

AUDIT COMMITTEE

Venue: **Town Hall, Moorgate Street, Rotherham. S60 2TH** **Date:** **Wednesday, 11 March 2015**
Time: **4.00 p.m.**

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Minutes of the previous meeting held on 18th February, 2015 (herewith) (Pages 1 - 7)
4. External Auditor's Value For Money Conclusion 2013/14 (report herewith) (Pages 8 - 24)
5. Closure Of Accounts 2014-15 (report herewith) (Pages 25 - 32)
6. Annual Review - Insurance and Risk Management Performance (report herewith) (Pages 33 - 41)

AUDIT COMMITTEE
18th February, 2015

Present:- Councillor Sangster (in the Chair); Councillors Cowles, Kaye and Sharman.

N28. MINUTES OF THE PREVIOUS MEETING HELD ON 19TH NOVEMBER 2014

The minutes of the previous meeting of the Audit Committee held on 17th September, 2014, were discussed.

Resolved:- That the minutes of the previous meeting be accepted as a correct record.

N29. PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16 TO 2017/18

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which detailed that, in accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, the CIPFA Code of Practice for Treasury Management in Local Authorities and with Council policy, the Director of Finance was required, prior to the commencement of each financial year to seek the approval of the Council to the following:-

- The Prudential Indicators and Limits for 2015/16 to 2017/18.
- A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on Minimum Revenue Provision.
- An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit.
- An Investment Strategy in accordance with the Department for Communities and Local Government (CLG) investment guidance.

The Council's investment policy's continuing primary governing principle was the security of its investments, although yield or return on investments was also a consideration.

The Council continued to operate the treasury management guidelines well within the boundaries set by the approved selection criteria so as to minimise the risks inherent in operating a treasury management function during volatile and adverse economic and financial conditions. To this end, the Council has continued to invest any surplus funds primarily with the Bank of England's Debt Management Office.

In addition, investment levels over the last twelve months remain low as market conditions still dictated that it continued to be prudent to defer borrowing plans and to fund on-going capital commitments through the use of the Council's internal cash-backed resources.

Actual returns on investment opportunities remain subdued when compared to previous years but have been effectively and prudently managed by significantly reducing expected capital financing costs by delaying borrowing plans. This enabled the Council to stay within its capital financing budget cash limit and for budget savings to be put forward in support of both the Council's 2014/15 and 2015/16 revenue budget. This was a significant achievement given the difficult economic and financial conditions prevailing throughout the current financial year.

The Council's counterparty list for investments, with whom the Council did business, used the criteria as set out in the report and provided the Council with the opportunity to maximise security of any invested funds by allowing all funds to be placed with the DMO and UK Single Tier and County Councils and reducing the maximum level and time of investments that could be placed with financial institutions that do not meet all the upper limit credit rating criteria.

Further information was provided on the effect on the counterparty list of the transfer to the NatWest Bank following the Co-operative Bank's decision to withdraw from banking services to Local Authorities.

In terms of the Prudential Indicators it was noted that only schemes in the Council's approved capital programme were included in the indicators as listed.

There were four treasury Prudential Indicators, the purpose of which was to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The indicators submitted for approval were shown in detail as part of the report.

The limits for interest rate exposures were consistent with those approved within the Mid-Year report on the 2014/15 Strategy; the maturity structure detail had been maintained; and the investment limits beyond 364 days have been maintained to reflect the continued investment strategy.

An update was also provided on the current investments of the Council and the how the Treasury Management and Investment Strategy sought to minimise the risks in operating the Treasury Management function during these difficult economic and financial conditions.

Resolved:- That Cabinet be asked to recommend to Council:-

- (1) The approval of the Prudential Indicators and limits for 2015/16 to 2017/18 contained in Appendix A to the report.
- (2) The approval of the Minimum Revenue Provision Statement contained in Appendix A which sets out the Council's policy on Minimum Revenue Provision.

(3) The approval of the Treasury Management Strategy for 2015/16 to 2017/18 and the Authorised Limit Prudential Indicator (Appendix B).

(4) The approval of the Investment Strategy for 2015/16 to 2017/18 (Appendix B – Section (e) and Annex B1).

N30. EXTERNAL AUDIT PLAN 2014/15

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, and Rashpal Khangura and Debra Chamberlain, KPMG, describing the KPMG External Audit Plan (included as an appendix to the submitted report) which set out the proposed external audit work to be undertaken to form an opinion on the Council's financial statements and to conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

Section 3 of the External Audit Plan summarised the key stages KPMG would carry out in their audit of the financial statements and Section 4 set out the areas of focus during the audit in forming their opinion on the Financial Statements. The 4 areas to be reviewed were:-

- Child Sexual Exploitation claims
- Accounting for school assets used by Local Authority maintained schools
- Digital Region closure costs
- The Council's new banking arrangements

KPMG's approach to reaching their Value for Money conclusion was set out in Section 5 with the 2 key themes being:-

- The Council's financial resilience to manage effectively its financial risks and opportunities and sustain a stable financial position
- How effectively the Council challenged its arrangements to secure Value for Money and prioritise resources by, for example, improving productivity and efficiency and achieving cost reductions

At the present time, KPMG had yet to complete their initial risk assessment for the Value for Money conclusion as they had not yet concluded their work on the 2013/14 Value for Money conclusion. Their Value for Money audit approach required them to consider findings from other inspectorates and review bodies. The independent inquiry into Child Sexual Exploitation and the Corporate Governance Inspection reports were currently being reviewed to ascertain how they might impact on the Value for Money conclusion for 2013/14. The initial risk assessment for the 2014/15 Value for Money conclusion would then be undertaken.

It was hoped to report the outcome to the next meeting of the Committee.

The 2014/15 audit fee of £186,300 was based on KPMG's assessment of the level of risk. However, changes to the Plan and the fee may be necessary if significant new audit risks emerge or KPMG's expectations were not met.

The Audit Commission had confirmed the re-appointment of KPMG for a further 2 years (2015/16 and 2016/17) which may be extended by a further 3 years to 2020. The DCLG had indicated it would make a decision on whether or not to extend in the Summer of 2015.

