports
Appendix C	Amendments to 2015/15 audit plan
Appendix D	Summary of Limited Assurance Reports
Appendix E	Outstanding Recommendations

## Audit reports Issued 1 July to 30 September 2015

We have finalised a total of 11 audit reports for the period of 1 July to 30 September 2015. This includes 6 Shared Services audits. In addition, 1 follow up was completed in the period and no management letters were issued.

### Audit Reports

We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls.

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Executive Director	Audit Assurance
1	2015/16	Call centre administration	Nigel Pallace	Substantial
2	2015/16	St Mary's RC Primary School	Andrew Christie	Satisfactory
3	2015/16	Wood Lane High School	Andrew Christie	Satisfactory
4	2015/16	Temporary Accommodation Procurement	Nigel Pallace	Satisfactory
5	2015/16	Tenancy Management	Nigel Pallace	Satisfactory
6	2015/16	Adoption and Fostering *	Andrew Christie	Limited
7	2015/16	Voice and Data Networks Procurement *	Nigel Pallace	Substantial
8	2015/16	Commercial Waste *	Nigel Pallace	Satisfactory / Limited
9	2015/16	Multi User Logins *	Nigel Pallace	Nil
10	2015/16	Early Help *	Andrew Christie	Satisfactory
11	2015/16	Mental Health Care Management *	Liz Bruce	Satisfactory

\* Undertaken by the in house internal audit team at RBKC/WCC

#### **Substantial Assurance**

There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

#### **Satisfactory Assurance**

While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

#### **Limited Assurance**

Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

#### **No Assurance**

Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

### Other Reports

#### Follow ups

No.	Audit Plan	Audit Title	Total	Implemented	Partly Implemented	Not Implemented
12	2015/15	Supply Chain: Resilience	7	4	2	1

**Internal Audit reports in issue more than two weeks as at 30 September 2015**

There are no Outstanding reports for this period.

## Amendments to 2015/16 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate Services	Corporate Services Shared Services Governance and Decision Making	Removed	Moved to Contingency
2	Environment, Leisure and Resident Services	Janet Adegoke and Phoenix Pool Lessons Learned	Added	Requested as addition to plan

### Summary of Limited Assurance Reports

Ref	Audit and Scope	Details	Assurance Risk /
1	<p><b>Adoption and Fostering</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Service Structure;</li> <li>• Governance Arrangements;</li> <li>• Case Management Processes;</li> <li>• Payments to Carers;</li> <li>• Budgetary Control;</li> <li>• Management Information; and</li> <li>• Case Management Systems.</li> </ul> <p>The audit also examined progress made in aligning system processes since delivery of the service on a shared basis commenced in 2012.</p>	<p>The shared services Fostering and Adoption Service was formed in 2012 with the aim of delivering a fully integrated and co-located service that provides a range of temporary and permanent placements with carers and adoptive families for children under the care of the local authority. The service is organised as three combined teams under the management of a single Head of Service with approximately seventy staff who report to the Director of Family Services. The Director of Children's Service has overall responsibility for the service.</p> <p>A number of areas were noted where key controls were inappropriate or lacking and could be improved. Two high priority and four medium priority recommendations were made to address the weaknesses identified as follows:</p> <ul style="list-style-type: none"> <li>• Consideration should be given to identifying a fully integrated case management system to replace the current arrangement where multiple systems and applications are used by the service;</li> <li>• All social workers within the service and carers registered with the service should have up to date Disclosure and Barring Service clearances in place;</li> <li>• Case management records and documents should be held in a logical and orderly manner with the corresponding case reference number;</li> <li>• Carer payments should be subject to regular review to ensure they are eligible for the fee and allowance paid;</li> <li>• Budget reports should be sent to all budget holders on a regular basis to enable them to monitor and manage their allocated budgets.</li> </ul> <p>The recommendations have been accepted and actions identified to address the weaknesses and these will be followed up later in the year.</p>	Limited

Ref	Audit and Scope	Details	Assurance / Risk
2	<p><b>Commercial Waste</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Service Objectives;</li> <li>• Client Sales and Management;</li> <li>• Income Collection;</li> <li>• Debt Management;</li> <li>• Contract Management;</li> <li>• Enforcement and</li> <li>• Financial Management; and</li> <li>• Management Information</li> </ul>	<p>This audit was undertaken as part of the 2015/16 Audi Plan agreed by the Audit Committee in March 2015. Section 34 of the Environment Protection [Duty of Care Regulations] 1991 places responsibility on businesses to ensure all waste material is packaged and stored securely preventing escape of Dangerous materials. The Regulations also requires that any commercial waste is transferred and disposed of using organisations such as the local authorities sanctioned to undertake this role.</p> <p>Hammersmith and Fulham have approximately 2,100 commercial waste customers generating £2.81m of income during 2014/15. Included within the income figure is waste bins hired by managing agents for the communal collection of domestic waste. Commercial Waste is disposed of at the West Riverside Waste Authority. SERCO undertakes all commercial waste collection for H&amp;F customers. The firm has a 13 year contract with the Council which commenced on 16 June 2006 and will end in June 2021.</p> <p>The introduction of Agresso from the 1st April 2015 has negatively impacted on the service's ability to monitor income and manage its debts. Although 2015/16 invoices were initially raised on the old OLAS system, the unreliability and lack of timely financial information relating to income received into the Agresso system for invoices issued by the service meant that the normal debt management process was suspended from April 2015. At the time of the review, there has been no debt management activity relating to the 2015/16 invoices. The section currently concentrates its efforts on recovering debts generated during 2014/15 where reliable figures which were generated from the Council's OLAS system.</p> <p>Three High priority (Two related to Agresso) and three Medium priority recommendations have been made as follows:</p> <ul style="list-style-type: none"> <li>• The introduction of a fully operational and compliant Agresso Income Management system is urgently required as a priority for this front line outward facing service (Agresso related);</li> <li>• Once a fully operational and compliant Income Management system is in place with all income being accurately allocated, a full reconciliation between Powersuite and Agresso should be undertaken for income and debtor balances (Agresso Related);</li> <li>• The Commercial Waste and Markets Manager should in conjunction with H&amp;F Enforcement team and SERCO draw up a strategy supported by a plan of action to improve the level of pro-active night time commercial waste enforcement activities;</li> <li>• The Commercial Waste and Markets Manager should amend the 2015/16 BSP to include a section detailing how the H&amp;F Commercial Waste team will interact with the council's enforcement section and SERCO to improve overall enforcement activities;</li> </ul>	<p>Operations –Satisfactory / Agresso related activity - Limited</p>



		<ul style="list-style-type: none"><li>• The Commercial Waste and Markets Manager should enhance the level of interaction between the team and the Enforcement team and review and improve the current information and alert sharing so as to enhance the enforcement operation;</li><li>• Consideration should be given to enhancing the enforcement arrangements around proactive and regular premises inspections to ensure compliance with Duty Of Care legislation.</li></ul> <p>All recommendations were accepted by management for implementation by September 2015</p>	
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Ref	Audit and Scope	Details	Assurance / Risk
3	<p style="text-align: center;"><b>Multi User Logins (Shared Service)</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Access Controls;</li> <li>• Management Reviews; and</li> <li>• Shared Applications.</li> </ul>	<p>The Tri-borough Chief Information Officer had registered a corporate risk in relation to the management of application and network access by users across LBHF, RBKC and WCC services. Further to this, a related wider concern had been raised with regard to building access and issue of procurement cards resulting from duplicate employee records being created. When the Tri-borough infrastructure was introduced in 2012, a number of dual logins were created to enable users to work across two or more boroughs until a permanent solution was in place. This work is now complete and most users are expected to work using the login and equipment provided by their employing borough. A small number of exceptions to this currently remain where a technical solution is not available at the present time. There is a risk that some of these accounts are not being managed appropriately and severe control weaknesses persist as a result. Furthermore accounts may not be terminated appropriately following the officer leaving or their position changing; this creates orphan accounts on the system and makes identification of the route employee difficult as well as compounding issues of ongoing multiple account monitoring.</p> <p>Five high priority and one medium priority recommendations have been made as follows:</p> <ul style="list-style-type: none"> <li>• A Responsible Party (ideally ICT and Human Resources) needs to be established to engage with the major stakeholders in ICT, Human Resources and Facilities Management to examine the risk to the three authorities in more detail and agree on appropriate action moving forward (High Priority);</li> <li>• The Responsible Party should ensure Directors, Senior Management and Management are made aware of the impacts of Starter; Movers and Leavers (SML) process misuse. It is not acceptable for the SML process to be used to create new ICT accounts at other boroughs where an acknowledged shared application alternative is in place (High Priority);</li> <li>• Where it can be demonstrated the SML process has been misused historically appropriate corrective action should be taken. Senior Management should ensure operational management understand the risks and impacts of such actions (High Priority);</li> <li>• The Responsible Party should ensure all relevant stakeholders are raising awareness of the impacts and consequences at all levels. Action should be taken to ensure comprehension of the correct process and business solutions are firmly embedded across the three boroughs (High Priority);</li> <li>• All network accounts that have not been actively used after three months should be subject</li> </ul>	Nil

		<p>to compulsory termination across all three boroughs (High Priority); and</p> <ul style="list-style-type: none"><li>• The 'Responsible Party' should drive the engagement with the Shared Application Programme and its benefits and necessity as the approved business process for shared service ICT working is embedded across all three organisations.</li></ul> <p>All recommendations were accepted by management for implementation by November 2015.</p> <p><b>(RBKC – In-House)</b></p>	
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### Summary of Outstanding Recommendations

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
1	2013/14	Adult Social Care	Home Care	Satisfactory	<p>Initial reviews should take place within six weeks of the care first being provided and annual reviews should be undertaken thereafter.</p> <p>Management should identify the reasons for not undertaking the initial reviews promptly and take corrective action where necessary. Where reviews cannot be undertaken at the required time as this is not convenient for the service user, this should be documented.</p>	1	01/07/2015	Head of Assessment and Care Management	<p>Implementation in Progress. The majority of cases in the Community and Hospital Assessment Service are getting 6 week reviews. The Long Term Team mainly had annual reviews to do. These have been on hold pending the home care transfer - which has just begun implementation. However people will be reassessed against Care Act Criteria as the reviews now need to be Care Act compliant. So, we are looking to solve 2 issues at once.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
2	2012/13	Children's Services	Thematic Report - Leasing in Schools	N/A	All schools should be reminded of the requirement to seek approval from the Governing Body and the Council prior to entering into or renewing leasing agreements. As a result of this approval process, a record should be maintained of any providers that do not appear to provide value for money. Where practical, schools expenditure records should be examined to identify if these providers are being used.	1	30/10/2013	Tri Borough Director of Finance and Resources (Children's Services)	Implementation date revised to October 2013 as Scheme for Financing Schools is in the process of being reviewed and will incorporate new guidance on leasing. Updates 5/12/2013 - They're all tied up into the review of the scheme, which has not been completed and won't go to forum until March 2014 Advised on 2/6/2014 that completions of update to Scheme for Financing Schools has slipped and will be completed by September 2014. No further update received

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
3	2012/13	Children's Services	Thematic Report - Leasing in Schools	N/A	Schools should be reminded to retain copies of lease agreements in a readily accessible location.	2	30/10/2013	Tri Borough Director of Finance and Resources (Children's Services)	<p>Implementation date revised to October 2013 as Scheme for Financing Schools is in the process of being reviewed and will incorporate new guidance on leasing.</p> <p>Updates 5/12/2013 - They're all tied up into the review of the scheme, which has not been completed and won't go to forum until March 2014</p> <p>Advised on 2/6/2014 that completions of update to Scheme for Financing Schools has slipped and will be completed by September 2014.</p> <p>No further update received</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
4	2012/13	Children's Services	Thematic Report - Leasing in Schools	N/A	Consideration should be given to updating the School Finance Procedures Manual to require that an options appraisal is undertaken prior to entering into leasing arrangements to demonstrate that leasing offers better value for money when compared to outright purchase of goods and services.	2	30/10/2013	Tri Borough Director of Finance and Resources (Children's Services)	<p>Implementation date revised to October 2013 as Scheme for Financing Schools is in the process of being reviewed and will incorporate new guidance on leasing.</p> <p>Updates 5/12/2013 - They're all tied up into the review of the scheme, which has not been completed and won't go to forum until March 2014</p> <p>Advised on 2/6/2014 that completions of update to Scheme for Financing Schools has slipped and will be completed by September 2014.</p> <p>No further update received</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
5	2014/15	Corporate Services	Managed Services - Change Configuration and Release Management	Limited	Management should establish and distribute appropriate weekly and monthly client change activity reports, quantified by priority and risk, to assist the rolling review of the standing CAB agenda items.	2	30/04/2015	Programme Manager	CAB does not have standing agenda items. The CAB agenda changes every day so it is not clear how change activity reports would assist in the rolling review of agenda items.
6	2014/15	Corporate Services	Managed Services - Change Configuration and Release Management	Limited	<p>Management should agree:-</p> <p>a) A specific MSP configuration item (CI) definition policy. (Hardware/software/ version / patch hotfix/ Interface code/ MSP training material versions/ system configuration opting settings etc. )</p> <p>b) An appropriate shared services change management process compliance monitoring report to assist the rolling review of the standing CAB agenda items release and configuration management. E.g. By identifying when MSP RFC records result in (CMDB) updates or not.</p>	2	28/02/2015	Programme Manager	<p>We are exploring the option of a specific MSP configuration item definition policy and will resolve this by the end of November 2015.</p> <p>We have added an additional box to the CAB form to identify when MSP RFC records result in Configuration Management Database updates.</p>



Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
7	2014/15	Corporate Services	Managed Services - System Testing	Limited	<p>It is recommended that timescales to address IST, Service Now and any future issues are appropriately assessed ensuring that they are realistic and achievable.</p> <p>Consideration should also be given to producing a Critical Path Analysis where some critical activities are not delivered and the subsequent impact on Go-Live.</p>	1	30/09/2014	Angela Martin (Tri B UAT TM) & Edward Olugbile (BT IST TM)	<p>This recommendation was originally directed at UAT due to commence June 2014. The risk identified was that unrealistic timescales for true resolution of issues experienced with IST would result in further targets being missed. The response provided at the time was that as part of planning for the revised go-live date of April 2015 the timings and duration of IST had been revised. IST has been completed and a critical path analysis was produced.</p> <p>We are now beyond this period of intensive testing. However, there will be a continuing requirement to make changes to Agresso to deliver fixes and system enhancements. We are confirming a shared and agreed framework of end to end testing covering unit testing, integrated system testing (IST), operational acceptance testing (OAT), user acceptance testing (UAT) and regression testing. This is being developed as part of a comprehensive and structured approach to testing and programme assurance.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
8	2015/16	Corporate Services	Managed Services Data Migration	Limited	Appropriate data integrity monitoring reports should be established and effectively applied to migrated and transactional data.	1	31/07/2015	Programme Manager	No update received.
9	2014/15	Corporate Services	Mobile Device Security	Satisfactory	Management should draft, agree and communicate a specific IT security policy that covers mobile device usage for Tri-Borough work. All users using mobile devices, whether issued by the Tri-Borough or not, should be required to formally sign off their acceptance of relevant policies before being issued with a Tri-Borough issued mobile device or before having their own device configured for Tri-Borough use. The development of relevant policies should also be supported by appropriate user training.	2	30/04/2015	Information and Systems Strategist	Update Sep 2015: This is currently being finalised as part of the Mobile Working project prior to deployment of the shared ICT service mobility platform
10	2014/15	Corporate Services	Tri borough Cloud Computing	Satisfactory	A central Tri-Borough inventory of all services and solutions provided through the cloud should be created and maintained, regardless of which borough is responsible for managing the service contract. The Tri-Borough Information Security Assurance Authority Group should be responsible for the inventory.	2	30/06/2015	Tri-Borough CIO will have oversight of this task but Tri-Borough Contract management will manage this service catalogue.	No update received


Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
11	2014/15	Corporate Services	Tri borough Cloud Computing	Satisfactory	<p>Regular reporting on performance and security incidents (or any agreed schedule) should be requested from the cloud service providers for the Frameworki, Library Management System and Bravo Solutions application.</p> <p>Furthermore, such reporting requirements should be extended to all Tri-Borough based cloud agreements.</p>	2	31/03/2015	Tri-Borough CIO will have oversight of this task but Tri-Borough Contract management will manage this service catalogue.	Response from Tri-borough Director of Libraries and Archives 14/5/2015 - With regard to performance reporting, I can confirm that SirsiDynix is able to supply uptime reports and we will be exploring further what performance information they can supply, such as response times. However this is complicated by the network and other factors bearing on responsiveness so it is not clear how the service would establish whose responsibility any poor responsiveness was.
12	2014/15	Corporate Services	Tri borough Cloud Computing	Satisfactory	The Tri-Borough should ensure continuous compliance of their vendors and Cloud Service Providers with applicable regulations such as: PCI DSS, ISO 27001, EU Data Protection Regulations, Cloud Security Alliance Control Matrix, ISAE 3402, SSAE 16, and SAS 70 Type II.	2	31/03/2015	Tri-Borough CIO	No update received

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
13	2013/14	Environment, Leisure & Residents Services	Waste Disposal	Satisfactory	Management should liaise with the WRWA to develop a formal agreement between the WRWA and the four Councils outlining the roles, responsibilities and expectations of each party.	2	01/07/2015	Director of Cleaner Greener and Cultural Services	IA 3/11/2014 - Deadline extended to February 2015 as WRWA are undertaking a review (due to report back at the end of 2014). This will impact on any agreement that is drafted. IA11-5-2015 - Deadline further extended to 1/7/2015 as advised on 7/5/2015 that WRWA are still to report. No further update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
14	2014/15	Transport & Technical Services	Organisational Health and Safety	Satisfactory	<p>Service lines should be instructed, via the Corporate Health and Safety Committee to provide a copy of their risk assessments to Corporate Health and Safety so they can be uploaded onto Tri-B Net.</p> <p>These risk assessments should be reviewed and updated on an annual basis. Monitoring of activity should be undertaken by the Corporate Safety Team.</p>	2	30/06/2015	Bi Borough Corporate Health and Safety Manager	<p>Work is underway to bring risk assessments in from the teams and held in one area. Data is recorded on to a spreadsheet by each safety advisor responsible for their area, which will be amalgamated into one spreadsheet showing risk assessments in place and date for review. Teams are slow at forwarding these, but as part of the quarterly reports going to SMTs this will identify teams that have not done as requested.</p> <p>Awaiting feedback from system provider on upgrade to system but anticipated to be achieved in trial October, before going fully operational January 2016, though documents will be able to be uploaded prior to this.</p> <p>Update 161115 - The issue was raised through the training with Directors and Heads of department. The risk assessments are being uploaded onto SharePoint. Work to commence to ensure that they are uploaded during 2016 [by April 2016] to the centralised database connected with TRI-B AIRS.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
15	2014/15	Transport & Technical Services	Rechargeable Street Works	Satisfactory	<p>Performance indicators for the service should be agreed and monitored against. This could include:</p> <ul style="list-style-type: none"> <li>• % of assessments that have been undertaken, within set timeframe, after an application has been received;</li> <li>• % of estimates provided to customer, within set timeframe, after assessment has been completed;</li> <li>• % of proactive Inspections undertaken within timeframe;</li> <li>• % of additional works required as a result of quality inspections; and</li> <li>• % deviation of estimate to actual invoice amount.</li> </ul> <p>Results should be reported to Senior Management on a periodic basis.</p>	2	01/06/2015	Project Engineer/ Finance Officer	We have gathered all the details and will be compiling and format shortly to produce KPI stats.

# Agenda Item 9

<b>London Borough of Hammersmith &amp; Fulham</b> <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b> <b>14 December 2015</b>	 hammersmith & fulham
<b>RISK MANAGEMENT HIGHLIGHT REPORT</b>	
<b>Report of the Director for Finance</b>	
<b>Open Report</b>	
<b>Classification:</b> For review and comment	
<b>Key Decision:</b> No	
<b>Wards Affected:</b> None	
<b>Accountable Director:</b> Hitesh Jolapara, Director for Finance	
<b>Report Author:</b> Michael Sloniowski, Shared Services Risk Manager	<b>Contact Details:</b> Tel: 020 8753 2587 <a href="mailto:michael.sloniowski@lbhf.gov.uk">michael.sloniowski@lbhf.gov.uk</a>

## 1. EXECUTIVE SUMMARY

1.1. The Audit Pensions and Standards Committee in September 2015 monitored the key strategic risks at corporate level for the Borough and the key operational risks identified by individual departments. This paper provides an update of the current status in respect of strategic risks currently identified for 2015 - 2016. Members are asked to;

- 1.1.1. note the risk profile of the Shared Services risk register; and
- 1.1.2. gain assurance that risk management is effectively implemented by services, and to identify where further action is necessary.

## 2. RECOMMENDATIONS

2.1. In order that the Council meets the requirement of the Accounts and Audit Regulations 2015 the Committee are asked to note that quarterly review of strategic risks faced by the Council has been undertaken by Hammersmith and Fulham Business Board. The Committee are also invited to consider these risks and corresponding mitigations in the register for appropriateness, attached as **Appendix 1**.

### **3. REASONS FOR DECISION**

- 3.1. The Audit Pensions and Standards Committee's role is to provide an oversight of the authority's processes to comply with the Accounts and Audit regulations and facilitate the identification and management of key risks. By ensuring that effective management of risk is undertaken services can benefit by reducing their significance; either by reducing the level of impact or likelihood.

### **4. INTRODUCTION AND BACKGROUND**

- 4.1. Sections three and four of the Accounts and Audit Regulations 2015 set out the Council's responsibility for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.
- 4.2. The purpose of the Audit Pension and Standards Committee is to provide the Leader of the Council and Chief Executive additional assurance on the adequacy of the risk management framework by overseeing and ensuring that effective risk management arrangements are in place. The Strategic Shared Services risk register is provided to the Committee to inform them of the risks associated with major areas of activity.

### **5. PROPOSAL AND ISSUES**

- 5.1. The Council and the Audit Pension and Standards Committee remains committed to ensuring an integrated risk management process exists within all working practices and management processes, including corporate governance, the budget setting process and medium term financial plan, business planning, performance management, programme and project management and partnerships to meet the requirements of these regulations.

#### **Risk Register.**

- 5.2. The nature of risks is that they come and go as the environment changes. However, we have fourteen 'standing' corporate risks that will always face the council and which are the focus of this report.
- 5.3. They can be roughly split into two types: those that could mainly affect the businesses and people of Hammersmith and Fulham and others that relate more to the way we run our services internally.
- 5.4. An example of the first might include a major disruptive incident in Hammersmith and Fulham, risk 6 Business Resilience, or a breach in our social care responsibilities towards vulnerable people, risk 9 Standards and Delivery of Care; these are often managed in partnership with a range of other organisations. An example of a more internal risk could be a major, prolonged failure of the ICT network.



- 5.5. The strategic risk register attached as Appendix 1, holds a variety of business risks focussing on the strategic objectives set for the council. These have recently been reviewed by the Chief Executive and Directors at Hammersmith and Fulham's Business Board.
- 5.6. Risks are prioritised for reporting in accordance to the scoring methodology highlighted within the risk management strategy. The range or spectrum of risks comprising significant risk is commonly defined as being made up of three major categories of risk - strategic, change and service delivery (operational business as usual) risks. Hammersmith and Fulham Council categorise risk in this way and that is consistent with good practice as defined by the Institute of Risk Management, Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Internal Auditors.
- 5.7. Management of this exposure is most effective and efficient when undertaken in common, collective and portfolio terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates.
- 5.8. **Changes to the register include;**
6. The format has been amended to represent headline high rated service level risks,(Adult Social Care, Children's Services, Housing, ICT etc.) in the same format as the Strategic risks section following recommendations made by the Committee.

### **Strategic Risks**

- 6.1. **A revised risk 1**, Managing Budgets. Following recommendations to amend this risk from the last Audit Pension and Standards Committee and after consultation with the Head of Finance the Managing Budgets risk has been replaced with;
- Financial Management in year budget 2015 2016 and Medium Term Planning covering;
- 6.1.1. The ongoing challenge of reshaping and delivering council services within significantly reduced funding levels remains a significant risk in both the short- and medium-term and so we have two corporate risks on this: one that considers the in-year risk, and one going forwards. The council manages its financial risks through a range of controls including budget preparation, budget setting and a Budget Accountability Framework which updated the roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets.
- 6.2. **Risk 2**, Loss of Government Grant, has been deleted due as this is reasonably foreseeable it was no longer regarded as a risk but an issue.
- 6.3. **Risk 5**, Public Health Risks, has been amended following consultation with the Public Health Service to;

- In year 2015 2016 reduction to Public Health Budgets covering;

6.3.1. The in-year risk of disruption to Public Health Projects and/or cessation of commissioned services before year-end.

6.4. **Risk 6**, Business Resilience, has been reviewed and updated by the Director of Safer Neighbourhoods to provide additional context.

6.4.1. Hammersmith and Fulham Council has a legal responsibility to have arrangements in place to keep delivering critical services in the event of an emergency, as well as those functions that are important to the welfare and security of the community. The council does this through an organisational-wide Business Continuity Programme that also assesses the resilience of partner and contracting organisations. Given the cross-cutting nature of this risk and its impact on all our services, managing this risk supports the delivery of all our objectives and priorities.

6.4.2. All local authorities, along with the emergency services, have a legal duty to assess the risk of, and plan for, emergencies. This includes warning and informing the public in relation to emergencies. The council works with partner organisations through groups such as the West London Resilience Forum and the Officer Resilience Group to manage and respond to emergencies that could significantly disrupt the area and impact upon communities and individuals: for example, a major fire in the city centre, localised flooding, civil unrest or denial of access to buildings or IT systems.

6.4.3. The West London resilience forum includes all the category one responders as defined under the Civil Contingencies Act 2004, which operate within the boroughs of Ealing, Brent, Hammersmith and Fulham, Harrow, Hillingdon, and Hounslow.

6.5. **Risk 7**, Information Management and Digital Continuity has been reviewed by the Tri-borough Information Officer and Shared Services Head of Information Management to provide additional context.

6.5.1. The most significant risk associated with a failure in information governance is death or serious harm that could have been prevented if data and information had been properly managed and disclosed. The Tri-borough Information Officer, through his role as the council's Senior Risk Information Owner, has ultimate responsibility for the authority's information governance arrangements, assisted by the Information Management Board, the Corporate Information Governance Team and Shared Services Head of Information Management. All our services depend upon effective management of data and information and so, as with the wider risk on Council Resilience, managing the risks relating to information governance supports the delivery of all our objectives and priorities.

