



Audit Committee Report

11a

Report of: Executive Director Place

Date: 26th September 2012

Subject: High Opinion Audit Report Recommendations -
Financial Management Information from Trusts

Author of Report: David Macpherson (2053149)

Summary:

There are three elements of the original report that were given a “High Priority rating” by Audit:

- Succession planning for the Head of Partnerships and Special Projects - This is currently under consideration as the potential timing will coincide with serious budget constraints for both the Council and the Trusts.
- Financial values, forming the basis of risk evaluation, should be verified by management to ensure they are realistic for each individual risk identified. – The internal Risk Management Plan includes assessments arrived at after discussions with the Trusts and other parties including Corporate Finance.
- Revised Service Level Agreements to be put in place with each trust to ensure the provision of robust monitoring information – Legal Services are currently assessing the likely costs of implementing one of the new style agreements however in the interim period, working with Corporate Finance, all trusts have been asked for and have agreed to provide an enhanced level of information on a regular basis.

Recommendations:

It is recommended that the Audit committee note the actions taken and progress made as reflected in this report.

Background Papers:

Internal Audit report, 15th February 2011 – Financial Performance and Management information from Trusts

Category of Report: OPEN/~~CLOSED~~*

If Closed add – ‘Not for publication because it contains exempt information under Paragraph... of Schedule 12A of the Local Government Act 1972 (as amended).’

* Delete as appropriate

Statutory and Council Policy Checklist

Financial Implications
YES/NO Cleared by:
Legal Implications
YES/NO Cleared by:
Equality of Opportunity Implications
YES/NO Cleared by:
Tackling Health Inequalities Implications
YES/NO
Human rights Implications
YES/NO:
Environmental and Sustainability implications
YES/NO
Economic impact
YES/NO
Community safety implications
YES/NO
Human resources implications
YES/NO
Property implications
YES/NO
Area(s) affected
Relevant Cabinet Portfolio Leader
Cllr. Isobel Bowler
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
YES/NO
Press release
YES/NO

High Opinion Audit Report Recommendations - Financial Management Information from Trusts

1.0 INTRODUCTION

- 1.1 The original Audit report in February 2011 identified 12 actions that were recommended and the follow up in April 2012 reported that 6 of those actions had been actioned leaving 6 outstanding, Of those 6 there were three actions that were assessed as being “High Opinion risks”.
- 1.2 This report looks at those 3 High Opinion risks and reports on the actions taken or underway to address the concerns.

2.0 SUMMARY

- 2.1 There are three elements of the original report (Internal Audit report, 15th February 2011 – Financial Performance and Management information from Trusts) that were given a “High Priority rating” by Audit:
- Succession planning for the Head of Partnerships and Special Projects - This is currently under consideration as the potential timing will coincide with serious budget constraints for both the Council and the Trusts.
 - Financial values, forming the basis of risk evaluation, should be verified by management to ensure they are realistic for each individual risk identified. – The internal Risk Management Plan includes assessments arrived at after discussions with the Trusts and other parties including Corporate Finance.
 - Revised Service Level Agreements to be put in place with each trust to ensure the provision of robust monitoring information – Legal Services are currently assessing the likely costs of implementing one of the new style agreements however in the interim period, working with Corporate Finance, all trusts have been asked for and have agreed to provide an enhanced level of information on a regular basis.

3.0 UPDATE ON HIGH OPINION RATED ISSUES

- 3.1 **Succession Planning should be put in place, with the reduced hours of the Head of Partnerships and Special projects.**

This issue has been considered but until now the need to address the issue has been less urgent , The issue is now being given serious consideration as it is possible that the post holder may opt to leave the employment of the Council by the turn of the financial year. Serious

consideration is therefore taking place about the future structure given that this potential departure will coincide with significant budget pressures for the Council and therefore also for the Trusts. This post is key in managing the relationships with those Trusts. Alternative arrangements will therefore be available before the end of March 2012 however in the interim it is worth noting that:

The relationship between Corporate Finance and the trusts has been enhanced,

and

the Performance Management data is now collected by the Project Officer- Performance within Activity Sheffield.