Discussion ensued on the future of the Audit Committee and the role of the Commissioners. From KPMG's perspective they would be seeking an understanding of entity level controls in that their audit was based on a Local Authority with Financial Regulations, Standing Orders etc. If that situation changed, there needed to be an understanding of the environment and any risks identified.

Resolved:- (1) That the report be received and its contents noted.

(2) That KPMG's External Audit Plan 2014/15, as now submitted, be approved insofar as the Audit Committee is concerned and the proposed areas for audit, now identified, be noted.

N31. EXTERNAL AUDIT 2013/14 GRANTS LETTER

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, and Rashpal Khangura, KPMG, which advised the Audit Committee of the matters arising from the external audit of the Council's 2013/14 Government grants and returns.

The report provided a summary of KPMG's key findings from the certification work they have carried out in 2013/14.

The main findings were:-

- KPMG were required to audit three claims and returns in 2013/14 with an aggregate value of £102 million and issued a qualification certificate for one return and unqualified certificates for the remaining two grants and returns.

Several issues lead to qualification and amendment of the Housing Benefit subsidy claim mainly attributable to benefit assessor inputting errors. The impact of the subsidy of the majority of the errors, however, was expected to be minimal. The qualification issue related to the claim including payment runs made on 1st, 2nd and 4th April, 2014, and these payments were for periods linking two financial years and should be claimed in the year in which the payment was made, therefore, should have been included in the 2014/15 claim irrespective of the fact the payment made related to 2013/14. KPMG had previously commented that this grant was a

very complex and high value grant (£92 million 2013/14).

- The Council had good arrangements in place to ensure the efficient and effective preparation and submission of claims and returns and which supported the audit process. In particular, working papers were of a good standard and officers responded promptly to audit queries.

These positive findings demonstrated that the Council continued to maintain the high standard achieved in recent years.

The Audit Commission's indicative 2013/14 grant fee for the Council was set at £20,000, however, the actual fee charged varied from the original indicative amount due to changes in the following requirements and resulted in the following budget pressures:-

- The Local Transport Plan – Major Projects Grant was not included in the original indicative figure resulting in an increase of £1k
- The Pooling of Housing Capital Receipts had an increase of £0.5k due to the requirements to undertake both Part A and Part B testing which was required every three years
- The Housing Benefit subsidy claim included a fee increase of £2.7k due to the requirement to undertake additional testing

Resolved:- (1) That the external auditor's report be noted.

(2) That, whilst the fees increased for carrying out grant certification work due to additional testing requirements, the Council had sustained good performance in both preparing and submitting its 2013/14 grant claims and returns.

N32. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE NINE MONTHS ENDING 31ST DECEMBER 2014

Consideration was given to a report presented by Marc Bicknell, Chief Auditor, which provided a summary of Internal Audit work and performance for the nine months ending 31st December 2014.

Progress on the Plan remained slightly below target for a variety of reasons including the loss of one member of staff through Voluntary Severance and another on maternity leave. The extended scope of some pieces of work had had an impact together with examination of issues highlighted within the Jay Report which had included specific work on the Council's Home to School Transport contracts, Risky Business project and the 'Key Players' Group.

By prioritisation of the audit activity, careful management of resources and the utilisation of additional temporary staff, it was the expectation to have a sufficient body of audit evidence to form an opinion on the Council's control environment.

The Corporate Governance Inspection had highlighted a number of fundamental weaknesses in the Council's governance arrangements. These were being assessed from an audit perspective and it should be noted that the likelihood of some of the matters being referenced in the annual audit opinion.

Appendix A of the report submitted showed the audit reports issued during the first nine months of the year. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that the controls were operating effectively during the period under review. Notwithstanding this, the work showed that there were opportunities to strengthen arrangements in some of the areas and implementation of Internal Audit's recommendations for improvement would reduce the Council's exposure to risks.

Three areas had required reporting as 'inadequate':-

- CYPS – Contract for School Improvement Activity
- EDS – Highways Final Accounts Arrangements
- EDS – Blue Badge Scheme

Discussion ensued on the report with the following issues raised:-

- The significant upsurge in responsive work since the publication of the Alex Jay and Louise Casey reports. There was a risk that if the Internal Audit Team were constantly diverted onto special investigations and reviews that the 85% audit plan delivery target may not be achieved
- There were currently 7.8 FTE plus a temporary contractor working in Internal Audit. It was the smallest and lowest cost Local Authority Internal Audit function in South Yorkshire and West Yorkshire by a significant margin
- The Casey report made reference to the Audit function
- Ongoing work as a result of the 2 independent inspections including understanding how the Records Management System worked
- Unknown risks that could not be quantified as yet – there would be a complete refresh of the Risk Register
- As part of the Transformation work the Terms of Reference and Constitution of the Audit Committee would be reviewed

Resolved:- (1) That the performance of the Internal Audit Service during the period be noted.

- (2) That the key issues arising from the work done in the period be noted.
- (3) That the likelihood of matters raised in the Corporate Governance Inspection report being referred in the annual audit opinion on the Council's control environment be noted.
- (4) That the Internal Audit Service be congratulated for their work and resilience in dealing with the substantial increased workload.

N33. DATE AND TIME OF NEXT MEETING

Resolved:- That the next meeting of the Audit Committee take place on Wednesday, 11th March, 2015 at 4.00 p.m.

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	11 March 2015
3.	Title:	External Auditor's Value For Money Conclusion 2013/14
4.	Directorate:	Resources and Transformation

5. Summary

The External Auditor's Interim Annual Audit Letter (AAL) 2013/14 presented to Audit Committee on 19 November 2014 informed Members that KPMG had not been able to issue their Value For Money Conclusion pending consideration of the scope and outcomes from the inspection work commissioned following the independent inquiry into child sexual exploitation.

KPMG have now had an opportunity to consider the OFSTED inspection into Children's Services in Rotherham and the recently published Corporate Governance Inspection.

The conclusion they have reached is that the Council has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014 and have therefore issued an adverse VFM Conclusion – see their report attached as Appendix 1.

KPMG have also clarified for the avoidance of doubt their audit responsibilities, particularly in relation to the VFM Conclusion. These are contained within Appendix 2.

6. Recommendations

That the Audit Committee notes the VFM Conclusion reached by KPMG in respect of 2013/14.