6.6. **Risk 8**, Managing Statutory Duties has been updated following the report by the Director of Environmental Health concerning the Health and Safety Service presented at the last Committee.

6.6.1. The council has wide ranging responsibilities to prevent the risk of health and safety failures that could result in death, injury, legal challenge and significant reputational damage. A range of health and safety controls are in place to manage this risk including adoption of performance standards, employee accountability, audit reviews and an annual action plan which sets out priorities for the year. This supports our focus on making sure that people are safe and feel safe in the places they live, work and visit.

6.7. **Risk 9**, Standards and Delivery of Care has been reviewed by the Executive Director of Adult Social Care.

6.7.1. A key priority is ensuring that adults whose circumstances make them vulnerable are given the safeguarding and support they need. The potential consequence of a significant failure in safeguarding is that an adult at risk could be seriously harmed, abused or die. Knock- on effects of this include reputational damage, legal and financial costs and also management and staffing time. The council works closely with partner organisations, including the NHS and the Police, to manage this risk through the Safeguarding Adults Executive Board.

6.8. **Risk 13**, Fraud, this entry has increased due to ongoing issues linked with the Managed Services systems implementation.

6.8.1. Hammersmith and Fulham has a good record in preventing and identifying fraud but cannot afford to be complacent. Fraud diverts money away from front line public services such as care delivery to the most vulnerable and wider community services. Preventing and detecting fraud is the responsibility of all staff.

6.8.2. The basis of the Anti-fraud and corruption strategy and policy is the council's commitment to:

- High standards of financial honesty;
- Complete opposition to fraud, dishonesty or malpractice, wherever it occurs or whoever commits it;
- A culture of openness and honesty.

6.9. There have been no incidents of none reporting on risk registers in the past quarter by services however the Corporate Shared Services and H&F Finance services require modified arrangements for the reporting and administration of their risk management following re-organisation. At the time of writing this report no update had been received on the headline risk or direction of travel concerning the Managed Services Programme.

## **7. OPTIONS AND ANALYSIS OF OPTIONS**

- 7.1. *Not applicable as the report is a representation of the business risks and opportunities to H&F council.*

## **8. CONSULTATION**

- 8.1. *Not applicable as the report addresses the business risks to H&F council.*

## **9. EQUALITY IMPLICATIONS**

- 9.1. *The responsibility to complete Equality Impact Assessment in relation to policy decisions is the responsibility of the appropriate departmental officer. The report highlights some of the risks and consequences of risk taking over a broad landscape and as such specific Equality and Diversity issues are referred to in the councils Risk Register.*

## **10. LEGAL IMPLICATIONS**

- 10.1. *Failure to manage risk effectively may give rise to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.*

## **11. FINANCIAL AND RESOURCES IMPLICATIONS**

- 11.1. *Exposure to unplanned risk could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity and reduced Value for Money. There are no direct financial implications with the report content.*

## **12. RISK MANAGEMENT**

- 12.1. *It is the responsibility of management to mitigate risk to an acceptable level. Appropriate and proportionate mitigating actions to known risks are expressed in the Risk Register and subject to review as part of planned Audit work and the Annual Governance Statement.*

- 12.2. Implications verified/completed by: Michael Sloniowski, Shared Services Risk Manager. 020 8753 2587

## **13. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 13.1. *Failure to address risk in procurement may lead to a reduction in the expected benefits (Value for Money, Efficiency, Resilience, Quality of Service) and leave the council exposed to potential fraud and collusion as identified in the Bribery Act.*

### **LOCAL GOVERNMENT ACT 2000**

#### **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.

**LIST OF APPENDICES: Appendix 1** - Strategic Shared Services risk register.

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

Ref	RISK				Assigned To	Residual risk assessment: Quarter 3			DOT	Target risk:			Reducing the risk		
	Risk cause and context					Likelihood	Impact	Overall		Likelihood	Impact	Overall	Management comments on measures.	Management control measures, planned action(s)	Date / in place
<b>Strategic risks</b>															
h&f	✓	RBKC	✓	WCC	OFFICER(S)	4	4	16	→	3	3	9			
1	<b>Financial Management in year budget 2015/ 2016 and Medium Term Planning.</b>												<u>Comments</u>		
	<p>The ongoing challenge of reshaping and delivering council services, within significantly reduced funding levels and increased demand pressures, remains a significant risk. This is both an in year risk and one going forwards over the medium term. As such, a priority within our financial plan is to review different funding models for different services (referencing zero based budgets), and to focus not just on the short-term but on service transformation over a longer time-frame.</p>				<p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. Hitesh Jolapara, Strategic Director of Financial Corporate Services.</p>	<p>The council manages its financial risks through a range of controls including budget preparation, budget setting and a Budget Accountability Framework which updated the roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets. The level of reserves and balances are also regularly reviewed to ensure that account is taken of any financial risk. Regular in-year monitoring, review of future financial plans and assessment of financial risks and reserves are undertaken to ensure the financial plans are delivered.</p>								October 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

Ref	RISK				Assigned To	Residual risk assessment: Quarter 3			DOT	Target risk:			Reducing the risk		
	Risk cause and context					Likelihood	Impact	Overall		Likelihood	Impact	Overall	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	✓	RBKC	✓	WCC	OFFICER(S)	3	4	12	→	3	3	9			
3	<b>Management of the Better Care fund.</b>												<b>Comments</b>		
	<p>Compliance with the Care Act legislation underpinning the BCF;</p> <ul style="list-style-type: none"> <li>the accountability arrangements and flows of funding;</li> <li>the reporting and monitoring requirements for 15-16;</li> <li>arrangements for the operation of the payment for performance framework;</li> <li>how progress against plans will be managed and what the escalation process will look like; and</li> <li>the role of the BCF Task Force / Better Care Support Team going forward.</li> </ul>				Liz Bruce, Executive Director of Adult Social Care	<p>The Care Act implementation programme was successfully completed. Measures to monitor impact of Care Act implementation built into new routine KPI monitoring to Senior Managers and members. This covers expected increases in demand and new duties and responsibilities under the Act.</p> <p>Demand and benefits model developed and being implemented for Community Independence Service as part of BCF.</p> <p>Routine reporting of impact of new service reported to senior managers and members as part of regular reporting.</p> <p>Multi agency BCF steering group receives progress reports and reports upwards to the Joint Executive Team and BCF Board which includes members and senior managers from ASC, CCGs etc.</p> <p>Shared governance with Imperial around change programme for CIS.</p> <p>Redesign of reablement part of Customer Journey programme.</p> <p>Risks are regularly monitored by the programme and major risks logged on a risk register.</p>				<p>The Care Act implementation has been completed. External agency (Deloitte) undertaking an independent evaluation of increase in home care demand as result of whole systems. Expected to result in an increase in the requirement for assessments for carers and prison population. Nationally phase two of the implementation of the Care Act has now been put back to 2020; this will reduce the risk of increases in requests for assessments from self funders as the implementation of the 'care cap' has been delayed. The model estimating expected future demand has been refined and is reported frequently to senior managers as part of routine monitoring. New London wide Care Act compliant set of safeguarding protocols from April 2015.</p> <p>Demand and benefits model developed and being implemented for Community Independence Service as part of BCF.</p>			Continued regular monitoring through performance and joint governance arrangements	October 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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	Risk cause and context					Likelihood	Impact	Overall		Likelihood	Impact	Overall	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	✓	RBKC	✓	WCC	OFFICER(S)	3	4	12	→	3	3	9			
4	<b>Market testing risks.</b>												<b>Comments</b>		
	<p>Failure to deliver high quality commissioned services at the best cost to the taxpayer. Inadequate forward planning risks (commissioning and procurement). Failure to comply with public procurement regulations, potential legal action, and lack of robust Member oversight. Not achieving Social Value through procurement. Contract performance management.</p>				<p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. John Francis and Alan Parry, Joint Interim Heads of Procurement h&amp;f Chief Executives Department</p>	<p>A Shared Services Contracts Approval Board has been established. Adult Social Care and Childrens Services Departments have established contract and commissioning boards. Procurement Strategy Board (h&amp;f). Contract registers are now managed through the CapitalESourcing e-procurement system hosted by Westminster City Council. Contract Standing Orders for h&amp;f Council. Procurement regulations for the Royal Borough of Kensington and Chelsea. Training provided on new Contract Procurement Regulations 2015. Gateway review process in place.</p>				<p>Amendments to H&amp;F Contract Standing Orders are being drafted to: i) include recommendations made by the Member-led Procurement and Social Value Task Force; ii) facilitate earlier Cabinet visibility and approval of commissioning and procurement strategies before competitive tendering exercises commence. The Cabinet Member for Commercial Revenue and Resident Satisfaction has also requested regular Cabinet Member monitoring of all departments 3-year forward commissioning and procurement plans.</p> <p>Proposals in place for establishing a (RBKC/WCC) Shared Services Strategic &amp; Commercial Procurement team.</p> <p>Proposals to appoint an h&amp;f Commercial Director (Autumn)</p> <p>Proposed restructuring of ASC and CHS procurement and commissioning teams.</p>			<p>A new Contract Management Framework which is designed to improve contract management and provide a consistent approach across the council is in preparation and is planned to be rolled out across departments shortly. The framework is split into two sections. The first section deals with housekeeping issues and provides an overview of the Contract Management Framework, the second section outlines 6 areas of focus namely Specification, Governance and Organisation, Performance, Commercial, Risk and Legal. The framework includes a Contractual Obligation Tracker to ensure that the supplier is aware of their own obligations and any breach of the contract will be addressed through formal contract breach management procedures. Training will be rolled out to contract managers and performance on contracts captured through the contract management module on the Council's eSourcing system.</p>	<p>October 2015</p>	

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC	OFFICER(S)	3	4	12	↓	1	1	1			
5	<b>In-year 2015-16 Reduction to Public Health Budgets</b>												<b>Comments</b>		
	With the proposed reductions to the Public Health 2015-16 budgets, coupled with possible removal of the ring-fence and potential changes to the Public Health grant conditions; there is a serious risk of in-year disruption to Public Health projects and/or cessation of PH commissioned services before year-end and PH's capability to deliver against the three Councils' medium term plans.				Stuart Lines, Deputy DPH; Ike Anya, Deputy DPH; Eva Hrobonova, Deputy DPH; Andrew Burnett, interim Deputy DPH; Gaynor Driscoll, Head of Substances Misuse Services	PH Finance has modelled various budgetary scenarios and are currently preparing various budget savings proposals, pending the outcome of a national consultation process which was initiated by PHE at end of July on the four possible options proposed for the budget reductions. PH's response to the consultation proposals was agreed by SMT and members and submitted to PHE before the end of August. The Public Health grant will be ring-fenced for remainder of 2015-16 and must be spent in line with clear grant conditions. Grant conditions are clearly set out in six prescribed functions.				Although still to be confirmed by PHE, it is anticipated that there will be a 6.2% across the board reduction for PH depts in all local authorities in England. On this basis, revised Public Health budgets plans and initiatives are being taken to lead member briefings and cabinet member steering groups for overview. Whatever reduction is eventually confirmed by PHE, use of the Public Health Grant will continue to be reported on and assured with Public Health England annually.			PH budgets are monitored and reported on monthly to SMT by PH Finance. This rigorous monitoring will remain in place and be strengthened after the budget reduction is confirmed by PHE. Use of the Public Health Grant is reported on and assured with Public Health England annually. Contract performance monitoring (including financial and quality performance) is also in place and being reported on to the monthly performance SMT.	October 2015	



# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC	OFFICER(S)	3	4	12	→	3	3	9			
6	<b>Business resilience.</b>												<b>Comments</b>		
Page 102	<p>1). Limited joined up systems, processes and resources in the event of a Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham Business Continuity internal / external incident.</p> <p>2). Managed Services Programme - potential supplier withdraws a service due to invoices not being paid.</p> <p>3). Risks associated with the end of HFBP contract (Novation of contracts to in-house, new contracts and extensions).</p> <p>4) Non-availability of IT systems, cyber attacks.</p> <p>5). Ensuring continuity of services during a potential Housing Stock Options transfer.</p> <p>6). Loss of significant Contractor ( LBHF Serco novation )</p>				<p>Dave Page, Bi-borough Director for Safer Neighbourhoods</p> <p>Tony Redpath, Director of Strategy and Local Services, the Royal Borough of Kensington and Chelsea.</p>	<p>1). Corporate Business Continuity Policies and Strategies have been agreed at both Business Boards, and updated accordingly, ensuring commonality for incident management. h&amp;f Council use Creditsafe for the assessment of contractor credit and liquidity risks, with The Royal Borough of Kensington and Chelsea, Westminster City Council to follow shortly. Contractors are required to confirm their business continuity arrangements as part of the tendering process, plus a 2 day mandatory Contract Managers Training work shop will be delivered by WCC. Both WCC / RBKC &amp; h&amp;F Business Continuity Managers are developing additional training to ensure resilience of contracts is maintained throughout its term, and to be delivered in the 2 day work shops.</p> <p>2) An emergency payments system is in place in the event of a significant delay or missed payment to a supplier.</p> <p>3) Tri Borough ICT Programme Manager Andy Orr maintains a separate risk register for the transfer.</p> <p>4). Owners of Priority 1 and Priority 2 classified services have been requested to ensure a their service continuity plans have a strategy in place to cater for the loss of the supplier.</p> <p>5). Risks will be managed through the Programme Management Team and reported periodically to the Shared Service Risk Manager.</p> <p>6). Counsels' advice has been received and discussions are ongoing with Serco in connection with a novation to a subsidiary company, Serco environmental.</p>			<p>A Shared Services Procurement Risk Advisory Group has been established to provide support on areas such as Supply Chain Risk Management and Information Management resilience. GOLD training has been provided to senior management in both boroughs, to enhance the ability to deal with serious incidents, plus additional Emergency Planning training delivered in h&amp;f.</p>			<p>1 - 2). The Royal Borough's Business Impact Analysis system is obsolete, plus the h&amp;f BIA is non existent. Direction to continue between both boroughs is now required.</p> <p>3). h&amp;f Business Continuity Manager needs to review the Programme Risk Register for actions that the business / services may need to implement prior to implementation.</p> <p>5). h&amp;f Business Continuity Manager needs to review the Housing Programme to review Service Risks.</p>	<p>October 2015</p>		

