Webcast Meeting

Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE
Thursday, 6th February, 2014

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, 6th February, 2014**
at **7.00 pm** .

Glen Chipp
Chief Executive

Democratic Services Officer	Gary Woodhall Office of the Chief Executive Tel: 01992 564470 Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), Ms H Kane and L Leonard

Independent R Thompson (Vice-Chairman) and A Jarvis

<u>WEBCASTING/FILMING NOTICE</u>

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site - at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed. The meeting may also be otherwise filmed by third parties with the Chairman's permission.

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Therefore by entering the Chamber and using the lower public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings for web casting and/or training purposes. If members of the public do not wish to have their image captured they should sit in the upper council chamber public gallery area or otherwise indicate to the Chairman before the start of the meeting.

If you have any queries regarding this, please contact the Senior Democratic Services Officer on 01992 564249.

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 advised 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 28 November 2013 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. AUDIT AND GOVERNANCE WORK PROGRAMME - 2013/14 (Pages 5 - 6)

(Director of Finance & ICT) To consider the attached Work Programme for 2013/14.

7. AUDIT COMMISSION - LOCAL GOVERNMENT STUDIES & REPORTS (Pages 7 - 50)

(Chief Internal Auditor) To consider the attached report (AGC-023-2013/14).

8. REPORTS FROM THE EXTERNAL AUDITOR (Pages 51 - 62)

(External Auditor) To consider the attached report (AGC-024-2013/14).

9. INTERNAL AUDIT MONITORING REPORT - OCTOBER TO DECEMBER 2013 (Pages 63 - 74)

(Chief Internal Auditor) To consider the attached report (AGC-025-2013/14).

10. AUDIT COMMISSION REPORT - PROTECTING THE PUBLIC PURSE 2013 (Pages 75 - 82)

(Chief Internal Auditor) To consider the attached report (AGC-026-2013/14).

11. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2014/15 - 2016/17 (Pages 83 - 118)

(Director of Finance & ICT) To consider the attached report (AGC-027-2013/14).

12. 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.

13. EXCLUSION OF PUBLIC AND PRESS

Exclusion:
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.

Audit & Governance Committee Report Schedule

2013/14

27 June 2013
- ➢ Internal Audit Annual Report.
- ➢ Review of the Effectiveness of Internal Audit.
- ➢ Audit & Governance Committee Annual Report.
- ➢ Annual Governance Statement.
- ➢ Q4 Internal Audit Monitoring Report.
- ❖ Audit Plan 2012/13.
- ❖ Planning Letter 2013/14.

23 September 2013
- ➢ Treasury Management Annual Outturn Report.
- ➢ Statutory Statement of Accounts.
- ➢ Q1 Internal Audit Monitoring Report.
- ➢ Appointment of Co-Opted Member – Report on Recruitment.
- ➢ Review of Business Continuity Plan for Internal Audit.
- ❖ Annual Governance Report 2012/13.

28 November 2013
- ➢ Treasury Management Mid-Year Report.
- ➢ Q2 Internal Audit Monitoring Report.
- ➢ Due Diligence for Council Contracts.
- ❖ Annual Audit Letter 2012/13.

6 February 2014
- ➢ Treasury Management Investment & Strategy Statements.
- ➢ Q3 Internal Audit Monitoring Report.
- ❖ Grant Claims Audit Report 2012/13.

3 April 2014
- ➢ Effectiveness of Risk Management.
- ➢ Internal Audit Business Plan.
- ❖ Planning Letter 2014/15.
- ❖ Audit Plan 2013/14.

Key
- ➢ EFDC Officer Report.
- ❖ External Auditor Report.

N.B…In addition, the Committee's annual private meetings with the External and Internal Auditors are scheduled to take place prior to the April meeting.

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Report to Audit and Governance Committee

Report Reference: AGC-023-2013/14
Date of Meeting: 6 February 2014

Epping Forest District Council

Portfolio: **Finance and ICT**

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 national local government reports and studies recently published by the Audit Commission be considered, and any appropriate action be identified 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 considered these reports on 18 December 2013, and its views in respect of the findings of the Commission will be reported to the Committee.