7. Proposals and Details

The Interim AAL presented to Audit Committee on 19 November 2014 briefly summarised the key messages from the External Auditor's work on the 2013/14 audit.

KPMG were satisfied that the Council's medium term financial planning is sufficiently robust to enable it manage its financial risks and to continue to provide services effectively in the face of continuing funding reductions. However, they were unable to reach a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness pending the OFSTED and Corporate Governance inspections being published.

KPMG have now had an opportunity to consider the OFSTED inspection into Children's Services in Rotherham and Corporate Governance Inspection now that they have been published.

The conclusion they have reached is that the Council has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014 and have therefore issued an adverse VFM Conclusion – see their report attached as Appendix 1.

8. Finance

KPMG have not indicated that the adverse VFM Conclusion will impact on the audit fee for 2013/14.

9. Risks and Uncertainties

None for the 2013/14 financial year.

10. Policy and Performance Agenda Implications

It is anticipated that the outcome of the improvement work to be undertaken by the Council in response to the Corporate Governance inspection will enable KPMG to give positive VFM Conclusions in future years.

11. Background Papers and Consultation

KPMG VFM Conclusion 2013/14 – Appendix 1

External auditor's responsibilities – Appendix 2

KPMG Interim Annual Audit Letter 2013/14

Audit Committee – 19 November 2014

Contact Name:

Stuart Booth, Interim Strategic Director of Resources and Transformation,

ext 22034, Stuart.booth@rotherham.gov.uk, and

Simon Tompkins, Finance Manager (Accountancy Services),

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Report to those charged with governance: Value for Money Conclusion 2013/14

Rotherham Metropolitan Borough Council

27 February 2015



Contents

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in connection with this
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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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Section one Introduction

This document summarises our assessment of the Authority's arrangements to secure value for money.

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Scope of this report

This report summarises the key findings arising from our work in relation to the 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission.

In our *Report to those charged with governance (ISA 260) 2013/14* we reported we were unable to provide a VFM Conclusion in September 2014 as at the time we were considering the impact of the Independent Inquiry into Child Sexual Exploitation in Rotherham. Since then we note OFSTED has completed an inspection of Children's Services and the Report of the Inspection into Rotherham Metropolitan Borough Council has been published.

We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas (including the above mentioned inspections).

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages an our proposed VFM conclusion.

VFM conclusion	<p>We presented our 'Report to those charged with governance (ISA 260) 2013/14' to the Audit Committee in September 2014. At the time we were considering the impact of the Independent Inquiry into Child Sexual Exploitation in Rotherham and as a result were unable to provide our VFM conclusion.</p> <p>As a result of that report, the Department for Communities and Local Government (DCLG) commissioned an inspection of the Council under section 10 of the Local Government Act 1999. This report was published in February 2015 and highlighted significant weaknesses in relation to the governance of the Council. In November 2014, OFSTED reported its judgement that overall Children's Services were inadequate.</p> <p>Given these findings, we are proposing to issue an adverse VFM Conclusion. In summary this reports we are unable to conclude that the Authority has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>
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**Our VFM conclusion
considers how the Authority
secures financial resilience
and challenges how it
secures economy, efficiency
and effectiveness.**

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarized in the diagram below.

Work completed

We performed a risk assessment as part of our planning process and have reviewed this throughout the year and following year end.



The following pages include further details of our VFM risk assessment and our specific risk-based work on the risks identified in our audit plan. We also note we identified a further risk during the course of the audit in relation to the Authority's governance arrangements following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

We also reviewed:

- the Report of the Inspection of Rotherham Metropolitan Borough Council, published in February 2015; and
- OFSTED's judgements on Children's Services, published in November 2014

Conclusion

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section four

Specific VFM risks

We had identified a number of specific VFM risks in our audit plan.

We also identified a further significant risk during the course of the audit in relation to the Authority's governance arrangements following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies; and
- completed specific local risk based work in relation to the Authority's involvement in respect of Digital Region Limited and around their saving plans for reductions in future funding.

Key findings

We have set out below the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion as reported in our audit plan and the additional risk we identified following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). The Authority needs to ensure it has appropriate arrangements to ensure the closure of Digital Region Limited is managed to reduce the financial impact on the Authority.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>We have reviewed the work carried out by the Authority in relation to the closure of DRL. The decision to close was taken on a reasonable and evidence based approach and is being managed appropriately. As such, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in the closure of DRL.</p>

Section four

Specific VFM risks

We had identified a number of specific VFM risks in our audit plan.

We also identified a further significant risk during the course of the audit in relation to the Authority's governance arrangements following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority currently estimates that £23 million in savings will need to be achieved during 2014/15. The Authority has developed plans with each directorate in order to make these savings. This has been done by identifying the core priorities for the Authority and ensuring services are aligned with these priorities. Further, significant savings will be required in 2015/16 and 2016/17 to principally address future reductions to local authority funding alongside service cost and demand pressures.</p>	<p>We have assessed the controls the Authority has in place to ensure sound financial standing. The Medium Term Financial Plan has taken into consideration the potential funding reductions and it is sufficiently robust to ensure that the Authority can continue to provide services effectively given the funding reductions. We note the Authority reflected a contingent liability for potential claims in relation to child sexual exploitation in the 2013/14 financial statements. The Authority should continue to review the financial impact of these claims and assess the impact on the medium term financial plan.</p>
	<p>In August 2014, the Independent Inquiry into Child Sexual Exploitation in Rotherham was published. As a result of this DCLG, commissioned an inspection of the Council under section 10 of the Local Government Act 1999.</p> <p>Given the VFM risks in relation to governance identified by the Independent Inquiry we delayed our VFM conclusion to consider the issues and output of the inspection.</p>	<p>In November 2014, OFSTED published its judgement that Children's Services were overall inadequate. This therefore questioned the Authority's arrangements to deliver quality services for children.</p> <p>In February 2015, the Report of the Inspection of Rotherham Metropolitan Borough Council was published and highlighted significant governance weaknesses. Specifically it reported that the Authority was not fit of purpose and failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions.</p> <p>In the context of our VFM conclusion, the significant weaknesses identified in the Authority's arrangements mean we are unable to be satisfied the Authority has arrangements to secure economic, efficient and effective use of resources.</p>

Appendix One

Proposed VFM Conclusion

We have identified our proposed wording for our VFM Conclusion for 2013/14

Basis for adverse conclusion

In considering the arrangements the Authority has put in place to challenge how its secures economy, efficiency and effectiveness we have reviewed the findings of The Report of the Inspection of Rotherham Metropolitan Borough Council, the OFSTED inspection and our audit evidence.

