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1 February 2010

To: Chairman – Councillor Peter Topping  
Vice-Chairman – Councillor Nigel Bolitho  
Members of the Corporate Governance Committee – Councillors John Batchelor,  
Francis Burkitt, Douglas de Lacey, Janice Guest and Richard Summerfield

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **CORPORATE GOVERNANCE COMMITTEE**, which will be held in **MEZZANINE, SECOND FLOOR** at South Cambridgeshire Hall on **TUESDAY, 9 FEBRUARY 2010 at 10.00 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully  
**GJ HARLOCK**  
Chief Executive

**The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.**

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<b>AGENDA</b>		<b>PAGES</b>
<b>1.</b>	<b>Apologies for Absence</b> To receive apologies for absence from committee members.	
<b>2.</b>	<b>Declarations of Interest</b>	
<b>3.</b>	<b>Minutes of Previous Meeting</b> To confirm the minutes of the meeting held on 23 October as a correct record.	<b>1 - 6</b>
<b>AUDIT REPORTS</b>		
<b>4.</b>	<b>Internal Audit Progress Report</b>	<b>7 - 16</b>
<b>5 (a)</b>	<b>External Audit: Annual Audit Letter</b>	<b>17 - 34</b>
<b>5 (b)</b>	<b>External Audit: Revised Annual Governance Report 2008/09</b>	<b>35 - 80</b>

## **INFORMATION ITEMS**

- 6. Statement of Accounts and Annual Governance Statement 2008/09**  
The Statement of Accounts 2008/09, including the Annual Governance Statement, is available electronically on the Council's website, [www.scambbs.gov.uk](http://www.scambbs.gov.uk). Paper copies are available upon request from Sally Smart, Principal Accountant (Financial & Systems), 01954 713076.
- 7. Cambridgeshire Pension Fund Annual Report 2008/09** **81 - 116**
- 8. Comprehensive Area Assessment (CAA) Organisational Assessment** **117 - 130**
- 9. Strategic Risk Register Quarterly Report** **131 - 150**
- 10. Matters of Topical Interest**

  - Merger of RSM Bentley Jennison and Tenon Group plc
  - Proposed rotation of District Auditor
- 11. Date of Next Meeting**  
Wednesday 31 March 2010 at 9:30am.

## **GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL**

While the District Council endeavours to ensure that visitors come to no harm when visiting South Cambridgeshire Hall, those visitors also have a responsibility to make sure that they do not risk their own or others' safety.

### **Increased hygiene at South Cambridgeshire Hall**

In light of the swine flu pandemic, we have intensified our usual cleaning routines in council buildings. We have also introduced hand gel dispensers throughout the offices, including public areas. When visiting South Cambridgeshire Hall you are encouraged to use these facilities if and when required to help limit the spread of flu.

### **Security**

Members of the public attending meetings in non-public areas of the Council offices must report to Reception, sign in, and at all times wear the Visitor badges issued. Before leaving the building, such visitors must sign out and return their Visitor badges to Reception.

### **Emergency and Evacuation**

In the event of a fire, a continuous alarm will sound. Evacuate the building using the nearest escape route; from the Council Chamber or Mezzanine viewing gallery this would be via the staircase just outside the door. Go to the assembly point at the far side of the staff car park.

- **Do not** use the lifts to exit the building. If you are unable to negotiate stairs by yourself, the emergency staircase landings are provided with fire refuge areas, which afford protection for a minimum of 1.5 hours. Press the alarm button and wait for assistance from the Council fire wardens or the fire brigade.
- **Do not** re-enter the building until the officer in charge or the fire brigade confirms that it is safe to do so.

### **First Aid**

If someone feels unwell or needs first aid, please alert a member of staff.

### **Access for People with Disabilities**

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Hearing loops and earphones are available from reception and can be used in all meeting rooms.

### **Toilets**

Public toilets are available on each floor of the building next to the lifts.

### **Recording of Business**

Unless specifically authorised by resolution, no audio and / or visual or photographic recording in any format is allowed at any meeting of the Council, the executive (Cabinet), or any committee, sub-committee or other sub-group of the Council or the executive.

### **Banners, Placards and similar items**

No member of the public shall be allowed to bring into or display at any Council meeting any banner, placard, poster or other similar item. The Chairman may require any such item to be removed.

### **Disturbance by Public**

If a member of the public interrupts proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared.

### **Smoking**

Since 1 July 2008, the Council has operated a new Smoke Free Policy. Visitors are not allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

### **Food and Drink**

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. Visitors are not allowed to bring food or drink into the meeting room.

### **Mobile Phones**

Visitors are asked to make sure that their phones and other mobile devices are set on silent / vibrate mode during meetings or are switched off altogether.

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**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

Minutes of a meeting of the Corporate Governance Committee held on  
Friday, 23 October 2009 at 2.00 p.m.

PRESENT:	Councillor Peter Topping – Chairman Councillor Nigel Bolitho – Vice-Chairman	
Councillors:	John Batchelor Richard Summerfield	Douglas de Lacey
Officers:	Adrian Burns Greg Harlock Fiona McMillan Richard May Alex Colyer	Head of Accountancy Chief Executive Senior Lawyer and Deputy Monitoring Officer Democratic Services Manager Executive Director, Corporate Services
External:	Neil Gibson Chris Harris Debbie Hanson Allan Maund	Audit Commission RSM Bentley Jennison Audit Commission RSM Bentley Jennison

Councillors Simon Edwards, Ray Manning and Nick Wright were in attendance, by invitation.

Apologies for absence were received from Councillors Francis Burkitt and Janice Guest.

**17. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**18. MINUTES OF PREVIOUS MEETING**

The Minutes of the meeting held on 29 June 2009 were approved as a correct record for signing by the Chairman, subject to a reference to 'peak oil' being inserted as part of Minute 13 (Strategic Risk Register) in place on 'neat oil'.

In respect of the review of network security, referred to under Minute 5, the Committee was advised that this item would be considered at the next meeting in December 2009.

**19. INTERNAL AUDIT QUARTERLY REPORT FOR PERIOD ENDING 30 SEPTEMBER 2009**

The Committee considered the Internal Audit Quarterly report for the period ending 30 September 2009, summarising the outcome of work completed against the annual audit plan.

Chris Harris (Bentley Jennison) presented the report, drawing the Committee's attention to the schedule of final reports issued since the last meeting, and to reports in respect of the ICT Review, General Ledger, Capital Expenditure and Asset Management, which were currently at the draft stage.

Members of the Committee and other Members present asked questions and made comments on the following issues arising from the report and appendices:

**Housing Futures** – This issue had been included in the original plan; the reallocation of

time to other work areas following the conclusion of the project would be subject to discussions with the Chief Executive and Executive Director (Corporate Services) (EDCS).

**Anti Money Laundering Policy** – The Committee agreed with the Council's response that, given that no large amounts of cash were received, the priority was not 'Fundamental' and there were no proposals to widen the scope of the policy.

**Security** – The EDCS was requested to reinforce the message that this area related to the security of premises not individuals, through discussions with the Facilities Manager.

The Committee expressed concern at recommendations within the appendix for which there were no responses by the Council and felt that every effort should be made to provide timely responses for inclusion in future reports.

The Committee **NOTED** the report.

## 20. EXTERNAL AUDIT REPORTS - ANNUAL GOVERNANCE REPORT

The Committee received the District Auditor's Annual Governance Report (AGR).

Alex Colyer, Executive Director (Corporate Services) (EDCS) introduced the report and recommendations, advising that the Audit of the Council's accounts had highlighted some discrepancies in the way housing assets had been recorded between the various housing databases. The discrepancies existed in previous year's accounts, but had not been identified by the previous auditors. The EDCS drew the meeting's attention to a revised Appendix 2, tabled at the meeting, providing figures for the adjusted accounts to replace the pro forma set out at page 21 of the AGR. The Committee was advised that recommendation 10(c) should be altered to make clear that the final Statement of Accounts should incorporate these changes.

Debbie Hanson (DH), District Auditor, introduced the key elements of the AGR as follows:

**Key messages** – The financial statements submitted for audit were complete; however, they had contained a number of material errors requiring attention. Subject to the outstanding matters being addressed, an audit report would be issued including an unqualified opinion on the financial statements. The draft audit report was set out as Appendix 1 to the AGR.

The meeting was advised that, as a result of the additional work undertaken, described in paragraphs 7-10 of the report, an additional fee would be levied over and above the level of £8,521 notified to the Chief Executive in June 2009. DH advised that the total amount, incorporating the above amount, was likely to be in the region of £20-30,000.

DH drew the meeting's attention to the next steps identified on page 7 of the AGR; the EDCS stated that these matters had been taken into account in the recommendations to the Committee, set out in his covering report.

### Financial Statements

Neil Gibson (District Auditor) introduced the Financial Statements set out on pages 8-14 of the AGR. This section set out details of the material disclosure errors identified within the financial statements along with recommendations to address them. The non-trivial errors which had been amended related to the following matters:

- Revaluation Reserve: Opening balance overstated by some £3.424 million following a failure to allocate the Major Repairs Allowance and capital expenditure to beacon groupings during 2007/08.
- Failure to reconcile the fixed asset register, housing maintenance database and

housing rents database.

- Incorrect classification on block garages in the Balance Sheet as Council dwellings rather than land and buildings;
- The Fixed Asset register not meeting good practice guidelines, and including assets which were fully depreciated. The Committee was advised that the introduction of International Financial Reporting Standards (IFRS) would add requirements for fixed asset registers. Members requested a report summarising the key implications of IFRS at a future meeting.

The non-trivial error which management had decided not to amend related to the valuation of the Pension Fund assets, which had been understated by £0.536 million. Following a short debate, the Committee agreed to support the management position on the grounds that the error, whilst non-trivial within auditing definitions, was not material as it had no significant effects on the Council's resources and overall financial position. It was deemed that the drawbacks from making the adjustment in terms of extra work and the consequential effects on the rest of the accounts outweighed any advantage in making the adjustment. This rationale should be included in the Letter of Representation, as requested by the District Auditor.

### **Use of Resources**

The Committee was advised that the Council had achieved an overall score of 2 out of 4 for its use of resources. This represented a reduction from the previous year's score of 3; however, the revised assessment regime for 2008-09 was tougher as it focussed on outcomes rather than basic evidence of compliance.

Members gave detailed consideration to the key findings and conclusions set out in Appendix Five to the AGR, welcoming the clarity with which the information had been presented. Specific concerns were raised in respect of the auditor's comment that the Medium Term Financial Strategy did not adequately address the underlying budget deficit. DH advised that this view had been put forward in the wider context of the assessment as whole, though she would be happy to provide specific feedback on this point. She emphasised that the Council's score of 2 in this area represented an 'adequate' score which would not be qualified.

In commenting on the findings and areas for improvement identified under each Key Line of Enquiry, the EDCS advised that the Council, given its financial position, would have to be realistic in terms of prioritising the areas in which the measures required to achieve outcomes at Level 3 of the assessment could be implemented. DH stated that the assessment response had indicated areas for improvement rather than binding recommendations for action with this in mind; nevertheless, future assessments would continue to highlight areas for improvement which had not been addressed, even if they had been assigned a low priority by the Council.

The Committee considered the action plan set out at Appendix 6 of the AGR and containing recommendations arising from it. The EDCS referred Members to recommendation 10(f) within the covering report, which proposed that the Council prepare a plan containing responses to the auditors' recommendations, for consideration at the next meeting. Concern was expressed that, with one exception, all of the recommendations had been identified as high priorities; the EDCS acknowledged this fact but advised that many of the actions would be complete by the next meeting, therefore little attention needed to be paid to be the prioritisation set out in the Appendix.

The Committee **RESOLVED**

- (a) That the contents of the Annual Governance Report be noted,
- (b) That the Executive Director (Corporate Services) be authorised to issue a

Letter of Representation as requested at Appendix 4 to the Annual Governance Report, the letter to set out the Committee's decision [not to amend the estimated figure for pension assets following the actual figure becoming available after the accounts had been approved at the end of June 2009](#), identified in Appendix 3 to the report, including reasons as set out in the preamble above, the final letter to be circulated to Members of the Committee for information,

- (c) That the Chairman of the Committee and the Executive Director (Corporate Services) be authorised to approve a final Statement of Accounts for publication, incorporating the adjusted amendments set out in Appendix 2 to the report,
- (d) That the Leader of Council and the Chief Executive be invited to re-sign the Annual Governance Statement within the accounts, following revision to cover the issues raised within the audit,
- (e) That the revised accounts be presented to the next meeting,
- (f) That any proposed responses to the Action Plan as set out at Appendix 6 to the Annual Governance Report be considered at the next meeting, and
- (g) That a report by the external auditors be submitted to a future meeting regarding amendments to Financial Reporting Standards.

## 21. ANTI-THEFT, FRAUD AND CORRUPTION POLICY

The Committee considered a report setting out proposed revisions to the Anti-Theft, Fraud and Corruption Policy. Members welcomed the ongoing review of the document, noted the proposed changes and their later submission for formal Member approval.

## 22. PENSION FUND

The Chief Executive introduced this item, advising that information regarding the pension fund had been requested by Councillor Burkitt at a previous meeting. Given Councillor Burkitt's absence, the Committee agreed that the report be **DEFERRED** to the next meeting.

## 23. STRATEGIC RISK REGISTER

The Committee considered a report providing quarterly reviews of the strategic risk register, action plans to address risks above the tolerance line, and those to achieve risk management targets.

It was considered that there were additional risks relevant to the Making Cambridgeshire Count project relating to accountability for future pooled budgets.

The Committee agreed to **DEFER** detailed consideration of the strategic risk register to the next meeting, at which the review of the Risk Management Strategy would also be brought forward ahead of the timescale envisaged in paragraph 3 of the report.

## 24. MATTERS OF TOPICAL INTEREST

Debbie Hanson, District Auditor, drew the meeting's attention to a publication entitled 'Protecting the Public Purse'. It was **AGREED** that copies of this publication should be circulated to the Chairman of the Committee and Executive Director for Corporate



Services for information.

**25. DATE OF NEXT MEETING**

It was **AGREED** that the next meeting take place on 23 December 2009 at 10.00am, with a briefing for Members of the Committee to take place at 9.30am.

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**The Meeting ended at 4.25 p.m.**

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**RSM: Tenon**

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS REPORT

FEBRUARY 2010

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The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Board and senior management of South Cambridgeshire District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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## 1. INTRODUCTION

1.1 The periodic internal audit plan for 2009/10 has previously been approved by the Corporate Governance Committee]. This report summarises the outcome of work completed to date against that plan, and Appendix A provides cumulative data in support of internal audit performance.

## 2. FINAL REPORTS ISSUED

2.1 We have finalised six reports since the last Committee meeting; these being in the areas of:

- General Ledger (including Budgetary Control) (11.09/10);
- Capital Expenditure and Asset Management (12.09/10).
- Payroll (13.09/10);
- Cash, Banking and Treasury Management (14.09/10);
- Income and Debtors (15.09/10); and
- Creditors (16.09/10);

## 3. KEY FINDINGS FROM INTERNAL AUDIT WORK

3.1 The Corporate Governance Committee should note that the assurances given in our audit assignments will be taken into account when we form our overall opinion on the assurance that we can provide in our Annual Report at the end of the year. In particular the Corporate Governance Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion.

3.2 No common weaknesses have been identified within our reports.

## 4. WORK IN PROGRESS OR PLANNED

4.1 We have issued five draft reports to which we are awaiting management responses; these being in the areas of:

- 10.09/10 ICT Review;
- 17.09/10 Procurement;

- 18.09/10 Insurance;
- 19.09/10 Council Tax; and
- 20.09/10 NNDR.

4.2 The following reviews are currently at the fieldwork stage:

- Housing Benefit
- Performance Management

## 5. CHANGES TO OUR PLAN

5.1 There have been no changes to the Audit Plan since the last Corporate Governance Committee. However the scope of the outstanding work is currently in discussion with management.

## 6. SECTOR GUIDANCE

6.1 There has been one further relevant client briefing issued since the last Audit Committee. This is included at Appendix B.

## APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2009/10

Detailed below is a summary of the work undertaken in 2009/10 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in italics. Definitions with regard to the levels of assurance and the classification of recommendations are provided overleaf.

Auditable Area	Date Planned	Date Completed	Status	Audit approach	Days Planned	Days Actual	Last year actual	Assurance level given	Number of Recommendations Made					
									F	S	MA	In Total	Agreed	
<b>Work complete to date</b>														
Housing Responsive Repairs (1)	09/04/09	17/04/09	Final Report Issued	Systematic	8	8	8	Adequate	0	0	11	11	11	
Housing Maintenance Planned & Cyclical (2)	11/05/09	28/05/09	Final Report Issued	Systematic	8	8	8	Adequate	0	2	7	9	9	
Absence Management (3)	22/06/09	30/06/09	Final Report Issued	Systematic	8	8	8	Adequate	0	2	5	7	7	
Emergency Planning and Business Continuity (Civil Contingency Act) (4)	13/07/09	17/07/09	Final Report Issued	Key Controls	8	8	8	Substantial	0	1	3	4	4	
Review of Counter Fraud Arrangements (5)	29/07/09	31/07/09	Final Report Issued	Thematic	10	10	5	Advisory	0	2	6	8	8	
Contract Services (6)	20/07/09	23/07/09	Final Report Issued	Systematic	8	8	8	Adequate	0	4	4	8	8	
Housing Rents (7)	12/08/09	18/08/09	Final Report Issued	Key Controls	8	8	8	Adequate	0	2	3	5	5	
Risk Maturity (8)	Jul-09	14/08/09	Final Report Issued	Advisory	8	8	8.5	Risk Managed	0	2	10	12	12	

Auditable Area	Date Planned	Date Completed	Status	Audit approach	Days Planned	Days Actual	Last year actual	Assurance level given	Number of Recommendations Made				
									F	S	MA	In Total	Agreed
Housing Allocations and Voids (9)	12/08/09	24/08/09	Final Report Issued	Systematic	8	8	10	Adequate	0	0	6	6	6
General Ledger (11)	21/09/09	24/09/09	Final Report Issued	Key Controls	7	7	6	Adequate	0	0	4	4	4
Capital Expenditure and Asset Management (12)	21/09/09	24/09/09	Final Report Issued	Key Controls	7	7	7	Adequate	0	2	4	6	6
Payroll (including Expenses & Pensions) (13)	05/10/09	14/10/09	Final Report Issued	Key Controls	12	12	12	Substantial	0	0	0	0	0
Cash, Banking & Treasury Management (14)	15/10/09	19/10/09	Final Report Issued	Key Controls	7	7	6	Substantial	0	0	1	1	1
Income & Debtors (15)	19/10/09	21/10/09	Final Report Issued	Key Controls	7	7	6	Substantial	0	0	4	4	4
Creditors (16)	26/10/09	30/10/09	Final Report Issued	Key Controls	7	7	6	Substantial	0	0	5	5	5
<b>Totals to date:</b>					<b>121</b>	<b>121</b>	<b>114.5</b>		<b>0</b>	<b>17</b>	<b>73</b>	<b>90</b>	<b>90</b>

Auditable Area	Date Planned	Date Completed	Draft Issued	Status	Days Planned	Audit approach	Assurance level given	Number of Recommendations Made					
								F	S	MA	In Total	Agreed	
<b>Work in progress or yet to start (including reports still in draft)</b>													
ICT Review (10)	07/09/09	15/09/09	24/09/09	Management Responses being discussed	10								



Procurement (17)	19/10/09	30/10/09	12/11/09	Awaiting Management Responses	8					
Insurance (18)	06/11/09	11/11/09	19/11/09	Awaiting Management Responses	6					
Council Tax (19)	16/11/09	23/11/09	26/11/09	Awaiting Management Responses	7					
NNDR (20)	09/11/09	12/11/09	26/11/09	Awaiting Management Responses	7					
Housing Benefits	04/01/10	04/01/10		Fieldwork Complete	14					
Performance Management	11/01/10	11/01/10		Fieldwork Complete	8					
Environmental Health	01/02/10				8					
Customer Services	01/02/10				8					
Growth	23/03/10				10					
Housing Futures	Review cancelled, alternatives are currently being discussed with management				10					
Corporate Governance	02/03/10				8					
Annual Governance Statement	Feb 10				10					
Follow Up	22/02/10				7					
Contingency					8					
				<b>Total</b>	<b>136</b>					

**Recommendation Categorisation**

Our findings and recommendations are categorised as follows:

**Fundamental (F):** action is imperative to ensure that the objectives for the area under review are met

**Significant (S):** requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

**Merits Attention (MA):** action advised to enhance control or improve operational efficiency

**Opinions**

**Risk Based Internal Audit Assignments**

The definitions for the level of assurance that can be given are:

Level	Control Design	Control Application
Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

**Follow Up Reviews**

Our opinions reflect the progress made in implementing previous internal audit recommendations:

(positive opinions)	Good Progress
	Reasonable Progress
(negative opinion)	Little Progress

## APPENDIX B: CLIENT BRIEFINGS

### RSM Bentley Jennison joins forces with Tenon

4 January 2010

Client Briefing - Gen 01.10

You are probably aware, from recent press coverage that we merged with Tenon Group Plc on 30 December 2009.

As you may know, before this merger Tenon was a large, established national practice with excellent audit and advisory teams and a significant strength in public sector audit and advisory work. Like us, Tenon was a modern, dynamic and successful practice, pursuing an aggressive growth strategy through acquisition as well as strong organic development. This merger has created a new and significant force in professional services, since both practices have a clear and consistent vision to become the leading UK adviser to the public and not for profit sector by focusing on providing flexible and innovative customer-focused solutions.

The firm, which is now called RSM Tenon, will remain the UK's largest provider of internal audit and risk management services to the public sector providing a comprehensive range of governance, audit, anti fraud, forensic, consultancy and software solutions. RSM Tenon will now provide services to an even larger public sector client base increasing the opportunities for sharing best practice and facilitating benchmarking among our clients.

As a PLC with more than 3,000 staff and locations throughout the UK, the business as a whole will have significant financial strength and a support infrastructure, around key areas such as Technical support, HR (including training) and IT, to match.

The deal was completed on 30 December 2009. But, other than a different name, letterhead and some changes to our livery, our people, our communication mechanisms and our service delivery to our clients will remain unchanged.

However, we can say with certainty that this merger will bring you added benefits. You will have an even larger team to draw resources from, more public sector technical experts at your disposal, substantially increased investment in technical and sector based training, and the further development of best-practice methodologies.

Given that this merger can only bring positive benefits to our clients we look forward to continuing to work closely with you under our new name RSM Tenon.