As a result therefore the dependency on the Head of Partnerships and Special Projects to undertake all aspects of the monitoring has been reduced.

3.2 Financial values, forming the basis of risk evaluation, should also be verified by management to ensure they are realistic for each of the individual risks identified

Attached as appendix 1 to this report is a document detailing the current position on the Risk Assessment reporting as it is applied to the Trusts including the Risk Management Plan. The plan has been enhanced to include an evaluation of the financial risk of each item, this evaluation has been arrived at through consultation with the Trusts and where appropriate with Corporate Finance. It should be noted as well that as part of the enhanced information that each trust has agreed to provide, they will also be providing their view of the risks that they face and this can in future be cross referenced against the view held by officers.

3.3 Revised Service level Agreements to be put in place with each trust to ensure the provision of robust monitoring information.

The implementation of any revised agreement has been delayed as the first one drafted is for Museums Sheffield and it has not been appropriate until now, given the issues and the changes necessary within that Trust, to try to implement new arrangements. With the stabilisation of and new leadership within Museums Sheffield the process has been started to implement the revised style of agreement originally drawn up in 2010 but now amended to match up with the current Corporate Plan Outcomes. The first stage of this is an evaluation for both organisation of the legal costs involved and the identification of the necessary funding. Responses are awaited from both legal teams on this issue before the work is commissioned and final negotiation of the detail can commence.

4.0 RECOMMENDATIONS

- 4.1 It is recommended that the Audit committee note the actions taken and progress made as reflected in this report.

Trust Risk Update – September 2012

Following a recent meeting with Corporate Finance, revised guidance has been sent to all trusts to ensure that they provide the necessary information including financial and risk information on a regular basis. Most trusts have responded agreeing to provide the additional information that they do not currently provide but have indicated that it will be on a quarterly basis or in some instances it will be in line with their Board meeting to save them producing extra documentation.

The Corporate risk process within the Council has changed again and we now report significant risks up through the Place Resilience Group, that report is co-ordinated by David Hargate and the May/June report did contain the following items re the Trusts:

- Re SCT/SIV/7HLT – Consultants have reported on strategies to combat the threat posed by the new Leeds Arena and there is an identified capital cost attached to any solution. This has been brought to the attention of John Mothersole but no solution has been identified. As an alternative the SCT group are looking in conjunction with SCC at other potential solutions which may involve rationalisation of facility provision.
- Re Museums Sheffield – Following the loss of the Arts Council major award late last year the organisation has been restructured and has produced a revised business plan to address its budget related issues however there is the historical position to be cleared and this is being taken forward at present. In terms of moving forward a new bid for Arts Council Strategic funding has been prepared but this is clearly aimed at project based work that is in addition to the core service funded through SCC in order to avoid the problems that have accrued in the past from confused or complex mixing of the funding streams.

Behind this Culture and environment still maintains sectional risk registers / management plans, attached is the latest version of the relevant Risk Management Plan which is in the format suggested but with an amendment to incorporate the value of the risk as requested by Audit.

RISK MANAGEMENT PLAN

Service: Culture and Environment – Partnerships and special Projects.

Date: [11/9/12]