The Report of the Inspection concluded the Council was not fit for purpose and failing in its legal obligation to secure continuous improvement in the way it exercised its functions. The report also stated the Council is incapable of tackling its weaknesses, without sustained intervention.

The OFSTED inspection judged Children's Services to be inadequate.

Having considered the findings and conclusions of the above inspections together with our audit evidence we are satisfied this provides evidence that key elements of the Authority's corporate governance arrangements are not operating to challenge how it secures economy, efficiency and effectiveness in its use of resources.

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, the matters reported in the basis for adverse conclusion paragraph above prevent us from being satisfied that in all significant respects Rotherham Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.



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External Audit responsibilities

Rotherham Metropolitan Borough Council

27 February 2015

Contents

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Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Our responsibilities as external auditors

Background

The Report of the Inspection into Rotherham Metropolitan Borough Council published in February 2015, referred to External Audit in a number of places. Given this reference to External Audit, we thought it would be useful to explain our responsibilities.

In this report we have set out our statutory responsibilities and also identify what our approach is to issues that are raised that fall outside our responsibilities. Appendix One sets out our comments on the specific references made to audit in the Inspection Report.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission Act 1998 also gives electors certain rights and we have responsibilities

These responsibilities are explained in more detail below and over the page.

Financial Statements

We have summarised the four key stages of our financial statements audit process for you below



Our responsibilities as external auditors

Use of Resources

The key elements of the VFM audit approach are summarised below.



Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

Issues raised with us that fall outside of our remit

Where issues are raised with us that fall outside of our audit remit, our response depends on the issue raised. For instance, issues regarding criminal activity will be referred to the Police; issues regarding safeguarding will be referred to either the Authority or if required to OFSTED (Children) or Care Quality Commission (Adult); and issues regarding compliance with data protection or freedom of information will be referred to the Information Commissioner.

Appendix One

Report Ref	Comment in the Inspection report	KPMG comment
Page 83-84: 'Audit Function'	<ul style="list-style-type: none"> ■ We looked at the Council's audit plans and a sample of audit reports, both internal and external, over the past decade and found arrangements to be within expected norms. ■ We were concerned, however, about the overall approach to audit. For example, processes that had been highlighted as failing many times over in Children's Services (i.e. contact and referral arrangements) would have benefited from the insight and rigour of audit yet did not find their way into the plan. Some services, such as the licensing/taxi function and the looked after children's service, have not been audited in the last three years in spite of concerns raised in the media. ■ All areas of known weakness should be audited within a systematic programme that ensured all Council services, functions and processes were subject to review every three years, alongside the statutory audit arrangements. A greater use of audit to support improvements would be beneficial as part of a comprehensible rolling programme of reviews. ■ Rotherham is rife with rumours about impropriety which creates an unhealthy climate of mistrust. External audit should be directed to look at areas where persistent speculation arises in order to restore public confidence or tackle the weaknesses identified, or both. 	<ul style="list-style-type: none"> ■ All external audit reports are subject to our internal quality procedures and meet the requirements of International Auditing Standards. ■ Service performance issues are only relevant to the audit to the degree to which they relate to our use of resources (VFM) responsibilities. Our VFM work is focused on reviewing your arrangements to secure economy, efficiency and effectiveness in the use of resources. This involves reviewing the work of other review bodies and inspectors. We note at the time of our planning, no significant issues were identified in inspection or other review body reports. ■ This comment relates to the Internal Audit Plan rather than the External Audit plan. External Audit responsibilities are set out earlier in this report. ■ This is not part of the statutory responsibilities of external audit. It would be more appropriate for the Council to direct Internal Audit to look at these areas. We would consider any findings as part of our general risk assessment that informs our audit work. As indicated on page 3 of this report, electors can raise questions / objections / comments, but we can not act on these unless they relate to our responsibilities, as indicated on page 3.
Page146: 'Annex C - Findings from the Statement of Accounts'	<ul style="list-style-type: none"> ■ Inspectors reviewed the Statement of Accounts for 2013/14. These were submitted to the Audit Committee on 17 September 2014. The external auditors KPMG issued a judgement that these were a true and fair view of the financial position and that the accounts were properly prepared. We found no contrary evidence and therefore support the external auditor's finding. 	<ul style="list-style-type: none"> ■ This was reported to the Audit Committee through our Report to those Charged with Governance (ISA 260) in September 2014.



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ROOTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	11th March 2015
3.	Title:	Closure of Accounts 2014/15
4.	Directorate:	Resources and Transformation

5. Summary

The principal objective of the Council's annual financial statements is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of local and national stakeholders in assessing the Council's stewardship of its resources. It is therefore important that the Council's accounts are prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

This report brings to Members attention the main changes to accounting standards and disclosure requirements in 2014/15 and their effect on the Council's accounting policies.

It also highlights the steps being taken to achieve earlier closure in response to the government's stated intention of bringing forward the local government reporting timetable in 2017/18 whilst still maintaining high quality Financial Statements that are fully compliant with the Code of Practice on Local Authority Accounting (the Code).

Finally, it reminds Members that the Audit Committee, as the body charged with governance, will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish the unaudited Financial Statements to be presented to Audit Committee at its meeting in July for information.

6. Recommendations

Audit Committee is asked to:

- **Note the changes to the Council's accounting policies**
- **Note the requirement for the Audit Committee to formally approve the audited 2014/15 Financial Statements at its September meeting**
- **Approve the receipt for information of the unaudited Financial Statements at its July meeting**

7. Proposals

Local authority accounting operates in a dynamic environment which is subject to ongoing changes to accounting standards and legislative requirements which impact on local government financial reporting.

It is important that the Council continues to respond to these changes promptly and effectively to ensure that the financial information used by management and stakeholders faithfully represents the Council's true financial position.

