Webcast Meeting

Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE
Thursday, 7th February, 2013

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

Council Chamber, Civic Offices, High Street, Epping
on **Thursday, 7th February, 2013**
at **7.00 pm** .

Glen Chipp
Chief Executive

Democratic Services Officer

Gary Woodhall
The Office of the Chief Executive
Tel: 01992 564470
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Members:

Councillors: A Watts (Chairman), C Finn, and Ms S Watson.

Independent: Mrs M Peddle (Vice-Chairman) and R Thompson.

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1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

(Assistant to the Chief Executive) To be declared at the meeting.

3. DECLARATIONS OF INTEREST

(Assistant to the Chief Executive) To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 29 November 2012 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT REPORTS AND STUDIES (Pages 5 - 26)

(Chief Internal Auditor) To consider the attached report (AGC-013-2012/13).

7. REPORT OF THE EXTERNAL AUDITOR - GRANT CLAIM CERTIFICATION (Pages 27 - 38)

(Director of Finance & ICT) To consider the attached report (AGC-014-2012/13).

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013/14 - 2015/16 (Pages 39 - 70)

(Director of Finance & ICT) To consider the attached report (AGC-015-2012/13).

9. INTERNAL AUDIT MONITORING REPORT - OCTOBER TO DECEMBER 2012 (Pages 71 - 84)

(Chief Internal Auditor) To consider the attached report (AGC-016-2012/13).

10. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

11. EXCLUSION OF PUBLIC AND PRESS

<u>Exclusion:</u>
To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:
Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;

(2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and

(3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:
Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

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Report to Audit and Governance Committee

Report Reference: AGC-013-2012/13
Date of Meeting: 7 February 2013

Epping Forest District Council

Portfolio: **Finance and Economic Development**

Subject: **Audit Commission National Local Government Reports and Studies**

Responsible Officer: **Steve Tautz (01992 564180)**

Democratic Services: **Gary Woodhall (01992 564470)**

Recommendations/Decisions Required:

(1) That the Committee consider national local government reports and studies recently published by the Audit Commission, and to identify any appropriate action for the Council, to address implications arising from recommendations made by the Commission.

Executive Summary

This report provides details of national local government reports and studies recently published by the Audit Commission, that are relevant to the Council's responsibilities, functions or areas of service provision.

Reasons for Proposed Decision:

National local government reports and studies published by the Audit Commission are routinely presented to the Audit and Governance Committee, in order to ensure that any implications arising for the Council are identified, and that appropriate action is considered.

Other Options for Action:

No other options are appropriate in this respect. Failure to consider best practice approaches and recommendations identified by the Audit Commission, or to take corrective action where necessary, could have negative implications for the Council's reputation and for judgements made about the progress or governance of the authority.

Report

1. The Audit Commission's national studies programme aims to improve local public services through an independent authoritative analysis of national evidence and local practice. The Commission has a duty to undertake studies designed to make recommendations for improving the economy, efficiency and effectiveness of certain bodies, and to improve the financial and other management of local public bodies. The Commission's national reports address strategic issues affecting specific sectors as well as the public sector as a whole, identifying practice that works, highlighting emerging findings and examining national trends to influence local practice and national policy.

2. The Audit and Governance Committee receives all national local government reports and studies published by the Audit Commission, that are of relevance to the Council's responsibilities, functions or areas of service provision. Relevant reports and studies published by the Commission are also initially considered by the Corporate Governance Group, in order to identify implications or possible action for the Council arising from findings highlighted or recommendations made by the Commission.

3. The following relevant local government reports and studies have recently been published by the Audit Commission. The Corporate Governance Group was due to consider these reports on 30 January 2013, and its views in respect of the findings of the Commission will therefore be reported at the meeting of the Committee.

'Tough Times 2012' - Councils' responses to a challenging financial climate (November 2012)

4. This is the second report in the Commission's annual 'Tough Times' series. The report finds that in 2011/12, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible, and a sizeable minority of councils had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes in order to deliver budgets.

5. The report says that auditors are concerned that 12% of councils are not well-placed to deliver their 2012/13 budgets. The Commission feels that a further 25% will cope in 2012/13, but may struggle in the remaining years of the current Spending Review period.

6. Extracts from the report reflecting the Audit Commission's summary of its findings, are attached as Appendix 1. The full report is available on the Commission's website, at:

http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/20121122toughtimes2.pdf

'Striking A Balance' - Improving councils' decision making on reserves (December 2012)

7. This report presents the Audit Commission's findings from research on the level of reserves that councils hold, and on the decisions that authorities make relating to their reserves.

8. The report encourages councils to focus more attention on the £12.9 billion set aside in their reserves, the equivalent of nearly a third of their net spending on services in 2011/12. While it finds that councils routinely consider reserves as part of their annual budget setting, the report calls for officers to offer elected members clearer and more comprehensive advice, equipping them to make better-informed decisions. It also calls for greater clarity from councils about the reasons for holding reserves.

9. Extracts from the report reflecting the Audit Commission's summary of its findings and recommendations for further action, are attached as Appendix 2. The full report is available on the Commission's website, at:

http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/strikingabalance.pdf

'Auditing The Accounts 2011/12' - Quality and timeliness of local public bodies' financial reporting (December 2012)

10. This report summarises the results of auditors' work for 2011/12 at councils, fire and rescue authorities, police bodies, other local government bodies, parish councils and internal drainage boards. The report covers the timeliness and quality of financial reporting and summarises:

- auditors' work on the 2011/12 financial statements;

- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2011; and
- the key financial reporting and financial management challenges facing bodies for 2012/13.

11. The Commission has reported that auditors were able to issue the audit opinion by 30 September 2012 at 98% of councils, all fire and rescue authorities, 97% of police bodies, all other local government bodies, 97% of parish councils and 97% of internal drainage boards. This is an improvement for all types of body compared with 2010/11. Eleven principal bodies received an unqualified audit opinion by 31 July 2012 and published their audited accounts promptly. At the date of the publication of the report, no principal bodies had received a qualified audit opinion on the 2011/12 accounts, which is a considerable achievement. The overwhelming majority of small bodies (93% of parish councils and 95% of internal drainage boards) received an unqualified opinion on their 2011/12 annual return by 30 September 2012.

12. Extracts from the report reflecting the Audit Commission's summary of its findings, are attached as Appendix 3. The full report is available on the Commission's website, at:

http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/ata1112.pdf

13. The Committee is requested to consider these Audit Commission reports and studies, and to identify any appropriate action to address implications arising from recommendations made by the Commission.

Resource Implications:

Resource requirements arising from specific actions to implement best practice or recommendations made by the Audit Commission will be identified separately.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations of this report, which ensure that the Council considers best practice and approaches identified by the Audit Commission.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations of this report in respect of the Council's commitment to the Climate Local Agreement, the corporate Safer, Cleaner, and Greener initiative, or any crime and disorder issues within the district. Implications arising from the implementation of any recommendations made by the Audit Commission will be identified separately.

Consultation Undertaken:

The local government reports and studies recently published by the Audit Commission have been considered by the Corporate Governance Group. The views of the Corporate Governance Group in respect of the findings of the Commission, will be reported to the Committee.

Background Papers:

Audit Commission national local government reports and studies - 'Tough Times 2012' (November 2012)';

‘Striking A Balance’ (December 2012); and
‘Auditing The Accounts 2011/12’ (December 2012).

Impact Assessments:

Risk Management
Failure to consider recommended approaches and best practice identified by the Audit Commission, or to take corrective action where necessary, could have negative implications for the Council’s reputation and for judgements made about the progress or governance of the authority. Risk management issues arising from the implementation of recommendations made by the Audit Commission, will be identified separately.

Equality & Diversity
There are no equality issues arising from the recommendations of this report, which ensure that the Council considers recommended approaches and best practice. Equality implications arising from the implementation of recommendations made by the Audit Commission will be identified separately.

Tough times 2012

Councils' financial health in challenging times

November 2012

audit commission

Summary

Impact of reductions in government support to councils

These are challenging and uncertain times for councils as they cope with the second year of the four-year Spending Review. The savings needed are lower in 2012/13 than in 2011/12, but the cumulative effect is significant for many.

Government funding to councils fell in real terms by £1.6 billion in 2012/13, compared to a cut of £3.4 billion in 2011/12. This two-year reduction in government funding of £5 billion is equivalent to 9.3 per cent of councils' 2010/11 revenue spending.[i]

Impacts of cuts in government funding vary across the country.