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Risk No	Starte Datee	Risk Description	Probability (H/M/L)	Impact (H/M/L)	Overall Risk Rating	Risk Appetite	Risk Control(s) and Cost Considerations	Probability (H/M/L)	Impact (H/M/L)	Residual Risk	Direction	Cost Approval Needed?	Owner	Escalation?	Escalation Reason	Review Date
1.	04/12	SCT Group unable to deliver the £370k savings required by the Council budget Assessed value of risk following discussion with SCT CEO is £200k	H	M	4	2	The position will be monitor'd. Graves TLC did not transfer to 7HLT in April as a result of VAT considerations and there have been delays in legal services obtaining confirmation of the lease at Springs that prevents charitable relief from being granted on their NNDR costs there. In addition golf income this year has been reduced due to the weather early in the season, this is true nationally not just for Sheffield. If the forecast outturn does not show that other venues are over performing then alternative savings from service reductions will be considered in October	H	M	2	→	Y	DM	Y	Scope of risk is potentially wider than the service. Risk rating = higher than acceptable risk appetite.	12/12
2.	11/11	Competition from new Leeds Arena impacts significantly on the profit earned by the Motorpoint Arena, effect starts in 12/13 but the major impact will be felt in 13/14 Assessed value of risk following discussion with SCT CEO is less than £100k in 12/13 but potentially about £1.2m in 13/14 including the investment need of £300k for which funding is yet to be identified.	H	H	5	3	<ul style="list-style-type: none"> • Need to implement capital improvements • Review options given the Bank Funding Agreements 	H	M	4	↓	Y	PB	Y	Scope of risk is potentially wider than the service. Risk rating = higher than acceptable risk appetite.	12/12

3.	3/12	Museums Sheffield unable to support its cash flow requirements at 31.3.12 There is a recognised overspend of £500k to support the cash fallow of MS in the current year, this is in addition to utilising a £600k provision set aside for the repayment of the "loan" outstanding and therefore item 7 below becomes more of an issue/risk. Funding has not yet been identified for this additional £500k.	H	H	5	3	Discussions underway with Corporate Finance re potential support	M	H	4	↓	Y	DM	Y	Scope of risk is potentially wider than the service. Risk rating = higher than acceptable risk appetite.	12/12
4.	4/12	In any trust where staff transferred under TUPE and remained in the SYPA scheme, the last member leaves the scheme and the liability crystallizes. (It is reported that for instance MS could be down to three members in the scheme from July 12 and that the cost of the crystallization could be as much as £1.2m.) The overall risk is assessed at the MS level at present as this is the Trust with the lowest number of SYPA scheme members at present. (£1.2m)	H	H	5	2	Commence discussions with Corporate finance, Legal and potentially SYPA, in preparation for a cessation event crystallizing the liability and the trust concerned being unable to fund this liability.	H	H	5	→	Y	DM	Y	Scope of risk is potentially wider than the service. Risk rating = higher than acceptable risk appetite.	12/12
5.	06/12	SIMT do not gain the Heritage Lottery Bid for Abbeydale Industrial Hamlet and can not then deliver the savings required in 12/13 Risk in 12/13 is assessed at £20k however the real risk will exist in 13/14 and beyond where the savings target that may not be achievable would be greater, potentially in the region of £107k pa.	L	M	3	3	Be available when required to support SIMT in their bid	L	M	3	→	N	DM	N		12/12

6.	04/12	Any of the other, smaller Trusts or Sheffield theatres being unable to achieve the savings requested. As above the risk is the non achievement of savings targets UHLC = £104k in 13/14 STT = £106k in 13/14 SICT ignoring the above risks = £1.1m in 13/14 Other trusts = £21k in 13/14	L	L	1	2	Regular monitoring of the accounts	L	L	1	→	N	DM	N		12/12
7.	04/14	MS unable to start to make repayment of the outstanding loan due in April 2014. As mentioned above this is a real risk and the provision set aside by Corporate finance to cover it has already been utilised. The risk is therefore the full £600k that is outstanding or £150k pa for four years.	H	L	1	2	Incorporate this item into the discussions around the cash flow (item 3 above)	H	L	1	→	Y	DM	Y	Politically sensitive	12/12
	03/12	Inability to recover the £3m balance sheet item from future SCT surpluses. The risk is the full £3m	M	M	3	2	Work with SCT to ensure that future surpluses are applied first to the Balance.	M	M	3	→	N	CN	Y	Scope of risk is potentially wider than the service. Risk rating = higher than acceptable risk appetite. (Risk owner is noted as Corporate Finance rather than C&E)	12/12