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# Annual Audit Letter

South Cambridgeshire District Council

Audit 2008/09

December 2009



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## Status of our reports

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

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

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your accounts and the results of the work I have undertaken to assess the way in which you use your resources.**

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## Accounts

- 1 The Council is required to prepare and approve its accounts by the 30 June 2009. The Council met that deadline. The accounts were complete but included a number of material errors (ie errors that, if not corrected, would distort the overall financial position of the Council). This delayed completion of the audit programme until 19 November, some seven weeks after the 30 September deadline set in legislation.
- 2 The Council agreed to correct all material errors and a number of smaller errors, but did not amend for a number of others. The unadjusted errors were not material. I reported all the errors to the Council's Corporate Governance Committee (as those charged with the governance of the Council), who agreed with officers decision not to amend the accounts for some of the smaller errors. The Corporate Governance Committee formally provided me with their reasons for not adjusting the accounts for these errors.
- 3 The audit identified weaknesses in the:
  - information held within the fixed asset register;
  - reconciliation processes between the fixed asset register, housing maintenance database and housing rents database;
  - application of the capital accounting requirements; and
  - audit trails supplied in support of entries within the financial statements.
- 4 As a result of my work, I concluded that the accounts 'presented fairly' the Council's financial position at the 31 March (an unqualified audit opinion) and its income and expenditure for that financial year.
- 5 An enhanced financial reporting framework, International Financial Reporting Standards (IFRS), will apply to all councils' accounts in 2010/11. Officers are planning to bring a detailed project plan to Corporate Governance Committee once the Chartered Institute of Public Finance and Accountancy (CIPFA) have issued their IFRS Code of Practice in December 2009. IFRS presents a significant challenge and the Council will need to ensure that it has appropriate plans in place to address the new requirements.

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### Certification of claims and returns

- 6 Our audit work on the certification of claims and returns resulted in a number of amendments and qualification letters. The return for the Whole of Government Accounts has yet to be prepared and submitted. This indicates that improvements are required to strengthen the Council's arrangements for the preparation of claims and returns.

---

### Use of resources

- 7 We assess how the Council makes use of the resources at its disposal to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.
- 8 The Council is performing adequately (Level 2) and attained the following scores in our assessment.
- Level 2 for the way it manages its finances.
  - Level 2 for the way it manages and governs the business as a whole.
  - Level 2 for the way it manages its workforce planning.
- 9 The findings and conclusions from my assessment, along with the areas for improvement identified, have been reported as part of my Annual Governance Report. The key messages are outlined later in this letter. The overall score of level 2 indicates that arrangements are adequate, but our work has identified a large number of areas for improvement that the Council needs to address.

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### Value for money conclusion

- 10 Based on the results of my use of resources assessments, I issued a conclusion on whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 11 I concluded that the Council had put in place adequate arrangements and as a result issued an unqualified value for money conclusion for 2008/09.

---

### Managing Performance

- 12 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to the local people.



## Key messages

- 13 The Council scores 2 out of 4 for managing its performance (using the same scoring mechanism as for the use of resources). It performs well on waste and recycling, council tax collection and paying housing benefits. The streets are clean and satisfaction with services is generally good. High numbers of houses that local people can afford have been built. But, performance on the speed of processing planning applications deteriorated.
- 14 The Council works effectively with partners to plan for housing development but progress has been affected by recession. Progress on economic development is slow, although £150,000 was allocated to help local businesses through the recession. Service accessibility is improving slowly. The Contact Centre is good. Complaints are processed more quickly, but satisfaction with complaints handling remains low. Progress in making sure all people are treated fairly has been slow.
- 15 Council leaders are clear about what they need to achieve and are now better able to deliver. They have set five revised aims for 2009/10 which are linked to those of other public sector and private sector partners. More training is provided for councillors. Scrutiny Committee has improved and is contributing to better decision making. Most planned improvements have been achieved. However, some have not because targets have been unrealistic. The skills and abilities of staff are improving through training but workforce planning is not fully developed.

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## Overall Organisational Assessment

- 16 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for South Cambridgeshire District Council is that it performs adequately.
- 17 The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Cambridgeshire, Nigel Smith.

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## Financial Standing

- 18 The last year has seen the Country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 19 The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these will provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 20 The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being acknowledged by the Council as a whole. The latest medium term financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls and increased demand for services identified.

- 21** The impact of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area when assessing whether the Council makes effective use of resources during my 2009/10 audit.

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### Audit fees

- 22** I have not been able to deliver and conclude my audit programme within the fee that I planned due to the significant amount of additional audit work required to address the major problems with the accounts. Details of the actual fees are provided at Table 3.

---

### Independence

- 23** As the External Auditor appointed to audit the Council, I have to maintain my independence. I confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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### Recommendations

- 24** I have made a number of recommendations within my Annual Governance Report and Final Accounts memorandum reports, to further develop the arrangements in place at the Council.
- 25** The Council should monitor the implementation of these recommendations, along with the additional recommendations below.

Recommendations	
<b>R1</b>	Develop and implement an action plan to enable the Council meet the new reporting requirements under IFRS.
<b>R2</b>	Ensure the recommendations in my previous reports related to the processes for the production of the financial statements are addressed.
<b>R3</b>	Review the procedures for the preparation and submission of claims and returns.

---

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

---

- 26** I issued an unqualified opinion on the Council's accounts on 19 November 2009, some seven weeks after the 30 September deadline set within the Accounts and Audit Regulations 2003 (as amended). In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 27** Before giving my opinion, I reported to those charged with governance, in this case initially to the Corporate Governance Committee, on the issues arising from the 2008/09 audit. I issued my initial report on 23 October 2009 and the final report on 13 November 2009. This was agreed with the Chairman of the Corporate Governance Committee and the Executive Director, Corporate Services.
- 28** The Council provided me with a Letter of Representation dated 19 November 2009, which allowed me to conclude my audit procedures and issue my audit opinion.

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## Accounting issues

- 29** The draft accounts were approved on 29 June 2009, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003 (as amended).
- 30** Our audit work identified a number of material disclosure errors in the financial statements. In addition there were also a number of non trivial disclosure errors. The Council amended for all the material errors and the majority of the non trivial errors to meet the disclosure requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008 (2008 SORP). The remaining errors were not amended on the grounds that the Council did not consider them material either individually or in aggregate and that a delay in the publication of the accounts arising from the time required to correct the items would not be warranted by the benefit to potential users of the statements. I accepted that explanation.
- 31** The material errors mentioned arose due to the following issues.
- The fixed asset register did not contain the necessary information to meet the requirements of the 2008 SORP.
  - Major repairs allowance and capital expenditure were not accounted for at a 'beacon group' property level in 2007/08, as required by the SORP.

- There was no reconciliation of the fixed asset register, the housing maintenance database and the housing rents database.
  - Accounting for dwellings transferred in advance of sale to registered social landlords (RSL) was inconsistent.
  - Block garages were incorrectly classified within council dwellings rather than other land and buildings.
  - Pension fund (FRS 17) entries were not fully reconciled to the actuarial report.
- 32** The audit trails provided by the working papers supplied in support of the accounts were of a variable standard. Issues included the failure to consistently:
- Save year end information from live systems eg council tax creditors.
  - Provide reconciliations between system output/spreadsheets and the notes to the accounts eg fixed asset register to Note 11.
  - Update working papers to reflect late changes to the statement of accounts eg bad debt provision calculations.
  - Provide justification for the inclusion or exclusion of items eg unexplained movement on earmarked reserve.
- 33** Responses to queries and requests for additional information were helpfully dealt with by finance staff. However, the lack of involvement in the preparation of and hence ownership of items within the accounts by operational staff contributed to delays in response times.
- 34** Our work also identified weaknesses in, or an absence of, controls over the completeness, accuracy, valuation and allocation, existence and rights and obligations of the assets contained within the various housing asset databases and fixed asset register. As a result, detailed testing of individual balances and transactions had to be carried out to verify the accuracy of the information supporting the figures in the accounts.
- 35** Apart from the issues in respect of the fixed asset register noted above, I did not identify any significant weaknesses in your internal control arrangements and the Council's annual governance statement was prepared in accordance with requirements. The Council's internal audit team comply with the requirements of the CIPFA Code, and the financial systems underpinning the accounts continue to operate with generally sound controls in place. Internal audit have reviewed these systems and made a number of recommendations. I support the implementation of these recommendations as a way of strengthening the Council's control environment.

### Certification of claims and returns

**36** We certify the Council's claims and returns on the following basis:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification; and
- claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

**37** We were required to certify a total of six claims, plus the Whole of Government Accounts return, in relation to 2008/09. As a result of our work a number of amendments were required to the claims and a number of qualification letters were issued. The results of our work are summarised in Table 1 below.

**Table 1 Certification of claims and returns**

Late submission and qualification of claims occurred this year

Claim/return	Late Submission (Yes/No)	Amendments required to Claim (Yes/No)	Qualification Letter required (Yes/No)
Disabled Facilities Grant claim	Yes	No	No
Pooling of Housing Capital Receipts return	Yes	Yes	No
National Non Domestic Rates return	Yes	Yes	Yes
Housing Subsidy Claim	Yes	No	Yes
Housing Base Data return	Yes	Yes	Yes
Housing Benefits Claim	No	Yes	Yes
Whole Government Accounts return	Awaiting return	Awaiting return	Awaiting return

- 38** Table 1 indicates that improvements are required to strengthen the Council's arrangements for the preparation of claims and returns. However, the most complicated claim, housing benefits, was completed to a high standard with the amendments and qualification letter being for minor items. The issues with the Council's fixed asset register that impacted on the accounts and are referred to earlier in this letter, also impacted on a number of the claims referred to in Table 1 above. We will discuss the arrangements for the compilation and certification of claims and returns with officers in more detail once we have completed the certification of all this year's claims.

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### International Financial Reporting Standards

- 39** International Financial Reporting Standards (IFRS) will be applied to the preparation of local government accounts for the first time in 2010/11. This will also require comparative figures for the 2009/10 financial year to be restated in the new IFRS format.
- 40** Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements, particularly in the accounting for fixed assets, leases and accrued holiday pay. CIPFA will be issuing their IFRS Code of Practice in December 2009.
- 41** Officers plan to bring a detailed project plan to the Corporate Governance Committee after this date. This plan will need to include clear roles and responsibilities, and a timeline for reporting progress to the Committee. We have also agreed to make a presentation on the implications of the move to IFRS to the March 2010 Corporate Governance Committee meeting.
- 42** Preparations for IFRS represent a significant workload which requires detailed project management and significant resources. A great deal of work will be required in the run up to preparing the 2010/11 accounts in order to establish and collect the information required and to account for it under the new accounting standards. The Council will need to keep progress on IFRS implementation under review and ensure that appropriate resources are allocated to it to ensure successful implementation.

# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 43** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 44** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 45** The Council has undergone a year of transition with the final Improvement Board meeting in January 2009. The markings reflect the harder challenge that the new methodology introduced, as well as a number of areas where improvements are required. The Council's use of resources theme scores are shown in Table 2 below.

**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 46** The key findings and conclusions for the three themes, and the underlying KLOE, are set out in detail in my Annual Governance Report. The key theme findings, including areas for improvement, are summarised below.

### Managing finances

- 47** The Council has an integrated financial planning process and draws upon a variety of detailed plans to support the Medium Term Financial Strategy and budget process. There are clear policies in respect of areas such as the levels of reserves.
- 48** Members are involved in the budget process in a timely manner. The Council seeks to involve stakeholders in the financial processes using a variety of approaches, but has not yet achieved the desired level of involvement. Financial training has been provided to Members and officers but the benefits of this training have not been effectively assessed.
- 49** There is strong record of delivery within budget which supports a low level of council tax. The Council has a good understanding of, and clear focus on, its costs, but has a less well developed understanding of the factors that drive these costs. Fully costed options are usually produced for new projects, although the operational performance impact is not always clear. In some instances, all major options have not been set out resulting in decisions being taken on incomplete information.
- 50** Benchmarking, post implementation reviews and knowledge sharing are not standard features of the operational management of the Council. The operational implications of financial changes are not always fully identified or explained in reports for decision.
- 51** In 2007/08, only 24 per cent of performance indicators for the Council were in the top quartile nationally, against a district council average of 33 per cent. This indicates that the Council's focus, in terms of achieving value for money, has tended to be on costs rather than performance.
- 52** Financial reporting takes place in a timely manner during the year. However the reasons for variances between the actual spend and the budget are not always clearly explained. The statement of accounts was adopted by the required deadline, although problems with capital accounting resulted in late circulation to Members prior to the adoption meeting. During the year there have been examples of late circulation of other reports which members stated reduced their capacity to critically challenge those reports.

### Governing the business

- 53** The Council actively seeks to involve public, private and voluntary sectors in their commissioning of services. However, in making changes in approach or setting up new partnerships the Council does not always set out clearly defined and measurable objectives and targets. It is therefore not possible to carry out post implementation reviews to identify whether the changes have achieved the desired level of improvement in services.
- 54** An updated purchasing strategy was issued in April 2009; however this is a process document and does not establish how the Council will use purchasing in a strategic manner to achieve its objectives. There are examples of good practice in services redesign, but these are not consistently applied across the Council and the 2008/09 service review programme, which has previously identified financial and performance efficiencies, was not completed.



## Value for money and use of resources

- 55 Adequate data collection systems exist, although there is an inconsistent approach to data quality. A new system (CORVU) was partially introduced in year. The full benefits of this have not been realised as it is not directly linked into local feeder systems and has resulted in two performance management systems running in tandem.
- 56 The Council has established good governance principles. Members receive training, although as this is informal there is a risk that members may not receiving the training they need. The absence of preset training objectives means that the effectiveness of events cannot be objectively assessed.
- 57 Risk management processes are in place. The risk register is reviewed on a quarterly basis but arrangements are not yet fully embedded. The Council adopts a proactive approach to the prevention of fraud, actively following up NFI data.

## Managing resources

- 58 The Council achieved IIP status in February 2009, but is still evolving its approach to workforce planning and had not identified the operational benefits of achieving IIP. E-recruitment in conjunction with other public sector bodies is in place. The Council is developing its approach to workforce planning which includes a management competency and learning framework which is being implemented in 2009/10. It is also looking to incorporate workforce plan skills, attitudes and behaviours in job and people specifications.
- 59 There have been delays in filling vacancies which have impacted on operational performance in a number of areas. The Council has in place good change management processes that actively involve affected staff. In 2008/09, the Council was at Level 1 of the Local Government Equality Standard and it has moved to a Level 2 in June 2009. An Equal Pay audit has been completed.

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## VFM Conclusion

- 60 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOEs are the relevant criteria for the VFM conclusion at each type of audited body.
- 61 Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Financial Standing

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- 62** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 63** I have reflected on the wider environment, specific issues and risks and the Council's response. The financial position of the Council is becoming increasingly challenging, in particular, for future financial periods. The current budget round for 2010/11 has identified the need to make savings of some £2.199 million. The Cabinet has endorsed a savings package to fully deliver this difficult target.
- 64** Though the economic downturn is presenting specific issues and risks to the Council, the Council can be seen to be responding to this challenge. The medium term financial strategy actively considers the impact of the economic downturn and addresses the funding shortfalls identified. The implications of this are understood and the challenges faced are acknowledged by the Council as a whole. This is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.

## Audit fees

- 65** The actual audit fee required to fulfil my statutory duties is more than I initially planned, as outlined in Table 3 below. The original fee was set based on my initial planning undertaken in June 2008. My pre statements work, undertaken early in 2009, and subsequent work on the financial statements identified material errors within the accounts and other issues that resulted in the need for an additional audit fee. My Annual Governance Report set out in more detail the areas of additional work. As a result of the technical nature of the additional work an additional 65 days of higher grade input was required to complete the audit.
- 66** In relation to the audit of grant claims, the indicative fee set out in my initial plan was based on the claim fee reported by the previous auditor in their 2007/08 plan. The actual outturn for 2007/08 was significantly higher at £38,172.

**Table 3     Audit fees**

	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>
Financial statements and annual governance statement	£117,080	£82,080	£35,000
Use of resources/Data Quality 2007/08	£28,797	£28,797	£0
Whole of government accounts	£2,235	£2,235	£0
<b>Total audit fees</b>	£148,112	£113,112	£35,000
Certification of claims and returns	£41,800 (est)	£21,000	£20,800 (est)
<b>Total</b>	£189,912	£134,112	£55,800

# Closing remarks

- 67** I have discussed and agreed this letter with the Chief Executive and the Executive Director, Corporate Services. I will present this letter at the Corporate Governance Committee on 23 December 2009 and will provide copies to all Members.
- 68** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year set out in Table 4 below.

**Table 4** Reports issued in year

Report	Date issued
Audit and inspection plan	June 2008
Annual governance report	November 2009
Opinion on financial statements	November 2009
Value for money conclusion	November 2009
Annual audit letter	December 2009
Final Accounts Memorandum	December 2009
Managing Performance and Organisational Assessment	December 2009

- 69** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

## Availability of this letter

- 70** This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website

Debbie Hanson  
**District Auditor**  
**December 2009**

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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# Annual Governance Report

South Cambridgeshire District Council

Audit 2008/09

November 2009

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## Status of our reports

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

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

**2008/09 Annual Governance Report**

I am pleased to present my report, an earlier draft of which was discussed and agreed with members and officers at the Corporate Governance Committee on 23 October 2009.

I have now updated the report to take account of my audit work since the Committee meeting.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before publishing the revised audited financial statements (pages 7 to 13);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error; (Appendix 3);
- provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the Use of Resources (UoR) key findings and conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Debbie Hanson  
District Auditor  
13 November 2009

# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements presented for audit free from error	No	7
Adequate internal control environment	Yes	9
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Use of resources overall judgement	2	14
Adequate Arrangements in place to secure value for money	Yes	15

## Audit opinion

- 1 The financial statements submitted for audit were complete. They did however contain a number of material errors, as set out in this report. Other than trivial errors, the remaining errors identified are also set out in the remainder of this report.
- 2 The audit is substantially complete and subject to my final review, I propose to issue an unqualified opinion. Appendix 1 contains a copy of my draft audit report.

## Financial statements

- 3 The financial statements have been amended for a number of material and non trifling disclosure and valuation errors identified during the audit. Management have not amended for the errors set out in Appendix 3.

## Use of resources

- 4 The Council achieved an overall score of 2 out of 4 for its use of resources. The individual theme scores are shown in Table 3. The key findings and conclusions for the three themes, and the underlying key lines of enquiry (KLOE), are summarised in Appendix 5. I expect to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

## Key messages

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### Audit Fees

- 5** Our pre statements work identified the need for an additional audit fee of £8,521. This was notified to the Chief Executive in June 2009, but has not yet been billed. The need for additional fee arose due to the extra work that was necessary to obtain assurance in respect of the:
- Valuation of fixed assets
  - Depreciation calculation and subsequent write off
  - Accounting for the revaluation reserve
  - Gain/loss on disposal calculation
  - Infrastructure asset accounting
  - Fixed asset classifications
  - Investment income accrual
  - Disabled facilities grants
  - Building control account
  - Asset allocation.
- 6** Since the completion of our pre-statements work we have identified a number of material and non trivial errors in the accounts, as set out in this report. Specific additional audit work has been necessary to obtain sufficient audit assurance in respect of:
- existence of assets within the fixed asset register
  - reconciliation of the fixed asset register, the housing maintenance database and the housing rents database; and
  - allocation of properties to beacon groups
  - subsequent accounting adjustments.
- 7** In addition, the absence of audit trails for key balances such as council tax receipts in advance, fixed asset movements and the lack of initial documentation to support assertions ( for example absence of single status provision) have further increased the audit workload beyond that anticipated at the fee planning stage.
- 8** As a result of the above issues we will be required to raise additional fee in excess of the level initially notified to the Chief Executive in June. The final supplementary fee levied will be discussed with the Executive Director – Corporate Services on the conclusion of the audit.

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## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

---

**9** I ask the Corporate Governance Committee to:

- consider the matters raised in the report before publishing the revised audited financial statements (pages 7 to 13);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the error (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

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# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements.**

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## Opinion on the financial statements

- 10 Subject to satisfactory agreement of the final agreed amendments to the signed version of the financial statements and completion of my final review of the accounts and audit work, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 11 Should any further matters arise in concluding the outstanding work that needs to be reported, we will raise them with the Executive Director – Corporate Services and the Chair of the Corporate Governance Committee.

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## Errors in the financial statements

- 12 Our audit work identified a number of material disclosure errors in the financial statements. These are to be amended in the revised financial statements. Details of these amendments are set out below.
- 13 The non trivial errors that have been amended in the revised financial statements are set out in Appendix 2. The non trivial errors that management have decided not to amend are set out in Appendix 3. These Appendices include all errors identified as part of the audit, including those previously reported to the Corporate Governance Committee in October.

### ***Revaluation reserve***

- 14 The failure to allocate the Major Repairs Allowance (MRA), which was used as a proxy for depreciation, and capital expenditure to beacon groupings in 2007/08 meant that the opening balance on the Revaluation Reserve at 1 April 2008 was overstated by some £3.424 million and the Capital Adjustment Account understated by a similar amount. This resulted in disclosure of an in-year Prior Period Adjustment in the audited accounts.
- 15 As a consequence, the 31 March 2009 balances on the Revaluation Reserve and the Capital Adjustment Account in the initial financial statements were also overstated. Together with the consequential impact in respect of housing stock figures and garages; material and significant changes have been made to a number of the primary and supplementary statements as well as the associated notes. The full detail is shown in Appendix 2.

### ***Housing stock figures***

- 16** The fixed asset register, the housing maintenance database and the housing rents database had not been reconciled. The differences between these records which were identified during the audit were material to the accounts. A reconciliation exercise has subsequently been carried out and this has identified that:
- The original fixed asset register included 25.81 equivalent dwellings more than it should have, four of which related to properties held on operating leases
  - The allocation of dwellings to beacon groups was significantly misstated
  - Unoccupied dwellings awaiting demolition were included within beacon groups at full value, rather than under surplus assets held for disposal
  - Dwellings transferred in advance of sale to Registered Social Landlords (RSL) were accounted for inconsistently, with these dwellings being either excluded from the beacon groups or included at full value. Depending on their use by the RSL these should have either been within beacon group or surplus assets held for disposal
  - Two properties identified as 'To be sold' within the housing rents systems were included as operational assets within beacon groupings rather than surplus assets held for disposal
  - The housing rents system includes within the gross debit properties that have either been sold or demolished. Although all these properties were identified as void it indicates a weakness in control.
- 17** The movement of assets between council dwellings and surplus held for disposal changes the valuation basis. Council dwellings are valued at Existing Use Value for Social Housing (EUV-SH), which is 46% of EUV for the Eastern Region, whereas surplus properties are valued at market value. As a result of the above the opening balances on the Council dwellings, Capital Adjustment Account and Revaluation Reserve have been overstated and surplus held for disposal understated. The full detail is shown in Appendix 2.