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC	✓	OFFICER(S)	4	4	16	→	3	3	9			
7	<b>Information management and digital continuity.</b>													<b>Comments</b>		
	<p>Risks associated with the management, availability and security of information</p> <p>Insufficient staff resources, both corporately and departmentally, to manage information efficiently, effectively and compliantly</p> <p>Breach of information rights legislation resulting in a monetary penalty of £500,000, eg the Data Protection Act 1998, Freedom of Information Act 2000, Environmental Information Regulations 2004 and the Protection of Freedom Act 2012.</p>				<p><b>Ed Garcez, Chief Information Officer, Shared Services.</b></p> <p>Ciara Shimidzu, Interim Head of Information Management</p>	<p>Shared Services Information Management Board.</p> <p>Shared Services Information Management Strategy.</p> <p>Shared Services Information Sharing Register.</p> <p>Shared Services Information Management work programme.</p> <p>Shared Services Information Management Toolkit, eg Information Governance Checklist, Information Sharing Protocol template, Information Sharing Agreement template, Confidentiality Agreement template and PCS template (H&amp;F and WCC only).</p> <p>Shared Services Privacy Impact Assessment process.</p> <p>Offsite Records Storage Service Framework Agreement for three boroughs and their partners (currently H&amp;F and WCC only)</p> <p>Sovereign information management and security policies, risk logs, incident management and reporting protocols.</p> <p>All three boroughs have access to the same regularly updated retention schedule</p> <p>Caldicott Guardians for Adult Social Care and Children's Services.</p> <p>Sovereign Senior Information Risk Owners (SIRO's)</p> <p>NETConsent software used at the RBKC to train and inform I.T. users. and provides for high level of user acceptance.</p> <p>LBHF and WCC staff are required to complete and provide a certificate confirming they have passed training known as the Personal Commitment Statement with quarterly monitoring and feedback to H&amp;F departmental management teams.</p> <p>Potential breaches of policy can be treated as a potential disciplinary matter and referred to Human Resources or the Corporate Fraud team for investigation.</p>	<p>Heightened awareness across the public and staff of information rights. Higher demands from public enquiries and reduced capacity across three councils limiting progress on delivery of key aspects IM strategy programme as compliance has to be prioritised. Higher demands from sovereign and shared services for IM input, training, advice and guidance.</p> <p>Success of the Shared Services IM work programme and toolkit has raised IM profile across the boroughs.</p> <p>Period of transition with re-organisation of ICT functions after protracted negotiations.</p> <p>Reduced staff size of IM teams across the three boroughs (2 posts deleted during reorganisation).</p> <p>Number of historic and current data breaches currently under investigation and reported to the ICO.</p> <p>Unacceptable levels of compliance with Personal Commitment Statement, eg Children's Services = 53% complete and Adult Social Care = 68%.</p> <p>Limited understanding of information governance across the 3 boroughs.</p> <p>Limited understanding of information assets across 3 boroughs with highly inconsistent levels of records management practices, including application of retention periods across shared services.</p>	<p>Development of Shared Services Information Management policies and supporting governance framework;</p> <p>Learning and development programme;</p> <p>Information Asset Audit and creation of an Information Asset Register;</p> <p>Introduction of new Information Security Policy and development/implementation of policy acceptance software across the 3 boroughs along with new cohesive user and corporate statements;</p> <p>Communications strategy;</p> <p>Appointment of new post of Head of Information Management.</p>	<p>October 2015</p>							

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC	✓	OFFICER(S)	4	4	16	↓	3	3	9			
8	<b>Managing statutory duties.</b>													<u>Comments</u>		
	Non-compliance with laws and regulations. Breach of a duty of care. Equalities and Human Rights.				Nigel Pallace, Chief Executive, h&f Council. Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. Charlie Parker, Chief Executive, Westminster City Council.	Local Codes of Corporate Governance, constitutions and schemes of delegation. Officers codes of conduct. Shared Health and Safety Service between the Royal Borough of Kensington and Chelsea and h&f Council. Shared Services Incident reporting on-line software. Shared Services training software, Workrite. Legislative changes are adopted and reflected in amendments to the Councils constitutions and budgets allocated through a unified business and financial planning process. Amey now manage a number of statutory and regulatory procedural and record management processes. Statutory returns to, for example, the Food Standards Agency, Health and Safety Executive.				Internal Audit of Organisational Health and Safety undertaken. Internal Audit of h&f gas safety arrangements undertaken. Corporate Safety Team business plan and audit programme established. Departmental and statutory Corporate Safety committee established and meeting regularly. Regular Health and Safety performance reports to the Executive Management Team. Shared Service Building Compliance Board established.					October 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC	✓	OFFICER(S)	3	3	9	↑	3	3	9			
9	<b>Standards and delivery of care.</b>													<b>Comments</b>		
	Breach in the standard of delivery of care, caring services and care homes.				Liz Bruce, Executive Director of Adult Social Care Andrew Christie, Executive Director of Childrens Services	Insurance cover in place in the event of a claim for a breach of duty of care. Legislative changes are adopted and reflected in the Councils constitutions. Contract monitoring includes assessment of quality of standards of care. Regular SIPS meetings brings together commissioners, operational, safeguarding and CQC staff to discuss and detect breaches in quality of care. Budget allocation is made through a unified business and financial planning process.	In addition to these arrangements, the Commissioning Directorate and the Safeguarding team monitors the quality and performance of care providers to diminish the likelihood of such events occurring.  New Provider Failure & Service Interruption Framework was put in place in June 2015.  New ASC Strategic Provider and Contract Monitoring Framework now in place enables early identification of risk to quality of service.	Following the Peer Review, ASC is implementing a more holistic service wide approach to quality assurance, through a new Quality Assurance Board. The Board has now commenced meeting.	October 2015							
h&f	✓	RBKC	✓	WCC	✓	OFFICER(S)	3	4	12	→	3	3	9			
10	<b>Failure of partnerships and major contracts.</b>													<b>Comments</b>		
					Nigel Pallace Chief Executive, h&f Council Charlie Parker, Chief Executive, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	The Link Intelligent Client Function (ICF) manages the AMEY Total Facilities Management contract. Contractor liquidity checking through Creditsafe. Procurement and commissioning is undertaken through CapitalEsourcing software acting as a repository for contract information and providing a workflow for the procurement process. Section 113 agreements under the Local Government Act 1972 for Shared Services.	LBHF approval of a new Business Resilience Strategy in June 2015. A work programme has been drafted to ensure the objectives are delivered. LBHF have served notice to terminate the agreement with the Link for the management of the TFM contract.	Review of Shared Services Section 113 agreements. New proposals for h&f Strategic Procurement.	August 2015							

# SHARED SERVICES RISK REGISTER DASHBOARD

# APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC	OFFICER(S)	3	4	12 →		3	3	9			
11	<b>Increase in complexity of working with partners.</b>												<u>Comments</u>		
	Working with the National Health Services, Clinical Commissioning Groups, Police, G.P.'s., 3BM and Epic CIC Public Service mutuals.				Nigel Pallace Chief Executive, h&f Council Charlie Parker, Chief Executive, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	Information sharing protocols and agreements. Members scrutiny of partners risk management is undertaken by the Scrutiny Committees at the Royal Borough of Kensington and Chelsea and Policy and Accountability Committees at h&f.				The h&f Policy Team are working on developing thematic meetings which will include local external partner agencies to work more inclusively on shared priorities.				August 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9			
12	Decision making and maintaining reputation and service standards.												<u>Comments</u>		
	Pre-determination of policies or contract reviews. Breach of Officer or Member code of conduct. Breach of Information Security or Governance or Confidentiality. Poor quality data internally or from third parties.				Nigel Pallace Chief Executive, h&f Council Steve Mair, City Treasurer, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	Feasibility studies and options appraisals. Members induction programme. Capacity building of I.T. and Staff. Business planning and performance management and information. Complaints and compliments reviews reported to Committees.									August 2015
h&f	✓	RBKC	✓	WCC		4	4	16	↓	3	3	9			
13	Failure to identify and address internal and external fraud.												<u>Comments</u>		
	Potential exploitation of Managed Services Agresso systems during implementation and towards business as usual delivery.				Hitesh Jolapara Strategic Director of Financial Corporate Services , h&f Council Steve Mair, City Treasurer, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	Shared Services Corporate Fraud function. Risk assessment used to assist in targeting fraud and for workload prioritisation. Whistleblowing policy, Bribery policy, Officer Codes of Conduct. Procurement teams have attended Counter Fraud training.							The Shared Services Corporate Anti-Fraud Service (CAFS) implements a counter fraud and corruption strategy which is supported by a policy framework.  Plans and operations are aligned to the strategy and contribute to the overall goal of maintaining resilience to fraud and corruption. CAFS employ a mixture of reactive and pro-active techniques to combat fraud, including subscription to national initiatives such as the National Fraud Initiative and the National Anti Fraud Network.  The service reports regularly to Audit Committees on performance against the counter fraud strategy and the effectiveness of the strategy.		October 2015

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC		1	1	1	↑	3	3	9			
14	<b>Change in management of schools.</b>												<u>Comments</u>		
	Relationship and accountabilities of academies. Managing the potential of Fraud in schools. Managing statutory responsibilities. Safeguarding responsibilities.				Ian Heggs	AMEY/Link now provide some statutory compliance services for schools.				Safeguarding in all schools is the subject of a great deal of attention by the Children's Services Department and overseen by the Local Safeguarding Board. They in turn are inspected by Ofsted.					Ongoing

h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9			
15	<b>Managed Services Programme</b>												<u>Comments</u>		
Page 108	Service impact risk assessments were conducted during June and extending to July and August 2015. These assessments captured the services perspectives of risks, 27 risk assessment invitations to participate were issued, 27 received.				Maria Benbow, Westminster City Council Programme Director	Managed Services Programme Management Office Designated Finance and Human Resources Workstream Leads Regular meetings with the Managed Services Provider Managed Services Sponsors meeting track progress against targets. Sponsors issues are regularly identified and discussed.				313 risks have been identified by services 117 risks or 37% have been rated high 138 risks or 44% have been rated medium 58 risks have or 19% have been rated low The highest number of risks, 44, concerned payments to contractors and suppliers The next highest 31 each, concerned service from the supplier and around invoicing and receipting The fourth highest was in connection with budgets 27 risks.			An Internal Audit report to Audit Committees has been prepared for the September 2015 cycle of meetings on Managed Services Risks from departments perspective.	August 2015	

**Score**

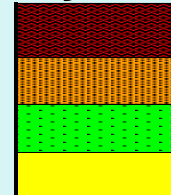
16-25

11-15

6-10

1-5

**Key**



RED - High and very high risk - immediate management action required  
 AMBER - Medium risk - review of controls  
 GREEN - Low risk - monitor and if escalates quickly check controls  
 YELLOW - Very low risk - monitor periodically

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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<b>ADULT SOCIAL CARE</b>																
h&f	✓	RBKC	✓	WCC		Rachel Wigley	4	4	16	→	3	3	9			
1	<b>Reducing resources to support people with care needs and increasing demand due to demographic pressures</b>									Comments						
Page 109	In the financial year there is a funding hole nationally for adult social care of £3bn. Through the MTFS LBH&F have already made efficiencies and savings in recent years as the resources available for social care have significantly reduced. There is a risk that further savings which will be required will make it very difficult to meet the needs of the increasing numbers of disabled and older people. As a result of demographic changes the Council is already supporting greater numbers of adults with care needs an increasing proportion of this group have very complex needs who would previously have been supported more by health services		Rachel Wigley			Further change our service model to put a greater focus on short term, re-abling, interventions to help people regain skills and look after themselves for longer delaying the need for social and health care; through both the Customer Journey programme where we are refining our approach to reablement as part of the integrated Community Independence Service and Pursue opportunities to develop more integrated and closer working with health colleagues, through initiatives such as the Better Care Fund and 'whole systems' programme. This includes the use of some health resources to fund some of the additional demand for home care as a result of these programmes. Develop a new Commissioning Strategy which is exploring different mechanisms to resource and commission services in the future using 'care pathways', and different procurement models. Develop an approach to prevention which focuses on reducing demand for social care and utilises some Public Health and wider Council resources to help achieve this. Manage resource planning through the Department of Health, ADASS network and LGA in relation to the Care Act.									August 2015	



# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
2	<b>Responding to changing legislation</b>														
Page 110	<p>The Care Act began to be implemented from April 2015. There was a comprehensive programme in place in LBH&amp;F to ensure that ASC was compliant with the new requirements. Although implementation of some parts of the Act (e.g. the 'care cap') have been delayed until 2020 by the Government; ASC are left with delivering new responsibilities such as for self funders, carers and the wider health and well being, without additional resources. There continues to be a lack of clarity from Government about available funding to support additional demands for services.</p>				Jerome Douglas	<p>Further change our service model to put a greater focus on short term, re-abling, interventions to help people regain skills and look after themselves for longer delaying the need for social and health care; through both the Customer Journey programme where we are refining our approach to reablement as part of the integrated Community Independence Service and</p> <p>Pursue opportunities to develop more integrated and closer working with health colleagues, through initiatives such as the Better Care Fund and 'whole systems' programme. This includes the use of some health resources to fund some of the additional demand for home care as a result of these programmes.</p> <p>Develop a new Commissioning Strategy which is exploring different mechanisms to resource and commission services in the future using 'care pathways', and different procurement models.</p> <p>Develop an approach to prevention which focuses on reducing demand for social care and utilises some Public Health and wider Council resources to help achieve this.</p> <p>Manage resource planning through the Department of Health, ADASS network and LGA in relation to the Care Act.</p>								August 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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h&f	✓	RBKC	✓	WCC		4	4	16	⇒	3	3	9	Comments		
3	<b>Reducing customer and carer satisfaction and reducing self reported 'outcomes'.</b>														
	Scale of change around frontline and provider services and greater emphasis on time limited interventions and reablement, may lead to reduced satisfaction of some customers, especially those who have been supported for some time. This could lead to poorer outcomes for customers and reputational risk to the Council. There is an increasing risk that customer and carer satisfaction and outcomes will reduce.				David Evans	Developing a communications strategy and plan which informs residents of changes in the approach to health and social care services locally. Closely analysing all customer and carer feedback, including that through complaints and the statutory user and carer surveys and using this to help inform our planning. Redesigning frontline social work services in the customer Journey project, based on the 'customer voice' research which identified what was important to people who use our services. Exploring more, new opportunities for co-production and design of new services with customers and carers to ensure their needs and ideas are central to our approach.									August 2015
h&f	✓	RBKC	✓	WCC		4	4	16	⇒	3	3	9	Comments		
4	<b>Workforce risks around morale, change fatigue, recruitment and retention and complexity of three borough working.</b>														
	The recent Adult Social Care Peer Review highlighted a significant recruitment and retention risk across London for social care staff. Locally there is a risk that this is exacerbated as terms and conditions are not as competitive as some authorities elsewhere. Additionally there is significant change fatigue across the ASC shared service and the added complexity of working across three boroughs. The consequences could be increasing recruitment problems and difficulty holding onto the most able staff at a time of service change.				Felicity Thomas	Established a Workforce Board which is overseeing an ASC Workforce Plan Exploring alternative ways to reward staff, for example through tailored development programmes. Improved internal staff communications from the senior management team by the use of blogs, team meetings and through the TriAngles staff newsletter. Using the results of the Your Voice survey to address service, team and staff concerns. Key change programmes have dedicated learning and development plans attached to them, i.e. Customer Journey, Commissioning Review and home care implementation.									August 2015

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

Ref	RISK				Assigned To	Residual risk assessment: Quarter 3			DOT	Target risk:			Reducing the risk		
	Risk cause and context					Likelihood	Impact	Overall		Likelihood	Impact	Overall	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
5	<b>Market unable to provide services required</b>														
	<p>The ASC market is fragile and there is a risk that it is not able to develop in the ways we will require in the future to meet local need; there is significant risk of market failure. This could result in significant unmet needs and higher dependency levels of customers making it more difficult to achieve savings. In the event of provider failure the Council will need to contingency plans in order to meet the needs vulnerable residents in the in a timely and safe manner.</p>				Selina Douglas	<p>Developed an updated Market Position Statement setting out our future commissioning intentions and direction of travel. Engaging with providers and undertaking more market warming exercises in particular through LCAS and other forums. Help providers to plan better by publishing forward plans for tenders etc. Developed a Provider Failure and Service Interruption Policy.</p>									August 2015
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
6	<b>Risks arising from the Managed Services Programme implementation.</b>														
	<p>Significant strategic risk due to continuing problems presented by the implementation of the MSP Agresso system which have not been fully resolved. Serious risk of interruption or cessation to a number of contracted services. Some suppliers have gone without payment for services provided since the system was introduced in April and the smaller, more vulnerable suppliers will have difficulty continuing in this vein for much longer.</p>				David Evans	<p>Adult Social Care and Public Health finance and commissioning managers have been arranging for ad-hoc emergency payments to be made to the smaller and more vulnerable providers and suppliers. Lobbying corporate for more training and support as well as technical solutions.</p>									August 2015

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h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
7	<b>Better Care Fund benefits could be less than expected.</b>														
	<p>Risk that BCF benefits/savings could be lower than expected re: Integrated Operational Services and Integrated contracting and commissioning of residential and nursing care.</p> <p>Benefits could be delayed or reduced and overlap with other contract efficiency savings and risk achievement of savings targets. Particular risk that CIS service does not achieve the required volumes / throughput to achieve benefits.</p>				Brad Burlingham / Martin Calleja	<p>Benefits Tracker developed across the programme. External evaluation taking place of increased demand for social care, from health. Group A savings contingent on Community Independence Service: regular data collection and review in progress via Lead Providers Oversight Group (LPOG) meeting. Savings gaps flagged at Joint Finance Oversight Group (JFOG), Joint Executive Team (JET) and Better Care Fund Board. Workshop in Autumn to consider other opportunities.</p> <p>Heads of Finance agree composite picture for savings and investment. Monitor spending against projection regularly and report any deviations as priority.</p>									August 2015
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
8	<b>Reduction in Adult Social Care expenditure and Commissioning budget leading to services being commissioned that are not 'good' quality and not able to deliver outcomes.</b>														
	Reduction in Adult Social Care expenditure and Commissioning budget leading to services being commissioned that are not 'good' quality and not able to deliver outcomes.				Selina Douglas	<p>Since 2009 Officers have continually sought ways to drive efficiencies in contracted services whilst striving to improve service quality. As need to find efficiencies has increased there is a real risk that we are not able to guarantee the quality of our service provision.</p>									August 2015



# SHARED SERVICES RISK REGISTER DASHBOARD

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h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
11	Operational services do not achieve the level of change to head count, and changes to methods of working and behaviour or is insufficient.														
	Insufficient change in practice risks the efficiency savings not being realised and targets missed.  Associated risk that ICT changes aren't delivered in time to support the practice changes.				Matthew Castle	Staff changes are factored into the Customer Journey programme at all stages with clear staff engagement and expression of what the future will look like. Dedicated IT workstream established in Customer Journey programme									August 2015
h&f	✓	RBKC	✓	WCC		3	5	15	→	3	3	9	Comments		
12	IT collaboration tools to support three borough working and partnerships with NHS														
					Brian Vallis	Actively lobbying corporate IT. Piloting system solutions (e.g. SYSONE) to support joint operational working with NHS. Exploring greater use of mobile technology. Engaged with NWL CCGs in developing NWL data warehouse to provide strategic capability and support development of whole systems working and evaluation.							It is challenging working across 3 boroughs despite there being a number of freely available pieces of software to share calendars, files and information (for example Huddle, Media fire, Doodle). We are also working very closely with Health Partners in delivering the Better Care Fund there are currently no workable file sharing applications which we can use to facilitate this work. This will effect staff and customers. Ultimately the inability to keep up with technology will reflect on the services we provide. From both an operational and strategic perspective the use of multi case management systems across the NHS and social care creates particular risks.		August 2015

Page 115

# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

Review date 06/10/2015

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<b>CHILDRENS SERVICES</b>														
h&f	✓	RBKC	✓	WCC		3	4	12 →	3	3	9	Comments		
1	If serious harm comes to a child or young person to whom we have a duty of care for, then the Council and/ or partner agencies could be seen to be at fault.													
	Potential injury to a client. Reputational harm.				CC/MC/IH/SM	Family Services Directors manage the risk within their departments and ensure controls are in place so that no serious harm comes to a child or young person. Employees have enhanced DBS checks. Ongoing SRQA and LSCB activities to ensure quality assurance.								August 2015
Page 116	h&f	✓	RBKC	✓	WCC		3	4	12 →	3	3	9	Comments	
2	If Looked after Children numbers start to rise, due to increase in Unaccompanied Asylum Seekers (UASC)													
	There will be an increasing demand for placements. In addition, even without a rise in overall numbers, ongoing or even increased demand for high cost placements, particularly for adolescents, will put pressure on placements budget. Financial overspend				CC/MC/SM	The Assistant Director of Tri-borough LAC/ Care Leavers will drive forward work within the Tri-borough Service. Review of current UASC costs for all three LA's including breakdown of how these costs are made up (care, care leavers etc) A LAC tracker and financial placements models in place to monitor numbers, need and cost. LAC numbers are monitored against national trend.								August 2015







# SHARED SERVICES RISK REGISTER DASHBOARD

## APPENDIX 1

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h&f	✓	RBKC	✓	WCC		4	4	16	⇒	3	3	9	Comments		
8	If Managed Services/Agresso is unable to provide HR and Finance services (E.g. Starters and Leavers, payment to suppliers, etc) then the ability for the department to deliver an effective service will be reduced.														
	Failure to deliver service as suppliers/customers not paid Reputational harm				AC/CC/MC/AF/IH/DMc/SM/DR/R	HR/Finance issues reported to BT. Escalation process in place for issues reported to BT and not resolved. Escalate HR issues to Stephen Wood. Escalate Finance issues to Alex Pygram and Caroline Baxter. Work to ensure organisation structure accurate underway with delivery expected by end of August (Retained Finance and HR joining working to deliver) A CHS Service Impact Risk Assessment carried out.									August 2015
h&f	✓	RBKC	✓	WCC		3	4	12	⇒	3	3	9	Comments		
19	The delivery of further Financial Savings may distract from core business activities, with the risk of service failure.														
	Failure to meet the needs and expectations of our customers and politicians Failure to deliver a statutory service				AC/CC/MC/AF/IH/DMc/SM/DR/R	Use of financial planning process to identify risks associated with any savings proposals and to ensure that they are achievable Ensure full Impact Assessment of any savings proposals. Effective planning for the delivery of savings.									August 2015

# SHARED SERVICES RISK REGISTER DASHBOARD

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<b>CLEANER, GREENER, CULTURAL SERVICES</b>															
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
1	There is a risk that we are unable to manage residents' expectations in a time of pressure on service delivery of waste collections leading to damage to the Council's reputation.														
	Additional risk anticipated, especially to street cleansing, if further savings needed. Damage to council's reputation and poor resident satisfaction				Sue Harris	Aug 2015 - Continue to monitor customer satisfaction through surveys, complaint and praise, and general feedback. Action planning in place following on from customer survey feedback. A refreshed communications plan has been drafted. Discuss what citizens can do at September PAC.							August 2015		
<b>Risk that recycling rate will continue to reduce</b>															
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
	Financial Impact				Kathy May							Aug 2015 - Proactive campaigns being prepared; DCLG bid in H&F for recycling reward scheme successful. Two Waste Action Officers recruited July / Aug 2015. Communications plans being developed with Corporate Comms teams. Golden Ticket plans well developed. Explore opportunities for enforcement with LWaRB	August 2015		

# SHARED SERVICES RISK REGISTER DASHBOARD

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<b>SAFER NEIGHBOURHOODS</b>															
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
1	Risk that the Fulham Coroners Office is not delivering to service KPI's and customers expectations.														
	Impact to the Mortuary process of delivering bodies to funeral parlours within expected timescales. Reputational risk to the council due to poor service received by residents,				Alistair Ayres								News story in Mail on Sunday related to the Senior Coroner losing documents related to Alice Gross Inquest fortunately did not reflect poorly on LA but did put service in the spotlight. Liaising with Comms team re any future press interest.	October 2015	
<b>SAFER NEIGHBOURHOODS</b>															
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
2	Risk that Hammersmith Park Sports Facility is not successfully delivered.														
	Impact to the Mortuary process of delivering bodies to funeral parlours within expected timescales. Reputational risk to the council due to poor service received by residents.				Ullash Karia								Project Board meet regularly. Consultation taking place May/June involving councillors.	October 2015	
<b>CUSTOMER AND BUSINESS DEVELOPMENT</b>															
h&f	✓	RBKC	✓	WCC		4	4	16	→	3	3	9	Comments		
1	Risk that income targets for registrars is not achieved due to staff shortages and HR issues. Not enough Registrars taking Notices due to HR issues therefore risk of not delivering on budget.														
					Mary Byrne								Sept 15 - income monitored monthly though difficult due to Agresso issues. HR issues still difficulty in running a service and completing training needs for officers.	October 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

