Hackney

PERFORMANCE OVERVIEW

AUDIT COMMITTEE MEETING DATE 2017/18 **26 June 2017**	**CLASSIFICATION:** **Open** **If exempt, the reason will be listed in the main body of the report.**
WARD(S) AFFECTED **All Wards**	
Ian Williams, Group Director Finance and Corporate Resources	

1. GROUP DIRECTOR'S INTRODUCTION

1.1. This report introduces the first set of indicators that were selected to be reviewed by the Audit Committee on a regular basis as part of the Committee's overview of the Council's performance. The report is intended to encourage discussion at Committee regarding what will be brought forward in future, rather than a review of the indicators presented. In addition, there is an update on risk management with a Corporate Scorecard (summarising the highest risks to the organisation as a whole), along with some accompanying commentary on the Council's risk approach.

1.2. The report also sets out some thoughts regarding future monitoring of the Council's capital programme at Audit Committee, following on from discussions at previous meetings regarding the changing nature of the programme, specifically in terms of the risks presented by the financing of regeneration and other mixed use development schemes.

2. RECOMMENDATION(S)

2.1 The Audit Committee is recommended to:

- **Consider the performance indicators presented in Appendix 1 and the Risk Management Scorecard in Appendix 2 attached to this report.**
- **Note the current capital monitoring arrangements and consider future enhancements to the reporting to Audit Committee.**

3. REASONS FOR DECISION

3.1 The Audit Committee are deemed to be "those charged with governance" in respect of the Council's annual statement of accounts, treasury management strategy and other financial matters. As such, the Committee have asked for more overview of the Council's performance and risk management in order that they can be assured that value for money is being achieved and that they can fulfil their governance role in the widest sense.

4. BACKGROUND

4.1 Policy Context

The review of performance and the risks arising from the delivery of the capital programme are key areas for consideration of the Audit Committee in order for them to fulfil their overall governance role.

4.2 Equality Impact Assessment

This report does not require an equality impact assessment.

4.3. Sustainability

Not Applicable.

4.4 Consultations

The Chair of the Audit Committee has been consulted along with the Head of Governance and Business Intelligence, Cabinet Member for Finance and the Group Director of Finance & Corporate Resources.

4.5 Risk Assessment

Not applicable

4.6 PERFORMANCE INDICATORS

4.6.1 Audit Committee have over several meetings discussed their requirement to be able to consider the performance of the Council on an ongoing basis. This leads on from the role of the Committee to approve the annual accounts of the authority, agree and monitor treasury management strategy and to keep under review risk management across the Council.

4.6.2 A set of high level indicators have been developed and agreed by Committee. The attached report is a summary of the Indicators which were agreed. Consideration of these will help to strengthen the governance role of the Committee in its wider sense.

4.7 CAPITAL PROGRAMME MONITORING

4.7.1 As part of the regular review of treasury management activity and approval of the annual Treasury Management Strategy, Audit Committee have sight of the capital financing requirement (underlying requirement to borrow) of the authority on an ongoing basis.

4.7.2 It has been noted by Committee that the Council is expecting to move from a debt free position to a substantial external borrowing position over the coming year, mainly due to the delivery of an ambitious capital programme that requires forward funding, pending future sales of private residential units on completion of regeneration and other mixed use development schemes.

4.7.3 Such a change brings additional risk to the delivery of the programme as well as potential impact on the finances of the Council. This risk arises mainly from two issues – potential volatility of the housing market affecting sales volume and value going forward, and increasing building costs as a result of the weaker GBP against other major currencies.

4.7.4 Audit Committee already receive quarterly updates on treasury management activity, including an overview of the level of investments and borrowing that have been undertaken by the Council to manage its cash flow position and ensure sufficient resource is available to meet the capital expenditure plans.

4.7.5 This reporting is now enhanced in this report to include an update on the main areas of the capital programme via inclusion of capital extract from the latest Overall Financial Position (OFP) Report to Cabinet. This will in future be supplemented with the latest forecast capital financing summary, thus allowing further insight into capital resources available to the Council and more detailed review of actual borrowing required.

4.7.6 In addition it is intended, over time, to develop the capital monitoring reports to Cabinet and hence to Audit Committee, to include more discrete data regarding the actual delivery of the capital programme. This is in recognition that the current reporting focuses on the financial elements (i.e., actual outturn compared to budget expenditure) but does not give too much indication of progress of the scheme, although the RAG rating of individual schemes is intended to give a high level indication of this.

4.7.7 An extract from the latest OFP regarding the capital monitoring information which was provided to Cabinet in April is attached as **Appendix 3** to this report for information.

4.8 RISK MANAGEMENT

4.8.1 Audit Committee have over several meetings discussed their requirement to be able to also consider the wider picture of risk management within the Council on an ongoing basis. In addition to the Directorate and Corporate registers reviewed at Committee meetings, it was felt some additional information and commentary would be helpful in painting a fuller picture and also increasing levels of assurance regarding how risks are identified and managed.

4.8.2 **Corporate Risk Scorecard**

The Scorecard provides a quarterly overview of the Council's Corporate risks, along with a selection of leading Directorate risks (to ensure a comprehensive overview is provided). These are assessed in advance of each Audit Committee meeting and after being ratified by HMT, are updated accordingly. There is sometimes as little as two months between updates. This means that (especially for some high-level strategic risks) scores may sometimes remain static for periods of time. This is not a reflection of a lack of dynamism within the approach to the risk, but rather the fact that high level scores are unlikely to change dramatically within short spaces of time. New risks are regularly incorporated into the Corporate Register and will always be marked as 'new'. The Scorecard will contain clear reference as to the movement (of the score) of the risk, and clarity as to the exact nature of the risk (whether it is of an internal or external nature to the Council).