### ***Garages***

- 18** The Council's block garages, with a closing balance of £2.842 million (opening balance £3.162 million), were incorrectly classified in the Balance Sheet and Note 11 as Council dwellings rather than other land and buildings.

### ***Fixed asset register***

- 19** The above issues identified that the existing fixed asset register does not comply with all the requirements of CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2008, the Statement of Recommended Practice (SORP). In addition, the forthcoming changes arising from the introduction of International Financial Reporting Standards (IFRS) will add additional requirements. This is a significant weakness that is now reflected within the Annual Governance Statement.

## Financial statements

- 20** Our review of the fixed asset register also identified inclusion of assets that were fully depreciated. Full depreciation of assets should only occur once the asset is no longer of use and the asset should be written out of the accounts and fixed asset register. Although not significantly impacting on the net book value of the fixed assets, these have been understated. The fixed asset register should only include assets that are still held or in use and have a value.

### *Pension disclosures*

- 21** The “pension interest cost and expected return on pension assets” line in the Housing Revenue Income and Expenditure Account was understated by £1.976 million. This had been compensated for by a similar understatement of the “HRA share of contributions to the Pensions Reserve” line in Statement of Movement on the Housing Revenue Account balance.

<b>Recommendation</b>	
<b>R1</b>	Introduce a fixed asset register that fully meets the SORP and forthcoming IFRS requirements.
<b>R2</b>	Establish an integrated housing database that ensures that the fixed asset register, housing maintenance database and housing rents database are fully reconcilable.
<b>R3</b>	Include the significant weaknesses and planned actions in respect the following systems within the Annual Governance Statement: <ul style="list-style-type: none"> <li>• Lack of reconciliation of the fixed asset register, housing maintenance database and housing rents system</li> <li>• Non-compliance of the fixed asset register with the SORP.</li> </ul>
<b>R4</b>	Confirm whether fully depreciated assets are still held/in use and amend the fixed asset register if they are not.
<b>R5</b>	Review the methodology for establishing FRS 17 entries in the financial statements to ensure reconciliation to the actuarial report.
<b>R6</b>	The Corporate Governance Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently management has decided not to amend the financial statements for a number of these errors. If your considerations lead you to concur with management, I would require detail of your rationale for not amending the errors to be set out within the letter of representation.

## Material weaknesses in internal control

- 22** As outlined above, our post statements work identified weaknesses or an absence of controls over the completeness, accuracy, valuation and allocation, existence and rights and obligations of the assets contained within the various housing asset databases and fixed asset register. As a result detailed substantive testing has been carried out to verify the respective core information.

- 23** We have not identified any further weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 24** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

### Recommendation

- R7** Introduce controls within the integrated housing asset database that ensure the completeness, accuracy, valuation and allocation, existence and rights and obligations of the database are validated.

### Letter of representation

- 25** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains my request for the representations I seek to obtain from you.

### Key areas of judgement and audit risk

- 26** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

*These issues were included in the previous report presented to you in October*

Issue or risk	Finding
The Council may not have sufficient capacity to address its challenging growth and improvement agenda.	The delay in filling new Executive Director – Corporate Services post was partly offset by the sharing arrangement with neighbouring council. Use of Resources work indicated that time taken to fill vacant posts further reduces the capacity of the Council to meet its aspirations.
The Improvement Board will continue to meet to monitor progress in implementing recommendations from Corporate Governance Re-inspection.	The final Improvement Board meeting was held in January 2009



## Financial statements

Issue or risk	Finding
The Council is proposing to consult tenants on a housing stock transfer in 2009 in order to address projected financial pressures on the HRA and housing stock in future years.	The Council received a 'No' vote to transfer from the tenant ballot that took place in May 2009. The Council is currently reviewing the financial and operational implications in the light of the possible national changes to the financing of the HRA.

## Accounting practice and financial reporting

27 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2** Qualitative aspects of financial reporting

*These issues were included in the previous report presented to you in October*

Issue or risk	Finding
The adverse impact of the 'Credit Crunch' on the Treasury Management arrangements of the Council.	No impairment of financial instruments required. The reduction in investment income is taken account of in the Medium Term Financial Strategy.
The Council does not possess an asset register that is able to store all necessary data against each individual asset/beacon group to enable the newly introduced capital requirements to be met in future years, e.g. recording revaluations/impairments against individual assets/beacon groups.	A revised fixed asset register that substantially meets the requirements has been produced during post statement work. However, further work is still required to ensure the register is able to provide the required level of information. In particular, linkages between beacon group and individual properties need to be established on a single database.
In respect of HRA expenditure the Council has previously capitalised based upon the MRA criteria. Capitalisation should be based upon FRS 15 as expounded in the SORP.	Our review identified that a year end exercise had been completed to ensure that quoted capital expenditure met the FRS 15 definition and elements were transferred to revenue as a result of this exercise. Our subsequent testing did not identify further elements that did not meet the FRS 15 criteria.
Potential material misstatement due to incorrect application of the capital accounting rules.	See errors in the financial statements.

Issue or risk	Finding
Non compliance with SORP disclosure requirements	See errors in the financial statements.
Legal status of transfer from Building Control Account to the General Fund.	The direct transfer was removed from the General Fund as part of the 2009/10 budget process and 2008/09 closedown.
Incorrect reporting of Member allowances	The total for members allowances quoted in the Statement of Accounts and on the Council website was understated by £868. Incorrect analysis of individual councillor amounts on the website ranged from a £558 understatement to a £488 overstatement.
All balances or key assertions should be supported by appropriate audit trails. This is essential for systems that do not allow retrospective interrogation. It is also important that the absence of expected entries is evidenced.	<p>Our work identified inconsistency in the standard of audit trails supporting key entries in the accounts. Examples included:</p> <ul style="list-style-type: none"> <li>● No breakdown of the council tax receipts in advance (£0.841 million) was available</li> <li>● No reconciliation between the fixed asset register and Note 11</li> <li>● The council tax debtor analysis was greater than amount in the balance sheet by £0.025 million</li> <li>● Accountancy had no initial evidence to support the absence of a single status provision</li> <li>● There were unexplained movements on earmarked reserves of £0.035 million</li> <li>● Account balances inconsistent with working papers which had not been updated to reflect late changes e.g. bad debt provision calculations</li> </ul>

## Financial statements

<b>Recommendation</b>	
<b>R8</b>	Complete the review of Housing Services, arising from the 'No' vote, so that changes in service provision and expenditure are fully reflected in the 2010/11 budget and ongoing Medium Term Financial Strategy.
<b>R9</b>	Examine and validate the proposed capital programme against FRS 15 criteria as part of budget setting process. Monitor and confirm compliance with criteria during year rather than as a year end process.
<b>R10</b>	Review existing closedown process and identify balances and system reports that are time specific and integrate their production into the process.
<b>R11</b>	Ensure that all key entries in the financial statements are fully evidenced, with clear audit trails, as is the rationale for the exclusion of expected items.

# Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 28** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 29** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 30** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

**Table 3** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2
<b>Overall Score</b>	<b>2</b>

- 31** Detailed findings are included in Appendix 5, along with areas for improvement.

### Recommendation

**R12** Address the areas for improvement identified from our Use of Resources assessment, as detailed in Appendix 5

## Use of resources

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### Impact of the recession

- 32** The economic downturn and banking crisis are having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 33** The Council is responding to this challenge; the latest medium term financial strategy takes account of the impact of the economic downturn and therefore contributes to the challenging financial position. The implications of this are understood and the challenges faced are being acknowledged by the Council as a whole. The Council does not have any investments with Icelandic banks or other 'at risk' institutions.
- 34** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. However, this is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.
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### Value for money conclusion

- 35** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 36** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

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# Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

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## *Independent auditor’s report to the Members of South Cambridgeshire District Council*

### *Opinion on the financial statements*

I have audited the Authority accounting statements and related notes of South Cambridgeshire District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Cambridgeshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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### *Respective responsibilities of the Executive Director – Corporate Services and auditor*

The Executive Director’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

## Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

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### *Basis of audit opinion*

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### *Opinion*

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

### *Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources*

#### *Authority’s Responsibilities*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### *Auditor’s Responsibilities*

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, South Cambridgeshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Debbie Hanson

Officer of the Audit Commission

Audit Commission, Regus House, 1010 Cambourne Business Park, Cambourne, Cambridge, CB23 6DP

November 2009



# Appendix 2 – Adjusted amendments to the accounts

The following misstatements have been identified during the course of my audit and management will be adjusting the financial statements. I bring them to your attention to assist you in fulfilling your governance responsibilities. These issues were included in the previous report presented to you in October, although figures have now been included in relation to the first item.

Adjusted misstatements	Nature of adjustment
<b>Material misstatements</b>	
<p>Balance Sheet – Revaluation Reserve, CAA; Income &amp; Expenditure Account; Statement of Movement on the General Fund Balance (SMGFB), Statement of Total Recognised Gains and Losses (STRGL), Housing Revenue Income and Expenditure Account, Statement of Movement on the Housing Revenue Account Balance (SMHRB).</p> <p>The relevant associated notes to the Core and Supplementary Statements.</p>	<p>Our work on capital identified that the Council had not:</p> <ul style="list-style-type: none"> <li>• allocated the MRA and in-year capital expenditure to individual beacon groupings in 2007/08</li> <li>• reduced the opening value of council dwellings to reflect the impaired state of dwellings identified in setting the capital programme for 2008/09</li> <li>• reconciled the fixed asset register, housing maintenance database and the housing rents database</li> <li>• correctly allocated properties to beacon groupings</li> <li>• included unoccupied properties awaiting demolition as surplus assets, but included at full value in beacon groupings</li> <li>• established the correct accounting treatment for assets transferred in advance of sale to RSLs</li> <li>• moved all ‘to be sold’ properties to surplus assets</li> <li>• correctly allocated block garages to ‘other land and buildings but included in council dwellings</li> <li>• explained in the text to Note 11 the in-year prior period adjustment to intangible assets.</li> </ul> <p>This leads to the following material and significant changes to the primary and supplementary statements.</p>

## Appendix 2 – Adjusted amendments to the accounts

<b>Changed entry</b>	<b>Increase £ million</b>	<b>Decrease £ million</b>
<i>In year restatement of balance at 1.4.2008</i>		
Council Dwellings		8.325
Other land and buildings	3.157	
Surplus held for disposal	3.011	
Investment Properties		0.310
Revaluation Reserve		7.442
Capital Adjustment Account	4.975	
<i>In Year transactions</i>		
Impairment charge to GF and HR I & E	0.954	
Reversal of impairment charge in SMGFB & SMHRAB	0.954	
Depreciation charge to GF and HR I&E	1.991	
Reversal of depreciation in SMGFB & SMHRAB	1.991	
New line in STRGL in respect of opening adjustment	2.467	
Deficit arising from the revaluation of assets in STRGL		6.429
<i>Balances at 31.3.2009</i>		
Fixed Assets – Council Dwellings (NBV)		3.863
Fixed Assets – Other land and buildings (NBV)	2.804	
Fixed Assets – Surplus assets (NBV)	2.379	
Revaluation Reserve		2.122
Capital Adjustment Account	3.442	

The associated Notes to the Core Statements and the Supplementary Statements have also been amended.

## Appendix 2 – Adjusted amendments to the accounts

Housing Revenue Income and Expenditure Account; SMHRB	The “pension interest cost and expected return on pension assets” line in the Housing Revenue Income and Expenditure Account was understated by £1.976 million. This had been compensated for by a similar understatement of the “HRA share of contributions to the Pensions Reserve” line in SMHRB.
Note 4 (Members allowances) to Core Statements	The total for Members allowances was understated by £868 due to errors in the amounts disclosed on the Council website.
<b>Non Trivial misstatements</b>	
Balance Sheet – Creditors and Deferred Liabilities	S106 Developers’ contributions valued at £1.063 million were incorrectly classified as deferred charges rather than as creditors.
Income and Expenditure Account	The ‘HRA Services’ line within the Income and Expenditure Account is required to agree with the ‘Net cost of services as included in the whole authority Income and Expenditure Account’ line in the HRA. The amount in the Income and Expenditure Account is overstated by £0.487 million. This relates to the HRA share of Corporate and Democratic Core. This amount should be included within the Central Services line of the Income and Expenditure Account.
Note 20 (Deferred Credits and Grants) to Core statements	Analysis shows Deferred Government Grants of £0.971 million at 31 March 2009. This is in fact: <ul style="list-style-type: none"> <li>• Deferred Government Grants Applied of £0.370 million</li> <li>• Government Grants Unapplied of £0.601 million.</li> </ul>
Income and Expenditure Account, SMGFB, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	The STRGL incorrectly contains within ‘other gains and losses’ items in relation to the disposal of assets and write out of deferred charges totalling £0.351 million. These should have been taken through the Income and Expenditure Account as part of Gains and Losses on disposal and then reversed out of the SMGFB. The elements in respect of housing should similarly be reflected through the Housing Revenue Income and Expenditure Account and SMHRB.
Income and Expenditure Account, SMGFB, STRGL, Balance Sheet – Debtors/Bad Debt Provision/General Fund, Cash Flow Statement and Associated Notes to the Core Statements	Housing Benefit overpayments at year end of £0.271 million which are to be reimbursed from future benefit payments have not been accrued in the accounts. Allowing for a 75% provision for bad debts, this increases the balance on the General Fund by £0.068 million.

Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	The STRGL incorrectly contained within ‘other gains and losses’ expenditure (£0.176 million) in respect of FRS 17 which should have been included in the Income and Expenditure Account and SMGFB. The elements in respect of housing should similarly be reflected through the Housing Revenue Income and Expenditure Account and SMHRB.
Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	FRS 17 charges within the statements are based upon the actuary’s estimate of the Council’s contribution as opposed to their ‘lower’ actual contributions. This has overstated the entries in the Income and Expenditure account and SMGFB and the year end liability is therefore understated by £0.075 million. The elements in respect of housing should similarly be reflected through the Housing Revenue Income and Expenditure Account and SMHRB.
Balance Sheet – Long Term Debtors and Deferred Credits (Deferred Capital Receipts) and Associated Note to Core Statement	Both of these balances were overstated by £0.065 million. This was due to the balances not being written down in 2004/05 to reflect the mortgage payments made in that year.
Authorised for issue – Note to Core Statements	The SORP clarified the requirement for the Council to state within the financial statements the date up to which it had considered the implications of Post Balance Sheet Events in preparing the accounts. This should take place prior to the adoption of the accounts and then again prior to the audit opinion/certification. The authorised for issue date is now included within the Notes to the Core Statements.

## Appendix 3 – Unadjusted misstatements in the accounts

The following misstatement was identified during the course of my audit and the financial statements have not been adjusted by management. I bring it to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please confirm the uncorrected error in the representation letter.

**Table 4 Unadjusted misstatements**

*These issues were included in the previous report presented to you in October. Additional items have also been identified following this meeting and these have been added to this table.*

Description of error	Accounts effected	Value of error £Million
Increase in FRS 17 valuation of Pension Fund assets, following receipt of assurance letter from the auditor of Cambridgeshire County Council in respect of the administered Pension Fund.	Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	£0.536
<b>Issues identified post Corporate Governance Committee on 23 October 2009</b>		
Gain on disposal of assets is understated.	Income and Expenditure Account and SMGFB	£0.225
Gain on disposal of assets is understated	Housing Revenue Income and Expenditure Account, SMHRB	£0.114

## Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts effected	Value of error £Million
Reversal of adjustments to Income and Expenditure account in the SMGFB have been incorrectly netted off impairment, depreciation and amortisation rather than allocated to other headings within SMGFB.	SMGFB	£0.218
The total depreciation and impairment within the HRA Income and Expenditure account is less than the fixed asset register working papers. This is in part due to the exclusion of depreciation in respect of garages and infrastructure.	HRA Income and Expenditure; SMHRAB	£0.281
Write out of depreciation on disposals included in depreciation revaluation rather than disposal write off.	Notes 11 and 38	£0.102
Impairment charge for HRA is understated.	Note 41	£0.061
Depreciation charge is understated due to exclusion of garage and infrastructure charges	Note 40	£0.016

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# Appendix 4 – Request for a letter of representation

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Our reference      CEN/CA223/2008-9/Letter of representation request

20 October 2009

Alex Colyer  
Executive Director – Corporate Services  
South Cambridgeshire District Council  
Cambourne Business Park  
Cambourne  
Cambridgeshire CB3 6EA

Direct line      0844 798 4142  
Mobile            07879 487172  
Email             n-gibson@audit-  
                         commission.gov.uk

Dear Alex

**Audit of Accounts 2008/09**  
**Request for a letter of representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects local authorities and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the financial statements;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Corporate Governance Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following:

### Compliance with the statutory authorities

An acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected misstatements

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the Annual Governance Report) are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

### Supporting records

Confirmation that all the accounting records, other records and related information, including minutes of all Council and Committee meetings, have been made available to us for the purpose of our audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

### Going Concern

Confirmation that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

### Irregularities

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that there have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Confirmation that you have disclosed:

- knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



## Appendix 4 – Request for a letter of representation

### Law, regulations, contractual arrangements and codes of practice

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Confirmation that the Council has complied with all aspects of contractual arrangements, which could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

Confirmation that the significant assumptions within the financial statements that cover, borrowing, investments, provisions, depreciation, and accruals are reasonable. Specifically in relation to:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

### Assets

Confirmation that the following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- all impairments to fixed assets have been identified and accounted for in accordance with Financial Reporting Standard (FRS) 11;
- there have been no disposals of fixed assets during the year other than those recorded in the financial statements; and
- there are no known intangible assets including patents, trade marks licenses or custodies over intellectual property rights other than those recorded in the financial statements.

### Contingent liabilities

Confirmation that there are no contingent liabilities other than those, properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

**Related party transactions**

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Council's registers of interest are complete and up to date in respect of members and senior staff. The Council has ensure that all directors and key managers are aware of the requirements to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

**Post balance sheet events**

Confirmation that since the date of review of the financial statements by the Corporate Governance Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements and that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

**Pension provision:**

Confirmation that there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation.

I should be grateful if you could, after discussion with the Chief Executive, Monitoring Officer and other officers as appropriate, provide a signed\* management letter of representation for South Cambridgeshire District Council at the appropriate time.

Yours sincerely

Neil Gibson  
Audit Manager

\* - Signed by the Chief Executive, Executive Director – Corporate Services and Chair of the Corporate Governance Committee (as 'those charged with governance' at South Cambridgeshire District Council).

# Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

**Table 5 Managing finances**

<b>Managing Finances: How effectively does the organisation manage its finances to deliver value for money?</b> Theme score 2	
<b>KLOE 1.1: Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</b>	
<b>Score</b>	2
<b>VFM criterion met</b>	Yes
<b>Key findings and conclusions</b>	
<p>The Council draws upon a variety of detailed plans to support the Medium Term Financial Strategy (MTFS) and the budget process. There are clear policies on the level of reserves, which have been adhered to. The difficult decisions necessary to tackle the underlying shortfall in the current budget, which is currently supported by reserves, have been deferred to later years. The budget process is timely and provides Members opportunity to discuss and influence the content and overall council tax or rent levels. Similarly, the MTFS is regularly reviewed and updated taking account of changes within the economic environment e.g. credit crunch. What is not always apparent is a clear linkage between the changes in spending and the consequential impact on the levels of operational performance that this will generate in either the budget or the MTFS. Review of capital programme has identified that for Housing the Council had been using the MRA definitions to decide whether items could be capitalised rather than FRS 15 criteria. The latter is a tighter criterion and has led to some elements of the capital programme being reclassified as revenue with consequential funding implications. There is limited evidence of benchmarking being actively used to challenge the apportionment of resources. Key vacancies in financial posts and the failure to appoint the new Executive Director – Corporate Services in a timely manner have delayed planned improvements in financial management.</p> <p>The Council does and has sought to involve residents and stakeholders within the financial planning process. This has involved changing the methods used and the timing of events. The approaches have not been as successful as Members would wish and the Finance Task and Finish Group put forward a number of proposals to improve in this area and achieve increased and informed input. Consistently managed outturn within overall budget, although there have been significant variances from original budgets. As a result, Members have established the need for a better understanding of why underspends occur and more timely reporting to avoid unexpected underspends that occurred in 2008/09.</p>	

**Appendix 5 – Use of resources key findings and conclusions**

<p>The need for regular financial training for both Members and officers is fully recognised and was partly addressed in 2008/09 by in-house training for both. The Finance Task and Finish Group highlighted that although there was a high level of satisfaction with the training provided; Members needed more focussed training to reflect their financial involvement. Similarly, it considered that the unexpected underspends indicated that the training had not fully addressed the need to improve financial awareness at the budget holder level.</p>	
<p><b>Areas for Improvement:</b></p> <ul style="list-style-type: none"> <li>• Medium term financial strategy does not adequately address the underlying budget deficit</li> <li>• There is a lack of clarity over the impact of spending changes on the operational performance of the Council within decision making reports</li> <li>• The capital programme takes account of MIRA criterion rather than FRS 15</li> <li>• Planned improvements in financial management have not been achieved</li> <li>• Members consider that residents and stakeholders do not have sufficient involvement in the financial planning process</li> <li>• There is a variable level of understanding of why variances occur between budget and outturn</li> <li>• The expected outcomes from additional finance training have not been identified or measured.</li> </ul>	
<p><b>KLOE 1.2: Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</b></p>	
<p><b>Score</b></p>	<p>2</p>
<p><b>VFM criterion met</b></p>	<p>Yes</p>
<p><b>Key findings and conclusions</b></p> <p>The Council understands what its costs are, but has a less well developed understanding of the cost drivers and their direct impact on service performance. It is introducing different analysis to ensure that the linkages between changes in spending can have clear performance target implications. The improvement in Housing Voids over the last year recognised that reducing voids was one of the few improvements that would financially benefit the HRA given the negative subsidy position of the Council. The move in the approach to Homelessness to preventative work rather than subsequent housing has cost benefits. These have however been only partially reflected within the budget process with resultant year end underspends. Major initiatives such as Orchard Park and Windmill Estate have been less clear in the linkage between changes in approach and the subsequent impact on costs and performance. Whilst accepting that these are ongoing projects the expected outcomes have not been clearly defined. Council tax levels are one of the lowest in the country, although this is as a result of previous use of reserves and the Council is now trapped in a 'capping' position with reserves reducing. The reporting of financial and management information is not integrated throughout the year, although changes have been implemented towards the end of the year. The Statement of Accounts financial variances are not explained in Foreword by reference to operational performance e.g. fall in planning fee income due to reduction in planning applications.</p>	

## Appendix 5 – Use of resources key findings and conclusions

Fully costed options are not always provided for relevant alternatives within the decision making process. Stock retention was one of the options for the Windmill Estate, yet the report recommended redevelopment and therefore only evaluated the full or partial redevelopment options.