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h&f	✓	RBKC		WCC		4	4	16	⇒	3	3	9	Comments		
2	Risk that income targets for the duct asset contract are not achieved														
					Mary Byrne	Sept 15 - meeting scheduled with Cllr and ITS for Sept 15 July 2015 - MB - Waiting on feedback from Members, wayleave still needs to be signed in order to start ducting works. In discussion with legal colleagues on next steps.									August 2015
<b>PUBLIC HEALTH</b>															
h&f	✓	RBKC		WCC		4	5	20	⇒	3	3	9	Comments		
Page 122	1	<b>IN-YEAR 2015-16 CUT TO PUBLIC HEALTH BUDGETS</b> If information on proposed reductions are not confirmed asap by Public Health England.													
		There could be a serious risk to disruption to PH projects and /or cessation of PH commissioned services before year-end and PH's ability to deliver against the Councils' medium term plans				Jon Laker	PH Finance Business partners currently undertaking scenario planning and preparing various provisional budget proposals, pending the outcome of a national consultation process initiated by PHE at end of July on the four possible options proposed for the budget cuts. A response to the consultation proposals is being prepared for SMT sign-off								August 2015
h&f	✓	RBKC		WCC		4	4	16	⇒	3	3	9	Comments		
2	<b>MSP SYSTEM IMPLEMENTATION/ HR</b> Continued functional failures with the new MSP HR modules.														
		Likely to result in significant staff administration and recruitment problems and delays, including sick leave monitoring and reporting line.				Dr Mike Robinson, Director of Public Health	1. PH staff working with Finance and HR Business Partners to implement correct line management and organizational structures 2. PH SMT is taking internal steps to deal with this risk. However PH SMT is not in a position to deal directly with the MSP functional problems that have given rise to this risk.							Likely to result in significant staff administration and recruitment problems and delays, including sick leave monitoring and reporting lines	August 2015

# SHARED SERVICES RISK REGISTER DASHBOARD

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<b>INFORMATION MANAGEMENT AND TECHNOLOGY</b>															
h&f	✓	RBKC	✓	WCC	✓		4	4	16	→	3	3	9	Comments	
1	<b>Co-ordination and control of IT procurement across the three Councils.</b>														
	The method of procurement varies from Council to Council, this includes the use of the Councils new e-procurement system. CapitalESourcing is used to record procurement activity but not currently for H&F Bridge Partnership.					Ed Garcez, Tri-borough Chief Information Officer	We are now tightly aligned across RBKC and WCC (and where procuring through the shared ICT service in H&F too). The recent Office 365 procurement demonstrates this alignment. It is inevitable that HFBP will adopt their own procurement approach. This will not change before the contract ends in October 2016. The risk is noted and will as best possible be mitigated by the establishment of the shared ICT service which is now progressing well.							August 2015	
<b>Page 123</b>															
h&f	✓	RBKC	✓	WCC	✓		4	4	16	→	3	3	9	Comments	
	<b>Denial of service vulnerability as networks converge.</b>														
	Unmitigated. Risk has been recognised and is under consideration.					Ed Garcez, Tri-borough Chief Information Officer	A report on Cyber threats was prepared and taken to h&f Audit, Pensions and Standards Committee for consideration. This has not yet materialised. Currently waiting on PSN CoCo approval. Review in December 2015.							August 2015	
h&f	✓	RBKC	✓	WCC	✓		4	4	16	→	3	3	9	Comments	
3	<b>Failure to manage Information following outsourcing. Assurance from service providers.</b>														
						Ed Garcez, Tri-borough Chief Information Officer	Information sharing agreements are in place however compliance checking is not effectively undertaken. Guidance has been prepared for the Procurement Working Group (led by RBKC Cabinet Members). This will be introduced for all procurements. To review in March 2016.							August 2015	

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h&f	✓	RBKC	✓	WCC	✓	4	4	16	→	3	3	9	Comments		
4	Records management and control.														
					Ed Garcez, Tri-borough Chief Information Officer	Engagement with the Information Commissioners Office and other boroughs. Shared Services Information Management Board. Shared Services Information Management Strategy is now approved. A work programme is in place and initiatives developed and allocated to Officers. Greater co-ordination with the three Information Management teams and Adult Social Care and Childrens Services Departments.				A Shared Services Head of Information Management has now been appointed.				August 2015	
h&f	✓	RBKC	✓	WCC	✓	4	4	16	→	3	3	9	Comments		
	IT functions across the 3 Councils are not operating as a single entity.														
					Ed Garcez, Tri-borough Chief Information Officer	Appointment made of a Tri-borough Chief Information Officer. Shared Services now have IT relationship managers and a problem manager in place to assist departments Corporate Services programme proposes to establish a new organisational structure following a target operating model that has been agreed by the Royal Borough and h&f councils. This is now resolved, and ICT are a single entity. Status unchanged for now, to review in March 2016 when service fully populated.				A Shared Services Head of Information Management has now been appointed.				August 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

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<b>HOUSING</b>															
h&f	✓	RBKC		WCC		4	4	16	→	3	3	9	Comments		
1	Welfare Reform /Local Housing Allowance Changes														
	Increased demand & decreased supply. Changes in the welfare benefit system. Impact on Homelessness acceptances, Temporary accommodation expenditure and the HRA.				Mike England / Kathleen Corbett	HB Assist linked with new prevention strategy, Incentive package for private landlords is in place. Housing Options have strengthened front of house to provide more tailored advice, assistance and homelessness prevention services, full membership of a West London Procurement framework with a panel of third party providers providing accommodation inside and outside London Sent out DD forms to every tenant with the rent increase letter, improved direct debit set up on i-world, implementing the ability to set up DD's over the phone, DD campaign, Housing management under occupation focus with 2 additional posts added in to specifically address this risk				Increase in demand currently being managed. New Welfare Reform Project Board has now been created to manage the approach to the Overall Benefit Cap and the rollout of Universal Credit.			Development of procurement strategy. Report to Cabinet in June 2015 on approaches to Lots1 & 2, including the approach to the redevelopment of Lavender Court where there is a potential for a number of units as an alternative to B&B. Lot 2 involves an agreement with third party suppliers offering to buy property for use as temporary accommodation. Partnership with RP's engaged in a proactive asset management strategy may yield additional units, increase the number of nominations made available to the Council to vacancies in stock owned by Registered Providers.		August 2015



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h&f	✓	RBKC		WCC		4	5	20	⇒	3	3	9	Comments		
2	Earls Court Regeneration				Juliemma Mcloughlin / Kath Corbett	HRD Project Management Team meets fortnightly, quarterly monitoring report to HFBB and Members, original scheme project risk register held by project manager (TK). CAPCO paid a fee of £15m on entering into the exclusivity agreement. Governance Structure included in the CLSA £10m is refundable only in restricted circumstances and £5m is not refundable under any circumstances. Sensitivity modelling has been done on the HRA business plan for this and the other CFR risks (the JV review ) and to date some rephasing of realisable receipts has been contained. There is however a significant risk if no receipts are received or if there is further rephasing required that this would render the HRA business plan unviable without either income from sales or significant cuts in the capital programme, scenario modelling on this was shared with the Cabinet member for Finance as part of the preparation of the HRA business plan agreed by Cabinet on 5th Jan 2015 and will be shared again as part of this round of HRA business planning. Nos. seen / shared with Cabinet since as part of quarterly reporting.				The scheme is currently under review following the change of Administration, this may lead to either the loss of receipts or to receipts being received as realisable capital receipts later than currently predicted in the HRA business plan. Receipts in the HRA business plan have been reprofiled to reflect the lower expected initial realisable receipt based on recent phasing information and the remainder of the receipts have been pushed out to later years, however there remains a significant risk of a reduced or delayed receipt until negotiations conclude and the recently received S34A application is concluded			Continue to monitor and review. As part of business plan modelling repeat the sensitivities run this year	August 2015	
h&f	✓	RBKC		WCC		4	5	20	⇒	3	3	9	Comments		
3	Investing and maintaining our Council Homes				Stephen Kirrage / Kathleen Corbett	To continue to undertake a review of the existing Asset Management Strategy & long term financial investment plan - stock condition survey update has recently been completed and options are being assessed in detail								Stock condition survey includes a specific sample of properties that had decent homes works, we are waiting the results of the detailed structural surveys of a number of blocks, the HRA business plan will then need to be reviewed again	August 2015

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h&f	✓	RBKC		WCC		4	4	16	→	3	3	9	Comments		
4	Delivering new homes														
	There is also a risk that the recent Government Announcements regarding high value vacant social housing may mean we end up having to sell immediately after development				Kathleen Corbett / Juliemma Mcloughlin	Sensitivity modelling done on the HRA business plan, quarterly briefing report to Officer Briefing Board highlights the risk. If Government announcement on selling vacant high value social rented homes put the programme at risk we could revert to shared ownership							Review of Joint Venture opportunity Sites with a view to delivering the Affordable homes as Social Housing rather than Low Cost Home Ownership. The current proposal is that this would be achieved by making the replacement for Edith Summerskill House into social housing and funding this using the land receipt from Watermeadow Court (which would be 100% private sale). This will result in the loss of a £12.75m receipt currently included in the HRA business plan with a consequent increase in the HRA CFR. It will also result in the loss of the £7.5 m receipt currently assumed in the General Fund capital Programme from Watermeadow Court, the general fund capital programme would therefore also require revision	August 2015	

# SHARED SERVICES RISK REGISTER DASHBOARD

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h&f	✓	RBKC		WCC		4	5	20	⇒	3	3	9	Comments		
5	Delivering a quality Housing service (includes repairs and caretaking etc)														
Page 128	Managed services implementation continues to impact significantly on both our service delivery to residents and on our ability to collect both rents and leaseholder service charges.				Hitesh Jolapara / Kathleen Corbett	Project is managed by a team based in Westminster who have implemented the system across LBHF, RBKC and Westminster. Arrears letters for tenants are now reinstated as the missing payment files was believed be resolved however it has continued to reoccur. The arrears chasing letters mean we lose goodwill but do at least mean we pick up on the missing files. For Leaseholder Service Charges we will need to carry out a similar exercise. We continue to feedback our payment, recruitment and other issues to the Westminster team.				We have had on-going issues with missing rent payments which makes it hard for us to firmly chase debt and take cases to court, it also makes it hard for our tenants to keep control of their finances. We have been unable to properly chase service charge arrears since March 2015 (and only very recently have been able to see balances on screen), we do not know the accuracy of the service charge balances but it is very possible that there are issues with payments similar to those we have had with rents. There is a very significant risk that bad debts will increase and a significant risk of pressure on PSL costs as we have lost landlords directly as a result of payment delays caused by Agresso. There is also a significant risk attached to staff recruitment as the new processes are causing significant delays and there is a risk that good candidates will be lost and agency staff costs incurred as posts remain vacant longer			Continue with arrears letters for tenants and pushing Westminster project team to resolve the issues. For Leaseholders we will need to carry out a similar calling around exercise before the first Dunning letters are sent. For all other issues we need to continue to push and feedback to BT and the project team	August 2015	
<b>SHARED SERVICES LIBRARIES</b>															
h&f	✓	RBKC		WCC		3	4	12	⇒	2	2	4	Comments		
1	Access to librariescatalogue will fall over (CALM not supported or upgraded)														
					Mary Enright	Data exported to Excel April14							Explore Sirsi potential	October 2015	


# SHARED SERVICES RISK REGISTER DASHBOARD

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<b>h&amp;f PROCUREMENT</b>															
h&f	✓	RBKC		WCC		4	4	16	↓	2	2	4	Comments		
1	Impact on the Commissioning and Procurement of Services and Contract with the introduction of the National Living Wage in April 2016.												New risk, controls to be reviewed and established.		
	Potential increases in cost of delivering services, smaller firms may lose staff impacting on quality and performance.				John Francis and Alan Parry										October 2015

# Agenda Item 10

<b>London Borough of Hammersmith &amp; Fulham</b> <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b> <b>14 December 2015</b>	 hammersmith & fulham
<b>CORPORATE ANTI-FRAUD SERVICE REPORT 1 APRIL 2015 TO 30 SEPTEMBER 2015</b>	
<b>Report of the Director for Finance – Hitesh Jolapara</b>	
<b>Open Report</b>	
<b>Classification:</b> For information	
<b>Key Decision:</b> No	
<b>Wards Affected:</b> None	
<b>Accountable Director:</b> Hitesh Jolapara, Director for Finance	
<b>Report Author:</b> Andrew Hyatt, Head of Fraud	<b>Contact Details:</b> Tel: 0208 361 3795 <a href="mailto:andrew.hyatt@rbkc.gov.uk">andrew.hyatt@rbkc.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1 This report provides an account of anti-fraud related activity undertaken during the period 1 April 2015 to 30 September 2015.
- 1.2 Performance for the Corporate Anti Fraud Service (CAFS) is measured in numbers of sanctions and positive outcomes delivered (i.e. prosecutions, penalties, formal cautions or other action taken directly).
- 1.3 Since April 2015 CAFS identified 48 positive outcomes, including seven prosecutions, over 27 recovered tenancies and seven Proceeds of Crime (POCA) recoveries totalling £279,842.
- 1.4 Of the 142 cases referred to CAFS for potential investigation 77 were accepted and 65 were rejected due to lack of information or lower risk scoring. A higher percentage of cases were accepted during the period due to the refocusing of resources, and the transfer of all benefit investigations to the DWP, including live investigations at the point of transfer.
- 1.5 The total notional value of the fraud identified equates to **£3 million**. Full details are reported at Appendix A, for information.

## **2. RECOMMENDATIONS**

- 2.1 Note the fraud work undertaken during the year 1 April 2015 to 30 September 2015.

## **3. REASONS FOR DECISIONS**

- 3.1 To inform the Committee of the actions of the Council's counter fraud response.

## **4. INTRODUCTION AND BACKGROUND**

- 4.1 Local authorities have a responsibility to embed effective standards for countering fraud and corruption in their organisation in order to support good governance and demonstrate effective financial stewardship.
- 4.2 To achieve this it is imperative that the Council have an Anti-Fraud Strategy, and make arrangements for appropriate resources to support the strategy and mitigate the inherent and emerging fraud risks.
- 4.3 CAFS continues to provide Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.