'Income from charging - Using data from the Value for Money Profiles' (September 2013)

4. This Audit Commission briefing is drawn from its Value for Money Profiles, and presents the Commission's analysis of the £10.2 billion that English councils raised through charging for services in 2011/12. The briefing paper is attached as Appendix 1 to this report.

'Business rates - Using data from the Value for Money Profiles' (October 2013)

5. This Audit Commission briefing is drawn from its Value for Money Profiles, and presents the Commission's analysis of English councils' collection rates and the costs of collecting business rates. The briefing paper is attached as Appendix 2.

'Tough Times 2013: Councils' Responses to Financial Challenges from 2010/11 to 2013/14' (November 2013)

6. The Audit Commission's latest 'Tough Times' report shows that councils have demonstrated a high degree of financial resilience over the last three years, despite a 20% reduction in funding from government and a number of other financial challenges.

7. A survey of auditors appointed by the Commission, found that 89% of councils experienced no significant difficulties in delivering their agreed budget in 2012/13 (compared with 88% in 2011/12). The majority of councils (71%) delivered their budgets without needing to take unplanned actions. Two thirds of councils (63%) added to their reserves, while one third (37%) reduced them. In aggregate, councils increased reserves by £0.9 billion in 2012/13 (7%), a smaller increase than in 2011/12.

8. The Commission's research found that the three strategies most widely adopted by councils in response to their financial challenges since 2010/11 were: reducing overall staff numbers; delivering some services more efficiently; and reducing or restructuring the senior management team.

9. Extracts from the Audit Commission's report reflecting a summary of its findings and conclusions, is attached as Appendix 3. The full report is available on the Commission's website, at: http://www.audit-commission.gov.uk/2013/11/toughtimes2013/.

10. The Committee is requested to consider the recently published 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 - 'Income from charging' (September 2013), 'Business rates' (October 2013), 'Tough Times 2013' (November 2013).

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
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.

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Income from charging

Using data from the Value for Money Profiles, September 2013

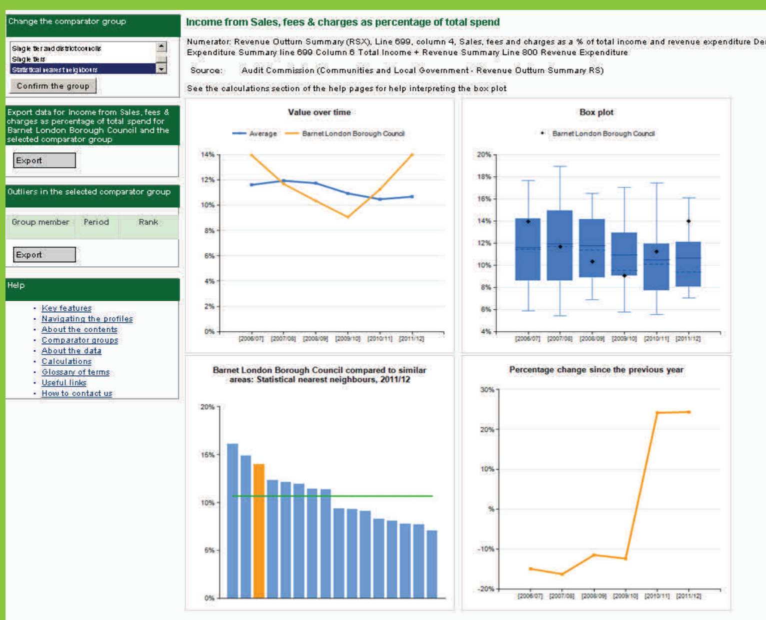
The government is legislating to close the Audit Commission by the end of March 2015 and the Local Audit and Accountability Bill is currently being scrutinised by Parliament. Until it closes, the Commission will continue to make available its Value for Money (VFM) Profiles, which bring together publicly available data about the cost, performance and activity of local councils and fire authorities.

To enhance the visibility of its VFM Profiles the Commission is publishing a number of briefing papers presenting new analysis of existing data examining:

- how council spending and activity have changed over time;
- how councils' performance differs; and
- factors affecting variation in councils' activity and costs.

We hope these data briefings will help councillors and senior officers examine and improve their council's performance, and assist the public, auditors and others interested in local government to hold councils to account for their decisions.