Consequently, Members took a decision without having a key option evaluated. Similarly, reports on the Orchard Park project report make references to no cost implications or that these are covered in other reports. It is therefore not possible to see that Members have had sufficient information to enable informed decisions to be taken. The Council at both Member and officer level has a strong cost focus. It is proud of the low level of council tax. However, such a cost focus impacts upon performance levels and the interrelationship has not always been closely analysed before spending decisions have been made in respect of the case studies provided.

The Housing Futures issue and potential transfer of the Housing stock to a RSL was evaluated and involved external advisers. This approach carried out whole life (30 year) costings for the option of retaining in-house or transferring to a RSL. The analysis for the in-house option included the implications for the HRA in terms of needing to reduce both capital and revenue spend and the areas in which this would have to be achieved and what that meant to the tenant. The focus was therefore on the impact on the HRA and the tenants. What the Council had not assessed prior to the ballot was the impact on the shape, size and workload of the slimmer council that would be required if the transfer had taken place. This should have been a key factor in understanding the implications of the proposed ballot and was not provided to Members prior to their decision to go to ballot.

The Council has adequate arrangements for managing and improving value for money but there is little benchmarking to assess the value for money of services. Post implementation reviews on improvements and knowledge sharing between departments to embed value for money achievements are not widespread. Evaluation of value for money in partnership working is evolving but visible outcomes cannot yet be demonstrated. In 2007/08, only 24 per cent of the Council's performance indicators were in the top quartile nationally; compared to a district council average of 33%.

### Areas for improvement:

- Identification of costs drivers and their consequential impact on operational service performance is not well developed
- The 'good practice' standards' approach to reviewing Housing Voids is not uniformly adopted for service reviews
- Outcomes for initiatives are not always clearly defined at the onset
- There is a lack of integration in performance and financial reporting
- Post implementation reviews and knowledge sharing between departments is not an organisational norm
- VFM resulting from partnership working has not been fully established or monitored on a consistent basis.

Appendix 5 – Use of resources key findings and conclusions

<p><b>KLOE 1.3: Is the organisation’s financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</b></p>	<p>2</p>
<p><b>Score</b></p>	<p>Yes</p>
<p><b>Key findings and conclusions</b></p>	
<p>Regular and timely reporting of financial performance against budget is provided. During the year reporting takes account of known/agreed changes to budget and monitoring takes place against the updated budget. No analysis of the reasons for the need for changes to the budget has been carried out, so it is unclear whether this is due to changed circumstances or poor budgeting. This is consistent with non financial areas with performance targets not always being adjusted to reflect the impact of budget or other changes in circumstances. In some instances the financial reporting includes performance information although this is not well developed and an area in which the Council recognises it needs to improve. The in-year and year end reporting are consistent, although the Finance T&amp;F Group found continued examples of unreported underspends that only came to light at the end of the year. No major adverse events have impacted on the budget that had not previously been identified and adjusted for. Overall the General Fund budget was managed to a small underspend. The Council has adjusted the MTFS to reflect the expected longer term implications of the economic crisis. The Council did not have any investments with Icelandic banks at the time of the crash. Service specific management arrangements have identified that Performance Indicators are regularly reported to senior management and Portfolio Holders and are generally used in day to day management of the service. Towards the end of 2008/09, Cabinet started to receive a quarterly integrated business monitoring report detailing financial and performance information, but this arrangement is still under development. Last year there was a material change to the accounts after adoption, although this did not have an overall impact on the General Fund or HRA balances. The Council established a final accounts closure timetable in place for 2008/09. There has been some slippage due to issues around capital accounting errors which resulted in the draft Statement of Accounts being issued to Members on the Friday before the Monday committee approval meeting. Further minor amendments were tabled at the approval meeting.</p> <p>Prior to receipt of the Statement of Accounts our work had identified the following significant issues:</p> <ul style="list-style-type: none"> <li>• The opening fixed asset valuations were materially overstated resulting in an in-year opening adjustment of some £5.7 million due to the failure to impair for the identified capital programme</li> <li>• Stand alone garage blocks, valued at some £3.16m had been misclassified as council dwellings in 2007/08</li> <li>• The MRA was being used as a proxy for depreciation on housing stock, but this was not the case as MRA value is £3.178 million compared to calculated depreciation figure of £8.898 million</li> <li>• Disabled facilities loans were not recognised on the balance sheet (£0.407 million)</li> <li>• Building Control Account surplus was incorrectly being released to General Fund</li> <li>• Investment interest in previous year shown as debtor rather than as part of the investment balance (£0.887 million)</li> <li>• The proposed impairment valuation was significantly understated, requiring a revisiting of the impairment revaluation by the valuer prior to approval of the accounts.</li> </ul>	

## Appendix 5 – Use of resources key findings and conclusions

A decisive factor in the latter occurring was that the accountability team had not been involved in the process of establishing the terms of reference or engaging the valuer and merely received the summary valuation information. Therefore it is unclear how they had established procedures to ensure that the requirements of the SORP had been complied with.

Further issues regarding the Statement of Accounts are included in Appendices 2 and 3.

The draft Statement of Accounts is available on the Council website as is the previous Annual Audit Letter. The Finance Task and Finish Group did however identify the need for better external reporting of the Council's position to stakeholders and users. It considered that a more user friendly approach should be considered in addition to the statutory reporting framework.

Detailed planning for the implications of IFRS has yet to be carried out and reported to Members.

### Areas for Improvement:

- No analysis of the reasons for outturn to budget variances has been completed e.g. changed circumstances or incorrect budgeting
- Integrated business monitoring reports for financial and performance information were in the early stages of development in 2008/09
- Closedown procedures and quality review do not ensure that the Statement of Accounts is fully compliant with the SORP
- External reporting is not seen as being user friendly
- An action plan for the implementation of IFRS has not been prepared and approved by Members.

**Table 6** Governing the business

<p><b>Governing the business: How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?</b></p> <p>Theme score 2</p>	
<p><b>KLOE 2.1: Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?</b></p>	
<p><b>Score</b></p>	<p>2</p>
<p><b>VFM criterion met</b></p>	<p>Yes</p>
<p><b>Key findings and conclusions</b></p> <p>The Council seeks to be involved with third sector, private sector and other public sector bodies in developing approaches to service delivery. The detailed work leading up to the housing ballot is a good example, but other work on new communities (Orchard Park) and affordable homes (Windmill estate and other land/asset transfers) also shows involvement of partner organisations. Although many sectors are involved in the developments mentioned, clearly defined and measurable objectives are not always set, thus making assessment of the success of the schemes difficult, especially when they may have a long project period. The Housing Futures is a good example of assessing the longer term implications of specific services, but this is not prevalent throughout reviews of council services.</p> <p>The Council has introduced plastic bottles into the existing kerbside recycling service. This was successfully developed and implemented as a result of the adoption of a robust project management approach, with the Council working closely with its external contractors. It was implemented on time, on budget and with no disruption to the existing kerbside service and to residents. Early customer feedback indicates increased satisfaction with the service.</p> <p>In April 2009 the Council published an updated 'Procurement Strategy'. This document sets out the steps that officers must go through during a procurement exercise. It is therefore a procurement approach as it does not set out how procurement will assist the Council in achieving its strategic objectives. For major decisions areas the Council has sought to obtain and take account of the views of service users and recipients as well as partners and other stakeholders. However, this has not been the necessarily the case at all stages with approaches being decided upon without the agreement of key stakeholders (Orchard Park). Similarly, changes to services included within the budget process have not achieved the detailed involvement of stakeholders to confirm a shared approach to procurement.</p> <p>In identifying areas to improve, the Council considers the opportunity for service redesign. This can range from the introduction of good practice approaches that other bodies have used to considering whether IT offers new alternatives. The improvement in housing voids reflected the first of these with good practice from all three private, public and voluntary sectors being obtained before redesigning the Council's approach. The outsourcing of the housing stores and the innovative use of IT in identifying usage and vehicle requirements also demonstrates service redesign.</p>	



## Appendix 5 – Use of resources key findings and conclusions

<p>The Council is seeking to develop longer term approaches to providing services and a better understand of the supply market. The Council has not taken the opportunity to make best use of the information that it gathers and apply them to similar as well as different, but linked scenarios e.g. Cambourne and Orchard Park, Orchard Park and Windmill estate.</p> <p>The updated 'Procurement strategy' sets out how to approach procurement and includes carrying out cost appraisal. Our work identified that in a number of instances 'all' options were not evaluated and therefore it was not possible to confirm that the decision taken was made on complete information or was the best option.</p> <p>Historically, the Council has obtained benefit from service reviews. Currently though delays in the delivery of the programmed service reviews reduces their effectiveness.</p> <p><b>Areas for improvement:</b></p> <ul style="list-style-type: none"> <li>• The expected outcomes for partnership initiatives are not clearly established at the onset making it impossible to evaluate the success or otherwise of a project</li> <li>• The Council has not identified how it will use procurement to achieve its strategic objectives</li> <li>• The views of other affected and interested parties as well as partners are not always obtained prior to decision making</li> <li>• The Council needs to acquire a better understanding of the supply market</li> <li>• The service review programme has not been achieved.</li> </ul>	<p><b>KLOE 2.2: Does the organisation produce relevant and reliable data and information to support decision making and manage performance?</b></p>	<p><b>Score</b> <b>VFM criterion met</b></p> <p style="text-align: center;"><b>2</b> <b>Yes</b></p>	<p><b>Key findings and conclusions</b></p> <p>The production of relevant and reliable data is a cornerstone of successful delivery of services. The Council has not established a consistent level of data quality monitoring throughout all services. Quality monitoring at a corporate level is restricted to sample spot checks by Internal Audit. Within services the level of data quality monitoring ranges from high level sense checks on Performance Indicators to detailed spot checks of source data. During the year the Council introduced the CORVU performance management system, however, this is underdeveloped and the full benefits of the system are yet to be realised. The existing service data systems do not currently interface with CORVU, which requires data input. As such the local systems are being used for operational management with the information fed into CORVU being used for reporting to Members. The Council has recognised in the Corporate Governance Statement that it needs to fully embed the new performance management system, with appropriate Member and staff training, and link it to service planning during 2009/10.</p> <p>Our spot checks indicated that officers were not consistently retaining audit trails to support the supplied performance indicators. Reconstruction of audit trails for the performance indicators was eventually possible and no significant errors were identified as a result of our spot check reviews. The reconstruction exercise did identify examples of a lack of knowledge and understanding of the make up of the performance indicators. It also identified such information residing with a single officer.</p>
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## Appendix 5 – Use of resources key findings and conclusions

The lack of a consistent approach to the production and retention of up to date detailed guidance and procedure notes could lead to a loss of knowledge if those members of staff left the Council. The lack of understanding of the content of the performance indicator can also lead to incorrect interpretation of the movements of the performance indicator.

Our detailed opinion work has also identified that the Fixed Asset Register does not hold all the information that is required under the SORP nor have the capacity to do so.

Arrangements for sharing and receiving quality information from partners are not well developed. The Council is not maximising the benefit it could gain from holding such partnership information, with performance information needing to be more closely integrated and interpreted with financial information.

Although the financial consequences of decisions are included in reports to Members, this is not automatically accompanied by detailed performance implications (see 1.2). In some instances all the defined options are not included in these reports; the Housing Futures was an exception as it did show implications on both financial and performance/service provision. The Finance Task and Finish Group found that the means of summarising and presenting financial and performance information should be subject to review and changes to link the level of detail to the requirements of the decision makers/stakeholders e.g. strategic, operational, residents, are now ongoing.

The importance of data security both in electronic and hard copy is fully recognised and sound systems exist to comply with the requirements of the Data Protection Act and Freedom of Information Act.

The Council manages against the national data set and some additional local indicators. It does not however always establish targets for projects/system redesign and therefore although performance may improve it does not assess whether this was in line with initial expectations.

### Areas for improvement:

- Data quality monitoring is not consistent throughout the Council
- CORVU is not fully embedded with the Council's performance management regime, with additional training and detailed links to service planning being required
- Instances of inadequate audit trails in support of performance indicators which could not be easily reproduced
- Inconsistent approach to the production and retention of detailed guidance and procedure notes with knowledge residing with a single officer
- Fixed asset register does not fully comply with the requirement of the SORP
- The failure to fully develop procedures to share and receive quality information in respect of partnerships reduces the quality of performance monitoring for those partnerships
- The improvements expected from projects/systems redesign are not always identified.

## Appendix 5 – Use of resources key findings and conclusions

<b>KLOE 2.3: Does the organisation promote and demonstrate the principles and values of good governance?</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>The Council's constitution reflects the principles of good governance. It was updated in January 2009 and sets out the respective roles and responsibilities and the scheme of delegation in operation. Members are provided with training, but do not have individual development plans. Member training is generic and is not compulsory. Consequently, not all Members have attended training events. Those that have were positive but a more structured, targeted approach would benefit Members ensuring their respective needs are provided for. Formal feedback is sought and reported from attendees; however the feedback covers 'opinion' issues rather than independently verifiable and measurable areas. With no preset targets it is not possible to evaluate the success of the training. Proposed strengthening of senior management capacity has yet to be achieved although the planned improvements in the portfolio holder roles have been delivered and a Corporate Governance Committee is responsible for governance and fulfils the role of Audit Committee.</p> <p>The Council has identified major partnerships and has carried out an overview of the governance arrangements against the 'Partnership Toolkit' criteria. Some of these partnerships are dictated by statutory or variable arrangements such as on new housing developments and it is these specific governance arrangements that must be in place. In a number of the schemes that were put forward as good practice the Council has failed to identify, apart from at a high level, the objectives of the partnership working. The reports establishing/justifying the partnership arrangements do not specify what the change in performance will be as a result. As such, although partnership may be the only way that for example affordable housing will be provided the Council needs to state what at a practical level each partnership will deliver.</p> <p>Progress on customer services and complaints handling had not met the targets set. Through the year response rate for the Contact Centre improved, but general staff training on complaints handling and linked customer care did not meet the planned programme.</p> <p>All Members have signed the Declaration of Acceptance of Office which includes an undertaking to abide by the national Code of Conduct, however a number of Members did not sign the Members 'undertaking' until mid year. Thus the commitment to ethical standards was not fully embedded in the year. Appropriate statutory disclosure of Members expenses takes place with the Statement of Accounts identifying how members of the public can obtain additional information. NFI data is followed up by Internal Audit. The operation of the Standards Committee follows good practice standards.</p> <p>The benefits of Scrutiny are now starting to be realized. There has been greater focus on Scrutiny and steady improvement since the Corporate Governance Inspection. There has been a programme of training and role clarity has improved and there are now liaison meetings between the Chair, the Leader and the Chief Executive. The Orchard Park Task and Finish Group, was successful in identifying lessons to be learned from the project and made recommendations to improve this and future major developments. The Finance Task and Finish Group highlighted improvement opportunities in preparation, management and presentation of financial information. Scrutiny Committee continues to meet in different locations across the district and encourage public involvement in its meetings.</p>	

Appendix 5 – Use of resources key findings and conclusions

<p><b>Areas for improvement:</b></p> <ul style="list-style-type: none"> <li>• Members do not have individual development plans</li> <li>• Training feedback is based on ‘soft’ issues rather than independently verifiable and measurable outcomes</li> <li>• The strengthening of senior management capacity has yet to be achieved</li> <li>• The purpose and outcomes that each partnership will deliver have not been established</li> <li>• Customer services and complaints handling have improved, although not to the planned extent.</li> </ul>	
<p><b>KLOE 2.4 Does the organisation manage its risks and maintain a sound system of internal control?</b></p>	
<p><b>Score</b></p>	<p>2</p>
<p><b>VFM criterion met</b></p>	<p>Yes</p>
<p><b>Key findings and conclusions</b></p> <p>Risk management is carried out at strategic, operational and project level. The strategic risk register is reviewed and challenged at the Corporate Governance Committee on a quarterly basis. The full council considered the risk management register on an annual basis and this took place in September 2008. The revised risk registers are becoming more important in the operational and strategic management of the Council and are used in the review of budgets and budget monitoring. The MTFS now takes account of the wider issues that are raised through the risk management procedure. During the year Internal Audit reviewed how embedded the Council’s approach to risk management was in the culture of the organisation and classified it as being between ‘risk defined’ and ‘risk enabled’. Members have received training in the principles of risk management</p> <p>The Council Code of Conduct for staff is incorporated within the Constitution and is supplemented by an Anti Theft, Fraud and Corruption Policy as well as Capability and Disciplinary Procedures. It is proactive in its management of the risk of fraud. There is a specialist unit in the Benefits team which is successful in terms of prosecuting HB fraud. IA raised issues, regarding the status of control in respect of fraud prevention and security. Although it is recognised that the majority of issues related to security and non material systems, the concern is that the report took almost 18 months old before the detailed recommendations were agreed.</p> <p>The Internal Audit annual report for 2008/09 stated that the Council “has adequate and effective risk management, control and governance processes” and rated it as amber on their traffic light system of marking. Material systems tested by Internal Audit and External Audit have not identified any material weaknesses, apart from the issues around the Fixed Assets Register, housing management database and housing rents database mentioned earlier in the report. The Annual Governance Statement focuses on processes and actions rather than outcomes which these aim to deliver. This is indicative of the Council focussing on tasks and procedures rather than the improvements that should derive from them. Thus the implementation of a revised approach is deemed to have resolved an issue and is removed from action plans. The Annual Governance Statement has only embedding of the performance management system as an action. Further improvement of risk management is noted as a non significant governance issue.</p>	

## Appendix 5 – Use of resources key findings and conclusions

IA is independent and externally provided. Attendance at the Corporate Governance Committee (Audit Committee) has identified that robust questioning is directed more at Internal Audit rather than officers. A new chairman of the Committee was appointed during the year. An internal review of their performance as an audit committee is to be carried out in late 2009. Attendance at Corporate Governance Committee has indicated that the new Members are seeking to challenge reports and also the fact that some officers reports have been circulated late and hence have expressed concern that unable to fulfil role without adequate pre warning e.g. Draft Corporate Governance Statement and Statement of Accounts.

Similar to earlier comments in respect of performance indicators systems, procedure notes and manuals are available for some, but not all business critical systems. Although, Accountancy has procedures in respect of anti money laundering regarding treasury management; but similar procedures are not in place for income collection areas.

### Areas for improvement:

- Risk registers are becoming more important in the operational and strategic management of the council
- Delay in agreeing internal audit report on fraud prevention and security
- The Annual Governance Statement focuses on processes and actions but does not cover the outcomes that these seek to achieve
- Procedure notes and manuals are not available for all business critical systems

**Table 7** Managing resources

<p><b>Managing Resources: How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money?</b></p> <p><b>Theme score 2</b></p> <p><i>(Note that KLOE 3.1 (use of natural resources) and KLOE 3.2 (strategic asset management) have not been assessed this year)</i></p>
<p><b>KLOE 3.3: Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?</b></p> <p><b>Key findings and conclusions</b></p> <p>The Council has an appraisal scheme which includes personal work objectives, personal development and training plans. Personal work objectives are derived from Service Plans and the Council's 3As.</p> <p>Corporate training is delivered in key skill areas such as ICT, customer service and health &amp; safety. The Council has a Workforce Strategy and Action Plan which is reviewed annually. It also has a Recruitment and Selection Policy and procedure and has developed partnerships with other local authorities to develop a countywide jobs portal. The Council has in place an on-line application process.</p> <p>The Council worked towards developing a management competency and learning framework during 2008/09, although this has only started to be introduced during 2009/10. At the same time work is ongoing to introduce workforce plan skills, attitudes and behaviours in job and person specifications. The Council achieved Investors In People accreditation in February 2009. Although the generic benefits of such accreditation were shared with Members, the specific impact, in respect of improvement in operational performance at the Council, was not identified and has yet to be assessed.</p> <p>The Council's workforce strategy and action plan was predicated upon a no ballot result for the stock transfer. The information supplied to Members indicated that the impact on General Fund would be cost neutral based on set assumptions, therefore making the decision an issue in respect of housing. Detailed scenario workforce planning had not been carried out.</p> <p>Failure to fill the new Executive Director post have in part been mitigated by a recent share arrangement with another council, but this still prevents the required increase in senior management capacity being available at a time of significant change. Whilst, such an approach contributes to delivery within budget it should have a consequential impact on service delivery. A number of examples of failure to comply with expected procedures or downward movement in performance indicators have been attributed to staff vacancies e.g. quality checks, best value reviews. Workforce planning is more reactive than proactive.</p> <p>The Council had two major change projects underway in 2008/09, Housing Futures Change project and Job Evaluation project. Staff engagement and communications processes are in place including a staff /internal communications strategy; corporate brief; joint union meetings; staff satisfaction steering group. Similarly, the housing voids project displayed good change management practice with time being spent to bring staff on board before introducing changes.</p>

## Appendix 5 – Use of resources key findings and conclusions

In 2008/09, the Council was at Level 1 of the Local Government Equality Standard and it has moved to a Level 2 in June 2009. An Equal Pay audit has been completed.