The Government has signalled its intention to bring forward the date by which the Council's annual Statement of Accounts must be prepared and published. Current regulations require unaudited accounts to be prepared by the 30 June and audited accounts to be published by 30 September. New regulations which are likely to be laid in 2015 are expected to bring these dates forward to 31 May and 31 July respectively.

The new Regulations are expected to come into effect for the financial year 2017/18 but authorities are being strongly encouraged to bring about the transition earlier so they are fully geared up in advance of the change.

Accordingly, the 2014/15 closedown timetable has been designed with this in mind by looking to carry out procedures previously undertaken at year end in year wherever possible and to review and re-engineer year end processes where necessary to achieve a quicker closedown, for example, through greater reliance on estimation techniques.

7.1 Key accounting issues and changes to the accounting framework in 2014/15

The key accounting issues and changes to the accounting framework in 2014/15 are tabulated in Appendix 1.

Officers have continued to liaise closely with our external auditors, KPMG, to ensure that they are satisfied that these changes and the key risks identified in their External Audit Plan are being properly addressed and will continue to do so during closedown and over the course of their audit.

7.2 Changes to the Council's accounting policies in 2014/15

The Code has adopted the following new accounting standards in 2014/15:

- A suite of new accounting standards relating to group accounts, and
- Minor changes to the presentation requirements where Financial Assets and Financial Liabilities are offset

In addition, the Code has provided clarification on existing accounting standards as part of the Annual Improvements to IFRS programme. These include:

- Presentation of local authority maintained schools in the Council's accounts, and
- Presentation of the effect of schools converting to academies on the Council's accounts

At present, the Council does not prepare group accounts on the grounds that its interests in subsidiaries, joint ventures and associated companies are not material in aggregate. We do not anticipate that the new suite of accounting standards will change this.

Changes made to accounting policies in response to the new standards, clarifications under annual improvements cycle or otherwise are summarised in Appendix 2 for Members information.

Members should also be aware that the 2014/15 Code highlights the fact that adoption of IFRS 13 Fair Value Measurement has been deferred for a further year until 2015/16. The adoption of IFRS 13 will potentially have a material impact on the value of assets and liabilities carried in the balance sheet at fair value, for example, Property, Plant and Equipment and most likely require 2014/15 figures to be restated. It is not possible at this stage to quantify what the potential effect might be.

7.3 Financial reporting – Audit Committee's role

The Accounts and Audit Regulations 2011 removed the requirement for Members to formally approve the unaudited Financial Statements. Members are now only required to formally approve the Financial Statements post audit after receiving the external auditors report on their audit findings (ISA 260 report).

Audit Committee resolved previously that in order to maintain strong governance over financial reporting it wished to continue to receive the unaudited Financial Statements for information after they have been authorised and released for publication.

If Members wish this to remain the case, the key dates Members need to be aware of are:

- 30 June 2014 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Interim Strategic Director of Resources and Transformation.
- July 2015 Audit Committee – unaudited 2014/15 Financial Statements to be presented to Audit Committee for information.
- September 2015 Audit Committee – audited 2014/15 Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report.

8. Finance

No additional resource requirements identified to achieve earlier closedown.

9. Risks and Uncertainties

The preparation, approval and publication of the Council's annual Financial Statements remain a cornerstone of financial accountability for the local electorate, Members and other stakeholders.

Failure to comply with the Accounts and Audit Regulations, other relevant legislation and local authority accounting requirements as set out in the Code may indicate a weakness in financial reporting whereas compliance demonstrates strong governance is in place and ensures best practice is being followed.

As in previous years, in order to minimise the risk of these objectives not being met, the closedown process and production of the accounts will be project managed and subject to quality assurance arrangements.

10. Policy and Performance Agenda Implications

None other than the reputational risk referred to above from non-compliance.

11. Background Papers and Consultation

Code of Practice on Local Authority Accounting 2014/15

Service Reporting Code of Practice 2014/15

Accounts and Audit Regulations 2011

Audit Committee – March 2013

Simon Tompkins, Finance Manager, extension 54513

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Appendix 1

Key accounting issues / changes in 2014/15

Area of accounts	Issue	Action taken
Corporate governance	The costs of the corporate governance inspection will be recognised in the 2014/15 accounts provided a reliable estimate can be obtained	DCLG contacted to ask for an estimate of the likely costs
Child Sexual Exploitation Claims	Insurance liabilities, including those relating to Child Sexual Exploitation, will be estimated by reference to past claims history and expert legal advice as appropriate.	Methodology for estimating insurance liabilities determined
Group accounts / Accounting for collaboration	<p>The 2014/15 Code adopted a suite of new accounting standards in relation to subsidiaries over which the Council has control, joint arrangements where the Council shares control with another party, and associates where the Council is able to exert a significant influence.</p> <p>It is not thought likely that the changes will lead to the need to produce group accounts but may result in changes to the extent and nature of the disclosure relating to entities in which the Council has an interest.</p>	Accounting policy 28 updated
Group accounts – local authority maintained schools	<p>CIPFA has completed a review of the way in which local authority maintained schools should be presented in a local education authority's accounts.</p> <p>The income and expenditure, assets and liabilities, and cashflows of such schools' will continue to be consolidated into the Council's accounts as previously, but there will be a need to reassess whether Foundation trust school buildings should be on the Council's balance sheet.</p> <p>Additional summary disclosure will also be provided of the income, expenditure, surplus or deficit and numbers of local authority school by category of school.</p>	Accounting Policy 28 updated
Schools converting to academies	<p>The Code has clarified that the transfers of functions to other public sector bodies should be accounted for by transferring assets and liabilities at their carrying value at the date of transfer unless otherwise agreed.</p> <p>The financial effect of functions transferred to another public sector body should also be disclosed separately in the comparative year.</p> <p>We are currently considering how this might impact</p>	Accounting Policy 29 updated

	on how the financial consequences of local authority maintained schools which have converted to academies should be presented in the accounts.	
MRP	<p>The Council is required to set aside from revenue a prudent provision for the repayment of debt (MRP).</p> <p>The Accounting Policy has been simplified to state that it is determined in accordance with DCLG's capital financing regulations and related statutory guidance.</p>	Accounting Policy 15 updated
PFI lifecycle replacement costs	<p>Where the profile of actual expenditure incurred by a PFI operator differs from that planned the difference should be accounted for as a prepayment or accrued liability as appropriate.</p> <p>The Accounting Policy has been updated to make this clear</p>	Accounting Policy 17 updated
HRA interest payable	<p>The HRA bears a fair and equitable share of the overall interest incurred on Council borrowings based on the HRA's underlying borrowing requirement</p> <p>This has been inserted into the Accounting policy for the sake of clarity</p>	Accounting Policy 22 updated

Appendix 2

15 **Charges to revenue for non current assets**

Prudent provision (MRP) is made annually for the repayment of debt relating to capital expenditure financed by borrowing or credit arrangements. The amount charged is determined having regard to the relevant statutory requirements and related guidance on MRP issued by DCLG.