This briefing provides an overview of data in the VFM profiles on councils' income from charging for services. It also suggests further analyses that could be undertaken by anyone wishing to examine councils' charging income in more detail.



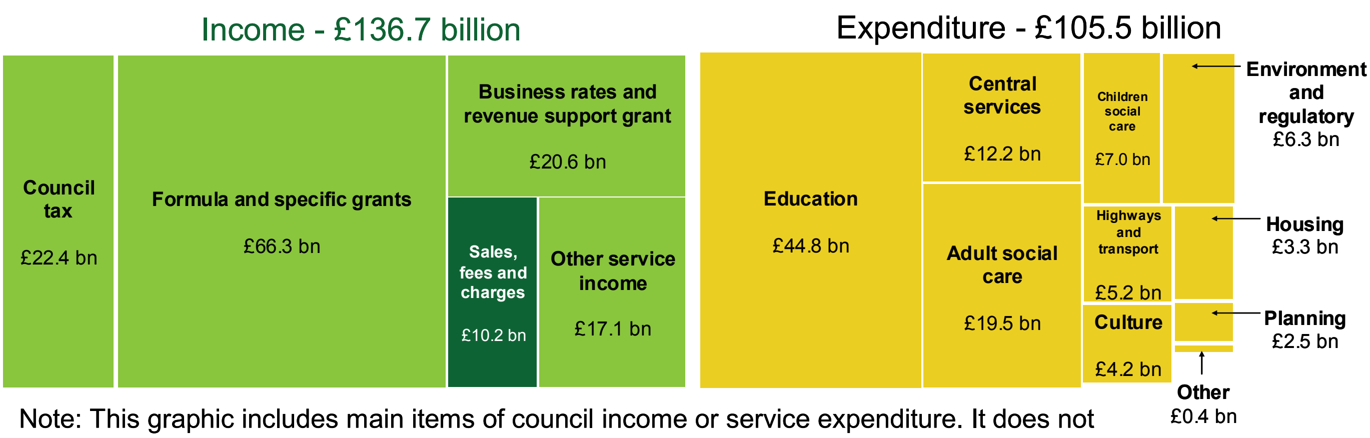
Screenshot from the Value for Money (VFM) Profiles showing income from sales, fees and charges
http://profiles.audit-commission.gov.uk/

Section 1: Introduction to charging

1 English councils have legal powers to charge for a wide range of the services they provide to recover the costs of providing those services.

2 In 2011/12, English councils' income from charging was £10.2 billion. This was about 10 per cent of their total service expenditure (Figure 1). (Throughout this paper, the term 'service expenditure' is used to describe councils' revenue spending on staff and running costs for services.)

Figure 1: Councils' main sources of income and service expenditure 2011/12



Note: This graphic includes main items of council income or service expenditure. It does not include £24 billion of benefits payments, £3 billion of capital expenditure from the general fund and £5.5 billion of interest and financing.

3 Although total charging income was less than half the amount raised through council tax in 2011/12, income from charging exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs.

4 Where councils are able to do so, charging for services forms an integral part of their strategic and financial management.

5 When councils recover some or all of their service expenditure by charging, they can use the income to: sustain those services (releasing funds for other purposes); improve those services; and/or reduce the need for funding from other sources, such as council tax or reserves.

6 Charging can influence who uses council services, when and how often. The Audit Commission's 2008 study **(Ref 1)** found that charging helped councils encourage or discourage use of particular services; target services at intended users; and manage demand for services over time.

What services can councils charge for?

Councils can charge for a wide range of services, including:

- nursery and early years' services;
- school meals;
- social care;
- transport services;
- environmental health;
- sports and leisure;
- arts and heritage;
- car parking;
- planning;
- building control;
- licensing; and
- burials and cremations.

7 But charging can have unintended consequences where it discourages those who would benefit from services from using them. There have also been recent challenges to the legitimacy of councils' approaches to charging, in particular, whether charges fairly reflect the cost of the services to which they relate.

8 Because the effect of charging policies for councils, their service users and taxpayers can be significant, councillors and electors should carefully scrutinise the approach councils take.