### Areas for improvement:

- Management competency and learning framework developed in 2008/09, starting to be introduced in 2009/10
- Workforce plan skills, attitudes and behaviours are not included in job and person specifications
- IIP accreditation achieved in February 2009 but benefits in terms of operational performance have not been identified or assessed
- Workforce planning is not fully proactive
- Staff vacancies contribute to failure to achieve expected performance
- The Council moved to Level 2 of the Local Government Equality Standard in June 2009

# Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2008/09 – Recommendations</b>					
9	Introduce a fixed asset register that fully meets the SORP and forthcoming IFRS requirements.	3				
9	Establish an integrated housing database that ensures that the fixed asset register, housing maintenance database and housing rents database are fully reconcilable.	3				
9	<p>Include the significant weaknesses and planned actions in respect the following systems within the Annual Governance Statement:</p> <ul style="list-style-type: none"> <li>Lack of reconciliation of the fixed asset register, housing maintenance database and housing rents system</li> <li>Non-compliance of the fixed asset register with the SORP.</li> </ul>	3				



## Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	Confirm whether fully depreciated assets are still held/in use and amend the fixed asset register if they are not.	2				
9	Review the methodology for establishing FRS 17 entries in the financial statements to ensure reconciliation to the actuarial report.	3				
9	The Corporate Governance Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently management has decided not to amend the financial statements for a number of these errors. If your considerations lead you to concur with management, I would require detail of your rationale for not amending the errors to be set out within the letter of representation.	3				
10	Introduce controls within the integrated housing asset database that ensure the completeness, accuracy, valuation and allocation, existence and rights and obligations of the database are validated.	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	Complete the review of Housing Services, arising from the 'No' vote, so that changes in service provision and expenditure are fully reflected in the 2010/11 budget and ongoing Medium Term Financial Strategy.	3				
13	Examine and validate the proposed capital programme against FRS 15 criteria as part of budget setting process. Monitor and confirm compliance with criteria during year rather than as a year end process.	3				
13	Review existing closedown process and identify balances and system reports that are time specific and integrate their production into the process.	3				
13	Ensure that all key entries in the financial statements are fully evidenced, with clear audit trails, as is the rationale for the exclusion of expected items.	3				
14	Address the areas for improvement identified from our Use of Resources assessment, as detailed in Appendix 5	3				



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# The Audit Commission

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**PENSION FUND  
ANNUAL REPORT  
2008-2009**



## **CAMBRIDGESHIRE PENSION FUND ANNUAL REPORT**

### **1. INTRODUCTION**

- 1.1 The Pension Fund provides pensions and other benefits for employees of the County Council, Peterborough City Council, District Councils, and other public sector and charitable organisations within Cambridgeshire. A complete list of these organisations is given in Appendix A. The fund does not include police and firefighters nor, generally, teachers for whom independent pension arrangements apply. The Fund's accounts are a separate entity from the remainder of the Council's accounts, and are not incorporated in the Balance Sheet.
- 1.2 The Pension Scheme regulations govern the way the Pension Fund operates. It is a statutory scheme with relatively limited discretion available to each employer. The contribution rates made by the employers will however be affected both by the investment returns on the fund, and by other issues (e.g. levels of early and ill health retirements). Benefits and employees' contributions are determined by the regulations and not affected by the investment performance of the Fund.
- 1.3 There are two relevant groups involved in the management of the Pension Funds. The Pensions Committee is responsible for the overall investment strategy and management arrangements, and the Pensions Forum represents the views of employers and scheme members on all aspects of the pension scheme. More details of the management arrangements are given in the Governance Compliance Statement in Appendix B and the arrangements for communications within employers and members are given in Appendix C.

### **2. ANNUAL INVESTMENT REVIEW**

- 2.1 The credit crunch which had started in the year 2007-08 became a major problem in 2008-09. The failure of financial institutions and the subsequent economic recession caused major falls in stock markets globally, and all pension funds have seen significant reductions in asset values.
- 2.2 Since the year-end there have been signs that the worst of the recession is over and some stability is returning to the world economy. However the huge increases in government borrowing and expected tax increases will be a major constraint on the pace of future economic recovery.

### 3. INVESTMENT MANAGEMENT AND PERFORMANCE

- 3.1 The investment policy of the Fund is undertaken in accordance with the Statement of Investment Principles shown in Appendix D.
- 3.2 The total value of the fund was £1,100m, a reduction of £231m on the previous year. At the start of the year the fund employed Schroders as a multi-asset manager and Aberdeen Asset Management and UBS as specialist managers for the major part of the fund, together with three private equity managers. During the year the agreement with UBS was terminated due to continual under-performance of their target, and European equities were taken from the Schroder mandate due also to under-performance. The management of these fund assets was transferred to four new specialist managers, giving a complete management structure summarised as follows:-

Manager	Investment Mandate
Schroders	UK equities, Far East equities, Bonds, Property Unit Trusts
Aberdeen	Bonds
Newton	International equities
RCM	International equities
Credit Agricole	European equities
State Street	UK equities (index tracking)

Following the end of the year the Aberdeen mandate has been terminated and the assets transferred to Schroders and State Street.

- 3.3 Management fees are an agreed percentage of the funds under management. A benchmark return is calculated quarterly, based on the stock market index numbers for each sector, and target returns in excess of the benchmark are agreed for each manager. An additional percentage is paid when the investment return exceeds the target.
- 3.4 The private equity managers with mandates to invest in international private equity funds are Adams Street Partners (\$92m) and Harbourvest Partners (\$56m plus €28m); UBS have an investment of \$30m in an infrastructure fund and N W Brown Capital Partners Ltd have a mandate to invest £2m in the Cambridge Gateway Fund. The Adams Street and Harbourvest sums will be invested over a period of several years, and the total value of private equity investments to date is £56.8m.
- 3.5 The investment adviser to the fund is Hymans Robertson. Fees are paid on the basis of meetings attended and advice on specific areas of investment.
- 3.6 The fund actuary is Hymans Robertson. An agreed fee is paid for the triennial actuarial valuation, and advice on specific fund issues is charged at an hourly rate.



- 3.7 A measure of how well the Fund's investments have performed compared with other local authorities is given in statistics of investment returns published by the WM Company, who also provide a report on the long-term performance of the fund. The ranking of the fund in bands of 1% (where 1 is highest), annualised over periods from one to ten years, is as follows:-

	Annualised Return %	Percentile
2008/09 (one year)	-18.8	35
2006/09 (three years)	-5.8	42
2004/09 (five years)	3.4	37
1999/09 (ten years)	1.6	61

The annualised performance of the fund has therefore been in the third quartile over the last ten years. This is partly due to the under performance of at least one of the investment managers at various times over this period, and partly due to an above average holding of equities at times of market weakness. This has been addressed by changes in the management arrangements over the period, the most recent being in 2008/09. Over the last five years the fund has achieved a return in the second quartile.

#### 4. ACTUARIAL VALUATION

- 4.1 The ability of the Fund to provide statutory benefits is assessed every three years by the Council's consulting actuary, and employers' contributions determined in the light of his report. The most recent report was at 31st March 2007, and this concluded that it was necessary to increase the average employers' contribution rate from 17.4% to 18.2% from 1 April 2008, phased in over the remaining three years of a six-year period which began at the 2004 valuation. Differential rates were determined for individual participating authorities in accordance with their differing liabilities. The approach used by the actuary is summarised in the approved Funding Strategy Statement in Appendix F and the valuation certificate in Appendix G.
- 4.2 The main reason for the increased contribution rate was the need to provide for an increase in the longevity of fund members.
- 4.3 As a result of the high investment returns achieved over the three years to March 2007, the fund moved from a position of being funded at a level to which assets were only sufficient to meet 79% of liabilities at 31 March 2004 to 86% at 31 March 2007. The employer contributions are intended to recover this deficit over a 20 year period.

## 5. CONTRIBUTORS AND PENSIONERS

5.1 This table gives the number of contributors and pensioners at 31st March 2009.

	31 March 2009				31 March 2008
	County Council	Scheduled Bodies	Admitted Bodies	Total	Total
Contributors	11,287	10,361	1,423	23,071	22,308
Pensioners	5,870	5,003	731	11,604	11,054

5.2 All employees other than casually employed staff are admitted to the scheme unless they choose to opt out. Participation is encouraged by the provision of a scheme information booklet and regular newsletters. The main benefits provided by the scheme are as follows:

- a tax-free lump sum on retirement
- a guaranteed pension based on final pay
- the ability to increase the pension by paying extra contributions
- voluntary retirement from age 60
- an ill health pension from any age
- redundancy cover from age 50
- a death in service lump sum of two times final pay
- a widow's or widower's pension
- children's pensions
- the index-linking of benefits to ensure that they keep pace with inflation

## 6. ANNUAL ACCOUNTS AND AUDIT STATEMENT

The Fund's accounts are published as a separate section within the accounts of the County Council and are attached at Appendix H.

### Statement by the Appointed Auditor to the Members of Cambridgeshire County Council

We have examined the financial statements of the Pension Fund Annual Report for the period ended 31 March 2009 which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to Cambridgeshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. We do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Respective responsibilities of Chief Financial Officer and auditors**

The Chief Financial Officer is responsible for preparing the Annual Report in accordance with the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 (SI 2007/ 1561).

Our responsibility is to report to you our opinion on the consistency of the financial statements within the Annual Report with the statutory financial statements. We also read the other information contained in the Annual Report and consider the implications for our report if we become aware of any misstatements or material inconsistencies with the statutory financial statements.

**Basis of opinion**

We conducted our work in accordance with the principles expressed in paragraphs 15-18 of Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board, in so far as it is applicable to these financial statements.

**Opinion**

In our opinion the financial statements included in the Annual Report are consistent with the statutory financial statements of the Authority for the year ended 31 March 2009.

PricewaterhouseCoopers LLP

Cambridge

Date

## ORGANISATIONS PARTICIPATING 31 MARCH 2009

## APPENDIX A

**SCHEDULED BODIES:****Cambridgeshire County Council****Peterborough City Council****District Councils**

Cambridge City Council  
 East Cambridgeshire District Council  
 Fenland District Council  
 South Cambridgeshire District Council  
 Huntingdonshire District Council

**Town Councils**

Chatteris Town Council  
 City of Ely Council  
 Huntingdon Town Council  
 Ramsey Town Council  
 Soham Town Council  
 St. Ives Town Council  
 St. Neots Town Council  
 Wisbech Town Council

**Parish Councils**

Bretton Parish Council  
 Burwell Parish Council  
 Cambourne Parish Council  
 Doddington Parish Council  
 Eye Parish Council  
 Fulbourn Parish Council  
 Gamlingay Parish Council  
 Girton Parish Council  
 Hardwick Parish Council  
 Histon & Impington Recreation Ground  
 Committee  
 Histon Parish Council  
 Holywell-cum-Needlingworth Parish  
 Council  
 Impington Parish Council  
 Kimbolton & Stonely Parish Council  
 Linton Parish Council  
 Little Downham Parish Council  
 Little Paxton Parish Council  
 Littleport Parish Council  
 Manea Parish Council  
 Milton Parish Council  
 Sawston Parish Council  
 Sawtry Parish Council  
 Somersham Parish Council  
 Sutton Parish Council

Thorney Parish Council  
 Tydd St Giles Parish Council  
 Waterbeach Parish Council  
 Wimblington Parish Council  
 Yaxley Parish Council

**Internal Drainage Boards**

Burnt Fen IDB  
 Drysides IDB  
 Feldale IDB  
 Haddenham Level Commissioners  
 Holmewood & Stilton IDB  
 Littleport & Downham IDB  
 March East IDB  
 March Fifth IDB  
 March Sixth IDB  
 March Third IDB  
 Maxey IDB March & Whittlesey IDB  
 Middle Fen & Mere IDB  
 Middle Level Commissioners  
 North Level IDB  
 Old West IDB  
 Padnal and Waterden IDB  
 Ransonmoor IDB  
 Swaffham IDB  
 Waterbeach Level IDB  
 White Fen IDB  
 Whittlesey Fifth IDB  
 Whittlesey IDB  
 Yaxley IDB

**Other Organisations**

Anglia Polytechnic University  
 Cambridge Regional College  
 Cambridgeshire Association of Local  
 Councils  
 Cambridgeshire & Peterborough Fire  
 Authority  
 Cambridgeshire Magistrates' Courts  
 Committee  
 Cambridgeshire Police Authority  
 Cambridgeshire Probation Committee  
 Cambridgeshire Valuation Tribunal  
 Hills Road Sixth Form College  
 Huntingdonshire Regional College  
 Isle College, Wisbech  
 Long Road Sixth Form College  
 Peterborough Regional College  
 The College of West Anglia

**ADMITTED BODIES:**

Friends Therapeutic Community	Cambridgeshire Alcohol Advisory Service
Cambridgeshire Society for the Blind	The Westgate and Petros Project
Cambridgeshire Society for Mentally Handicapped Children	Wisbech Grammar School
Orton Family Centre	Mepal Outdoor Centre
Railway House Association	Peterborough Council for Voluntary Service
Eastern Provincial Council for Local Authorities	Peterborough Development Corporation
Cambridge Water Company	St Martin's Day Centre
Homerton College	Peterborough Council for Community Relations
Homerton School of Health Studies	St Columba Centre
Kimbolton School	Cambridgeshire Information & Technology Centre
Perse School for Girls	Bowthorpe Hall Centre
The Cresset	Conservators of the River Cam
Eastern Arts Board	Hereward Housing Association
St Raphael Club	Ormiston Trust
Hughes Hall	Commissions East Ltd
Wisbech & Fenland Museum	Huntingdonshire Citizens' Advice Bureau
Nene Valley Research Committee	Tennant Support Service Company Ltd
Cambridge Sports Hall Trust Limited	St Neots Museum Ltd
Peterborough Youth Stadium	Centre 33
Cambridgeshire Association for Social Welfare	M.D.A (Europe)
Cambridge & County Folk Museum	Huntingdonshire Housing Partnership
Cambridge Institute of Education	The Farmland Museum
Romsey Town Churches Youth & Community Centre	Ely Museum
Cambridgeshire PCT	ADEC
Peterborough PCT	Home Close
Ecovert	Home Meadow
Roddens Housing Association	The Hillings
Cambridge Sports Lake Trust	Exelcare
Peterborough College of Adult Education	Methodist Homes
APS Limited	ITNET
Oxford Archaeology	CSCI
CRI	Screen East
Innovative Services Ltd	Turning the Red Lights Green
Cucina Ltd	Sport and Leisure Management
Taylor Shaw Ltd	Cross Keys Housing Association
Ethelred House	

## INTRODUCTION

This Governance Compliance Statement is required to be published by the Local Government Pension Scheme Regulations, and complies with advice issued by Central Government.

## RESPONSIBILITY FOR PENSION FUND INVESTMENTS

The County Council's Pensions Committee is responsible for determining the investment strategy and overseeing the management of the pension fund and its administration.

- (a) Investment Strategy & Performance
- Appointment of Investment Adviser to the Committee
  - Determining the investment strategy in accordance with the Pension Regulations, taking advice where necessary
  - Appointment of investment managers
  - Appointment of Global Custodian
  - Receiving regular monitoring reports from investment managers engaged by the Council to carry out the day to day management of the fund
  - Monitoring the performance of the fund on a regular basis. In particular the Committee shall satisfy itself that investments are being made in accordance with the agreed investment strategy and that an acceptable return on investment is being achieved.
- (b) Valuation
- Appointment of Actuary to the Fund
  - Reviewing valuation reports
- (c) Administration
- Determine discretions reserved to the Administering Authority under the Pensions Regulations
  - Determine policy relating to Admissions Agreements for Scheduled and Resolution Bodies
  - Oversee effective and efficient administration and communication by Cambridgeshire's Pensions Service

## SCHEME OF DELEGATION

A scheme of delegation to officers approved by the Council sets out the executive decisions that council officers have the power to take. This scheme delegates to the Corporate Director: Finance, Property and Performance the detailed implementation of the investment strategy as determined by the Investment Committee, and the issuing of any instructions to fund managers consistent with the strategy or required as a matter of urgency to safeguard the Council's position.

## PENSIONS COMMITTEE

Membership of the Committee is determined by the Council, and consists of three County Councillors, one Peterborough City Councillor, one District Councillor representing all other

employers participating in the fund and an employee representative nominated by the trade unions. All members have equal voting rights. Meetings are held quarterly, and the investment managers are requested to attend meetings half-yearly.

## **Communications Policy Statement for Cambridgeshire Local Government Pension Fund**

Clear and effective communication is an essential part of service that is needed from the Administering Authority. This statement sets out the current communications policy and approach adopted by the Cambridgeshire Local Government Pension Fund.

The Fund aims to use the most appropriate communication channels for the audiences receiving the information. This often involves utilising a combination of communication channels to ensure that information is effectively disseminated.

### **Providing Information to Individuals in the Scheme**

The Fund has a policy of only providing personal and confidential information to fund members by post. Letters are sent to either a home address OR to the person through their employer. Suitable security protocols are in place to ensure that only the scheme member can change their home address on their pension record.

Where a scheme member chooses to send in certificates or other important documents using registered post those documents are returned in this manner.

More general information is provided through a range of mechanisms:

- All new prospective Scheme members are provided with a Local Government Pension Scheme booklet and appropriate membership forms upon appointment
- All pensioners receive a monthly payslip
- Guidance notes are provided in circumstances where scheme members are required to make a decision or complete forms.
- Individual questions are answered and guidance given in person, via the telephone, via Email and via letter, as deemed most effective.
- Annual benefits statements are produced for both active and deferred scheme members
- A range of generic information is provided through a variety of communication channels.

### **Supporting Employers**

The Fund has a policy of supporting employers in delivering their roles and responsibilities in respect of the pensions function. These mechanisms include:

- An employers manual for larger employing organisations
- Specific case by case support for small employing organisations.
- Named contacts who can provide support as required
- Regular employers' newsletters
- Pensions Forum

### **Representatives of Fund Members and Prospective Fund Members**

Currently the Fund does not do anything specific for these two groups. However they are often involved in communication exercises designed for scheme members or employers. For example, much of the generic communication is available for prospective members and representatives.



## Understanding the Details

### Scheme Members Newsletter

We issue a newsletter to active members of the Fund approximately every six months or when major issues need communicating. It covers current pension topics.

A newsletter is issued to pensioners with their April payslip giving details of Pensions Increase and other issues of interest to pensioners.

### Benefit Statements

An Annual Benefit Statement is sent to all active scheme members who were contributing to the Fund at the end of the previous financial year. Dispatch is through employers.

Benefit Statements are sent direct to the home address of deferred members where their current home address is known. Dispatch is in late spring following the completion of Pensions Increase procedures.

### Pensioners Pay Advices

The Fund continues to issue monthly pay advices to Scheme pensioners. We believe these reinforce the need for pensioners and their relatives to ensure that in the event of their demise or change of address the Fund is notified promptly.

P60s are dispatched with either the April or May payslip.

If pay advices are returned this starts off a lost contact procedure, which may, ultimately, result in pension payments being suspended until contact is made again.

### Employers' Manual

Employers' Manual is issued to all employers with more than 10 scheme members. This gives detailed guidance on carrying out the necessary employers functions. This manual is currently part way through a major review and redesign. This further assists the employers' in discharging their pensions administration responsibilities. This is supplemented by named contacts who are available by telephone or personal visit to assist whenever necessary.

### Employers Newsletter

A newsletter is issued by Email, at least quarterly. This goes to a range of HR, payroll and finance staff in employing organisations. It also goes to a range of other people linked to pensions in some way. This covers any issues that are currently under debate, reminders, information, changes to the Regulations or procedures that impact upon the employer's function and information to be dispatched to employees.

In addition, nominated officers for each employer are issued with detailed procedural guidance through this mechanism.

### Pensions Forum

Periodically meetings are arranged for all employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

### Internet

The Fund currently has a very basic Internet site with commonly used forms and links to the website run by the Local Government Pensions Committee.

### First Point of Contact

A dedicated telephone line and Email address has been set up as the first point of contact for scheme members and employers. Where possible general enquiries are answered through this means. Where this is not possible the query is assigned to a specific casework officer for further investigation and answer.

### AVC Roadshows

The Fund takes advantage of the service offered by its AVC provider Prudential to run roadshows according to employer needs. These roadshows offer information on the LGPS generally and ways in which pensions can be topped up generally and specific information on AVC.

## Introduction

The Pensions Fund is required to meet retirement benefits determined in accordance with the Local Government Pensions Scheme Regulations. The County Council is responsible for investing the assets of the Fund in accordance with the Regulations. The Council has also adopted the Government's Voluntary Code for Pension Fund Investment based on the recommendations of the Myners' review (see Appendix F).

## Primary Objective

The primary investment objective is to ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.

## Management Arrangements

The overall investment policy of the Fund is determined by a Pensions Committee consisting of three County Councillors, a Peterborough City Councillor, a District Councillor representing all other participating bodies in the Fund, and an employee representative. The Committee is advised by the fund actuary, the fund investment adviser and the Corporate Director: Finance, Property and Performance. The day-to-day investment of the Fund is undertaken by external managers appointed by the Committee. An agreement is in place with each manager which specifies asset allocation ranges and a performance target based on market indices. There are no restrictions placed on the managers regarding the realisation of investments. Custody of the investments is held by a global custodian who is authorised to undertake stock lending on behalf of the Council.

## Types of Investment Held

The management agreements permit the following forms of investment in UK and overseas markets: equities, fixed interest stocks, index linked stocks, cash, derivatives and underwriting. Investments are also made in UK property unit trusts, currency funds and private equity.

## Risk

Risk associated with investment is controlled by the diversification of investments over asset classes in accordance with the management agreements, and the use of a number of investment managers. The monitoring of performance relative to a target index requires each manager to maintain a diversified portfolio of investments within each asset class.

### **Corporate Governance Policy**

There is an agreement with each manager to exercise the fund's voting rights in the best interests of shareholders. Managers are required generally to vote either for or against company resolutions, and only abstain in exceptional circumstances. Details of votes cast, and reasons for abstentions are reported to the Pensions Committee.

The agreement also allows the Corporate Director: Finance, Property and Performance to instruct the managers to vote in a particular way, or not to vote, in circumstances where this is considered appropriate. Any such instructions are reported to the Pensions Committee.

### **Socially Responsible Investment**

The Pensions Committee has a general policy of not placing restrictions on the managers' selection of investments. However the Committee would expect the managers to take into account any financial risks arising from potentially unsustainable social or environmental policies followed by investee companies in reaching their investment decisions. The managers are also encouraged to engage in discussions with companies on ethical and environmental issues, and question them on their social responsibilities. The outcome of these discussions is reviewed by the Pensions Committee at its quarterly meetings.