## **5. WHISTLEBLOWING**

- 5.1 The Council's whistleblowing policy, known as "Reporting your Concerns at Work" identifies the Shared Service Director for Audit as one of the main contacts for staff wishing to report a concern that they believe they cannot discuss with their line manager.
- 5.2 The number of referrals continue to remain low however when a referral is received they are generally of high significance leading to further investigation.
- 5.3 From 1 April 2015 to 30 September 2015 no formal whistleblowing referrals (as defined in the policy) have been received.

## **6 HOUSING AND TENANCY FRAUD**

- 6.1 CAFS continues to improve its links with all partners responsible for Social Housing including the dedicated investigation and intelligence resource employed within H&F Housing Department.
- 6.2 CAFS deal with any reactive allegation received and seeks to recover misused tenancies and prosecute where there is believed to be criminal

activity. CAFS continue to receive referrals about a variety of housing elements including;

- Housing applications
- Under and over occupancy
- Assignment and succession
- Right to Buy
- Sub-letting
- Abandonment

6.3 A summary of the Housing/Tenancy Fraud cases identified by CAFS and H&F Housing and Regeneration Department for the period 1 April 2015 to 30 September 2015 are shown in the table below, along with an attributed value to the Council of the identified fraud during 2014/15.

Details	14/15	15/16	Value
Fraudulent Housing Applications	7	2	£36,000
Properties recovered unopposed	26	19	£1,007,000
Properties recovered following court proceedings	28	8	£360,000
Succession refusals	2	-	-
Right to Buy	13	7	£735,000
<b>TOTALS</b>	<b>76</b>	<b>36</b>	<b>£2,138,000</b>

Figures based upon Audit Commission measurements

6.4 In addition to the financial value placed upon the recovery of fraudulently misused social housing there are also social and non-financial benefits which do not hold an intrinsic value.

#### Registered Providers (RPs)

6.5 CAFS also continues to provide professional investigative support to RPs, including Housing Associations and Charitable Housing Organisations.

6.6 Where CAFS undertake a successful investigation the RP allocates the nomination rights of the recovered property to the Council. This is in addition to any nomination rights the Council may have agreed.

6.7 Results for the period 1 April 2015 to 30 September 2015 are shown in the table below.

Details	14/15	15/16	Value
Properties recovered unopposed	3	4	£212,000
Properties recovered following court proceedings	2	5	£225,000
Succession refusals	1	1	£53,000
<b>TOTALS</b>	<b>6</b>	<b>10</b>	<b>£490,000</b>

6.8 Details of some of these cases are reported at Appendix B.

### **Housing Fraud Prevention**

6.9 Following the reduction in resources as a result of the Department for Work and Pension reorganisation of benefit investigations, CAFS have focused upon improving the Councils preventative processes in order to increase our resilience to fraud.

6.10 In June 2015 CAFS provided H&F Direct with an on-line tool for the assessment of all new housing applications. The National Fraud Initiative's (NFI) Application Checker allows frontline staff to check and verify the details of all new applications for housing.

6.11 The NFI is a sophisticated data matching exercise devised by the Audit Commission and currently overseen by the Cabinet Office, which matches electronic data within and between public and private sector bodies to prevent and detect fraud.

6.12 By using the Checker, Housing Officers can access the data held by NFI and verify the information provided by the applicant. This reduces the risk of fraudulent applications and streamlines the process of checking them. It is easy and quick to use, instantly providing key information about the applicant.

6.13 In addition to the NFI Checker, CAFS are also in the process of rolling out the West London Hub "Track a Fraudster" system which will provide additional support for Housing Officers processing new applications.

6.14 The Hub extracts data from participating Councils. The data includes tenancy data, common housing register information and Council Tax Replacement Scheme (CTRS). It then matches this data between authorities in order to identify anomalies. For example, if a H&F tenant is receiving CTRS from another Council, it suggests the possibility of tenancy or housing fraud and the matter can be further investigated before any application is approved.

## **7 PROCEEDS OF CRIME**

7.1 The use of dedicated Financial Investigators continues to provide rewards with just over £279k awarded as a result of Proceeds of Crime intervention.

7.2 Financial investigators continue to actively pursuing opportunities to assist other departments across the Council, working closely with the Legal Services as suitable cases are identified.

### **LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.



## APPENDIX A

### Financial Value placed upon of Counter Fraud Work for the period - 1 April 15 to 30 September 15

<u>RECOVERABLE LOSSES (£)</u>		<u>POCA (£)</u>	
HB overpayments (sanctioned)	348,111	POCA recovered	248,476
HB overpayments (non-sanctioned)	23,045	Confiscation	-
Direct Payments	-	Compensation	2,305
Internal (claims)	-	POCA costs awarded	6,298
	<b>£371,156</b>	POCA profit	22,763
			<b>£279,842</b>
<u>SAVINGS (£)</u>		<u>MISC. INCOME (£)</u>	
<b>Cash savings</b>		Court Costs	1,658
Local Taxation - NNDR, CTRS	1,598		
Accessible Transport	1,154		
Parking - business/residential	800		
	<b>£3,552</b>		<b>£1,658</b>
<b>Notional savings</b>			
Council Housing	36,000		
Council Tenancy	1,367,000		
RP Tenancy	490,000		
	<b>£1,893,000</b>		
<b>Preventative</b>			
RTB	735,000		
	<b>£735,000</b>		
<b>Fraud identified</b>	<b>£3,002,708</b>	<b>Income generated</b>	<b>£281,500</b>

#### Tenancy and Housing fraud notional values

Tenancy and Housing fraud has been valued using notional values quoted by the Audit Commission.

- **Tenancy fraud:** £45,000 per property based upon the average cost of temporary accommodation (£18,000 p.a.) multiplied by the average length of re-housing an average sized family (2.5 years). An additional £8,000 saving is also claimed when keys are returned based upon average cost of legal action and bailiff intervention to recover property via the court.
- **Succession or assignment fraud:** each time a fraudulent assignment or succession is stopped it frees up an additional unit and therefore this is valued at £45,000 for the reasons above.
- **Housing fraud (false applications):** £18,000 based upon the annual cost of housing a family in temporary accommodation.

Anti-fraud Activity 2015/2016 – Case Examples

	Case Description	Result/Outcome
1.	<p><b>BENEFIT FRAUD (Legacy Case)</b> – An anonymous referral suggested that a benefit claimant had used multiple identities to falsely claim benefit in LBHF and the Royal Borough of Kensington and Chelsea.</p> <p>A joint investigation ensued which revealed that the named subject had created fake identities to systematically defraud local and central government agencies.</p> <p>Over a 19 year period he had falsely obtained housing and council tax benefit, jobseekers allowance, incapacity benefit, disability living allowance, a blue badge and a freedom pass.</p> <p>The defendant was arrested, and during the subsequent 10 day trial, continued to deny that the various identities belonged to him. However, investigators provided the jurors with a range of evidence in order for them to decide. This included;</p> <ul style="list-style-type: none"> <li>• Photographic evidence, including an expert witness who used using highly sophisticated computer technology to concluded that all the photographic identity documents contained images of the same person, the defendant. In particular it showed that in image the defendant, who was bald, had used digital imaging to add hair.</li> <li>• Medical evidence, including medical records confirmed a birthmark on the inner calf of the defendant. The same</li> </ul>	<p>Throughout the trial the defendant maintained that all the other identities belonged to real people, but failed to produce them at court.</p> <p>The jury took less than 2 hours deliberating to return a unanimous verdict, finding the defendant guilty of all 18 charges of fraud.</p> <p>On 11 June 2015 at Isleworth Crown Court, HHJ Moore sentenced him to seven years imprisonment, stating that he had “demonstrated dishonestly at an extraordinary level”.</p> <p>The defendant was sentenced to seven years imprisonment.</p>


	<p>birthmark recorded on the medical records of the other identities.</p> <ul style="list-style-type: none"> <li>• Handwriting analysis, including an expert witness concluded that all the various applications, in different names, had been penned by the same person.</li> </ul>	
2.	<p><b>TENANCY FRAUD</b> – A female approached the Homeless Team seeking housing assistance. Her application showed her previous address as Muscal House, W6.</p> <p>Muscal House is a Council property, but H&amp;F records showed no information of the lady at the address. Further enquiries by the housing officer discovered that the applicant had been sub-letting the flat from the H&amp;F tenant, having found the property advertised on a letting website, Gumtree.</p> <p>The matter was immediately referred to CAFS who undertook further investigations which discovered the following;</p> <ul style="list-style-type: none"> <li>• Gumtree verified the name of the person placing the advert and confirmed the mobile number used in the advertisements (this matched to the H&amp;F tenant)</li> <li>• Using powers under the Prevention of Social Housing Fraud Act bank statements for the tenant were obtained. These showed the rental payments being made to the account from sub-tenants.</li> <li>• Visits to the address found another sub-tenant but she would not co-operate with the investigators or provide any information.</li> </ul>	<p>In July 2015 the tenant was interviewed under caution in the presence of his solicitor.</p> <p>He refuted the allegations that he was sub-letting his Muscal House property, saying that he had placed adverts on Gumtree in order to meet people because he was shy. He went on to say that the money he had received was loan repayments from friends.</p> <p>At the end of the interview the solicitor asked for additional time to consult with his client and a few days later a signed Notice to Vacate was provided along with the keys to the property which was recovered forthwith.</p> <p>The bank statements showed only a few periods of potential sub-letting, and therefore it was deemed not in the public interest to pursue a criminal conviction.</p> <p><i>[Recovered: one bedroom property]</i></p>

	Case Description	Result/Outcome
3.	<p><b>TENANCY FRAUD</b> – CAFS received a referral which suggested that the tenant of Council property in Strode Road, Fulham was sub-letting the address.</p> <p>When investigators visited the house, the tenant showed them around but refused them entry to the garden and shed and stated he didn't know where the key was to a locked bedroom on the second floor. He said a male friend found in one of the rooms was visiting from east London, but could not provide the officers with his surname, nationality or where he lived.</p> <p>The investigators later cross-referenced the mobile telephone number of the tenant, which was provided when he'd applied for a parking permit, against advertising website Gumtree and found adverts for rooms to rent, which the officers recognised as those they had seen earlier.</p> <p>Working in partnership with the police and the DWP, the property was raided in the early hours of October 2014 and the full scale of the fraud was uncovered.</p> <p>The tenant had been renting rooms out for between £645-£700 per room per month, plus £80-£100 a month towards utilities and deposits of £300-£540 per room.</p> <p>To maximise his illegal income, by making as many rooms as possible available to let, the tenant was living in the garden shed. He had converted it into living quarters with an en-suite bathroom and built-in wardrobe so he could live in comfort while he raked in more than £95,000 in benefits, plus the income from his sub-letting.</p>	<p>Evidence amassed from financial records and correspondence seized at the address showed the deception had continued for 12 years, and resulted in an overpayment of benefits in excess of £95,000 (£44,705.55 housing benefit, £10,997.63 council tax benefit and £39,737.61 jobseekers allowance).</p> <p>On 21 August 2015 at Isleworth Crown Court the tenant was jailed for 10 months. The judge reduced the sentence from 15 months to 10 months on account of the tenant's early guilty plea, age and various medical conditions.</p> <p><i>Possession action is on-going.</i></p>

	<b>Case Description</b>	<b>Result/Outcome</b>
4.	<p><b>TENANCY FRAUD (Family Mosaic)</b> – CAFS received a request for assistance from a housing officer at Family Mosaic who had been unable to contact a tenant in Braybrook Street, W12.</p> <p>The officer suspected that the tenant was sub-letting, and that the sub-tenants were colluding by not answering the door.</p> <p>Enquiries by CAFS established that the tenant was residing in Waldo Road, NW10, and that he owned a share of the property.</p> <p>Additional documentary evidence was obtained including employment, parking permits and financial data that all showed the tenant was living at the Waldo address as his main and principle home.</p>	<p>The evidence amassed by CAFS was presented at the possession hearing in July 2015 where the judge awarded Family Mosaic with outright possession, and the defendant given 14 days to vacate.</p> <p>The tenant failed to vacate by the Court's deadline and in September 2015 a bailiff's warrant was served at the address allowing Family Mosaic to take possession.</p> <p><i>[Recovered: two bedroom property]</i></p>
	<b>Case Description</b>	<b>Result/Outcome</b>
5.	<p><b>HOUSING FRAUD</b> – CAFS were alerted to a housing application which appeared suspicious. The female applicant suggested she, and her two children, were living with her mother but that this address was now overcrowded.</p> <p>There were several anomalies in her account of events, and Council records showed no reference to her residency in H&amp;F.</p> <p>The case was passed to CAFS who discovered her to be owner of a property in Corby, Northamptonshire which she had failed to mention.</p>	<p>The subject was interviewed under caution where she admitted that if she had declared the property ownership she knew she would not be eligible for housing.</p> <p>On 23 June 2015 at Hammersmith Magistrates Court she pleaded guilty to two charges of Fraud by False Representation (Fraud Act 2010) and was sentenced to a conditional discharge of six months.</p>