- The average reduction in government funding for single tier and county councils (STCCs) in 2012/13 was equal to 3.5 per cent of 2011/12 revenue spending, 2.8 per cent for district councils (DCs).
- Councils with the largest falls in government funding in 2012/13 often had the biggest reductions the year before, creating large cumulative differences between councils.
- Metropolitan district councils (MDCs) have been worst affected, with average two-year cuts equal to 12.4 per cent of their 2010/11 revenue spending, compared to only 5 per cent in county councils.

Councils in deprived areas were most affected in both years.

- Deprived areas in the north of England, the Midlands and inner London saw the highest cuts in both years of the Spending Review. Over two years, government funding as a proportion of 2010/11 revenue spending has fallen on average by:
  - 14.1 per cent among STCCs in the 20 per cent most deprived areas; and
  - 4.4 per cent among STCCs in the 20 per cent least deprived areas.
- But, after the cuts, councils in deprived areas still receive more government funding per resident than less deprived areas.

i Revenue spending is funded by government grants, council tax income and use of reserves. Expressing the cuts as a percentage of revenue spending gives a better picture of the local impact (see paras 23 and 24).

The council tax freeze led to real-terms reductions in income in 2012/13, adding to financial pressures.

- The second year of the council tax freeze saw a real-terms fall in council tax income of £400 million.
- The total real-terms reduction in income from government (£1.6 billion)[i] and council tax (£400 million) in 2012/13 is £2 billion.
- Councils that froze their tax rates in 2012/13 will face an ongoing reduction in their tax base, which is likely to increase financial pressures in future years.

Councils' plans for 2012/13

Councils are focusing cuts on a different mix of service areas than in 2011/12.

- Councils protected adult social care (ASC) in 2011/12 by focusing cuts on smaller services, but this has not been possible for a second year as savings become harder to achieve over time.
  - Councils plan to increase savings from ASC in 2012/13 – the only service where spending reductions are planned to be greater than in 2011/12.[ii]
  - Planned savings from planning and development have fallen from an average of 27.2 per cent to 6.9 per cent for STCCs.
- Children's social care continues to be protected. This may reflect the very sharp recent increase in numbers of children in care.

How councils coped financially in 2011/12

Councils performed well in 2011/12 – meeting their savings targets, and in general building up their reserves.

- Actual total service spend (excluding education) fell by 7.4 per cent among STCCs, and 8.9 per cent for DCs – against planned cuts of 6 per cent and 9 per cent respectively.
- Councils increased their reserves (by £1.3 billion in 2011/12) despite budgeting to reduce them. This has been a consistent trend over recent years.
- Two factors appear to have driven the growth of reserves in 2011/12:
  - some councils have been highly effective in meeting their savings targets, creating underspends which could be added to reserves; and
  - councils are putting money aside to mitigate the risks of the ongoing cuts programme and changes to council funding from April 2013.

i The £1.6 billion reduction is net of the 2012/13 council tax freeze grant. See para 21.
ii A 3.4 per cent real-terms reduction is planned for 2012/13 compared to 2.2 per cent in 2011/12.

Although the majority of councils dealt well with the challenges in 2011/12, there were signs of financial stress among a sizeable minority.

- Appointed auditors reported (in our survey) that only 9 per cent of councils experienced 'high in-year financial stress'.[i]
- However, a further 30 per cent showed 'medium' financial stress.[ii]
- In-year financial stress was mainly driven by the size of the financial challenge facing a council. In particular, those with high cuts and/or low reserves were most likely to have struggled in 2011/12.
- But there is evidence that good management helped councils overcome financial challenges and reduce in-year stress – while weaker management exacerbated problems raised by financial challenges.

Councils' performance in meeting their 2011/12 savings targets was good – but this does not mean that services were unaffected.

- Auditors only reported on councils' financial resilience – which has proved to be relatively strong in 2011/12.
- However, a balanced budget can sometimes be achieved only at the expense of reductions in service provision. Our research for this report did not look at services so we cannot comment here on whether they have been affected.

Prospects for future financial health

Looking forward, auditors feel that the majority of councils are well placed to cope financially, but there are some concerns.

- Auditors identified 12 per cent of councils that represent an ongoing risk, as they are not well placed for 2012/13 or for the remainder of their medium-term plans.
- Auditors feel that there is a further 25 per cent of councils that represent a future risk, in that they are well placed to deliver their 2012/13 budget, but less so for the remainder of their medium-term financial plan.

Auditors are most concerned by councils that struggled in 2011/12 and face significant financial challenges in 2012/13.

- Councils that showed signs of financial stress in 2011/12 are significantly more likely to be viewed as an ongoing or future risk by auditors.

i Councils with high in-year stress were those where the auditor felt there had been financial difficulties in 2011/12, and the council had to take at least one unplanned financial action in-year (out of a possible seven different types) in order to deliver their budget.
ii Medium-stress councils undertook unplanned in-year actions, but were not felt to have been in financial difficulty in the view of the auditor.

- Councils facing large financial challenges in 2012/13 – high cuts and/or low reserves – are more likely to be seen as a risk by auditors.

Auditors are particularly worried by councils that dealt with their 2011/12 financial problems by seeking additional revenue.

- Councils that addressed in-year stresses in 2011/12 primarily through extra spending reductions and efficiencies were seen as less of a risk for future financial years.
- Auditors were more concerned about councils that tried to address their 2011/12 problems through capitalisations[i] or unplanned use of reserves.

Future reports

The Audit Commission will publish a report on council reserves, later in 2012.

There will be another report in the *Tough Times* series in 2013 that will continue to monitor and report on councils' progress in dealing with the 2010 Spending Review.

i These are capitalisations requested under exceptional circumstances.

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Striking a balance

Improving councils' decision making on reserves

December 2012

audit commission

Summary

1 This report presents the Audit Commission's findings from research undertaken during 2012 on the level of reserves that councils hold and on the decisions councils make relating to them.

2 Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments. The level, purpose and planned use of reserves are important factors for elected members and council officers to consider in developing medium-term financial plans and setting annual budgets.

3 In setting its budget, a council decides what it will spend and how much income it needs from fees, charges and council tax to supplement government funding. A council may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending. Whatever it chooses, the decision affects local taxpayers and service users.

4 Having the right level of reserves is important. Where councils hold very low reserves, there may be little resilience to financial shocks and sustained financial challenges. Where reserves are high, councils may hold more than they need.

5 There is no set formula for deciding what level of reserves is appropriate, too low or too high – councils are free to determine the reserves they hold. Elected members are responsible for ensuring that their council's reserves are appropriate for local circumstances, and are accountable to taxpayers for the decisions they make. Chief finance officers have a duty to provide elected members with the advice they need to make good decisions.

6 Following a sustained period of growth in public spending, councils face significant financial challenges. A 26 per cent reduction in government funding from 2010/11 to 2014/15, constrained council tax increases, a decline in other income, rising costs and growing demand for many services are all testing councils' financial management and resilience.

7 Further changes in council funding are due to take effect from April 2013, with the introduction of local business rates retention and new arrangements for providing council tax support. The impact of

these changes, and the level of further funding reductions in 2015/16 and 2016/17, is not yet known, but many councils expect their funding will reduce.

8 These current and future financial challenges pose significant, and increasing, risks for councils and present them with competing priorities in their strategy for reserves. They can:

- use their reserves to offset funding reductions and protect services – although, as reserves are a finite resource, this can only be a short-term strategy – or invest in making changes that reduce the cost of providing services in the long term; or
- increase reserves to strengthen resilience against future, uncertain cost pressures.

9 English councils held £12.9 billion in their reserves at 31 March 2012. Councils had earmarked £9.9 billion of their reserves for specific purposes, although we found earmarking does not always mean there is a plan for spending the funds.

10 There were wide variations in the level of councils' reserves that cannot be explained by contextual factors. This suggests that variations are the result of councils' different decisions about what they believe they need to hold in reserves, based on their future plans and perceptions of risks.

11 Single-tier and county councils held most of the reserves: £10.9 billion in 2012, of which £8.6 billion was earmarked. District councils held reserves of £2.0 billion. District councils generally have much higher reserves relative to their spending and are less likely to earmark them.

12 Councils' reserves increased by £4.5 billion from 2006/07 to 2011/12 – 36 per cent in real terms. Single-tier and county councils accounted for most of the increase, but 77 per cent of all councils have increased reserves, relative to spending, over this period.

13 Councils' budgets for 2012/13 show them planning to reduce reserves by a total of £0.4 billion. But more councils plan to increase their reserves in 2012/13 than planned to do so in any of the preceding three years.