## STATEMENT OF COMPLIANCE WITH MYNERS' PRINCIPLES

## APPENDIX E

Principles and Requirements	Extent of Compliance
<p><b>1 Effective Decision Making</b> Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively.</p> <p>Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able evaluate any advice they take.</p> <p>Investment sub-committees favoured.</p> <p>Trustees should review their structure and processes to carry out their role effectively.</p>	<p>Decisions are taken by a Pensions Committee, based on advice received from the investment managers, County Council finance staff and external advisers. Training courses are offered to all committee members.</p>
<p><b>2 Clear Objectives</b> Trustees should set out an overall objective for the fund.</p> <p>It should take account of the fund liabilities and the contributions paid by employees and scheme sponsor.</p> <p>Objectives should not be expressed in terms which have no relationship to the fund's liabilities (e.g. performance relative to other funds or market indices).</p>	<p>Set out in the Statement of Investment Principles.</p>
<p><b>3 Focus on Asset Allocation</b> Strategic asset allocation decisions should receive a level of attention that reflects the contribution they make towards achieving the fund's objective.</p> <p>Decisions should reflect the fund's own characteristics.</p>	<p>Benchmarks are set based on the fund's own characteristics and objectives and reviewed annually.</p>
<p><b>4 Expert Advice</b> Actuarial services and investment advice should be open to separate competition.</p> <p>Appropriate levels of fee should be paid for each service.</p>	<p>Separate agreements have been made for the provision of actuarial and investment advice.</p>

Principles and Requirements	Extent of Compliance
<p><b>5. Explicit Mandates</b> Trustees should agree explicit written mandates with their managers covering:</p> <ul style="list-style-type: none"> <li>➤ The objective, benchmark and risk parameters;</li> <li>➤ The manager’s approach to achieving the objective; and</li> <li>➤ A timescale of measurement and evaluation.</li> </ul> <p>Any exclusion of specific financial instruments should be justified.</p> <p>Trustees should understand transaction related costs.</p>	<p>Mandates are agreed with the managers which cover performance targets and a timescale of measurement and evaluation.</p> <p>No financial instruments are excluded.</p>
<p><b>6 Activism</b> The mandate and trust deed should comply with the Institutional Shareholders Committee statement of principles on the responsibilities of institutional shareholders and agents.</p>	<p>An agreed policy on corporate governance is in place for all managers.</p>
<p><b>7 Appropriate Benchmarks</b> Trustees should ensure (in consultation with their managers) that the index benchmarks set are appropriate.</p> <p>Limits on managers’ divergence from index (e.g. tracking errors) should recognise realistic approximations within indices.</p> <p>Both active and passive approaches should be considered for each asset class.</p> <p>Targets for active management should be considered for each asset class.</p> <p>Targets for active management should be appropriate and risk controls should provide leeway for genuine active management.</p>	<p>Benchmarks are agreed with the managers, and these provide leeway for active management.</p> <p>The decision has been taken to adopt active investment management in each asset class, with an element of passive investment in UK equities and bonds.</p>

Principles and Requirements	Extent of Compliance
<p><b>8 Performance Measurement</b> Encompasses not only fund performance, but a formal assessment of their own procedures and decisions as trustees.</p> <p>This performance assessment would also apply to advice received and decisions delegated (e.g. to advisers and managers)</p>	<p>Investment performance of fund managers and overall fund is monitored quarterly. Asset allocation and the Statement of Investment Principles are reviewed by the Pensions Committee annually.</p>
<p><b>9 Transparency</b> A strengthened Statement of Investment Principles should set out.</p> <ul style="list-style-type: none"> <li>➤ Who is taking decisions and why;</li> <li>➤ The fund's investment objective;</li> <li>➤ The planned asset allocation strategy, including projected investment returns and why the current strategy has been adopted;</li> <li>➤ Details of manager and adviser mandates, fee structures in place with reason.</li> </ul>	<p>The Statement of Investment Principles, published together with the Pension Fund Accounts, meets the requirement for transparency.</p>
<p><b>10 Regular Reporting</b> Trustees are required to publish the Statement of Investment Principles and the results of monitoring of advisers and managers.</p> <p>Key (summary) information should be sent annually to members.</p> <p>Trustees should explain any departure from these 10 principles</p>	<p>The Statement of Investment Principles is published in the annual accounts, together with any changes in the advisers and managers. Summarised financial information is provided in pensions newsletters to employees.</p>

## 1 PURPOSE OF THE FUNDING STRATEGY STATEMENT

- 1.1 Local authorities responsible for the administration of pension schemes are legally required to produce a Funding Strategy Statement in conjunction with the triennial actuarial valuation of the pension fund. The purpose of this statement is to establish a strategy for the funding of long-term pension liabilities, with employer contribution rates maintained as far as possible at a constant level.

## 2 AIMS AND PURPOSE OF THE PENSION FUND

- 2.1 The principal aim of the fund is to ensure that sufficient resources are available to meet all liabilities as they fall due. To achieve this aim the fund must seek to maximise the returns from its investments within reasonable risk parameters. This in turn will ensure that the cost to employers is kept to a minimum.
- 2.2 The purpose of the fund is to receive monies in respect of contributions, transfer values and investment income, and pay out monies in respect of scheme benefits, transfer values and other expenses, in accordance with the Local Government Pension Scheme Regulations.
- 2.3 The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised at the end of this appendix.

## 3 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

### 3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The actuary is required by the regulations to report the Common Contribution Rate for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay, which for the 2007 valuation is 18.2%. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors that are considered are discussed in Section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods. For some employers it may be agreed to pool contributions, see Section 3.7.4.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

### **3.2 Solvency and Target Funding Levels**

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the actuary's ongoing funding basis. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The treatment of departing employers is described in paragraph 3.8.

### **3.3 Ongoing Funding Basis**

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply. It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's investments will deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. The same financial assumptions are adopted for all ongoing employers.



### 3.4 **Future Service Contribution Rates**

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method of valuation with a one-year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

Future service rates include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

### 3.5 **Adjustments for Individual Employers**

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's asset share.

The combined effect of these adjustments for individual employers applied by the actuary relate to:

- past contributions relative to the cost of accruals of benefits
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual)
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities
- any different deficit/surplus spreading periods or phasing of contribution changes
- the difference between actual and assumed rises in pensionable pay
- the difference between actual and assumed increases to pensions in payment and deferred pensions
- the difference between actual and assumed retirements on grounds of ill-health from active status
- the difference between actual and assumed amounts of pension ceasing on death
- the additional costs of any non ill-health retirements relative to any extra payments made over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically in this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year
- the effect of more or fewer withdrawals than assumed
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

### **3.6 Asset Share Calculations for Individual Employers**

The Administering Authority does not account for each employer's assets separately. The actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

### **3.7 Stability of Employer Contributions**

#### **3.7.1 Deficit Recovery Periods**

The Administering Authority reviews at each valuation the deficit recovery period to be adopted by the actuary for all employers when calculating their contributions. For the 2007 valuation this was 20 years with the exception of Best Value Admission Bodies where the period is to the end of the employer's contract.

### 3.7.2 **Phasing in of Contribution Rises**

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be permitted to phase in contribution rises over a period of six years.

### 3.7.3 **The Effect of Opting for Longer Spreading or Phasing-In**

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2001 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term. However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

### 3.7.4 **Pooled Contributions**

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events, such as ill-health retirements and deaths in service. As at the 2007 valuation schools are pooled with their funding Council and separate pools were operated for Town and Parish Councils.

## 3.8 **Admission Bodies ceasing**

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect

the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

- c) For Admission Bodies with guarantors it is possible that any deficit could be transferred to the guarantor, in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor without needing to crystallise any deficit.

Under (a) and (b), any shortfall can be levied on the departing Admission Body as a capital payment.

### **3.9 Early Retirement Costs**

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. The additional costs of premature retirement are calculated by reference to these ages.

## **4 LINKS TO INVESTMENT STRATEGY**

### **4.1 Investment Strategy**

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles and Pension Fund Report and Accounts.

The investment strategy is kept under constant review to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. Having considered the balance of risk and reward between different asset classes the Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants. The same investment strategy is currently followed for all employers, and is consistent with the future strategy assumed in the actuarial valuation.

### **4.2 Inter-valuation Monitoring of Funding Position**

The Administering Authority monitors investment performance relative to the returns assumed in the actuarial valuation by means of quarterly performance measurement reports. It reports back to employers at the annual Pensions Forum.

## 5 KEY RISKS AND CONTROLS

### 5.1 Types of Risk

The Administering Authority is aware that unforeseen changes of a financial, demographic or regulatory nature may have an adverse effect on the solvency of the fund. Procedures are in place to mitigate the effect of those risks as outlined in the following paragraphs.

### 5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p><i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i></p> <p><i>Analyse progress at three-yearly valuations for all employers.</i></p>
Active investment manager under-performance relative to benchmark.	<p><i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i></p>
Pay and price inflation significantly more than anticipated.	<p><i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i></p>
Effect of possible increase in employer's contribution rate on service delivery and admission / schedule bodies.	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p>

## 5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	<p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</i></p>
Deteriorating patterns of early retirements.	<p><i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i></p>

## 5.4 Regulatory Risks

Risk	Summary of Control Mechanisms
<p>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.</p> <p>Changes to national pension requirements and/or Inland Revenue rules.</p>	<p><i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i></p> <p><i>It considers all consultation papers issued by the ODPM and comments where appropriate.</i></p>

## **RESPONSIBILITIES OF KEY PARTIES**

### **Administering Authority**

- collect employer and employee contributions
- invest surplus monies in accordance with the regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain a Funding Strategy Statement and Statement of Investment Principles after consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS and SIP as required.

### **Employing Organisations**

- deduct contributions from employees' pay as required
- pay all employer and employee contributions to the Administering Authority by the due date
- exercise discretions on pension benefits within the regulations
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement costs
- notify the administering authorities promptly of all changes and proposed changes, to membership which may affect future funding.

### **Fund Actuary**

- prepare valuations including the setting of employers contribution rates after agreeing assumptions with Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

### Actuarial Statement

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of Cambridgeshire County Council Pension Fund's assets and liabilities was carried out as at 31 March 2007.

#### ***Security of Prospective Rights***

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 31 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 20 March 2008.

#### ***Summary of Methods and Assumptions Used***

Full details of the method and assumptions are described in our valuation report dated 20 March 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from the Finance Department of Cambridgeshire County Council.

My opinion on the security of the prospective rights is based on

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who are closed to new entrants.

These methods assess the cost of benefits accruing to existing members during

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

#### ***Valuation of Assets***

A "market related" valuation method has been used. This is consistent with the methodology adopted at the 2004 valuation.



**Valuation assumptions**

The key financial assumptions adopted at the 2007 valuation are set out in the table below:

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases *	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
'Gilt-based' discount rate	The yield on fixed-interest (nominal) and index-linked (real) Government bonds	4.5%	1.3%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.9%

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £1,390 million, were sufficient to meet approximately 86% of the liabilities accrued up to that date.

**The next actuarial valuation**

The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Prepared by:-

Peter Summers

16 May 2008

For and on behalf of Hymans Robertson LLP

## Pension Fund Account

Notes	2008-09		2007-08 Restated	
	£000	£000	£000	£000
<b>CONTRIBUTIONS AND BENEFITS</b>				
1	<b>Contributions receivable:</b>			
	Employers:			
			36,068	
	- Normal	46,607		
	- Deficit funding	14,208	15,422	
	Employees:			
	- Normal	24,306	20,755	
	Transfers in from other schemes:			
	- Individual transfers	7,300	10,581	
				82,826
		92,421		
1	<b>Benefits payable:</b>			
	Pensions	-44,122	-40,618	
	Commutation of pensions and lump sum retirement benefits	-11,356	-11,788	
	Lump sum death benefits	-896	-1,112	
	Payments to and on account of leavers:			
13	- Individual transfers out	-6,271	-9,053	
	- Refunds of contributions	-21	-31	
4	Administrative expenses	-1,930	-1,873	
				-64,475
		-64,596		
<b>NET ADDITIONS / WITHDRAWALS(-) FROM DEALING WITH MEMBERS</b>			27,825	18,351
	<b>Return on investments:</b>			
5	Investment income	40,819	42,291	
	Change in market value of investments (realised and unrealised)	-286,752	-119,383	
	Taxation	-1,078	-877	
6	Investment management expenses	-1,989	-2,179	
	<b>Net returns on investments</b>			-80,148
			-249,000	
<b>NET INCREASE / DECREASE(-) IN FUND VALUE</b>			-221,175	-61,797
	<b>Opening net assets as at 1 April</b>		1,323,991	1,385,788
	<b>CLOSING NET ASSETS AS AT 31 MARCH</b>		1,102,816	1,323,991

## Pension Fund Net Asset Statement

Notes	31 March 2009 £000		Restated 31 March 2008 £000	
<b>INVESTMENT ASSETS</b>				
Fixed interest securities:				
- UK Government	3,204		-	
Equities:				
- UK listed	216,820		372,703	
- UK unlisted	164		546	
- Overseas listed	327,413		453,985	
- Overseas unlisted	58,733		52,659	
Pooled investment vehicles:				
- Managed funds				
-property	60,677		64,357	
-other	190,244		106,266	
- Unit trusts				
-property	17,929		69,585	
-other	153,102		157,022	
8 Derivative contracts	1,573		312	
Cash deposits	47,596		26,300	
Debtors				
- Investment Income	2,897		4,915	
- Trades pending	5,581		3,486	
<b>TOTAL INVESTMENTS</b>		<b>1,085,933</b>		<b>1,312,136</b>
<b>INVESTMENT LIABILITES</b>				
8 - Derivative contracts	-1,380		-647	
- Trades pending	-5,071		-2,853	
- Fees	-475		-500	
- Tax	-96	-7,022	-78	-4,078
<b>CURRENT ASSETS</b>				
- Contributions due from employers	5,890		4,071	
- Cash balances	18,401	24,291	12,914	16,985
<b>CURRENT LIABILITES</b>				
- Unpaid benefits		-386		-1,052
7 <b>NET ASSETS</b>		<b>1,102,816</b>		<b>1,323,991</b>

## Notes to Pension Fund Accounts

### 1. CONTRIBUTIONS AND BENEFITS

An analysis of the contributions and benefits over the different categories of participating Authority is as follows:

	2008-09 £000	2007-08 £000
Contributions receivable:		
Administering Authority	33,151	27,329
Scheduled Bodies	45,337	39,644
Admitted Bodies	6,633	5,272
	<b>85,121</b>	<b>72,245</b>
Benefits payable:		
Administering Authority	23,113	23,486
Scheduled Bodies	28,490	25,888
Admitted Bodies	5,437	4,144
	<b>57,040</b>	<b>53,518</b>

### 2. NUMBER OF CONTRIBUTORS AND PENSIONERS

	31 March 2009			Total	31 March 2008 Total
	County Council	Scheduled Bodies	Admitted Bodies		
Contributors	11,287	10,361	1,423	<b>23,071</b>	22,308
Pensioners	5,870	5,003	731	<b>11,604</b>	11,054
Deferred Benefits	11,953	9,550	1,277	<b>22,780</b>	20,620

### 3. ACTUARIAL VALUATION

The funding position of the Fund is assessed every three years by the Council's actuary who completed an actuarial valuation of the Fund using the Projected Unit Method. Employers' contributions are reviewed in the light of this report. The most recent report was at 31 March 2007 and concluded that it was necessary to increase the average employers' contributions from 17.4% to 18.2%, phased in over a three year period from 1 April 2008. The market value of the Fund at the valuation date was £1,390m, and there was an actuarial deficit of £219m equivalent to a funding level of 86.4%. This deficit was spread over a period of 20 years. The assumptions used in the 2007 valuation were as follows: investment returns 6.1%; earnings growth 4.7%; price inflation 3.2% and discount rate 6.1%.

### 4. ADMINISTRATIVE EXPENSES

Administrative expenses include a charge made to the Fund by the County Council in respect of work undertaken on the payment of benefits on behalf of all admitted bodies.

## 5. ANALYSIS OF INVESTMENT INCOME

	2008-09 £000	Restated 2007-08 £000
Fixed Interest	31	-
Equities	26,939	30,066
Pooled investment vehicles	5,439	7,948
Derivatives	5,360	1,824
Cash	2,640	2,122
Other (includes stocklending and underwriting)	410	331
	<b>40,819</b>	<b>42,291</b>

## 6. INVESTMENT MANAGEMENT EXPENSES

Includes fees charged by the fund's investment managers. These are calculated as a percentage of the assets under management.

## 7. INVESTMENT MANAGERS

The allocation of the fund over the Authority's investment managers and a reconciliation of the movements between the opening and closing market value is as follows:-

	Restated 31 March 2008 £000	Purchases £000	Sales £000	Other Changes £000	31 March 2009 £000
Aberdeen Asset Management	56,042	5,445	5,411	3,878	59,954
UBS Global Asset Management	506,213	66,125	53,775	-512,730	5,833
Schroders Investment Management	670,848	158,570	149,491	-207,994	471,933
State Street Global Asset Management	-	16,346	-	90,140	106,486
Newton Investment Management	-	94,146	72,256	101,221	123,111
RCM Investment Management	-	67,398	54,024	108,992	122,366
Credit Agricole Asset Management	-	88,511	84,185	114,426	118,752
BNY Mellon (Transition manager)	-	325,382	348,605	23,242	19
Private Equity	53,205	10,026	9,799	5,465	58,897
Currency Funds	22,168	-	16,418	-5,750	-
Pension Fund Net Debtors	2,601	-	-	2,428	5,029
Cash with Council	12,914	-	-	5,487	18,401
Cash with custodian	-	-	-	12,035	12,035
	<b>1,323,991</b>	<b>831,949</b>	<b>793,964</b>	<b>-259,160</b>	<b>1,102,816</b>
Equity Index futures transactions included above		11,443	9,965		

Included within the balances held by the investment managers shown above are amounts in relation to cash and investment income debtors which are shown separately on the face of the net assets statement.

The Fund holds the following investments in unit trusts/pooled vehicles which exceed 5% of the total fund value: Schroder Unit Trusts Ltd Institutional Sterling Bond Market Fund £102,998,000 at 31 March 2009 (£110,426,000 at 31 March 2008), State Street UK Equity Index Managed Pension Fund £106,485,000 at 31 March 2009 (Nil at 31 March 2008)

As at 31 March 2009 the fund has commitments to invest a further £80.7m in private equity investments in future years. (£41.9m at 31 March 2008).

An analysis of "other movements" is as follows:-

	£000
Change in market value of investments	-286,752
Increase in cash and net debtors	27,592
	<b>-259,160</b>

The total of investment transaction costs incurred in the year was £848,000.

## 8. DERIVATIVE CONTRACTS

Derivative contract assets include an exchange traded FTSE 100 Index future with an open value of £66,000 at a market value of £2.603m and cost value £2.537m. Derivatives are held as a flexible alternative to holding the underlying securities. Also included here is £1.573m outstanding on future foreign exchange contracts. Derivative contract liabilities include £1.380m outstanding on future foreign exchange contracts.

## 9. STOCK LENDING

The total amount of stock released to a third party under a stock lending arrangement was £50,904,000 at 31 March 2009 (£87,338,000 at 31 March 2008). Collateral is held in the form of a letter of credit or AA+ rated bond.

## 10. ADDITIONAL VOLUNTARY CONTRIBUTIONS

THE amount of additional voluntary contributions paid by members during the year was £787,000 (£797,000 in 2007-08) and the value of investments was £4,097,000 at 31 March 2009 (£3,804,000 at 31 March 2008).

## 11. A STATEMENT OF INVESTMENT PRINCIPLES

A Statement of Investment Principles is published in the Pension Fund Annual Report, which is available from the Corporate Finance Section, Shire Hall.

## 12. RELATED PARTY TRANSACTIONS

Under FRS8 "Related Party Disclosures" it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year, no Pensions Committee members have undertaken any material transactions with the Cambridgeshire County Council Pension Fund. A cash deposit of £18,401,000 with the County Council was outstanding at 31 March 2009. (£12,914,000 at 31 March 2008).

There were no material contributions due from employer bodies at the year-end, which remained outstanding after the due date for payment.

There are no other related party transactions other than those already disclosed in the County Council's Accounts.

### **13. MAGISTRATES TRANSFER**

With effect from 1 April 2005, 71 employees of the Cambridgeshire Magistrates Courts transferred out of Cambridgeshire County Council Local Government Pension Scheme as part of a national transfer of the Magistrates Courts out of Local Government schemes. However, the fund has retained the liability for the Magistrates pensioners and deferred pensioners. As at 31 March 2008 the value of the transfer has not been agreed between the Local Authority actuary and the Government Actuary's Department but initial estimates indicate that the fund will be owed approximately £1,000,000 by the Magistrates Court as a result of the valuation of transfers out being less than the retained liability. Pending the finalisation of the transfer value no amounts have been accrued to date within the Pension Fund accounts.

**PENSIONS COMMITTEE MEMBERS AND ADVISERS****APPENDIX I**

The members of the Pensions Committee are as follows:-

County Council Members:	J. Reynolds (Chairman)
	N. Guyatt
	P. Downes
Peterborough City Council:	D. Seaton
Other Organisations Representative:	M. Cotterell (Fenland DC)
Employee Representative:	P. Gaskin (Unison)

Actuary: Hymans Robertson & Co.

Investment Adviser: R. Bowie

The Investment Managers are as follows:-

Credit Agricole Asset Management  
 Newton Investment Management Ltd  
 RCM (UK) Ltd  
 State Street Global Advisors Ltd  
 Schroders Investment Management Ltd  
 Aberdeen Asset Management Ltd  
 Adams Street Partners  
 Harbourvest Partners  
 N W Brown Capital Partners Ltd

Global Custodian: BNY Mellon

Bank Barclays

Investment Performance Measurement Services: WM Company

Contacts for additional information:-

Benefits and contributions - Allison Kew : tel Cambridge 718026  
 Investment arrangements - John Hopwood : tel Cambridge 699942

Auditors to the Fund: PricewaterhouseCoopers



**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

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<b>REPORT TO:</b>	Corporate Governance Committee	23 December 2009
<b>AUTHOR/S:</b>	Chief Executive / Corporate Manager for Community and Customer Services	

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**COMPREHENSIVE AREA ASSESSMENT (CAA) ORGANISATIONAL ASSESSMENT – 2008/2009 OUTCOME AND NEXT STEPS****Purpose**

1. This report sets out the findings of the Organisational Assessment for South Cambridgeshire District Council for 2008-09, which was released by the Audit Commission on 9 December 2009. It draws attention to the report's key findings and outlines next steps in terms of responding to the current assessment and preparing for future assessments.
2. The report is for information, although the Committee's views on the outcome of the assessment and proposed next steps will be welcomed in informing the Council's response.

**Background and context**

3. The CAA looks at how well public services, working together, are meeting the needs of the people they serve. Its predecessor, the Comprehensive Performance Assessment (CPA), provided a single assessment of local authorities' performance, ranking each council on a scale from 'poor' to 'excellent'. The revised framework comprises both organisational and area assessments. The organisational assessment comprises the Council's Use of Resources assessment, which the Committee received at its last meeting, and an assessment for Managing Performance. The Audit Commission's report brings these assessments together into an overall Organisational Assessment of the Council. The revised assessment ranks local authorities on a scale from 1-4, a ranking of 1 indicating that an authority is performing poorly, up to a 4, indicating that it is performing excellently.