17 **PFI and PPP arrangements**

Lifecycle replacement costs are accounted for as they are incurred. Where the profile of lifecycle expenditure actually incurred by the PFI operator differs significantly from the projected profile included within the PFI model adjustments are made to account for the difference. A prepayment is recognised where planned expenditure paid for through the unitary payment exceeds the actual amount incurred by the PFI operator. An additional liability is recognised where planned expenditure is less than that actually incurred. The prepayment / additional liability is carried forward in the balance sheet until the expenditure is actually incurred / settled, or, in the case of a prepayment when there is no longer an expectation that it will eventually be incurred by the PFI operator at which point it is charged to revenue. Lifecycle replacement costs which represent the refurbishment or replacement of major components are capitalised as Property, Plant and Equipment in accordance with Accounting Policy 14.

22 **Financial Instruments**

The amount of interest charged to the HRA is determined on a fair and equitable share basis by reference to the HRA's Capital Financing Requirement.

28 **Interests in companies and other entities**

Where the Council exercises control, shares control or exerts a significant influence over another entity, and the Council's interests are material in aggregate, it will prepare Group Accounts. The Council's interest in another entity can be contractual or non-contractual, and may be evidenced by, but is not limited to, the holding of equity or debt instruments in the entity as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

The Council has control over another entity, where it is able to direct the activities of that entity such that it has exposure to or rights over variable returns and can use its power over the entity to effect the returns it receives.

Shared control with another party or parties in a joint venture arises where decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control including the Council.

The Council can exert a significant influence over an associate where the Council has the power to participate in the financial and operating policy decisions of an entity which fall short of control or joint control.

The Council's single entity financial statements include the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools within the control of the Council..

Interests in companies and other entities are recorded in the Council's balance sheet as financial assets at cost, less any provision for losses.

29 Acquisitions and discontinued operations

Transfers of functions to or from other public sector bodies are accounted for with effect from the date of transfer. Assets and liabilities are transferred at their carrying value at the date of transfer unless otherwise agreed and the balance sheet restated to reflect the value of assets brought onto or removed from the balance sheet. The financial effect of functions transferred to the Council is disclosed separately in the current year. The financial effect of functions transferred to another public sector body is disclosed separately in the comparative year.

A function in this context is an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that service or business operation.

These principles apply to local authority maintained schools which convert to academies during the year and therefore cease to be under local authority control. School balances are transferred to the academy from the Council at their carrying amount at the date of conversion unless the school has a deficit for which the Council retains responsibility, the aggregate effect of school balances transferred in the year being disclosed in the Movement in Reserves Statement

Discontinued operations are activities that cease completely. Transfers of functions from one public sector body to another are not discontinued operations. Income and expenditure relating to discontinued operations are presented separately on the face of the Comprehensive Income and Expenditure Statement and the Balance Sheet

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	11 March 2015
3.	Title:	Annual Review - Insurance and Risk Management Performance
4.	Directorate:	Resources & Transformation

5. Summary

This report builds on previous reports to Audit Committee on the numbers and cost of insurance claims made against the Council.

The Council continues to have a very good and improving record in most areas. Proactive Risk Management measures are helping to reduce the number of claims made against the Council and effective monitoring / inspection systems are enabling the Council to successfully defend many claims that are received.

The report highlights areas where risk management action is helping to achieve the greatest savings in support of the Council's Medium Term Financial Strategy. It also shows areas where opportunities may exist where further savings could be realised.

6. Recommendations

Audit Committee is asked:

- **To note the high performing areas:**
 - School Fires
 - Highways Trips and Slips
 - Recovery of Uninsured Motor Vehicle Accident Losses
- **To note better performance in areas previously with below average performance:**
 - Employer's Liability Claims
 - Motor Vehicle Claims
- **To consider where opportunities may exist for further improvement:**
 - Trips and slips on Housing owned footpaths & walkways
- **Note the premium savings achieved for 2015/16 across various insurance policies and claims handling charges**

7. Proposals and Details

7.1 Insurance claims and costs 2004/05 to 2013/14

A summary of claims received by the Council over the past ten years, relating to the five main areas of insurance risk, is contained in the following table.

Numbers and Costs of Claims Received 2004/05 to 2013/14		
Area of Risk	No. of Claims	Cost of Claims
Public Liability	2,642	£4.578m
Employers' Liability	576	£4.020m
Highways	2,289	£1.911m
Motor Vehicle	3,157	£3.090m
Fire	60	£1.615m
2004/05 to 2013/14	8,724	£15.214m

On average, the Council has paid £1.52m per year on insurance claims over the last 10 years. The need to continue to invest in reducing the costs of accidents via improved management systems, work environment and training remains very important, to keep these costs to a minimum.

7.2 High Performing Areas

- School Fires
- General Property Fires
- Highways Trips and Slips
- Recovery of Uninsured Motor Vehicle Accident Losses

Rotherham's claims record on fire across all properties is very good and, in particular, our claims experience with regards to school fires is excellent.

The Governance Section arranged for risk surveys to be carried out at all schools and these highlighted the needs of each school, leading to subsequent risk management being implemented wherever possible. This work provided the platform for the Council's exemplary record, indeed only one fire of any description has occurred in Rotherham schools in the past three years at a time when, according to figures compiled by Zurich Municipal, the annual cost of school fires in the UK rose to £67m.

The Council now substantially out-performs other authorities, as can be seen from the table below, which is based on fires occurring since 2007.