14 Our analysis shows that councils often have higher reserves at the end of the year than they plan, as their spending is lower or income higher than their budgets anticipate. Variation from plans is generally greater for district councils. Councils need to understand the factors that contribute to unplanned growth in reserves and correct or explain unplanned additions to reserves at the earliest opportunity.

15 For councils in our research, recent planned increases in reserves were commonly a response to concerns, or uncertainty, around the level of future funding for services and the council's ability to deliver further savings.

16 In our review of councils' budget documentation and interviews with chief finance officers, we found that all councils were actively considering the need for, or use of, reserves in relation to their current and future risks and spending plans. However, councils took different approaches to assessing the need for reserves and reviewing the reserves they held. Information used in decision making was also of variable quality.

17 All councils, we found, could improve decision making in at least one of the following areas:

- undertaking a good-quality, annual review to ensure the purpose and level of reserves align with medium-term financial plans;
- being clear about the reasons for earmarking reserves and ensuring that earmarked reserves are sufficient, but not excessive;
- ensuring that reserves held to mitigate financial risk are set on the basis of an up-to-date assessment of factors affecting income and spending projections, and reflect the degree of contingency built into the budget;
- making sure that the advice that chief finance officers provide to elected members on the adequacy of reserves includes a clear and well-evidenced summary of issues to be considered in decision making;
- monitoring the level and use of reserves over recent years, and comparing the council's approach with others facing similar circumstances;
- ensuring elected members and the public have clear information showing the interaction between changes in the level of reserves and council tax;
- improving budget monitoring and forecasting to give elected members greater awareness of likely year-end movements on reserves; and
- examining the reasons for significant, or unexpected, budget variations and taking corrective action where necessary.

18 Given the sums involved, and the current financial challenges, councils should focus more attention on their reserves and the purposes for which they hold them. All councils should ensure that their decisions have been clearly explained to taxpayers and service users. This is especially important where councils continue to set aside funds for the benefit of future taxpayers and service users.

Recommendations

19 The following recommendations are intended to help improve councils' decision making around reserves.

To better assist elected members in their decision making, chief finance officers should provide them with:

- information showing the current level of reserves, relative to spending; how reserves have changed over time; and how reserves compare with those held by councils facing similar circumstances;[i]
- details of the forward strategy for reserves needed to support the council's medium and long-tem spending plans;
- information that shows clearly the interaction between the council's planned spending, income, movements on reserves and council tax;
- a clear summary of the financial risks facing the council; how it will mitigate these risks, including any contingency within the council's budget; and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves;
- an explanation of the purpose and level of any earmarked reserves, clarifying which are earmarked at the council's discretion and their expected timescale for use; and
- accurate forecasts, during the year, of variation from budget and the expected effect of over or underspending on reserves at the end of the financial year.

Elected members should:

- request and make use of information that will enable them to assess the adequacy and necessity of reserves; monitor change in reserves over time, relative to spending; and understand how reserves compare with those held by councils facing similar circumstances;
- ensure that reserves held to protect against financial risks are set prudently; and are informed by an up-to-date, comprehensive risk assessment, which takes account of other risk mitigation measures, including any contingency within the council's budget;
- review the purpose, level, historic use and planned use of other reserves annually, to ensure they are still necessary to support medium and long-term spending plans;
- examine the causes of variation between planned and actual changes in reserves, especially where variations are large, or where in-year budget monitoring has not accurately forecast the year-end position on reserves; and

i The Financial Resilience section of the Audit Commission's Value for Money Profiles tool can assist councils to compare reserves over time and with other councils.

- ensure the council provides clear information about the level of reserves and their purpose in published budget information as well as in their annual statement of accounts.

Questions to help elected members

20 Elected members are responsible for agreeing the level of reserves when setting the council's budget and for scrutinising unplanned movements on reserves when councils are closing their accounts.

21 The following questions are intended to help elected members gather information that will assist them in their decision making and scrutiny roles.

How much is held in reserves	
1 How much does the council have in its reserves – in cash terms and relative to spending? ■ How do total reserves compare with those held by councils facing similar circumstances?	
2 How have reserves changed in recent years – in cash terms and as a percentage of spending? ■ How do changes compare with those made by councils facing similar circumstances?	

What reserves are held for	
3 What are the risks or future spending plans for which the council is holding reserves?	
4 What proportion of reserves is: ■ held to cover short-term financial risk? ■ held for medium and long-term risks or spending plans? ■ ring-fenced income that can only be used for specific purposes?	

5 Are the levels of the council's different reserves appropriate to the risks it faces and the scale of its future spending plans?	
6 How is the need for reserves determined? ■ At what point(s) in the financial year is the need for reserves assessed? ■ When was the need for reserves last reassessed?	

Contingency funds	
7 Apart from reserves, what, if any, funds does the council hold, corporately or within service budgets, to provide protection against unplanned costs?	

The relationship between reserves and council tax	
8 Is the interaction between spending, income, movements on reserves and council tax clear to elected members and the public?	

Unplanned movements on reserves	
9 In each of the last three years, what difference has there been between the movements on reserves the council expected when setting its budget and the movements that occurred when closing the accounts (as a percentage of spending)? ■ How much of the variation was the result of factors within the council's control? ■ What can the council learn to improve the accuracy of future budget projections and financial management? ■ Are any adjustments needed to correct unplanned movements on reserves?	

Information for decision making	
10 Does advice from the chief finance officer on the adequacy of reserves make clear what reserves are needed and why?	
11 Do elected members need any additional support to make informed decisions on the level of reserves?	

Auditing the Accounts 2011/12

Summary

Overall, both principal and small bodies[i] improved their standard of performance on financial reporting for 2011/12. This is a notable achievement given the continuing financial constraints facing local public bodies.

Audited accounts are the principal means by which public bodies discharge their accountability for the stewardship of public money. Publishing timely audited accounts, with an unqualified audit opinion, reflects well on bodies' financial management arrangements and is a fundamental feature of good governance. The audit process also provides essential assurance to accounting officers for the relevant government departments that the funds distributed to local government bodies have been safeguarded and accounted for properly.

Bodies covered by this report were required to publish their 2011/12 accounts by 30 September 2012, with an audit opinion where issued.

- The audit opinion was issued by 30 September at 98 per cent of councils, all fire and rescue authorities, 97 per cent of police bodies, all other local government bodies, 97 per cent of parish councils and 97 per cent of internal drainage boards (IDBs). This is an improvement for all types of body compared to 2010/11.
- The Commission is concerned about Birmingham City Council, England's largest council, where the auditor has not yet been able to issue an opinion on the 2011/12 accounts. The Commission also remains concerned about four small bodies where the auditor has been unable to issue an opinion for at least the last four years.
- Overall, 426 out of 472 principal bodies published audited accounts by 30 September 2012.
- Eleven bodies received an unqualified opinion by 31 July 2012 and published their audited accounts promptly. This compares to ten bodies for 2010/11.

Responsible financial officers (RFOs) at principal bodies were required to sign and certify the accounts by 30 June 2012.

- At 99 per cent of all principal bodies the RFO signed and certified the accounts by 30 June 2012.

i Principal bodies include councils, fire and rescue authorities, police bodies and other local government bodies. Small bodies include parish councils and internal drainage boards.

Overall, most audited bodies received an unqualified audit opinion on their accounts.

- At the date of preparing this report, no principal bodies had received a qualified audit opinion on the 2011/12 accounts, which is a considerable achievement.
- The overwhelming majority of small bodies (93 per cent of parish councils and 95 per cent of IDBs) received an unqualified opinion on their 2011/12 annual return by 30 September.

Bodies significantly improved the timeliness of the information provided to inform Whole of Government Accounts (WGA).

- Auditors aimed to issue the assurance statement on the WGA return by 5 October 2012. They were able to do so at 345 councils (97 per cent), all fire and rescue authorities, 36 police bodies (95 per cent) and all other local government bodies. This is a significant improvement compared to 2010/11, where auditors at only 74 per cent of principal bodies were able to issue their assurance report by the specified submission date.

Principal bodies have put in place proper arrangements for securing value for money (VFM).

- Of the 2011/12 conclusions on bodies' arrangements to secure VFM issued by auditors at the date of preparing this report, only those for five councils, two police bodies and two other local government bodies were qualified.

Auditors exercised their public reporting powers at four principal bodies and 44 small bodies.