**Considerations – Headline results**

4. The Council achieved an overall score of 2 out of 4, indicating that it is performing adequately. The full report, published by the Audit Commission, is **attached** as Appendix A; however, the Executive Summary from pages 2-3 of the report is reproduced below in order to provide an overview of the headline results:

'Overall South Cambridgeshire District Council performs adequately. It is improving in many areas that matter to local people. Satisfaction with services is generally good and ease of access to services is slowly improving. High numbers of houses that local people can afford have been built. The Council works well with partners. The skills and abilities of staff are improving through training but the Council does not have a clear picture about the number of staff and skills needed for the future. Key vacancies have affected achievement during 2008/09. Progress in making sure all people are treated fairly has been slow. Resident satisfaction with the way the Council runs things is average. Council finances are

okay at the moment but by relying on its reserves it will have to make more difficult decisions in the future such as reducing some of its services.

South Cambridgeshire District Council scores 2 out of 4 for managing its performance. It is improving in many areas that matter to local people. It performs well on waste and recycling, council tax collection and paying housing benefits. The streets are clean and satisfaction with services is generally good. High numbers of houses that local people can afford have been built. But, it is slower at working out planning applications. Crime levels are low compared to other areas but burglary and car crime has increased.

The Council works well with partners to plan for housing development but progress has slowed down because of the recession. Progress on economic development is slow, but £150,000 is being used to help local businesses through the recession.

Access to services is improving slowly. The Contact Centre is good. Complaints are dealt with more quickly, but satisfaction with complaints handling remains low. Progress in making sure all people are treated fairly has been slow.

Council leaders are clear about what they need to achieve and are now better able to deliver. They have set five aims for 2009/10 which are linked to those of other public and private sector partners. More training is provided for councillors. Scrutiny Committee has improved, contributing to better decision making. Most planned improvements have been achieved. But, some have not because some targets have been unrealistic. The skills and abilities of staff are improving through training but workforce planning is not fully developed.

The Council scores 2 out of 4 for its use of resources. Council finances are sound for the short term. Efficiency savings have been made. However, there is a gap in the budget between spending and income which will need to be dealt with. The recession has reduced income. Future levels of service for housing tenants are uncertain but the Council is considering the best way forward.'

## **Considerations – Next steps**

5. An effective response to this assessment is vital to enable the Council to build on the areas of strength identified, address areas for improvement and demonstrate continuous improvement in advance of future assessments.
6. Work is already underway to identify key actions required in response to the Use of Resources assessment. These actions will be combined with actions in response to the Managing Performance element to create a comprehensive Improvement Plan for the Council.
7. In order to build on this assessment, it will also be necessary to ensure that the authority is prepared for future CAA assessments. It is proposed to develop a CAA Framework for South Cambridgeshire District Council based on a comprehensive self assessment process, supported by a detailed evidence base.
8. A draft CAA Framework will be submitted to the Senior Management Team for consideration in January 2010 and will be submitted to a future meeting of this Committee for consideration. Work to put in place and implement the approved framework, including links with major corporate projects which are planned or

ongoing, will be reflected in final service plans for 2010-2013 and the Council's Corporate Plan for 2010-2011.

### Implications

9. Financial	No direct implications arising from this information report.
Legal	No direct implications arising from this information report.
Staffing	No direct implications arising from this information report.
Risk Management	No direct implications arising from this information report.
Equal Opportunities	No direct implications arising from this information report.

### Effect on Strategic Aims

10. The Committee will note that the assessment report is structured around the Council's performance in meeting its strategic objectives for 2008-2009 and it is anticipated that future assessments will follow the same pattern. There are no direct impacts on the Council's current strategic aims arising from this information report; however, it is clear that the subsequent agreement and successful implementation of a robust inspection framework will be necessary to ensure that the Council is able to target future services towards the achievement of its key objectives for the community.

### Conclusions/Summary

11. The assessment is considered to be a fair reflection of the Council's current position. It provides a constructive basis from which to continue the Council's improvement journey and the opportunity to develop a response framework which enables these improvements to be carried out.

### Recommendations

12. It is recommended that the outcome of the Council's Organisational Assessment, set out in the report **attached** as Appendix A, be received and noted, along with the next steps to be undertaken in response to current and future assessments, set out in paragraph five above.

**Background Papers:** the following background papers were used in the preparation of this report:

Organisation Assessment (Appendix A **attached**)

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# South Cambridgeshire District Council

## Organisational Assessment

Dated 9 December 2009



**oneplace**

for an independent overview  
of local public services

## South Cambridgeshire District Council

Overall, South Cambridgeshire District Council performs adequately

Managing performance	2 out of 4
Use of resources	2 out of 4
Managing finances	2 out of 4
Governing the business	2 out of 4
Managing resources	2 out of 4

Description of scores:

1. An organisation that does not meet minimum requirements, Performs Poorly
2. An organisation that meets only minimum requirements, Performs Adequately
3. An organisation that exceeds minimum requirements, Performs Well
4. An organisation that significantly exceeds minimum requirements, Performs Excellently

## Summary

Overall South Cambridgeshire District Council performs adequately. It is improving in many areas that matter to local people. Satisfaction with services is generally good and ease of access to services is slowly improving. High numbers of houses that local people can afford have been built. The Council works well with partners. The skills and abilities of staff are improving through training but the Council does not have a clear picture about the number of staff and skills needed for the future. Key vacancies have affected achievement during 2008/09. Progress in making sure all people are treated fairly has been slow. Resident satisfaction with the way the Council runs things is average. Council finances are okay at the moment but by relying on its reserves it will have to make more difficult decisions in the future such as reducing some of its services.

South Cambridgeshire District Council scores 2 out of 4 for managing its performance. It is improving in many areas that matter to local people. It performs well on waste and recycling, council tax collection and paying housing benefits. The streets are clean and satisfaction with services is generally good. High numbers of houses that local people can afford have been built. But, it is slower at working out planning applications. Crime levels are low compared to other areas but burglary and car crime has increased.

The Council works well with partners to plan for housing development but progress has slowed down because of the recession. Progress on economic development is slow, but £150,000 is being used to help local businesses through the recession.

Access to services is improving slowly. The Contact Centre is good.

Complaints are dealt with more quickly, but satisfaction with complaints handling remains low. Progress in making sure all people are treated fairly has been slow.

Council leaders are clear about what they need to achieve and are now better able to deliver. They have set five aims for 2009/10 which are linked to those of other public and private sector partners. More training is provided for councillors. Scrutiny Committee has improved, contributing to better decision making. Most planned improvements have been achieved. But, some have not because some targets have been unrealistic. The skills and abilities of staff are improving through training but workforce planning is not fully developed.

The Council scores 2 out of 4 for its use of resources. Council finances are sound for the short term. Efficiency savings have been made. However, there is a gap in the budget between spending and income which will need to be dealt with. The recession has reduced income. Future levels of service for housing tenants are uncertain but the Council is considering the best way forward.

## About South Cambridgeshire District Council

South Cambridgeshire is a mainly rural district. The population is around 140,000 and is expected to increase faster than national averages over the next ten years. The area has a slightly younger population than average. It is a mainly white British population although there is a large traveller population compared to other areas. South Cambridgeshire is one of the most well-off districts in England. Unemployment is low, wage levels are much higher than regional and national average, and the number of people with no qualifications is almost half the regional average. Major housing developments are planned for the district as part of one of the government's growth areas, to house the growing population. House prices are higher than the county, regional and national average, although they have fallen by more than the all the other Cambridgeshire's districts over the last year. People of South Cambridgeshire are healthier than the England average. Road injuries and deaths are worse than average, which is similar to other parts of the county.

South Cambridgeshire District Council has 57 elected councillors each representing an area of the district. The Council is led by a Conservative administration.

For 2008/09, the Council had three priorities and 21 supporting service aims. These are:

Work in partnership to manage growth to benefit everyone in South Cambridgeshire now and in the future;

Deliver high quality services that represent best value and are accessible to all our community; and

Enhance quality of life and build a sustainable South Cambridgeshire where everyone is proud to live and work.

New priorities for 2009/10 have been developed.

## Organisational assessment

Council priorities match local needs. The 2008/09 priorities are based on public consultation, undertaken by the Council, health service, police, and other partners. Compared to other areas, a high number of people in South Cambridgeshire feel they can influence local decisions. Councillors and senior managers have developed a new set of priorities for 2009/10.

Local people think South Cambridgeshire is a good place to live. In the Place Survey 90 per cent of residents said they are 'satisfied' or 'very satisfied' with the area as a place to live. This is above average for other similar places. But, under 44 per cent of people are satisfied with the way the Council runs things which is lower than previous survey results and about the national average.

Overall the Council is not meeting its own targets. Only 30 of its key 54 targets were met in 2008/09. Fourteen targets were only just missed. Nine key measures, of which five were related to growth and dependent on developers and partners, were not met at all. Results for the last measure are not yet available from government.

## Work in partnership to manage growth to benefit everyone in South Cambridgeshire now and in the future

The Council works well with neighbouring councils to plan for development, but the impact of this is not currently being seen, because housing growth in the district has been badly hit by the recession. The arrangements to support growth are in place. The 'Cambridgeshire Horizons' partnership manages long term growth in the sub-region and is well established and effective. Joint planning committees are in place for the new housing developments at Northstowe and the Cambridge Fringes. A Joint Urban Design Team is in place with officers from South Cambridgeshire, Cambridge City and the County Council. But, progress on the major housing development at Northstowe has been affected by the economic downturn with no formal planning decision expected until late 2010.

Targets for building houses that local people can afford have been met. In 2008/09 274 affordable homes were completed against a target of 239. A further 40 were given planning permission. But this is a big reduction on the 408 built in 2007/08. This is due to the economic climate.

Improvements to local communities are being made. Cambourne has a new church and community hall; the new town of Northstowe has improved footpaths. Improvements have been made to the River Cam as a result of the Trumpington meadows development.

The future levels of service for council housing tenants are uncertain. The Council effectively managed the housing stock transfer proposal up to the ballot on transfer and delivered to timetable. But, tenants decided to remain



with the Council as their landlord. The Council is planning to deliver future housing services under the national framework for housing finance.

There has been little impact on tackling climate change. Funding has been agreed to provide wind turbine and solar hot water heating at the Orchard Park primary school and to run travel planning projects for residents. The Sustainable Energy partnership is producing some savings in energy costs and reductions in greenhouse gas emissions. But work is at an early stage and impact is limited.

## **Deliver high quality services that represent best value and are accessible to all our community**

Most Council services are improving, but performance is not consistently high. High levels of recycling and composting have been achieved and amount of waste to landfill reduced. Recycling has increased through kerbside collection of plastics. This has contributed to a big rise in the cost of waste collection from £47.31 to £54.56 per household.

The district is kept clean. Over 61 per cent of people are satisfied with the Council's efforts to keep public land clear of litter and refuse, this is above the national average.

People who need financial help get it more quickly. New housing benefit applications are now worked out within 21.2 days. But planning requests are worked out slowly. Council targets for planning applications were not met in 2008/09 and more successful appeals were made against planning decisions.

Housing performance is improving from low levels in the past. The time taken to re-let empty council houses improved from 40 days (in 2007/08) to 13 in 2008/09. The target for the number of households in temporary accommodation was achieved. But targets on preventing homelessness and reducing the length of time that homeless families spend in hostel accommodation were missed.

The Council is slowly improving access to services. The Contact Centre has a satisfaction level of 95 per cent. This was judged the best public sector call centre in an independent survey. Complaints to the Council have been dealt with more quickly following complaints handling training for managers. However, public satisfaction with complaints handling remains low and below the Council's own target. The quality of customer services remains variable.

## **Enhance quality of life and build a sustainable South Cambridgeshire where everyone is proud to live and work**

The Council recognises it needs to work more with its local residents, but progress is slow. A plan to achieve this is being worked on. The Council is increasing its work with and support of parish councils, for example, in developing and delivering parish plans. It is consulting local people to see if neighbourhood panels should do more than focus on crime and anti-social behaviour issues. Scrutiny Committee, which monitors the performance of

those leading the Council, and scrutinises services and policies throughout the district, meets in locations across the district to encourage public involvement in its meetings.

Limited work has been done to support the local economy during 2008/09. But, the Council has done some practical things to support local businesses during the economic downturn. It has allocated £150,000 in 2009/10 to fund work like freezing fees for taxi licensing or trade refuse collection or providing specialist business support with the Chamber of Commerce. But, the Council recognises it can do more. It now has an Economic Development Officer and research on the local economy is underway. This will be used to plan for economic development.

Crime levels are relatively low but are increasing. According to the Place Survey anti-social behaviour is not seen as a major problem. And only 13 per cent of residents think drug dealing or use to be a major problem. This is the lowest level compared to similar places. The percentage of residents who agree that the police and other local public services seek people's views about anti-social behaviour and crime in their local area is over 27 per cent, which is higher than other areas. But levels of burglary and vehicle crimes rose during 2008/09. Serious theft increased compared to other similar places but more recent information shows some reduction. The Council and partners such as the police and fire service make effective use of limited funding to deal with crime. For example, holding four anti-social behaviour days as part of 'The Streets' programme and reaching over 500 young people and working with parish councils to tackle vehicle crime, burglary and anti-social behaviour.

## **Tackling inequality and improving outcomes for people in vulnerable circumstances**

The Council has made slow progress in tackling inequality. In June 2009 it achieved level two (out of five) of the Local Government Equality Standard. This standard recognises the importance of fair and equal treatment in local government services and employment. The Council is developing policies to improve its performance but there are few improvements that local residents can see.

The Council faces a challenge to identify possible sites for gypsy and traveller pitches and travelling showpeople plots. Regional targets mean the Council must provide 88 pitches by 2021 and consider its part of the countywide requirement for transit pitches. Consultation on draft planning policies and site options is to be completed by October 2009.

In the recent Place Survey, just over 82 per cent of local people agree people from different backgrounds get on well together. This is below average when compared to similar places and worse than 2006/07.

## **Future delivery of high quality services that represent best value and are accessible to all our community**

The Council uses its resources, such as people and money adequately. The

Council has a good medium term financial plan and budget process and there is a clear policy on levels of reserves. Councillors are involved in the budget process but the effect of financial changes are not always fully thought through. Spending is made within budgets. About one third of local people believe the Council provides value for money and this is about average compared to similar places.

The Council understands its costs but understands less well what can influence business costs. Fully costed options are usually produced for new projects but what impact projects might have on service delivery is not always clear. Cost comparisons, reviewing initiatives once they have been implemented and the sharing of knowledge and learning are not standard features across the Council.

Financial reporting is regular and timely. However, explanations of changes in spending do not always identify whether these are due to changed circumstances or poor budgeting.

The Council involves public, private and voluntary sectors when it contracts for services. But, when adopting new approaches or setting up new partnerships, it does not always set out clear and measurable objectives and targets.

The service review programme, which has previously identified performance efficiencies, was not completed in 2008/09. No cashable financial savings have been identified through the services review programme.

There are adequate systems to ensure good quality information, but these systems are not used consistently. The Council has established good governance principles and councillors get training. But, as objectives are not agreed before training starts, its effectiveness cannot be properly assessed.

Risk management is sound and the Council works well to prevent fraud.

Councillor leadership has improved recently. The Council has developed a clear picture of what it wants to achieve for the area. Clear aims have been agreed in the 2009/10 corporate plan. These are: being a listening council providing first class services accessible to all; ensuring that South Cambridgeshire continues to be a safe and healthy place for you and your family; making South Cambridgeshire a place in which residents can feel proud to live; assisting provision of local jobs for you and your family; providing a voice for rural life. Each aim is supported by specific actions and targets. Council leaders are also clear about how the Council contributes to the targets and priorities set by local partners, and agreed by Government.

Executive councillor skills are improving. More training is provided for councillors as part of the councillor development strategy. Scrutiny Committee has improved and is helping the Council to make better informed decisions. Senior officers and councillors have improved the way they work together.

A key vacancy has restricted the Council's ability to deliver plans. The Council was unable to appoint to an executive director's post until August 2009. As a result much needed enhanced managerial capacity was not available to the Council and its existing two chief officers. The Council's review of financial services is in two phases with corporate managers taking on additional work in the short term to provide additional capacity. Phase one is now completed

and recommendations are being carried out. Phase two gives the new executive director the opportunity to consider suggestions for improvement.

Finances are currently sound. Reserves are in line with medium term financial plans. Budget management has improved and targets for 2008/09 were met. Revenue spending was under spent by 1.3 per cent and capital spending by 2.5 per cent. The Council continues to exceed targets for efficiency savings, achieving £997,000 in 2008/09 against a target of £820,000.

But, the recession has reduced the Council's income, especially with fewer houses being built. This affects planning and land charges income and council tax income. The rejection of the stock transfer proposals means the Council will not have enough funds for investment in council housing in the future. The Council's general fund budget is supported by reserves and more difficult decisions will need to be made in the future to tackle the gap between what the Council spends and the income it gets. Each of these reasons poses a risk to the Council's future ambitions.

There are good plans in place for improvement. The Council has improved the way that it manages its business and a plan is in place to improve further. In January 2009 it was agreed that a formal Improvement Board, with external support, was no longer needed to help the Council progress. The 2009/10 corporate plan brings together all planned improvements and should help these to be delivered. Specific actions and targets have been set to achieve each new aim.

The Council has improved its approach towards minority communities. It is consulting on its first gypsies and travellers strategy for adoption in October 2009. Gypsies and travellers are the largest minority ethnic community, making up 1 per cent of its population. They are often more disadvantaged than other groups in getting access to healthcare and education. The Council aims to make sure that gypsy and traveller communities enjoy equality of service and are part of communities, where people from different backgrounds get on well together with equal rights and responsibilities.

The Council is meeting most planned improvements. Management team and Cabinet get regular reports on finance and performance so they can take action where necessary. There are also individual project plans. Some of these have met target dates, for example the plan to prepare for housing stock transfer. However, some other plans have not been delivered on time, for example the equalities action plan or the service review programme. The Council operates with limited staff. The loss of key staff or failure to fill vacancies has affected some projects and timescales and some targets have been unrealistic.

The Council works well with other organisations. The Council has worked with others to buy goods and services at a better price. For example on gas maintenance contracts and with the County Council to buy performance management software.

It works well with partners planning new housing and new communities. A partnership project has identified the needs for new housing across Cambridgeshire. This information is essential to co-ordinate growth and help negotiations with developers about community facilities and housing they might be asked to provide. Partnership working provides specialist skills and

brings in external funding. This can be seen in the countywide partnership on waste management and work with Cambridgeshire Horizons, which project manages the strategic delivery of new homes, new jobs and new infrastructure in the county.

The Council is not clear about the type and size of workforce it needs for the future. It refreshed its existing workforce plan in September 2009 but recognises that it must be strengthened through 2010 to give a clearer picture of staffing needs on a service by service basis. The Council achieved Investors in People (IIP) status in February 2009, a process designed to help organisations get the most from the workforce. But the Council has not fully worked out how it can use IIP to improve services. It uses e-recruitment with other public bodies to make jobs more accessible and quicker to fill. It is developing a framework to ensure managers continuously develop all the skills necessary to their jobs. This is being set up in 2009/10.

CAA looks at how well local public services, working together, are meeting the needs of the people they serve. It's a joint assessment made by a group of independent watchdogs about the performance of local public services, and how likely they are to meet local priorities. From 9 December you will find the results of Comprehensive Area Assessment on the Oneplace website - <http://oneplace.direct.gov.uk/>

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for an independent overview  
of local public services

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

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<b>REPORT TO:</b>	Corporate Governance Committee	9 February 2010
<b>AUTHOR/S:</b>	Executive Director (Corporate Services) / Finance Project Officer	

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**INTERIM REVIEW OF RISK MANAGEMENT STRATEGY****Purpose**

1. The purpose of this report is for Corporate Governance Committee to consider and approve an interim review of the Council's risk management strategy and process.

**Background**

2. The Council's risk management strategy was first adopted in January 2004 and updated in September 2007 to reflect the authority's then new political arrangements and management structure and the responsibilities of the Corporate Governance Committee regarding risk management, and in the light of experience of its operation.
3. The strategy was again updated in September 2008, to take into account the Use of Resources Key Line of Enquiry (KLOE) regarding risk management, the Cipfa Better Governance Forum's "Risk Management Guidance for Elected/Board Members" and recommendations from an internal audit review of risk maturity.
4. This current review was deferred from September 2009 so that any recommendations from internal audit's risk maturity update could be taken into account. This is an interim report; the final report will be presented in March 2010.
5. Associated with this, Senior Management Team (SMT) intend to sponsor a separate review of the process for identifying important corporate projects and ensuring that proper project and risk management procedures are in place for each one, including effective and consistent management reporting at key stages.

**Considerations***Risk management executive and governance roles*

6. The proper allocation of executive and governance roles is essential to the effective exercise of risk management and has therefore been revisited in this interim review.
7. When the risk management strategy was reviewed in September 2007, Cabinet and Corporate Governance Committee agreed that responsibility for risk management should rest with the latter; this was confirmed in September 2008. However, risk management best practice is that the executive and governance roles should be carried out separately. It is therefore recommended that these roles be reallocated between the Executive and Corporate Governance Committee, as follows:
  - (a) agreement and ownership of the strategic risks facing the Council - the executive role - to the Executive, led by the appropriate portfolio holder;
  - (b) approval of the risk management strategy; advice and assurance regarding the adequacy and effectiveness of risk management - the governance role - to Corporate Governance Committee.