	Rotherham	National Average	Difference +/-
	£	£	£
Average Cost per Claim	1,196	67,000	- 65,804
Cost of Claims per School per Year	11	1,001	- 990

The difference in performance, based on the number of schools at Rotherham, means that **the Council spends over £114,000 less per year than the national average figure on school fires.**

7.2.1 Highways Trips and Slips

Despite the emergence of numerous aggressive claims management companies in the last 10 years and their 'no win – no fee' marketing campaigns, Rotherham continues to manage highways risks very successfully. The current claim repudiation rate (i.e. closed without payment) of 95% makes the Council amongst the best performing nationally in this regard.

Performance is shown in the table below.

Highways Liability PI Claims Performance 2009/10 to 2013/14							
Incident Year	Claims Rec'd	Number On-going	Number Closed	Number Repudiated	Percentage Repudiated	Number Paid	Total Paid (inc costs)
2009/10	306	1	305	286	93%	19	£203,186
2010/11	368	7	361	334	92%	27	£205,292
2011/12	173	10	163	149	91%	14	£135,339
2012/13	274	17	257	246	96%	11	£30,642
2013/14	230	41	189	180	95%	9	£23,782

The Council's proactive highways inspection and maintenance regimes contribute significantly to this performance.

7.2.2 Recovery of Uninsured Motor Vehicle Accident Losses

Rotherham has historically self-funded all costs arising from accidental damage to its own motor fleet, even in instances where that damage had been incurred as a consequence of negligence on the part of a third party (i.e. non-fault claims).

However, at the end of 2005, the Governance Section appointed MAPS Legal Assistance on an initial one year basis. Since taking on their first case in November 2005, MAPS has recouped over £186,000 for the authority in lieu of our repair costs.

7.3 Areas where performance is improving

- Employer's Liability Claims
- Motor Vehicle Claims

7.3.1 Employer's Liability Claims

Employer's Liability risk has been a concern for local authorities for some years, particularly in respect of degenerative type injuries including Vibration

White Finger, Noise Induced Hearing Loss, Manual Handling and Repetitive Strain Injury claims.

At Rotherham, the Corporate Emergency & Safety Team has carried out a wide range of Risk Management activities to minimise the risk of injuries and this is having a positive effect on both the number of claims received and the Council's ability to defend or minimise the payments made against such claims. This positive trend is demonstrated by the statistics below:

Employer's Liability Claims Performance 2009/10 to 2013/14							
Incident Year	Claims Rec'd	Number On-going	Number Closed	Number Repudiated	Percentage Repudiated	Number Paid	Total Paid (inc costs)
2009/10	44	1	43	24	55%	19	£224,829
2010/11	42	8	34	10	29%	24	£325,604
2011/12	21	6	15	9	60%	6	£71,884
2012/13	28	19	9	3	33%	6	£41,913
2013/14	14	13	1	0	0%	1	£6,200

The statistics show:

- The number of claims is steadily reducing year on year
- A significant reduction in the overall cost of claims (£41k for 2012/13 compared to £224k for 2009/10)
- Vibration White Finger claims appear to be in decline, with only 8 new claims received in the past 5 years

7.3.2 Motor Vehicle Claims

The number of motor vehicle claims received has reduced since 2008/09, from 422 to 190 in 2013/14 (a 54% reduction), as has the cost of claims from £406.1k to £178.5k (a 56% reduction) in the same period.

In addition, there continues to be a reduction in the number of accidents involving third parties, with only 34 claims of this nature occurring in 2013/14, although the subsequent cost of £77k did account for 39% of the total cost of motor claims. However, when considering that the authority operates a fleet of 270 vehicles, plus an additional 100 vehicles on hire at any given time, this represents good performance.

Initiatives such as driver training and the installation of cameras on Refuse Collection Vehicles continue to prove influential, as has the re-centralisation of vehicles at Hellaby Depot.

7.4 Trips and slips on Housing owned footpaths & walkways

The Council's performance relating to claims for trips and slips on housing owned footpaths and walkways remains an area for possible improvement.

Since the termination of 2010 Rotherham Ltd (wef 1 July 2011) a further 75 claims have been received relating to incidents occurring on Housing owned footpaths. Of these, 35 are presently outstanding with claim reserves totalling £245,125. 28 others have been successfully defended without payment and 12 have been settled at a cost of £106,431.

Whilst acknowledging the current situation with regards to budget cuts, it should nonetheless be stressed that the implementation of a sound system of inspection would improve repudiation rates and cut costs to the authority in the medium term.

7.5 The level of the Insurance Fund

The insurer's current compulsory policy excess (£100,000) means that 99% of claims settled are met directly out of the Council's Insurance Fund.

A gradual increase in claims up to 2006 (partly an outcome of the 'no win – no fee' claims culture) led to an increase in the Insurance Fund provision required to meet estimated claims' costs. However, since 2006, strengthened Risk Management and the consequent reduction in claims had enabled the provision to be reduced significantly over this period.

However, whilst the authority continues to perform excellently in maintaining high claim repudiation rates and driving claim numbers down, the revelations regarding historic Child Sexual Exploitation, and the subsequent insurance claims arising from this, has now placed a pressure on the Insurance Fund.

It has been widely publicised that claims have been lodged against the council with the prospect of more to come. The council is currently liaising with its insurers and legal advisers with regard to any claims received.

7.5.1 High Value / New Areas of Claim

The Council should not lose sight of the fact that it needs to be continually alert to any new claims activity and the potential impact on funds.

As mentioned in the previous category, the Child Sexual Exploitation claims continue to dominate and pose ongoing challenges to both the Governance Section and the authority in general. Insurance claims are being handled by the Governance Section, headed by the Insurance & Risk Manager, in conjunction with the Council's claims handlers, Gallagher Bassett, and Forbes Solicitors. Forbes have worked closely with our insurers on the Rochdale CSE cases and it was felt that the knowledge they have gained in doing so, and in dealing with Switalskis Solicitors, who are representing CSE claimants, will be of benefit to us.

Local authorities continue to receive claims from relatively new areas of activity such as disease caused by exposure to asbestos dust/fibres, although thankfully at Rotherham these numbers have been comparatively small. Between 2009 and 2013, five claims in respect of asbestosis were received,

three of which were successfully defended and two of which were settled at a total cost to the authority of £96k. Encouragingly, no new claim of this type has been received since May 2013.