- Auditors issued a public interest report to one council and made statutory recommendations to three councils.
- Auditors issued public interest reports to 42 parish councils and made statutory recommendations to two parish councils.

All bodies face further financial reporting and financial management challenges in 2012/13.

- They will continue to deal with the challenges presented by a period of financial constraints.
- Councils will also need to prepare for significant changes to the administration of non-domestic rates and council tax benefits.
- Principal bodies will need to maintain the rate of improvement shown in the timeliness of WGA reporting.

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Report to the Audit and Governance Committee

Epping Forest District Council

Report Reference: AGC-014-2012/13
Date of meeting: 7 February 2013

Portfolio: **Finance and Technology.**

Subject: **Reports from the External Auditor.**

Responsible Officer: **Bob Palmer (01992 564279).**

Democratic Services: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) To consider and note the report of the external auditor.

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor. The report is on Grant claims and returns certification for 2011/12. This report summarises the key issues arising from the grant claim certification work and includes recommendations and an action plan.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure the proper consideration of these reports.

Other Options for Action:

Members could ask for additional information on the audit process applied to any of the grant claims.

Report:

1. The report will be presented to the Committee by Ms Lisa Clampin, Partner.

Resource Implications:

Sufficient allowance was made in the original estimates for 2012/13 to cover the fees for the 2011/12 audit year and so no additional resources are required.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the District.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

Risk Management
Action plans have been agreed to address areas of risk identified during the audit.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

PKF

Accountants & business advisers

Grant claims and returns certification

YEAR ENDED 31 MARCH 2012

Epping Forest District Council

JANUARY 2013

http://www.pkf.co.uk/

Contents

Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns

The Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors contains an explanation of the respective responsibilities of auditors and of the audited body. Appointed auditors act as agents of the Audit Commission when undertaking certification work. Reports and letters prepared by appointed auditors are addressed to the grant paying body, members or officers. They are prepared in accordance with the certification arrangements specified by the Audit Commission. This report is for the sole use of the audited body and no responsibility is taken by appointed auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

This report summarises the findings of the work we have completed in respect of the year ended 31 March 2012.

SUMMARY OF HIGH LEVEL FINDINGS

Claim or return	Value (£)	Qualified?	Amended?	Increase/(decrease) in subsidy (£)
Housing and council tax benefit subsidy claim	45,055,152	Yes	Yes	(208)
National non-domestic rates return	31,071,207	No	No	-
Pooled housing capital receipts return	1,008,200	No	No	-
Housing revenue account subsidy return	(11,289,978)	No	No	-

The Council has made progress in implementing the recommendations raised in our 2010/11 *grant claims and returns certification report*. To improve the accuracy of grant claims and returns further the Council should perform 5% (minimum) checks on new and amended benefit claims, which had lapsed for some parts of 2011/12, to ensure that claims are being processed accurately.

2 Introduction

THE PURPOSE OF THIS REPORT

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2012. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. Sample sizes and methodology for this work are prescribed by the Audit Commission.

ACKNOWLEDGEMENT

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

3 Key findings

KEY FINDINGS AND CONCLUSIONS

We were satisfied with the accuracy of the preparation of grant claims and returns and were able to certify all without amendment or qualification except for the Housing and Council Tax Benefit Subsidy claim. A summary of the results of our certification work is set out in the table below:

Claim or return	Value (£)	Qualified?	Amended?	Increase/(decrease) in subsidy (£)
Housing and council tax benefit subsidy claim	45,055,152	Yes	Yes	(208)
National non-domestic rates return	31,071,207	No	No	-
Pooled housing capital receipts return	1,008,200	No	No	-
Housing revenue account subsidy return	(11,289,978)	No	No	-

Overall, there were fewer errors identified in the Housing and Council Tax Benefit Subsidy claim compared to previous years. Three issues were identified that resulted in additional testing being required, in line with the CI, as follows:

Non-HRA Rent Rebates: Testing of the baseline sample identified one case where the rent liability had not been calculated correctly. Benefit was overpaid and, as the population was small, testing on 100% of the remaining population was completed. A further two errors were identified resulting in an overpayment of £5 and an underpayment of £43. These were not amended in the claim form and will be reflected in the 2012/13 subsidy claim form. The error was reported in our qualification letter.

Rent allowances: Testing of the baseline sample identified one case where child tax credit income had not been input correctly. Benefit was underpaid and testing on an additional 40 cases was completed in line with the audit methodology set out by the Department of Work and Pensions (DWP), where a further two errors were identified resulting in one overpayment and one underpayment. The overpayment of £0.28 and underpayments of £1 were not amended in the claim form and will be reflected in the 2012/13 subsidy claim form. The error was reported in our qualification letter.

Classification of eligible overpayments: Testing was carried out on 40 eligible overpayment cases because, based on our cumulative knowledge and experience, we concluded that there was a higher risk of incorrect classification within all benefit types due to errors reported in qualification letters for the past two years. This identified one error within non-HRA rent rebates (£2), and two errors in both Rent Allowances (£17) and Council Tax (£164). No amendments were made to the claim form but an extrapolation of these errors were included in our qualification letter as required by the DWP.

We have made, in Appendix B, some recommendations in response to the findings from this year's certification work to secure further improvement to grant claims and returns preparation processes. We have one significant matter we wish to bring to your attention.

Senior staff members carried out benefit checks during the year; however our testing showed this was not in place throughout the whole year. This was reported to the Audit and Governance Committee as a significant deficiency in internal control in September 2012. It also has an impact on the accuracy of this claim because it could result in claims being incorrectly processed and the Council not, therefore, awarding and claiming benefit correctly. Improvements could be achieved through strengthening the Council's checking process for new and amended claims.

One of the recommendations we made last year has not been fully implemented and has therefore been re-iterated within Appendix B.

4 Fees

Claim	Actual fee year ended 31 March 2012 (£)	Actual fee year ended 31 March 2011 (£)
Housing and council tax benefit subsidy claim	44,055	46,175
National non-domestic rates return	3,980	4,768
Housing revenue account subsidy return	2,605	4,940
Housing revenue account base data return	-	3,580
Pooled housing capital receipts return	2,130	2,098
Disabled facilities grant claim	-	1,110
Grants report and risk assessment	1,770	1,770
Housing and council tax benefit subsidy 2010/11 Follow Up (requested by the DWP)	585	3,755
TOTAL	**55,125**	**68,196**

We identified a number of issues with grants certification during 2010/11but due to improvements in the control environment the number of issues identified in 2011/12 has decreased, which has had a positive impact on the fees charged.

For benefits, 2 areas of 40+ testing were carried out this year compared with 5 for the prior year and the level of 100% checks has decreased from 3 in 2010/11 to 1 in 2011/12 which has contributed to the decrease in fee this year.

Due to HRA self-financing coming into place from 1 April 2012 this means that the HRA subsidy base data return no longer requires auditing. The disabled facilities grant claim also no longer needs to be audited.

Appendix A – Status of 2010/11 recommendations

Recommendations	Priority	Management response	Responsibility	Timing	Progress
Overall control environment					
1. Completion of a pre-audit analytical review of the draft claim, that compares it to the prior year's claim and the knowledge and expectations of the officer responsible for preparing the claim, aimed at identifying and following up on areas of potential inaccuracy.	High	Agreed.	Assistant director of finance & ICT (Accountancy)	May 2012	**1. Implemented** Pre-audit analytical reviews have been carried out on significant grant claims and any inaccuracies have been investigated accordingly.
2. Perform a documented cross check of the claim's terms and condition and guidance for completing the claim form to the claim's supporting working papers, to demonstrate that all conditions have been applied complied with and all guidance has been taken into account during the claim's preparation.	High	Agreed	Assistant director of finance & ICT (Accountancy)	May 2012	**2. Implemented** The Council's staff involved in the preparation of grant claims have ensured they are prepared in line with detailed guidance. We did not identify any issues with claim preparation in the year.

Recommendations	Priority	Management response	Responsibility	Timing	Progress
Housing and council tax benefit subsidy					
3. Provide targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff. In particular, the classification of eligible excess Council Tax overpayments.	High	Agreed - Training is an on-going process for assessment staff.	Assistant director of finance & ICT (Benefits)	On-going	**3. Implemented** Training was provided in year to specific staff members and information was also provided in local benefits newsletters. The Council has maintained its core staff base, which has increased the level of knowledge within the team. The number of classification errors has decreased from 27 in 2010/11 to 5 in 2011/12 indicating that training has improved the quality of classification of overpayments.
4. Perform 5% (minimum) checks on new and amended to claims to ensure that claims are being processed accurately.	High	Agreed - Senior officers have been reminded of the importance of carrying out these checks.	Assistant director of finance & ICT (Benefits)	On-going	**4. Carry forward** Checks were performed during 2011/12 but not at a rate of 5% for the whole year by each senior team member. We are aware that these checks have been taking place throughout 2012/13 but this has not yet been tested and therefore this will be re-iterated at Appendix B.