4.8.3 In terms of this latest iteration of the (Corporate) register, there are 14 red risks and 6 amber risks. Notable themes include financial risks and the potential impact of new legislation. Clearly, numerous external events and influences are having a considerable impact on the Council's objectives, whether budget cuts, security beaches, or political upheaval (in the form of elections or the Brexit negotiations). There has been movement within the direction of travel of existing risks, as the potential impact of some events has intensified, whilst other areas have stabilised with the controls offering an improved level of assurance as to the nature of a risk. Other risks remain red with no change – this score reflects the continued severity of both the impact and likelihood of the risk. For example, financial cuts (and their effects) are likely to remain a significant risk, simply because they will always have a high impact on service delivery, and in the light of the current economy the chances of this continuing remain very probable. However, even in the light of this continued red rating, the controls should still be able to provide assurance that the risk is being managed so far as is possible, and that the Council is taking appropriate action to best position itself in the light of challenging circumstances. In addition to the Corporate risks, the Scorecard also contains a selection of other major risks within the organisation. This assorted selection will usually be pulled from Directorate level and assist in providing an improved overview of risks around the Council, which don't necessarily always get escalated to Corporate level. This extra level of risks was requested by Committee and will usually be compromised of high scoring areas which have previously been on the Committee's radar, or areas of general importance.

4.8.4 **Emerging Risks**

Whilst current risks are consistently reported on, it is important to assure Members that extensive forward thinking is taking place as to where risks and challenges may lie in the future. A sudden and fundamental change to Government funding would clearly impact on plans going forward. An example could be rumours of changes being made to the PWLB (Public Works Loan Board) – the impact this could have on plans for developments and the Council's funding ability could be dramatic, and alternative sources of loans would have to be considered for capital projects. These emerging risks are monitored and controls are developed and considered at an early stage. Long term, it is clear the Council is adapting to a changing political and economic climate to become more commercially focused as an organisation. Failure to take advantage of more commercial schemes would be a missed opportunity, so changes are constantly being made (or considered for the future) to ensure the Council is more flexible, adaptable and commercially minded. For example, with the property development that is taking place (and that proposed for the future), a more dynamic approach will be required so consideration needs to be given to the potential limitations of procurement models, lack of expertise in certain areas and exposure to commercial borrowing (and trying to contain this within the current HRA debt cap where applicable). All these areas are already being considered at the strategic level as the Council maps its way forward over the next five years, trying to utilise the opportunities presented and acquiring the dynamism to achieve this.

4.8.5 Risk oversight is also very important in a situation where the Council is in partnership with another body or organisation. In the case of the (newly established) Integrated Commissioning Board, the Council is working with the City and Hackney Clinical Commissioning Group to embark on innovative arrangements to plan and ensure delivery of health, social care and public health services more effectively. The associated risks have already been identified on both sides and reciprocal communication has occurred. However, the risks pertaining to this Board which may be reported to Audit Committee will be reported from the perspective of the Council. The CCG have a separate register which goes to their Audit Committee. In the operation of this new way forward, there will be a clear loss of direct control (at times) over some of our social care and public health budgets. These are already being comprehensively managed by the detailed schemes of delegation (and Section 75 Agreement) that are being drafted to carefully map out the roles and responsibilities of this partnership. Also, the impact of managing and resourcing additional governance structures needs to be addressed, and failure to do so would result in problematic consequences.

4.8.6 It is also important to establish clarity of how high level risks from Projects and Programmes (managed by cross Directorate Boards) are reported up through the existing Risk Management hierarchy. These risks are often outside the scope of the traditional escalation procedures (from Service > Division > Directorate > Corporate levels), so it is for the Programme Directors or the relevant Divisional Directors to report these at DMT meetings when the registers are being reviewed. There are regular opportunities in project review cycles for relevant risks to be escalated to the appropriate level. For example, a Corporate risk like Regeneration contains elements from what has been reported up through the Boards and Project Management team, but also considerations arising from the Regeneration Director's strategic assessment of the risk. A specific example is where the Britannia Programme Directors has contributed to the (Corporate) Regeneration Risk. This helps ensure that all areas are included in the risk framework, and they are reported and escalated accordingly.

5. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

5.1 The contents of this report are a result of a number of discussions with the Chair and members of the Audit Committee regarding future enhanced performance reporting in order to strengthen the governance role of the Committee.

5.2 It should be noted that the proposals within this report are still at a relatively early stage of development, particularly in respect of enhanced capital monitoring and reporting, although they are intended to offer a sound basis for reporting and discussion going forward.

5.3 Officers will continue to work with the Chair and members of the Audit Committee, in conjunction with the Cabinet Member for Finance and the Head of Governance and Business Intelligence, in order to enhance the reporting offer to ensure that it provides the strategic overview of Council performance and risk that the Committee require.

6. COMMENTS OF THE DIRECTOR, LEGAL

6.1 The Council has a general duty as a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness under the Local Government Act 1999, section 3.

6.2 The Audit Committee has the responsibility to consider the Council's arrangements to secure value for money and review the assurances and assessments on the effectiveness of these arrangements. This Report is part of those arrangements.

APPENDICES

Appendix 1 - Performance Indicators

Appendix 2 - Corporate Risk Scorecard

Appendix 3 - Extract from March OFP re Capital Monitoring

BACKGROUND PAPERS

None

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