It has also been widely speculated in the insurance media that the demands and pressures placed on local government workforces resulting from ongoing budget cuts may lead to a rise in work-related stress claims. This has not, as yet, materialised in Rotherham but the need for adequate management systems to manage this, and risks in all areas, remain very important.

The Audit Committee will appreciate that it does not take many claims of this nature to add more significant pressure to the Insurance Fund.

7.6 Renewal of Insurance Contracts 2015/16

In accordance with OJEU Tendering Procedures, the provision of insurances to the Authority was subject to a full tender process in 2012/13 and, as a consequence, Long Term Agreements with the respective insurers were agreed which took effect from 28 February 2013.

Following a recent meeting with the Council's insurance agents, RMP, at which they presented their renewal terms for the coming year, it became apparent that the Combined Liability premium (Public Liability, Employer's Liability & Motor) quoted for 2015/16 would realise an increase of £75,395 on last year's premium. This was largely as a consequence of the Casey report, but also a reflection of the general unrest within the insurance industry with regards to CSE, not only in Rotherham but nationwide.

However, RMP also offered alternative terms for consideration, which included the option to raise the Self Insured Retention (SIR) level and aggregate stop limit in exchange for a reduction in premium.

Rotherham are one of only a select number of local authorities who have been operating with a SIR level as low as £100,000, largely as a consequence of our excellent claims history over the last decade. Most other authorities of our size are now operating with £250,000 SIR levels.

After an analysis of the last 10 years claims experience, and subsequent approval by SLT, it was decided to increase the authority's SIR level to £250,000 in exchange for a sizeable reduction in the 'up-front' premium.

In conjunction with savings achieved on other policies as a consequence of an excellent claims experience and the ongoing reductions in the property portfolio and workforce numbers, an overall saving of £273,124 was achieved on last year's renewal premiums.

The renewal figures are summarised below for information.

Company/Policy	2014/15	2015/16	+/-
	£	£	£
Risk Management Partners			
- Cross Class (Liability & Motor)	401,664	227,700	-173,964
- Officials Indemnity	47,500	47,500	-
- PA/Travel/School Journey	16,236	13,893	-2,343
- Crime – Fidelity Guarantee	40,000	40,000	-
- Terrorism	70,750	56,610	-14,140
- Computer (Mainframe)	3,680	3,680	-
Gallagher Bassett			
- Claims Handling Costs	88,015	79,390	-8,625
Zurich Municipal Insurance			
- Property	347,461	274,525	-72,936
- Engineering	38,787	37,671	-1,116
- Marine	6,127	6,127	-
Totals	1,060,220	787,096	-273,124

7.7 South Yorkshire Passenger Transport – Claims Handling

Following discussions which commenced in 2012, agreement was reached with the South Yorkshire Passenger Transport Executive that with effect from 1 April 2015, their insurance claims would be handled by the Governance Section.

Under the arrangement, SYPTE could save between 15% and 23% of its existing broker costs by adopting the 'shared service' proposal, whilst RMBC will receive £14,500 per annum in respect of the service provided.

Whilst the income generated is comparatively modest, the arrangement illustrates that the Governance Section is capable of leading services for other organisations and of the confidence of others in our services.

8. Finance

Financial implications have already been identified elsewhere in this report, however, it should be stressed that the compulsory policy excess (£100,000 on each and every claim) means that the vast majority of claims are met directly from the authority's Insurance Fund.

To assist our attempts to prevent/minimise claims, our claims handlers, Gallagher Bassett, provide 10 free days Risk Management or Loss Control Consulting services, although – despite repeated offers to services - take up of these days is surprisingly poor. Further information on the services offered can be obtained from the Governance Section.

9. Risks and Uncertainties

The Council attempts to prevent, minimise and control claims as outlined above. Positive action results in a decrease in the number of claims and settlement costs, a subsequent reduction in employee hours/costs incurred in investigating claims and a greater likelihood of reduced insurance premiums in the future as a consequence of an improved claims history.

Despite this work, there remain areas of potential risk which could impact adversely on the authority's claims experience and premiums payable, and place greater demand and pressures on the Insurance Fund and Directorate budgets. These are:

- **Child Sexual Abuse Claims**

See previous comments on this issue.

Unfortunately, this type of claim is historic, often dating back many years, and can prove difficult to defend.

- **Municipal Mutual Insurance, Trigger Litigation**

One of the Authority's previous insurers, Municipal Mutual Insurance (MMI), had been seeking clarification of its liability to indemnify policyholders in respect of historic employee mesothelioma claims, which consequently led to test litigation known as the "Employers Liability Trigger Litigation". The outcome of this litigation was that the Supreme Court subsequently found against MMI.

As a consequence, MMI decided there was no prospect of a solvent run off and appointed an Administrator, who subsequently undertook a financial review of the company and calculated the levy owned by each authority. The initial levy payable by the Council as at 1 January 2014 was £622k plus an additional levy of £234k in respect of the South Yorkshire Residuary Body.

Since then, the claims handling procedures implemented by MMI in conjunction with Zurich Municipal have been working satisfactorily with no indication that an additional levy will be necessary. However, the Scheme Administrator did state that a review of the rate of Levy and payment percentage will be conducted in each calendar year, so it's anticipated that any such review will take place after a full years' data is in hand, i.e. January 2015.

Based on information for the period to 30 September 2014, the maximum amount payable by the Council is likely to be in the region of £814k, £648k in respect of RMBC historic claims and £166k in respect of the South Yorkshire Residuary Body.

Provision has already been made in the accounts to allow for this and will continue to be monitored on an on-going basis.

11. Policy and Performance Agenda Implications

Claims Management procedures play an important role in both informing and influencing all elements of Risk Management. Risk Management is one of the dimensions of good Corporate Governance. It is all encompassing and impacts on all areas of the Council's Policy and Performance Agenda.

12. Background Papers and Consultation

- CIPFA Insurance Benchmarking Surveys 2008 – 2011
- MMI Briefing Notes, August 2011 to date
- Gallagher Bassett, Risk Control Services Report, Version 4
- Zurich Municipal Schools Fire Statistics 2013
- Various risk and insurance circulars (Kennedys; ALARM; Plexus Law)

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