Appendix B – 2011/12 action plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Housing and council tax benefit subsidy					
A few errors were identified as a result of the accuracy of input data (e.g. rent liabilities, disregards). This resulted in underpayments and single amendments required to the claim.	1. Perform 5% (minimum) checks on new and amended to claims to ensure that claims are being processed accurately.	High	Checking has been undertaken to cover the whole of 2012/13.	Assistant Director of Finance & ICT (Benefits)	Implemented but checking is on-going.
The Council did not split out the component parts of the long term incapacity benefit rate when applying the 2011/12 uplift resulting in income being incorrectly uplifted.	2. Split the component parts of long term incapacity benefit rate.	High	Agreed.	Assistant Director of Finance & ICT (Benefits)	Before February 2014.

Report to the Audit & Governance Committee

Report reference: AGC-015-2012/13
Date of meeting: 7 February 2013

Epping Forest District Council

Portfolio: **Finance & Technology**

Subject: **Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16**

Responsible Officer: **John Bell (01992 564387).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) To consider how the risks associated with Treasury Management have been dealt with in the proposed Council's Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16; and

(2) To make any comments or suggestions that Members feel necessary to Full Council.

Executive Summary:

The annual treasury management strategy statement and investment strategy report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the financial years 2013/14 to 2015/16.

The risks associated with setting these indicators are highlighted within the report along with how these risks are being managed.

Reasons for Proposed Decision:

To provide assurance to Full Council that the risks associated with Treasury Management are being appropriately managed.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

<u>Introduction</u>

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming year.

2. The report attached at Appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy 2013/14 to 2015/16 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the Year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council does not plan to borrow in order to carryout its capital investment. The capital programme is shown below in the table:

Capital Expenditure	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Non-HRA capital expenditure	3.451	4.326	2.230	1.221
HRA capital expenditure	9.518	13.918	16.223	15.074
Total Capital expenditure	**12.969**	**18.244**	**18.453**	**16.295**
Financed by:				
Government Grants	0.210	0.433	0.400	0.306
Other Contributions	0.548	0.504	0.169	0.169
Capital receipts	2.763	4.398	2.224	1.298
Revenue	4.230	4.200	5.700	5.700
Major Repairs Allowance	5.218	8.709	9.960	8.822
Total resources Applied	**12.969**	**18.244**	**18.453**	**16.295**
Closing balance on:				
Capital Receipts	13.833	10.188	8.740	8.307
Major Repairs Reserve	9.955	8.168	5.120	3.197

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve for anticipated major repairs allowance.

6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk is included in the Council's Corporate Risk Register (No. 17) and identifies the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.

7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a three-year period. Currently, the Capital Programme for the next three years totals £52.992m and is fully funded. It is predicted that at the end of 2015/16 there will still be £8.307m available in usable Capital Receipts and £3.197m in the Major Repairs Reserve. Therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

The Impact on the Council's Indebtedness for Capital Purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. A positive CFR would normally mean a Council would have to borrow to fund a capital programme, but this situation has only arisen as a consequence of Housing Subsidy reform. The previous table illustrates that the

capital programme can be funded without any further requirement to borrow.

CFR	31-Mar-13 £m	31-Mar-14 £m	31-Mar-15 £m	31-Mar-16 £m
Non-HRA	30.281	30.281	30.281	30.281
HRA	154.391	154.391	154.391	154.391
Total Capital expenditure	**184.672**	**184.672**	**184.672**	**184.672**

9. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. However, the Council has taken on debt of around £185.5m and this would normally require the local authority to charge MRP to the General Fund. CLG has produced draft regulations intended to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-Financing when calculating MRP and therefore (for MRP purposes only) we are classed as debt free and do not have to make provision for MRP.

10. The Council had to borrow to fund The Housing Self-Financing regime. An amount of £185.456m was borrowed from PWLB on 28 March 2012. This was split into 6 separate loans, one variable rate loan of £31.8m maturing in 10 years, 4 fixed rate loans of £30m maturing between 26 and 29 years and a further fixed rate loan of £33.656m maturing in 30 years. The table below only covers the fixed rate borrowing. The upper and lower limits for next year are set to allow maximum flexibility if a re-financing opportunity arises, although this is unlikely.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/12 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and within 20 years	0	0	100
20 years and within 30 years	100	0	100
30 years and within 40 years	0	0	100
40 years and within 50 years	0	0	100
50 years and above	0	0	100

11. The risk associated with this section relate to Refinancing – the risk that maturing borrowings, capital project or partnership refinancing cannot be refinanced on suitable terms. The borrowing portfolio is based on the Housing Revenue Account (HRA) financial plan and the borrowing maturities are linked to when the financial plan has the resources to repay the debt.

12. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensures where debt is owed it is managed, whereby the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

The Council's Treasury Position

13. The Council's investments are all denominated in UK sterling and regular information is received from our treasury advisors on the latest position on the use of Counterparties. The latest information supplied is as follows:

(a) UK Banks and building societies:

(i) A maximum maturity limit of 12 months applies to HSBC, Standard Chartered, Barclays Bank and Nationwide Building Society;

(ii) A maximum maturity limit of 6 month to Lloyds TSB, Bank of Scotland, Royal Bank of Scotland and National Westminster; and

(iii) A maximum maturity limit of 100 days applies to Santander UK plc.

(b) European Banks:

Included on the current Counterparty List with maturities between 100 days and 12 months but we are not currently investing with Euro Zone banks;

(c) Non European Banks:

A maximum maturity limit of 12 months applies to Australian, Canadian and US banks that are on our Counterparty list.

(d) Money Market Funds:

A maximum exposure limit of 10% of our total investments per MMF.

14. The Council currently has an investment portfolio of £55.8m, this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

Country of Counterparty	**£m**
United Kingdom	50.5
Euro Zone	0.0
Australia/Canada/USA	0.0
Ireland**	5.3
Total	**55.8**

** Please note that the investments shown under Ireland relates to Money Market Funds that are AAA rated and approved to be used by Arlingclose (Council's treasury advisors), however, they are domiciled in Ireland for tax purposes only.

Maturity profile of investment as at 22 January 2013	**£m**
Overnight (Call / Money Market Fund)	15.8
Up to 1 month	10.0
1 month to 3 months	8.0
3 months to 6 months	10.0
6 months to 1 year	2.0
> 1 year	10.0
Total	**55.8**

15. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

16. The Council is proposing to set the following indicators:

(a) the Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (75%) for each of the years up to 2015/16;

(b) the maximum amount of the portfolio being invested for longer than 364 days is £30m; and

(c) the maximum limit set for investment exposure per country is 30%.

17. The risks associated with this section are as follows:

(a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors. It can be seen from the table above and from advice given by Arlingclose t hat the Council is keeping deposits fairly liquid and the number of Counterparties is restricted.

(b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Finance & ICT has monthly meetings with treasury staff, to go through the cash flow for the coming month. A number of Money Market Funds are used to ensure adequate cash remains available.

(c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council is proposing a maximum of 75% of its investments can be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short to medium term.

18. The prudential indicators within this section assist the Council to reduce the risk of:

(a) counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;

(b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring an adequate level of money is available immediately through instant access accounts; and

(c) potentially losing out on investment income when interest rates start to increase by ensuring the investment portfolio has a balanced but relatively short maturity profile.

Housing Finance Reform

19. In setting the original HRA budget for 2012/13 it was estimated that the borrowing

would all be fixed rate at 4.24% and that this would result in annual interest payments of £6.3m. The actual debt portfolio comprises £154m of fixed rate borrowing at rates between 3.45% and 3.5% and variable rate borrowing of £32m which is currently at 0.62%. The actual annual interest payments will be £5.5m which represents a considerable saving.

Inter-Fund Balances

20. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. Under draft regulations issued by CIPFA, it is now proposed that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

21. The Treasury Management Policy Statement is a high level statement setting out how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2011/12 Treasury Strategy. The Policy is attached at Appendix 2 for the Committee to consider, no changes are currently proposed.