	<b>Case Description</b>	<b>Result/Outcome</b>
6.	<p><b>TENANCY FRAUD (Lookahead Housing)</b> – CAFS received a request for assistance from a housing officer at Lookahead Housing concerned their property in Byam Street, Fulham was being sub-let.</p> <p>Investigations uncovered a sub-tenant living in the property who he had even added himself to the electoral register.</p> <p>Investigators were unable to contact the tenant, but during visits to the address neighbours made themselves known to officers and said the tenant hadn't been seen for over two years. Instead a young male had been residing there.</p>	<p>The housing association served a notice to quit and using evidence amassed by CAFS were granted possession of the property.</p> <p>A bailiffs warrant was served and vacant possession obtain in July 2015.</p> <p><i>[Recovered: one bedroom property]</i></p>
	<b>Case Description</b>	<b>Result/Outcome</b>
7.	<p><b>HOUSING FRAUD</b> – CAFS were alerted to a housing application which appeared suspicious. The female applicant suggested she was living in Australia but returned to the UK to live with her family in Woodger Road, W12; This address was now overcrowded and the applicant demanded to be housed.</p> <p>The case was referred to CAFS because the housing officer became suspicious of several anomalies and suspected the applicant owned property overseas.</p> <p>Using open source intelligence and reviewing financial records, CAFS discovered the applicant owned a property in Victoria, Australia which had been purchased in January 2014 for AUS\$441,000.</p>	<p>The subject was invited to attend an interviewed under caution which she failed to attend. Instead she sent a pre-prepared statement withdrawing her housing application.</p>

	<b>Case Description</b>	<b>Result/Outcome</b>
8.	<p><b>RIGHT TO BUY</b> – As part of the preventative work undertaken by CAFS, all Right to Buy applications are vetted.</p> <p>An application from a tenant living in Margravine Road prompted the investigating officer to request further information in accordance with the Anti-Money Laundering regulations.</p> <p>A response to this enquiry revealed the tenant to own a second property and following further investigations discovered the tenant was not using her H&amp;F property as her main and principle address.</p>	<p>The Right to Buy was withdrawn forthwith and legal action remains on-going to repossess the property.</p>
	<b>Case Description</b>	<b>Result/Outcome</b>
9.	<p><b>TENANCY FRAUD (Notting Hill Housing Group - NHHG)</b> – A referral from NHHG suggested that a property in Cromwell Grove was being sub-let.</p> <p>Initial enquiries found the address being advertised on the letting website Gumtree, and when officers visited the address they found two subtenants occupying the property but they would not co-operate with officers.</p> <p>The tenants was interviewed under caution but gave a range of excuses including the subtenants being just friends, and that the advert on Gumtree was placed by a vengeful ex-partner.</p>	<p>Whilst the tenants explanations seemed implausible NHHG felt that it was not in the public interest to pursue legal action and instead issued a consensual suspended possession order for 12 months.</p> <p>If the tenant re-offends during this time the signed document can then be presented to court, along with evidence of a breach, in order to get a Notice to Vacate imposed.</p>

<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p>14 December 2015</p>	
<p><b>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT</b></p>	
<p><b>Report of the Director for Audit, Fraud, Risk and Insurance</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification:</b> For information</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> None</p>	
<p><b>Accountable Director:</b> Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance</p>	
<p><b>Report Author:</b> Geoff Drake, Senior Audit Manager</p>	<p><b>Contact Details:</b> Tel: 020 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report summarises Progress on implementing recommendations arising from the External Audit Report 2014/15 and the Annual Governance Statement

## 2. RECOMMENDATIONS

- 2.1. To note the contents of this report.

## 3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

## 4. INTRODUCTION AND BACKGROUND

- 4.1. In September 2015 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2014/15'. The report contained two recommendations for implementation by management.



- 4.2. The Council's 2014/15 Annual Governance Statement (AGS) also contained one issues that required action by management. Action plans are a necessary result of the AGS and should provide sufficient evidence that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.
- 4.3. Failure to act effectively on the significant control issue would increase the exposure of the council to risk. As these issues are considered to be significant, the action plans and the progress made in implementation will be periodically reported to the Audit, Pensions and Standards Committee to agree and then to monitor progress.

## **5. PROPOSAL AND ISSUES**

### **5.1. Update on External Audit recommendations**

5.1.1. The table attached as Appendix A shows the progress reported by the responsible managers in implementing the recommendations from the KPMG 'Report to those charged with governance (ISA 260) 2014/15'. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

### **5.2. Update on Annual Governance Statement recommendations**

5.2.1. The table attached as Appendix B shows the progress reported by the responsible managers in implementing recommendation from the 2014/15 Annual Governance Statement.

5.2.2. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

## **LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.

### **LIST OF APPENDICES:**

**Appendix A** - External Audit Recommendations

**Appendix B** - Annual Governance Statement Recommendations

## External Audit Recommendations Update

Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
<i>Report to those charged with governance (ISA 260) 2014/15</i>			
We recommend that the Council implement a more stringent review over the preparation of politically sensitive disclosures and increase communication between the Finance and HR teams to ensure that information presented in these notes is accurate.	The Council will review the process for preparing politically sensitive disclosures, making improvements where necessary and strengthening communication between Finance and HR colleagues. Date for Completion: March 2016	Director for Finance	Work is underway to improve the production of politically sensitive disclosures. This includes determining the composition of the Senior Officers note for 2015/16. This remains on target for March 2016.
<p>The Authority should consider implementing an asset management system with the required functionality to</p> <p>Improve efficiency of officers throughout the year and increase accuracy in the financial reporting process</p> <p>reducing the risk of error.</p> <p>(Carried over from 2012-13)</p>	We accept the recommendation. The spread sheets have generally served the Authority well but as part of the transition to Managed Services an asset management system will be introduced. The Council will continue to use spread sheets which will be refined and improved where possible.	Director for Finance	This will delivered via the Agresso system once priority areas of that system have been fully implemented and/or stabilised. Corporate Finance will continue to use the established spreadsheets for fixed asset accounting in 2015/16 and thereafter will 'parallel run' them with Agresso.

## 2014/15 Annual Governance Statement Action Plan

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Managed Services</b></p> <p>The BT Managed Services Programme (MSP) is intended to standardise operations and reduce costs across Hammersmith and Fulham (LBHF), the Royal Borough of Kensington and Chelsea (RBKC) and Westminster City Council (WCC). The chief executive of WCC has been the Senior Responsible Officer (SRO) for the project throughout the programme. The programme aims to provide a standard system irrespective of the council or the service.</p> <p>The system that was chosen provides a common transactional Human Resources, Payroll and Finance service. It was originally planned that it would provide a saving of over £6 million by 2015/16 across the three councils but there have been significant and costly problems with this project and that saving is no longer likely.</p> <p>There were four audits of the programme undertaken during the year of which a limited assurance was determined of the control environment associated with systems readiness, change management and testing. The 'Go Live' date was postponed from 1 April 2014 and then September 2014 with the majority of the</p>	To be provided	<p>This progress report deals with the resolution of the challenges that have arisen with respect to the delivery of the Managed Services Programme since go-live on 1<sup>st</sup> April 2015. The decision to go live with the system was taken in the knowledge that the SERCO contract with Westminster could not be extended and there was no resource available to update the H&amp;F and RBKC systems such that they could be relied on after March 2015. It was recognised that this was not an ideal position and it has given rise to significant problems. A programme stabilisation plan has been created around the workstreams and the programme governance arrangements that existed before go live including risks and issues management and stage gate reviews. Programme reporting and programme assurance have been strengthened. A summary of the deliverables for each workstream is given below is given below.</p> <ol style="list-style-type: none"> <li>1. <b>Finance</b> – this workstream is tasked with ensuring that the all finance processes and core data are fully operational and stable (Purchase to Pay; Record to Report, Order to Cash, Fixed Assets, Income Manager, Access and Authorisations, Planning and Forecasting).</li> <li>2. <b>Organisation structure</b> – a corrected organisation structure supported by appropriate online forms, standard operating procedures and establishment reporting.</li> <li>3. <b>Human Resources</b> – This workstream is tasked with the delivery of stable HR processes, the resolution of system configuration issues and enabling reporting and alerts.</li> <li>4. <b>Payroll</b> – stabilisation of pay impacting incidents, improving self-service accuracy, rationalisation of payroll codes, resolution of pension issues and 3<sup>rd</sup> party pension</li> </ol>	<ol style="list-style-type: none"> <li>1. <b>Finance</b> – Core Data and functionality is live throughout the Purchase to Pay and Order to Cash processes including most of the integration with Line of Business Systems. Debt Recovery processes such as reminder letters will be live by end November. The core elements of the Record to Report functionality are delivered through the Budget Manager Pack which will be complete by mid-November, but elements relating to salaries monitoring are subject to transactional corrections that will not be completed until end December. Income Manager is being used across all three Councils to varying extents, with all forms of card payment processes other than Chip and PIN now in use in at least one service. A detailed implementation plan for the roll out of Chip and PIN and the rest of the Income Management functionality is now being brought together with a view to full implementation by end January. Work is underway to simplify the Access and Authorisations model which is proving unwieldy in current form – with an anticipated implementation in mid-December. Historic Data will have detailed plans for all councils in place by end December. Fixed Assets is currently deferred.</li> <li>2. <b>Organisation structure</b> – this is now corrected, forms and reports have been created, procedures agreed with BT and additional training provided.</li> <li>3. <b>Human Resources</b> – processes have been stabilised, system configuration issues impacting annual leave, working patterns and work schedules are being successfully resolved. Reports and alerts are being reviewed and issues addressed. An establishment report</li> </ol>

Entry	Responsible Officer	Action Plan	Progress To date
<p>system eventually going live on 1 April 2015. Since 'Go Live' there are problems that had not been foreseen and which are currently being worked through.</p>		<p>provider access, enabling effective reporting for both councils and schools, resolving payroll deductions and overpayments and complete payroll reconciliation.</p> <ol style="list-style-type: none"> <li>5. <b>Organisation readiness</b> – this workstream is responsible for the analysis of training needs, the delivery of training programmes, e-learning and reference materials and supporting the transition of council personnel to self-sufficiency, including communication of progress to all staff.</li> <li>6. <b>Schools and academies</b> – delivering self-service access to Agresso for key personnel in schools, providing accurate and stable payroll processes, ensuring effective management of starters and leavers and providing accurate and timely reports and management information.</li> <li>7. <b>Service management and governance</b> – this workstream is responsible for the management of the contract and implementation of all contractual service management deliverables, reporting and management information, oversight of the BT Shared Service Centre improvement and incident recovery plan and on-going quality assurance and performance monitoring as well as supporting the transition to business as usual and putting in place the Intelligent Client Function</li> <li>8. <b>Solution and environment assurance</b> – this workstream is focussed on ensuring effective environment, system and data control, confirmation that what has been delivered is what was specified, reconciliation and integrity assurance, improving system performance, documentation and the simplification of the access and authorisations model.</li> <li>9. <b>Interfaces</b> – is tasked with developing and implementing mechanisms to send and receive data files from source systems to target systems (so that key council service areas can exchange data with Agresso), including the creation of translation tables, transformation rules and secure transport protocols.</li> </ol>	<p>is going through user acceptance testing and further reports will progressively be brought into live. Issues remain with new starters, appraisal moderation and the backlog at the BT Shared Service Centre. BT has recruited additional resources to the Shared Service Centre and an improvement plan is being worked through.</p> <ol style="list-style-type: none"> <li>4. <b>Payroll</b> – Payroll accuracy now stands at 97.1% across the three Councils. This is an improvement, but is still not acceptable and the upward trend since April 2015 was not sustained in September. Access for the 3rd party pension provider has been set up and confirmation is awaited from Surrey. Good progress is being made with self service improvements, payroll codes and pension reports. Payroll reconciliation remains a key priority with significant resource allocated to it and is impacting on the roll out of the budget monitoring pack.</li> <li>5. <b>Organisation Readiness</b> – A post go-live training plan based on an assessment of training needs has been developed and is being implemented. Work is still being undertaken to scope some of the training and there are still dependencies on build changes and the delivery of MI reports by BT. Additional training has been delivered for Finance Professionals, HR Professionals and on establishment control. Learning and reference materials are being updated. Communication to all staff continues.</li> <li>6. <b>Schools and academies</b> – Roles and responsibilities to allow schools full access to Agresso will be completed in November and training piloted in December with completion in January. Local Work Instructions for the schools payroll service have been developed and automatic uploading of pay data is being investigated to improve payroll accuracy.</li> <li>7. <b>Service management and governance</b> – A demand and capacity plan is awaiting sign off. A quality plan is due to be signed off by the Operational Framework Board. The</li> </ol>

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			<p>resolution of the incident backlog at the BT Shared Service centre is due to completed in November and BT are recruiting additional resources to the Shared Service Centre and have in place an improvement plan. Management information and clearance of the backlog at the Shared Service Centre remain issues of concern.</p> <p>8. <b>Solution assurance</b> – Change requests are in progress for the updated access and authorisations model and for system performance improvement through Update 6 to Agresso. Work is progressing to get reconciliation and integrity reports to required standards and to ensure that audit requirements are met.</p> <p>9. <b>Interfaces</b> –The workstream has delivered 74 out of 103 interfaces into service including all 49 “must have” interfaces. The focus is now on delivering all the remaining critical interfaces of which there are six.</p> <p>The concerns surrounding the Managed Services Programme are substantial, but are being systematically addressed and resolved. A closer relationship is being established with Internal Audit and an independent programme assurance function is now in place and stable. Although anticipated savings have been impacted by escalating transition costs an annual saving of £5.8m across the three boroughs is still expected to be achieved.</p>