8. Risk management best practice also includes the reporting of the risk management strategy and strategic risk register once a year to Council.
9. The Executive Director (Corporate Services) has discussed these proposed changes with the Leader of the Council, who is comfortable with the revised roles. Corporate Governance Committee is asked to note that it is likely the Leader will assign the Executive responsibility to the Policy & Performance Portfolio Holder.
10. Corporate Governance Committee will retain its key role of ensuring that the Council's risk management strategy and processes are adequate and effective, by:
  - (a) continuing to receive an annual report of how Executive Management Team and the portfolio holder have performed the quarterly reviews of the Council's strategic risk register, thus giving the Committee assurance over the process;
  - (b) reviewing the strategic risk registers, covering reports and other associated documents presented to the portfolio holder, together with the minutes of those meetings, to monitor their consideration by the portfolio holder – it is recommended that the need to continue this be re-assessed after a year.
11. The changes would result in the following procedural framework:

	<u>EMT</u>	<u>Executive</u>	<u>Corporate Governance Committee</u>	<u>Council</u>
(a) review of the Council's risk management strategy	annually, as now [February]	annually [March]		
(b) review of the adequacy and effectiveness of the Council's risk management strategy and processes, taking recommendations resulting from (a) above into account	annually, as now [February]		annually, as now [March]	
(c) review and update of the Council's strategic risk register	quarterly, as now [May, August, November, February]	quarterly (previously Corporate Governance Committee)		
(d) monitoring the review of the Council's strategic risk register			quarterly	
(e) reporting of the risk management strategy and strategic risk register				annually [April]

*Risk management process*



12. Any further changes required to the risk management strategy or process resulting from the review of risk management best practice will be included in the final report in March 2010; however, some interim changes to the risk management process are proposed in the paragraphs that follow.
13. The Council has used a 4 x 6 prioritisation matrix (Impact v Likelihood) since January 2004. Discussions with peer authorities across Cambridgeshire indicate that most others use a 5 x 5 matrix. As authorities are working in partnership through Cambridgeshire Together, the Local Area Agreement (LAA), and more recently towards Making Cambridgeshire Count, it is considered appropriate to reconfigure the Council's matrix to 5 x 5, mirroring the majority of its peer authorities.
14. The Council has also used an alpha-numeric method to score Impact and Likelihood of risks. However, most peer authorities use a double-numeric method (where, in a 5 x 5 matrix, the highest score for both Impact and Likelihood is 5). It is again considered appropriate to change the Council's method of scoring risks to mirror the majority of its peer authorities. This will also enable a Total risk score to be calculated, by multiplying the Impact score by the Likelihood score, which was a "merits attention" recommendation from the internal audit risk maturity update. A proposed revised prioritisation matrix, including a suggested risk tolerance line, is attached as **Appendix A**. A double-numeric score will also facilitate the setting up of risk register scores within the Council's performance management system, CorVu.
15. The criteria against which to assess Impact and Likelihood of risks would need to be realigned to the revised prioritisation matrix. Proposed updated criteria are attached as **Appendices B and C**. The opportunity has been taken to incorporate guidelines on environmental and management impacts (gleaned from a peer authority).
16. The Council currently uses two documents to manage its risks: a risk register and an action plan. It is suggested that consideration of risks would be helped by bringing information together so that it can be viewed on one document. A proposed revised risk register format is attached as **Appendix D**, incorporating:
  - (a) from the previous action plan:
    - (i) actions/controls in place;
    - (ii) review frequency;
    - (iii) required actions/controls,
  - (b) from a peer authority's format:
    - (i) control measures in place (as (a) (i) above);
    - (ii) total risk score;
    - (iii) review frequency (as (a) (ii) above);
    - (iv) additional control measures (as (a) (iii) above);
    - (v) additional cost resources required;
    - (vi) adjusted risk score.
17. The three remaining fields from the current action plan will be adapted and/or enhanced in the proposed revised format:
  - (a) target score (i.e. the score below the line to which it is proposed to manage risks currently above the line):
    - (i) the "adjusted risk score" fields will indicate this;
    - (ii) this will be applied to all risks, not just those above the line, thereby enhancing this aspect of the risk management process;
    - (iii) the "additional control measures" will be aimed at reducing the impact and/or likelihood of the risk occurring, as appropriate to the risk concerned, to below the line where possible;

- (b) adequacy (of actions/controls in place) to address risk – if no “additional control measures” are recorded for a particular risk, this will imply that those in place are considered adequate for the risk concerned;
  - (c) key dates – the “review frequency” and “timeline for progress” fields will be used to record key dates.
18. The opportunity has also been taken to include some text fields to guide officers in completing the risk register; these will be developed further for the final report.
19. Recording control measures in place will satisfy a “significant” internal audit risk maturity recommendation that mitigating controls be recorded for all risks identified. However, actions/controls in place are currently recorded only for risks above the line, so these would be migrated initially to the new format. Recording control measures in place for risks below the line will take time, especially for risk registers comprising a significant number of risks, and will therefore be undertaken gradually.
20. The internal audit risk maturity update recommended that sources of assurance should be recorded (regarding mitigating controls), in order to verify the effectiveness of the controls and prioritise further assurances. As stated in paragraph 17. (b), if no additional control measures are recorded, this would indicate that the control measures in place are judged to be adequate, thus going some way to meet the internal audit “significant” recommendation.

*Other internal audit risk maturity recommendations*

21. Internal audit’s risk maturity update resulted in one more “significant” recommendation, regarding assessing risks on both an inherent and a residual basis, which has not been accepted. This was considered when the Council first implemented its risk management strategy in January 2004 and discounted at that time as not adding any value to the Council in the management of risks and possibly causing confusion. The Executive Director (Corporate Services) has concurred with that view, having made his own assessment.
22. Four more internal audit “merits attention” recommendations have already been addressed and did not require changes to the risk management strategy or process. Five remaining “merits attention” recommendations will be addressed in the final review of the risk management strategy and process in February/March 2010.

*Strategic risk register*

23. The changes proposed in paragraphs 6 to 11 mean that the Policy & Performance Portfolio Holder will review the strategic risk register at his next meeting (March 2010); however, a copy is attached for information at **Appendix E**.

**Options**

*Executive and governance roles*

24. Corporate Governance Committee could approve reallocating executive and governance roles regarding risk management between the Executive and Corporate Governance Committee respectively, in line with paragraphs 7 to 10. (***This is the recommended option.***) Alternatively, the Committee could suggest that Member responsibility for risk management remain with Corporate Governance Committee, or be allocated another way (to be identified).

25. Corporate Governance Committee could approve adopting the procedural framework following from the reallocation of roles, as suggested in paragraph 11. (***This is the recommended option.***) Alternatively, the Committee could suggest another procedural framework to meet the executive and governance roles.

*Risk management process*

26. Corporate Governance Committee could recommend that recording, assessing, prioritising and reporting of risks be changed in line with paragraphs 12 to 16 and Appendices A to D. (***This is the recommended option.***) Alternatively, the Committee could suggest other improvements or enhancements to the risk management process and formats.

**Implications**

27. Financial, Legal, Staffing	There are no immediate financial, legal or staffing implications resulting from this report.
Risk Management	The updated strategy will ensure the authority has an effective risk management process, reflecting the authority's political arrangements and management structure and the Council's Aims, and providing appropriate ownership and assurance.
Equal Opportunities	The Council's risk management strategy and process has no inherent equal opportunities implications.

**Consultations**

28. Members of Executive Management Team (EMT) were consulted on the draft proposals. This interim report was circulated to EMT for comment prior to being considered by SMT at its meeting on 9 December 2009.
29. This interim review has taken into account some aspects of risk management best practice and some of the recommendations from the internal audit risk maturity update; the remaining recommendations, together with other risk management best practice, will be taken into account in the final report in March 2010.

**Effect on Strategic Aims**

30.	<b>Commitment to being a listening council, providing first class services accessible to all.</b>
	The proposals in this report contribute to the Council's corporate governance responsibilities; they also ensure that strategic risks involved in the delivery of the Council's services and meeting the Council's Aims are identified and managed.
	<b>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</b>
	<b>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</b>
	<b>Commitment to assisting provision for local jobs for all.</b>
	<b>Commitment to providing a voice for rural life.</b>

**Conclusions/Summary**

31. The Council's risk management strategy was comprehensively revised in September 2007 and further updated in September 2008. This interim report proposes amendments to ensure effective ownership and governance of risk management and improvements to the risk management process.

**Recommendations**

32. Corporate Governance Committee is requested to:
- (a) approve the reallocation of Member executive and governance roles regarding risk management between the Executive and Corporate Governance Committee, in line with paragraphs 7 to 10 of this report;
  - (b) approve the adoption of a procedural framework following from the reallocation of roles, as suggested in paragraph 11 of this report;
  - (c) approve the changes in recording, assessing, prioritising and reporting of risks, in line with paragraphs 12 to 16 of this report and Appendices A to D;
  - (d) note that it is likely the Leader will assign the Executive responsibility to the Policy & Performance Portfolio Holder.

**Background Papers:** the following background papers were used in the preparation of this report:

RSM Bentley Jennison (now RSM Tenon) Risk Maturity Update  
LAA Risk Management Group meeting notes  
Peer authorities' risk registers

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## Appendix A Proposed revised Prioritisation Matrix

			IMPACT				
			Insignificant	Low	Medium	High	Extreme
			1	2	3	4	5
LIKELIHOOD	Almost certain	5	5	10	15	20	25
	Likely	4	4	8	12	16	20
	Possible	3	3	6	9	12	15
	Unlikely	2	2	4	6	8	10
	Rare	1	1	2	3	4	5

Suggested Risk Tolerance Line - - - -

### Managing the risk

[Note: The score is obtained by multiplying the Impact by the Likelihood (e.g. Impact: High; Likelihood: Possible would result in a score of 12 - i.e. 4 x 3).]

Above the risk tolerance line (i.e. a score of 12 – 25):

- Requires active management (consider termination of the activity or project);
- Contingency plans – robust plans in place to detect any deviation from expectations;
- May require some mitigation to reduce likelihood (if cost effective).

Below the risk tolerance line (i.e. a score of 1 – 10):

- Reassess quarterly to ensure no change to underlying risk or control measures.

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## Appendix B Proposed revised Impact Assessment Guidelines

<b>Impact</b>	<b>Giving rise to one or more of the following:</b>							
	<b>Service disruption</b>	<b>People</b>	<b>Financial loss (including claim or fine)</b>	<b>Environment</b>	<b>Statutory service/ legal obligations</b>	<b>Management</b>	<b>Reputation</b>	<b>Score</b>
Extreme	Serious disruption to services (loss of services for more than 7 days)	Loss of life	Financial loss over £500k	Major regional / national environmental damage	<ul style="list-style-type: none"> <li>• Central government intervention; or</li> <li>• Multiple civil or criminal suits</li> </ul>	Could lead to resignation of Leader or Chief Executive	Extensive adverse coverage in national press and/or television	5
High	Major disruption to services (loss of services for up to 7 days)	Extensive multiple injuries	Financial loss between £251k - £500k	Major local environmental damage	<ul style="list-style-type: none"> <li>• Strong regulatory sanctions; or</li> <li>• Litigation</li> </ul>	Could lead to resignation of Member or Executive Director	Adverse coverage in national press and/or television	4
Medium	Noticeable disruption to services (loss of services for up to 48 hours)	Serious injury (medical treatment required)	Financial loss between £51k - £250k	Moderate environmental damage	<ul style="list-style-type: none"> <li>• Regulatory sanctions, interventions, public interest reports; or</li> <li>• Litigation</li> </ul>	Disciplinary / capability procedures invoked	Extensive adverse front page local press coverage	3
Low	Some disruption to internal services; no impact on customers	Minor injury (first aid)	Financial loss of between £6k - £50k	Minor environmental damage	<ul style="list-style-type: none"> <li>• Minor regulatory consequences; or</li> <li>• Litigation</li> </ul>	Formal HR procedure invoked	Some local press coverage; or, adverse internal comment	2
Insignificant	Insignificant disruption to internal services; no impact on customers	No injuries	Financial loss of up to £5k	Insignificant environmental damage	<ul style="list-style-type: none"> <li>• No regulatory consequences; or</li> <li>• Litigation</li> </ul>	Informal HR procedure invoked	No reputational damage	1

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**Appendix C Proposed revised Likelihood Assessment Guidelines**

<b><i>Likelihood</i></b>	<b><i>Guidelines</i></b>	<b><i>Score</i></b>
Almost certain	<ul style="list-style-type: none"> <li>• Is expected to occur in most circumstances (more than 90%), or</li> <li>• More than 90% likely to occur in the next 12 months</li> </ul>	5
Likely	<ul style="list-style-type: none"> <li>• Will probably occur at some time, or in most circumstances (66% - 90%), or</li> <li>• 67% to 90% likely to occur in the next 12 months</li> </ul>	4
Possible	<ul style="list-style-type: none"> <li>• Fairly likely to occur at some time, or in some circumstances (36% - 65%), or</li> <li>• 36% to 65% likely to occur in the next 12 months</li> </ul>	3
Unlikely	<ul style="list-style-type: none"> <li>• Is unlikely to occur, but could, at some time (11% - 35%), or</li> <li>• 11% to 35% likely to occur in the next 12 months</li> </ul>	2
Rare	<ul style="list-style-type: none"> <li>• May only occur in exceptional circumstances (up to 10%), or</li> <li>• Up to 10% likely to occur in the next 12 months</li> </ul>	1

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**Appendix D Proposed revised Strategic Risk Register format**

Ref.	Title and Description of risk The risk event, leading to consequence for service/ Aim(s)/ Action(s), resulting in possible outcome(s).	3 A's	Control measures in place	Risk score		Direction of travel	Risk owner / Review frequency	Additional control measures	Additional cost resources required	Adjusted risk score (where relevant)		Timeline to progress
				Impact	Likelihood					Impact	Likelihood	
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact	5	↓→↑ ( ) new	Risk owner / Review frequency			Impact		
				Likelihood	5					Likelihood		
				Total						Total		
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact	5	↓→↑ ( ) new	Risk owner / Review frequency			Impact		
				Likelihood	5					Likelihood		
				Total						Total		
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact	5	↓→↑ ( ) new	Risk owner / Review frequency			Impact		N/a
				Likelihood	5					Likelihood		
				Total						Total		
	<b>Title</b> The risk event, leading to consequence for service/ Aim(s)/Action(s), resulting in possible outcome(s).			Impact	5	↓→↑ ( ) new	Risk owner / Review frequency			Impact		N/a
				Likelihood	5					Likelihood		
				Total						Total		

**3 A's (Aims, Approaches, Actions)**

Use this column to cross reference risks to:

- (a) the relevant Aims, Approaches and/or Actions adopted by Council on 27 November 2008 with effect from 1 April 2009 (e.g. A. v., or E. ii. 2, etc); and
- (b) the twelve Council Actions for 2010/11 approved by Council on 26 November 2009 (referencing tba).

**Impact**

- 5 Extreme
- 4 High
- 3 Medium
- 2 Low
- 1 Insignificant

**Likelihood**

- 5 Almost certain
- 4 Likely
- 3 Possible
- 2 Unlikely
- 1 Rare

**Direction of Travel**

- ↓ Priority reduced from last review (give the previous Total score in the brackets)
- Priority equal to last review
- ↑ Priority increased from last review (give the previous Total score in the brackets)
- new Risk included in the risk register for the first time

- Notes: 1. The "Ref." will be a unique risk reference, retained by the risk throughout the period of its inclusion in the risk register.  
 2. The "Total" risk score is obtained by multiplying the Impact score by the Likelihood score.  
 3. The "Adjusted risk score" would result from re-evaluation of the Impact and Likelihood taking the additional control measures into account.  
 4. The dotted line shows the Council's risk tolerance line.  
 5. The "Timeline to progress" is the date (Month Year) by which it is planned that the risk will be mitigated to below the line.

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**Appendix E  
Strategic Risk Register  
December 2009**



**South  
Cambridgeshire  
District Council**

No. Title Description (The risk event, leading to consequence for service/ Aim(s), resulting in possible outcome(s).)	Impact/ Likelihood	Direction of Travel	Aims Approaches Actions	Owner	Timeline for Progress
<p><b>1. Medium Term Financial Strategy (MTFS)</b> Risks concerning the financial projections include:</p> <ul style="list-style-type: none"> <li>• not achieving delivery of savings to meet targets;</li> <li>• the RSG settlement is tighter than anticipated;</li> <li>• pay and inflation exceed assumptions;</li> <li>• employer's pension contributions increases exceed projections;</li> <li>• the pay and grading review estimate may be too low;</li> <li>• changes in demand for some service areas could lead to pressures in the related budgets;</li> <li>• the refuse and recycling service review, or the revenues and benefits shared service, do not achieve projected savings;</li> <li>• unforeseen redundancy costs,</li> </ul> <p>leading to reserves going below the minimum acceptable level during the period of the MTFS, resulting in cuts in some services, public dissatisfaction, audit and inspection criticism.</p>	A3	→	A.v.	Executive Director (Corporate Services)	During 2009/10, in line with MTFS reviews; ultimately, the reports to Cabinet and Council in February 2010 on the robustness of the estimates and the adequacy of reserves

No. Title Description (The risk event, <i>leading to</i> consequence for service/ Aim(s), <i>resulting in</i> possible outcome(s).)	Impact/ Likelihood	Direction of Travel	Aims Approaches Actions	Owner	Timeline for Progress
<b>2. Pandemic 'flu</b> A pandemic 'flu outbreak occurs affecting South Cambridgeshire, <i>leading to</i> significant staff absence, <i>resulting in</i> inability to provide full services and involvement in emergency management.	C1	↓ (from B1)	A.iv.	Corporate Manager (Health & Environmental Services)	Daily monitoring of situation by CM (HES) linked into local emergency planning arrangements
<b>3. Housing services budgeting and staffing</b> Significant efficiencies and savings not achieved in housing services and revenue/ capital budgets, <i>leading to</i> Housing Revenue Account (HRA) continuing to run at a deficit, <i>resulting in</i> HRA working balance insufficient to meet ongoing and potential one-off demands; vulnerability to Government annual subsidy determination; deterioration in services provided to tenants; possible staffing implications; adverse publicity or other reputational damage. [Note: A plan has been agreed with the Housing Portfolio Holder to implement efficiencies and savings in order to address/mitigate the impact on services. This takes the place of a strategic risk action plan.]	A4	→	C.iii.	Corporate Manager (Affordable Homes)	During 2009/10
<b>4. EU Services Directive</b> Failure to provide online transactions, screening of legislation, policy and fee practices <i>leading to</i> breaches of the EU services directive <i>resulting in</i> unjustified barriers to service provision, loss to the economy, possible legal intervention from EU traders.	B3	↓ (from B2)	A.iii. A.iv. D.i. D.ii.	Corporate Manager (Health & Environmental Services)	28 December 2009

<b>No. Title Description</b> (The risk event, <i>leading to</i> consequence for service/ Aim(s), <i>resulting in</i> possible outcome(s).)	<b>Impact/ Likelihood</b>	<b>Direction of Travel</b>	<b>Aims Approaches Actions</b>	<b>Owner</b>	<b>Timeline for Progress</b>
<p><b>5. Making Cambridgeshire Count</b></p> <p>(a) The Making Cambridgeshire Count (MCC) project takes up a significant amount of senior staff time, <i>leading to</i> increased pressure on senior officers to deliver SCDC services, <i>resulting in</i> reduced capacity and effectiveness in meeting SCDC service delivery needs.</p> <p>(b) The project does not contribute funding towards services that the Council requires [one of MCC's aims is of making 20% budget savings across all public services], <i>leading to</i> sustained pressure on Council finances, <i>resulting in</i> possible cuts in service areas or loss of services; resulting impact on public reputation.</p> <p>(c) The project does not embed new working processes/ practices within or across authorities, <i>leading to</i> ineffective and inefficient working, <i>resulting in</i> staff discontent; public dissatisfaction; adverse criticism from inspectorates.</p> <p>[Note: Making Cambridgeshire Count has its own embryonic project plan and risk register, which will take the place of a strategic risk action plan.]</p>	B3	→	All	Chief Executive	In line with MCC project plan

No. Title Description (The risk event, <i>leading to</i> consequence for service/ Aim(s), <i>resulting in</i> possible outcome(s).)	Impact/ Likelihood	Direction of Travel	Aims Approaches Actions	Owner	Timeline for Progress
<p><b>6. Planning for Growth</b> The housing market means that fewer houses are built in the District than expected, which may <i>lead to</i> reduced Housing &amp; Planning Delivery Grant, <i>resulting in</i> consequential impact on the Council's financial position. (In addition, the slowing down in development will mean some posts will need to be funded from other sources. Actions are being taken to address this, such as ensuring processes and staffing structures meet customers' needs.)</p>	C2	→	C.i. C.ii.2. E.iii. E.iv.	Corporate Manager (Planning & Sustainable Communities)	In line with service plan and MTFS timetables
<p><b>7. Equalities</b> The Council is successfully challenged over not complying with general equalities legislation or legislation specific to public and local authority bodies, <i>leading to</i> financial compensation payments and penalties, possible Commission for Human Rights and Equalities inspection, <i>resulting in</i> reduction in reserves available to support balanced MTFS, adverse publicity and effect on reputation.</p>	B4	→	A.ii.3. B.iv.6. C.iv.3.	Corporate Manager (Community and Customer Services)	N/a
<p><b>8. Illegal Traveller encampments or developments</b> Failure to find required number of sites, or sites identified do not meet the needs of local Travellers, <i>leading to</i> illegal encampments or developments in the District, <i>resulting in</i> community tensions; cost and workload of enforcement action, including provision of alternative sites and/or housing; poor public perception and damage to reputation.</p>	C3	→	E.i. C.iv.3.	Corporate Manager (Planning & Sustainable Communities)	N/a



No. Title Description (The risk event, <i>leading to</i> consequence for service/ Aim(s), <i>resulting in</i> possible outcome(s).)	Impact/ Likelihood	Direction of Travel	Aims Approaches Actions	Owner	Timeline for Progress
<b>9. Climate change adaptation</b> The Council does not develop measures to safeguard its services against climate change, <i>leading to</i> unacceptable vulnerability to the impact of climate shifts and other weather-related events, <i>resulting in</i> a degradation or breakdown of service delivery and damage to property, increasing costs and impact on the Council's reputation.	C3	→	C.vii.	Corporate Manager (New Communities)	N/a
<b>10. Lack of development progress</b> Lack of progress by developers at Northstowe and Cambridge East (Marshalls), <i>leading to</i> the authority being unable to deliver its housing targets, <i>resulting in</i> the Council having to meet the shortfall in the short term from developments in existing villages.	C3	new	C.i. C.ii.2. E.iii. E.iv.	Corporate Manager (Planning & Sustainable Communities)	N/a
<b>11. LAA actions</b> Failure to meet LAA targets, <i>leading to</i> desired outcomes for residents of the District not being achieved, and/or poor CAA assessment, <i>resulting in</i> possible reduction in funding (e.g. Reward Grant) and low public satisfaction.	C4	→	All	Chief Executive	N/a
<b>12. Embedding values</b> Values not effectively embedded within Council <i>leading to</i> no real change in culture and behaviour, <i>resulting in</i> adverse comment by the Audit Commission, poor public and partner perception of the Council, low morale.	C5	↓ (from C4)	A.i. A.ii. A.iii. A.iv.	Corporate Manager (Planning and Sustainable Communities)	N/a

**Key**

<u>Impact</u>	<u>Likelihood</u>	<u>Direction of Travel</u>
A Extreme	1 Almost certain	↓ Priority reduced from last review (bracket indicates previous priority)
B High	2 Likely	→ Priority equal to last review
C Medium	3 Possible	↑ Priority increased from last review (bracket indicates previous priority)
D Low	4 Unlikely	
	5 Seldom	
	6 Rare	

Aims, Approaches, Actions

The references in this column are to the Aims, Approaches and Actions adopted by Council on 27 November 2008 with effect from 1 April 2009. [Note: These will be updated when the Council Actions for 2010/11 are confirmed by Cabinet in November 2009.]

Note: The dotted line shows the Council's risk tolerance line.