Resource Implications:

The continued low interest rates, the use of limited counterparties and the short durations of investments have reduced estimated interest income for 2013/14 to £446,000.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

None.

Impact Assessments:

<u>Risk Management</u>
As detailed in the report, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

<u>Equality and Diversity</u>

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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Treasury Management Strategy Statement and Investment Strategy

2013/14 to 2015/16

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2. As per the requirements of the Prudential Code, the Authority adopted the CIPFA Treasury Management Code at Council on 22 April 2002.

1.3. The purpose of this TMSS is, therefore, to approve:

- Treasury Management Strategy for 2013/14
- Annual Investment Strategy for 2013/14
- Prudential Indicators for 2013/14, 2014/15 and 2015/16
- MRP Statement

1.4. The Authority has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2. Capital Financing Requirement

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

2.2 The Authority currently has £185.5m of debt and £54m of investments. This is set out in further detail at ***Appendix A***.

2.3 **Money Borrowed in Advance of Spending Need:** The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

2.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority’s borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2012/13 Estimate £m	2012/13 Revised Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
HRA CFR	153.575	154.391	154.391	154.391	154.391
General Fund CFR	31.097	30.281	30.281	30.281	30.281
Total CFR	**184.672**	**184.672**	**184.672**	**184.672**	**184.672**
Less: Existing Profile of Borrowing	0.0	185.456	185.456	185.456	185.456
Less: Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Cumulative Maximum External Borrowing Requirement	**184.672**	**(0.784)**	**(0.784)**	**(0.784)**	**(0.784)**
Usable Reserves	**47.000**	**47.000**	**43.800**	**43.800**	**43.800**
Cumulative Net Borrowing Requirement/(Investments)	**137.672**	**(47.784)**	**(44.584)**	**(44.584)**	**(44.584)**

3. Interest Rate Forecast

3.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the moribund outlook for economic growth and the extension of austerity measures announced in the Chancellor’s Autumn Statement. Until there is a credible resolution of the problems that stalk the Eurozone – and that resolution requires full-scale fiscal union which faces many significant political hurdles – then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

3.2 The economic and interest rate forecast provided by the Authority’s treasury management advisor is attached at ***Appendix C***. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

4.2 The Authority's capital expenditure plans do not currently imply any external borrowing requirement in 2013/14. This is illustrated in Appendix B which sets out the programme of capital expenditure and financing.

5. Sources of Borrowing and Portfolio Implications

5.1 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Authority will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- European Investment Bank
- Leasing
- Structured finance
- Capital markets (stock issues, commercial paper and bills)
- Commercial banks

6. Debt Rescheduling

6.1 The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

6.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling or repayment would be one or more of the following:

- Reduce investment balances and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

6.3 Borrowing and rescheduling activity will be reported to the Finance & Performance Management Cabinet Committee in the Annual Treasury Management Report and the regular treasury management reports presented to the Audit and Governance Committee.

7. Annual Investment Strategy

7.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

7.2 The Authority and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.

7.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

7.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗

Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA-Rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

Further details can be found in **Appendix D & E**.

7.5 Registered Providers (RPs) have been included within specified and non-specified investments for 2013/14. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing.

7.6 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix E, the Director of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The other credit characteristics, in addition to credit ratings, that the Authority monitors are listed in the Prudential Indicator on Credit Risk (PI 12, page 21).

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

The countries and institutions that currently meet the criteria for investments are included in ***Appendix D***.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

7.7 **Authority's Banker** – The Authority banks with Nat West Bank. At the current time, it does meet the Authority's minimum credit criteria. Even if the credit rating falls below the Authority's minimum criteria they will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

8. Investment Strategy

8.1 With short term interest rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

8.2 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels for each counterparty will be set to ensure prudent diversification is achieved.

8.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to mitigate operational risk by utilising at least two MMFs. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

8.4 Collective Investment Schemes (Pooled Funds):

The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

8.5 Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. The Authority's currently has none of these investments.

9. Policy on Use of Financial Derivatives

9.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

9.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

9.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

10. Housing Revenue Account Self-Financing

10.1 Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

10.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.

10.3 On 28 March 2012, the self financing loans were allocated to the Housing Revenue Account (HRA). If in the future any new long-term loans are attained they will be assigned in their entirety to either the General Fund or HRA pool. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

10.4 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the monthly net average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

11. 2013/14 MRP Statement

11.1 The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP). This year's policy can be found in Appendix F of this report.

12. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

12.1 The Director of Finance & ICT will report to the Finance & Performance Management Cabinet Committee on treasury management activity/performance and Performance Indicators as follows:

- Mid-year against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

13. Other Items

13.1 Training

CIPFA's Code of Practice requires the Director of Finance & ICT to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

13.2 Treasury Management Advisors

The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support

The Authority maintains the quality of the service with its advisors by holding *quarterly* meetings and tendering periodically.

Appendix A – Existing Investment & Debt Portfolio Position (Section 2.2)

	07/01/13 Actual Portfolio £m	07/01/13 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	153.656	3.48
PWLB – Variable Rate	31.800	0.62
Total Gross External Debt	**185.456**	**2.99**
Investments:		
Managed in-house		
Short-term investments	44.452	0.92
Long-term investments	10.000	1.15
Total Investments	**54.452**	**0.97**
Net Debt	**131.004**	

Appendix B
Prudential Indicators 2013/14 – 2015/16

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Director of Finance reports that the Authority had no difficulty meeting this requirement in 2012/13, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Non-HRA	5.601	3.451	4.326	2.230	1.221
HRA*	12.863	9.518	13.918	16.223	15.074
Total	**18.464**	**12.969**	**18.244**	**18.453**	**16.295**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital receipts	4.923	2.763	4.398	2.224	1.298
Government Grants	0.394	0.210	0.433	0.400	0.306
Other Contributions	0.334	0.548	0.504	0.169	0.169
Major Repairs Allowance	7.613	5.218	8.709	9.960	8.822
Revenue contributions	5.200	4.230	4.200	5.700	5.700
Total Financing	**18.464**	**12.969**	**18.244**	**18.453**	**16.295**

Table 1 shows that the capital expenditure plans of the Authority can be funded entirely from sources other than external borrowing.

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Non-HRA	-0.03	-0.42	-0.34	-0.46	-0.91
HRA	19.11	16.66	16.82	16.15	15.65

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
HRA	153.575	154.391	154.391	154.391	154.391
Non-HRA	31.097	30.281	30.281	30.281	30.281
Total CFR	**184.672**	**184.672**	**184.672**	**184.672**	**184.672**

5.2 The Council is to embark on a house building programme. The preliminary work started during 2012/13 with the works themselves starting in 2013/14. Whilst the business plan includes a very modest allocation for this, it is expected that the programme will be expanded in years beyond 2014/15 once the first schemes have been completed successfully and following the Government announcement with regards to "Reinvigorating Right to Buy and One for One Replacement" where the Government desire is at a national level every additional home sold under Right to Buy will be replaced by a new home for affordable rent. Given the need to borrow for any additional house building the Council took advantage of the competitive borrowing rates whilst it could, rather than borrowing in a few years time when those rates will be unavailable. In the meantime this will allow the General Fund to continue (as it has done for a number of years) to internally borrow from the Housing Revenue Account at an appropriate rate, resulting in no detrimental impact on the General Fund from self-financing and would be fair to the HRA as it will still broadly receive the same level of income that it would have had if it had invested the money, rather than loaned internally to the GF.

6. Incremental Impact of Capital Investment Decisions:

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	0.32	-0.01	-0.25	0.17
Increase in Average Weekly Housing Rents	9.33	-2.83	-2.57	-2.52

7. Authorised Limit and Operational Boundary for External Debt:

7.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

7.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

7.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2012/13 **Approved £m**	**2012/13** **Revised £m**	**2013/14** **Estimate £m**	**2014/15** **Estimate £m**	**2015/16** **Estimate £m**
Authorised Limit for Borrowing	200.00	200.00	200.00	200.00	200.00
Authorised Limit for External Debt	**200.00**	**200.00**	**200.00**	**200.00**	**200.00**
Operational Boundary for Borrowing	188.00	188.00	188.00	188.00	188.00
Operational Boundary for External Debt	**188.00**	**188.00**	**188.00**	**188.00**	**188.00**

8. Adoption of the CIPFA Treasury Management Code:

8.1 This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 22 April 2002.

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

9.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on *(select as appropriate)* net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments)

9.2 The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	Maximum during 2011/12 %	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	83	100	100	100	100	100
Upper limit for Fixed Interest Rate Exposure on Investments	(74)	(100)	(100)	(100)	(100)	(100)

Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	17	25	25	25	25	25
Upper Limit for Variable Interest Rate Exposure on Investments	(26)	(75)	(75)	(75)	(75)	(75)

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Authority's treasury management strategy.

10. Maturity Structure of Fixed Rate borrowing:

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

10.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/12 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100

10 years and within 20 years	0	0	100
20 years and within 30 years	100	0	100
30 years and within 40 years	0	0	100
40 years and within 50 years	0	0	100
50 years and above	0	0	100

11. Credit Risk:

11.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk.

11.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

– Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
– Sovereign support mechanisms;
– Credit default swaps (where quoted);
– Share prices (where available);
– Economic fundamentals, such as a country's net debt as a percentage of its GDP);
– Corporate developments, news, articles, markets sentiment and momentum;
– Subjective overlay.

11.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

12. Upper Limit for total principal sums invested over 364 days:

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
	30	**30**	**30**	**30**	**30**

Appendix C – Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.85	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	2.00	2.00	2.05	2.05	2.05	2.05	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.10	3.10	3.10	3.10	3.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.35	3.35	3.35	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.
- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.
- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.
- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.

- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.
- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning to haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

Appendix D – Current Recommended Sovereign and Counterparty List as at 31/12/2012 (Section 8)

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Group Limit (if applicable) £m	Maximum Maturity Limit
UK	Santander UK Plc (Banco Santander Group)	10.0		100 days
UK	Bank of Scotland (Lloyds Banking Group)	10.0	10.0	6 months
UK	Lloyds TSB (Lloyds Banking Group)	10.0		6 months
UK	Barclays Bank Plc	10.0		1 year
UK	HSBC Bank Plc	10.0		1 year
UK	Nationwide Building Society	10.0		1 year
UK	NatWest (RBS Group)	10.0	10.0	6 months
UK	Royal Bank of Scotland (RBS Group)	10.0		6 months
UK	Standard Chartered Bank	10.0		1 year
Australia	Australia and NZ Banking Group	10.0		1 year
Australia	Commonwealth Bank of Australia	10.0		1 year
Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0		1 year
Australia	Westpac Banking Corp	10.0		1 year
Canada	Bank of Montreal	10.0		1 year
Canada	Bank of Nova Scotia	10.0		1 year
Canada	Canadian Imperial Bank of Commerce	10.0		1 year
Canada	Royal Bank of Canada	10.0		1 year
Canada	Toronto-Dominion Bank	10.0		1 year
Finland	Nordea Bank Finland	8.0		1 year
France	BNP Paribas	8.0		100 days
France	Credit Agricole CIB (Credit Agricole Group)	8.0		100 days
France	Credit Agricole SA (Credit Agricole Group)	8.0		100 days

France	Société Générale	8.0		100 days
Germany	Deutsche Bank AG	8.0		1 year
Netherlands	ING Bank NV	8.0		100 days
Netherlands	Rabobank	8.0		1 year
Netherlands	Bank Nederlandse Gemeenten	8.0		1 year
Sweden	Svenska Handelsbanken	8.0		1 year
Switzerland	Credit Suisse	8.0		100 days
US	JP Morgan	8.0		1 year

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.*

Group Limits - For institutions within a banking group, the authority executes a limit of that of an individual limit of a single bank within that group.

The Council is not currently investing with the Euro Zone counterparties but the limits above are those recommended by Arlingclose.

Appendix E - Non-Specified Investments

Instrument	Maximum maturity	Maximum £M	Capital expenditure?	Example
Call accounts, term deposits & CDs with banks, building societies & local authorities which do not meet the specified investment criteria (on advice from TM Adviser)	5 years	20	No	
Deposits with registered providers	5 years	20	No	
Gilts	5 years	10	No	
Bonds issued by multilateral development banks	5 years	5	No	*EIB Bonds, Council of Europe Bonds etc.*
Sterling denominated bonds by non-UK sovereign governments	5 years	5	No	
Money Market Funds and Collective Investment Schemes	5 years	20	No	*Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund*
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	5 years	5	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	These funds do not have a defined maturity date	10	Yes	*Way Charteris Gold Portfolio Fund; Lime Fund*

Appendix F – MRP Statement 2013/14

CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

MRP in 2013/14: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

The MRP Statement will be submitted to Council before the start of the 2013/14 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

The Authority's CFR at 31st March 2012 became positive as a result of the Housing Subsidy reform settlement. This would normally require the Authority to charge MRP to the General Fund in respect of Non-HRA capital expenditure funded from borrowing. CLG has produced draft regulations intended to mitigate this impact, and as such under Option 2 (the CFR method) there is no requirement to charge MRP in 2013/14.

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Finance & Performance Cabinet Committee and for the execution and administration of treasury management decisions to Director of Finance & ICT who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Report to the Audit and Governance Committee

Report reference: ***AGC-016-2012/13***
Date of meeting: ***7 February 2013***

Epping Forest District Council

Portfolio: **Finance and Technology**

Subject: **Internal Audit Monitoring Report - October to December 2012**

Responsible Officer: **Brian Bassington (01992 564446).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) The Committee is requested to note the following issues arising from the Internal Audit Team's third quarter monitoring report for 2012/13:

(a) The reports issued between October and December 2012 and significant findings (Appendix 1);

(b) The Outstanding Priority 1 Actions Status Report (Appendix 2);

(c) The Limited Assurance Audits follow up status report (Appendix 3); and

(d) The 2012/13 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2012, and details the overall performance to date against the Audit Plan for 2012/13. The report also contains a status report on previous priority 1 audit recommendations which has been monitored by the Corporate Governance Group.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

<u>Work Carried Out in the Period</u>

1. The audit reports issued in the third quarter are listed in paragraph 4 below.

2. Audits completed in the third quarter have covered staff and Member related systems and processes, the detailed findings of which are in appendix 1. At the end of the quarter a further seven audits were substantially complete and at the draft report stage.

3. Advice and guidance continues to be provided on a range of subjects, with particular

emphasis on the financial appraisal of company accounts relating to suppliers of goods and services to the Council.

Reports Issued

4. The following audit reports were issued in the third quarter:

(a) Full Assurance:
- Bank Reconciliations;

(b) Substantial Assurance:
- Car Mileage Claims;
- Recruitment and Selection;
- Gifts and Hospitality (Members and Officers);
- Members Services; and
- Key Performance Indicators 2012/13;

(c) Limited Assurance:
- None;

(d) No Assurance:
- None; and

(e) At Draft Report Stage:
- Corporate Procurement;
- Commercial Property Management;
- Housing Tenancy and Allocations;
- Building Control;
- Procurement Fraud Prevention and Detection;
- National Non Domestic Rates; and
- Treasury Management.

Limited Assurance

5. During the quarter no reports were issued with a Limited assurance rating.

Follow Up of Previous Priority 1 Recommendations

6. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management.

Follow Up of Previous Limited Assurance Audits

7. Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2012/13 (Appendix 4)

8. The status of the 2012/13 Audit Plan is set out at Appendix 4.

Performance Management

9. The Internal Audit Team has local performance indicator targets to meet in 2012/13, as set out below:

	Actual 2009/10 For year	Actual 2010/11 For year	Actual 2011/12 For year	Target 2012/13 For year	Actual 2011/12 Quarter 3	Actual 2012/13 Quarter 3
% Planned audits completed	87%	82%	82%	90%	53%	63%
% chargeable "fee" staff time	69%	66%	71%	72%	71%	69%
Average cost per audit day	£300	£307	£213	£245	£237	£229
% User satisfaction	94%	86%	89%	85%	87%	See note below

10. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan;

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system;

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system; and

(d) User Satisfaction – this has been based on a customer survey form. Recently it has been increasingly difficult to encourage clients to return the form with any meaningful comments. A replacement electronic form is being developed for use from April with the new audit plan.

11. From the end of November a member of staff has had a spell in hospital and is now recovering at home. Hopefully they should return to work during late January / early February. This has resulted in a reallocation of the outstanding work to ensure that the fundamental financial systems are reviewed by the end of the financial year as required by the external auditors.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management
Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 3
October - December 2012

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Bank Reconciliations	Finance and ICT	**Full Assurance** The systems and controls surrounding the reconciliation of the Council's bank accounts are operating effectively.	All bank accounts had been reconciled on at least a monthly basis. Reconciliations are independently reviewed and journals relating to bank transfers are processed promptly following the reconciliations. Unpresented and returned cheques are regularly reviewed and action taken as appropriate. There is adequate separation of duties between raising, processing and authorising cheques, performing bank reconciliations and dealing with returned cheques and unpresented items.
Car Mileage Claims	Corporate Support Services	**Substantial Assurance** The car mileage process overall is sound and well managed by the payroll team. The updating of the guidelines for car mileage allowance as part of the current process of updating the staff handbook will help in providing managers and officers with a clearer understanding of the rules to be applied.	Mileage claims are submitted in a timely manner, backed up by valid VAT fuel receipts and signed off by authorised signatories. All claims checked matched to the payroll and all payments were made at the correct rate. The authorised signatures are now easily verifiable due to the redesign and the updating of the Directorates signature lists. In several cases the car mileage claim forms were not fully completed by the claimant, leaving the payroll staff to complete the form. Audit have previously recommended that incomplete forms are returned to the claimants and also that signatories should be ensuring that forms are completed in full prior to being signed off. This has been re-raised as a recommendation.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Recruitment and Selection	Corporate Support Services	**Substantial Assurance** Recruitment and selection procedures are operating satisfactorily and the previous audit recommendation has been implemented.	There are procedures which ensure that suitable candidates are selected for each post. Relevant documentation is retained on the employees file. Recruitment and selection is generally carried out in accordance with Council Policy, however two Officers carried out interviews without completing the recruitment and selection training. HR should check that Senior Officers responsible for recruitment and selection have attended the training course. Management will consider taking advantage of the free website for advertising vacancies.
Gifts and Hospitality (Members and Officers)	Corporate	**Substantial Assurance** There is a sound system in place for declaring gifts however discrepancies have occurred which indicates there is a requirement for Officers to be reminded of the correct procedures.	There is guidance in place for declaring Gifts and Hospitality. The Members code of conduct and Staff code of conduct both include clear guidance. Recommendations have been made to ensure Members record comprehensive information regarding acceptance of gifts and hospitality. Officers will be reminded of the correct procedures for gifts and hospitality to ensure consideration is given prior to accepting gifts and declarations are made in a timely manner.
Members Services	Office of the Chief Executive	**Substantial Assurance** The processes, systems and controls in regards to Members Services are generally sound. The Chairman's Charity account is managed effectively and income and expenditure is recorded accurately and timely..	Budgets in regards to Chairman's expenditure are well controlled and expenditure is reasonable and appropriate. Members allowances are published as required and records are maintained internally in regards to the full range of allowances including the members Connectivity Allowances.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			Audit identified a couple of areas where it recommended small changes to the current process, to ensure best practice. Overall the systems and processes were efficient and effective
Key Performance Indicators	Deputy Chief Executives Office	**Substantial Assurance** The system in place for reporting on the Council's performance is operating satisfactorily.	There is a system in place to ensure that KPIs are reported using quality data from relevant systems. The audit found: ▪ The calculation of the KPI's was correct where supporting data was provided. ▪ The KPI's were calculated using the relevant information from the system concerned. ▪ The majority of KPI data was submitted in accordance with the target date. Whilst evidence to support the calculation is retained for the majority of the KPIs reviewed, the calculation of one indicator was not verified as the supporting data was not provided. A recommendation has been made for supporting documentation to be attached to all summary control forms as part of the data submission process. This will ensure all calculations can be verified by audit in future.

INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT DECEMBER 2012 **Appendix 2**

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	**Income reconciliation** Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.	Assistant Director (Development)	Sept 2012	Reconciliation between M3 and financial ledger reliant upon 3 different systems – finance, payments and income recording on M3 Northgate. Cheques are now individually itemized (previously batched) on the general financial ledger so progress and part reconciliation has been made. However, inadequate resources to carry out manual reconciliation and compatibility / merging of all 3 systems is reliant upon electronic ICT solution.	In Progress	Following a meeting of all relevant officers chaired by the Chief Executive, ICT staff produced a prototype report that is designed to work towards an electronic reconciliation of the DC account. Planning staff have analysed this first report and ICT further refined it to capture some information that was not originally included. The unmatched items are now being investigated and the process is being discussed with Internal Audit as to the level of testing required.
Licensing Administration	**Reconciliation** Reconciliation between M3 and the cash receipting system not up to date. Reconciliation to be completed on a monthly basis by the end of the month following the month being reconciled.	Assistant Director (Legal)	April 2012	Reconciliation is not being carried out due to insufficient resources	TBA	Audit to follow up in 4th quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director’s Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	**Accuracy checks** 5% accuracy checks of all assessments should be completed monthly.	Benefits Manager	1st September 2012.	The Assistant Director (Benefits) gave assurance at 29 November 2012 Audit and Governance Committee that the audit recommendations had been implemented.	Actioned	This will be reviewed as part of the full audit in quarter 4.
Housing and Council Tax Benefits	**Sample review: Accuracy checks** Accuracy checks should cover all officers involved in processing claims.	Benefits Manager	1st September 2012.	As above.	Actioned	As above.

INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT DECEMBER 2012 Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q4 2012/13	Following a meeting of all relevant officers chaired by the Chief Executive, ICT staff produced a prototype report that is designed to work towards an electronic reconciliation of the DC account. Planning staff have analysed this first report and ICT further refined it to capture some information that was not originally included. The unmatched items are now being investigated and the process is being discussed with Internal Audit as to the level of testing required.
Housing and Council Tax Benefits	Finance & ICT	June 2012	P1. 2 P3. 1	P1. 2 P3. 1	Q4 2012/13	The Assistant Director (Benefits) gave assurance at 29 November 2012 Audit and Governance Committee that the audit recommendations had been implemented. This will be reviewed as part of the full audit in quarter 4.
Legal Debt Recovery	Corporate Support Services	Sept2012	P1. 4 P2. 3 P3. 1	P1. 3 P2. 3 P3. 1	Q4 2012/13	This audit has identified improvement areas to enhance the system of control and to ensure the process for collecting unpaid debts is monitored and action is taken to maximise the prospects of debt recovery. Controls should be put in place to prompt Officers to check that court costs have been recovered and allocated to the correct account code. In accordance with Contract Standing Orders,

						three quotes should be obtained annually for the use of the contractor for tracing debtors and serve court documents. Officers responsible for debt recovery should implement a system for recording debts collected after court proceedings are issued. This information will be used during the next Audit. The debt recovery process is not always cost effective as the resources are not available to ensure all debts referred to Legal are monitored regularly. Officers should be reminded of the importance of good quality data. The recomendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery.

Audit Plan 2012/13 as at 31st December 2012 Appendix 4

AUDIT PLAN 2012/13

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	PKF
Sundry Debtors	system/follow up	20	In Progress	PKF
Creditors	system/follow up	20	In Progress	PKF
Treasury Management	system/follow up	15	In Progress	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10		PKF
Risk Management and Insurance	system/follow up	15		PKF
Main Accounting and Financial Ledger	system/follow up	15		PKF
Housing Benefits	system/follow up	25		PKF
Council Tax	system/follow up	25	In Progress	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	In Progress	PKF/R27
Cash receipting and Income control	system/follow up	15		PKF
Provision for 'top up' testing	systems	25	Completed	PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10	Completed	PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		**240**		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5	In Progress	R27
TOTAL		**25**		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Car Parking	system	20	Completed	R27
North Weald airfield	establishment	15		R27
Leisure contract	contract	15		R20
TOTAL		**70**		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10	Completed	R
TOTAL		**10**		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5	In Progress	AC
Housing Repairs Service	system/follow up	15		
Housing Contracts	system	15		

Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		**65**		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	In Progress	PKF
Recruitment and Selection	Follow up	5	Completed	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10	Completed	R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	R9
Property Management System - Asset Register	system	5		PKF
Fleet Operations income	system	5	Completed	R27
Legal				
Licensing	system	15		R27
Debt recovery	system	15	Completed	R27
TOTAL		**115**		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15		AC/R20
Procurement	fraud	15	In Progress	AC/R2
Council Tax Discounts	fraud	15		AC/R23
National Fraud Initiative (NFI)	fraud	15	In Progress	R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10	Completed	R23
Governance Statement	management review	5	Completed	AC/PKF
TOTAL		**155**		
TOTAL DAYS ALLOCATED		**680**		
Contingency/Spot checks/Minor investigations		**40**		R23
Corporate/Service Advice		**55**		
TOTAL		**775**		

Key	**Risk Identifier**
AC	Audit Commission
PKF	External Audit
R no.	Risk No. in Corporate Register
R	Reputation of Council