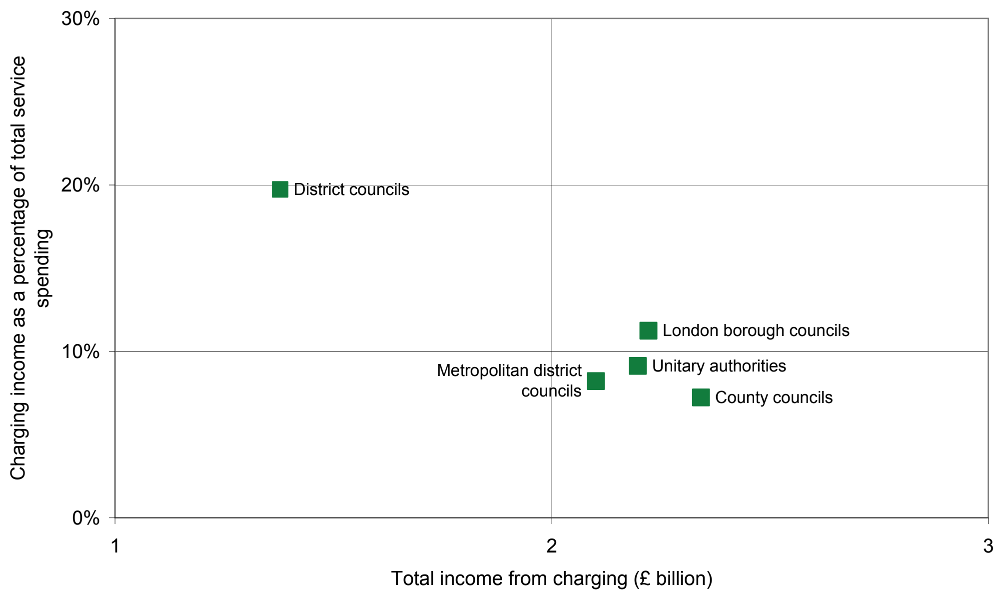
9 Given the different services councils provide, the varied reasons for charging, and the differing opportunities presented by local circumstances, it would be simplistic to judge councils purely on how much service expenditure they recover through charges. But such analysis is a useful starting point for comparing councils' approaches and evaluating how charging supports councils' financial and strategic objectives.

Section 2: The income councils generate from charging

10 Due to the different services they provide, single-tier and county councils generate considerably more income from charging than district councils. But charging makes a much greater contribution to district councils' service expenditure.

11 In 2011/12, single-tier and county councils' combined income from charging was £8.9 billion – divided broadly equally between the four types of council in this group (county councils, London borough councils, metropolitan district councils and unitary authorities). This was equal to around 9 per cent of their service expenditure that year. In contrast, district councils' combined income of £1.4 billion was 20 per cent of their total service expenditure (Figure 2).

Figure 2: Total charging income in 2011/12 by council type



Source: Audit Commission analysis of revenue outturn service expenditure summary (RSX) data 2011/12 published by the Department for Communities and Local Government (DCLG) **(Ref 2)**

12 From 2004/05 to 2011/12 councils' total income from charging reduced by 2 per cent in real terms (when adjusted for inflation). It has fallen by 11 per cent in real terms since 2009/10 (Figure 3). This recent reduction was expected. In 2011, the Commission reported **(Ref 3)** that charging income was likely to fall due to:

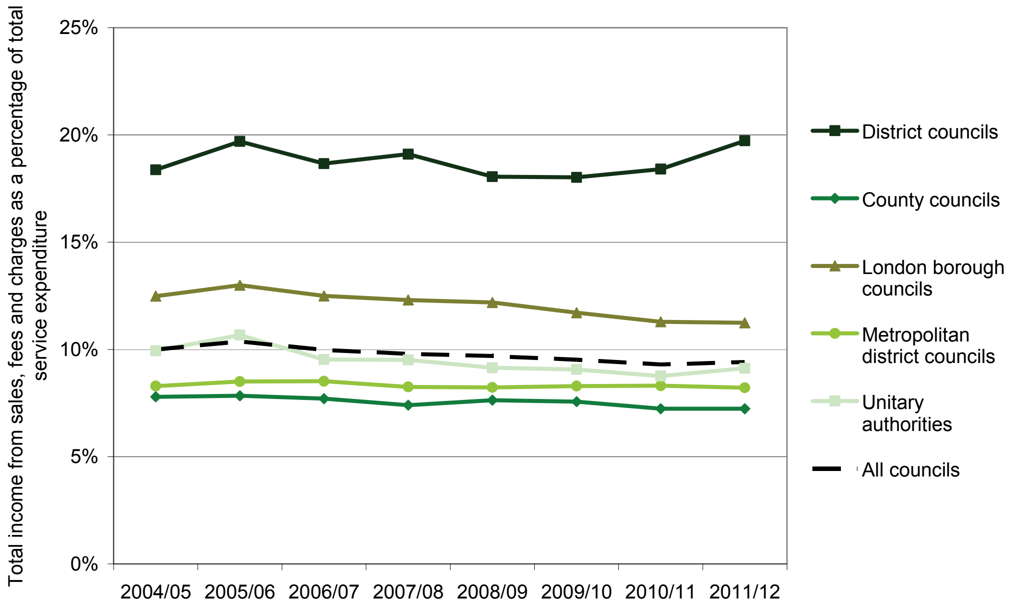
- reductions in demand for some charged-for services, which was planned by councils in some cases and the result of economic or market conditions in others; and
- the scaling back or outsourcing by councils of income-generating services as part of councils' wider plans to reduce spending.

Figure 3: Total charging income 2004/05 to 2011/12

Source: Audit Commission analysis of DCLG revenue outturn (RO) data 2004/05 to 2011/12 **(Ref 4)**

13 Despite changes in the amount of charging income received, the contribution it made to service spending remained relatively stable for councils as a whole over this period – at about 10 per cent (Figure 4). District councils, as a group, saw the contribution of charging income to spending increase from 2009/10 to 2011/12, while London councils saw it decline steadily.

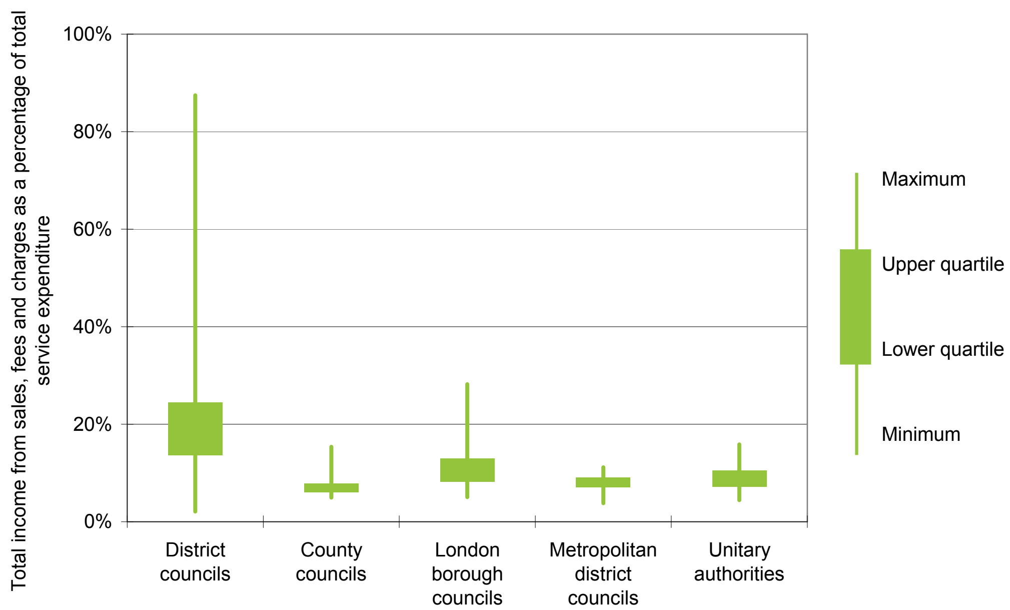
Figure 4: The contribution of charging income to service spending 2004/05 to 2011/12 by council type



Source: Audit Commission analysis of DCLG RO data 2004/05 to 2011/12 **(Ref 4)**

14 In 2011/12, there was wide variation between councils with the same responsibilities. District councils showed the most divergence in the contribution of charging to spending. Charging income ranged from 2 to 87 per cent of total service spending for this group, although half had income between 14 and 25 per cent of service spending. Metropolitan districts showed the least variation, with income from 4 to 11 per cent of spending (Figure 5).

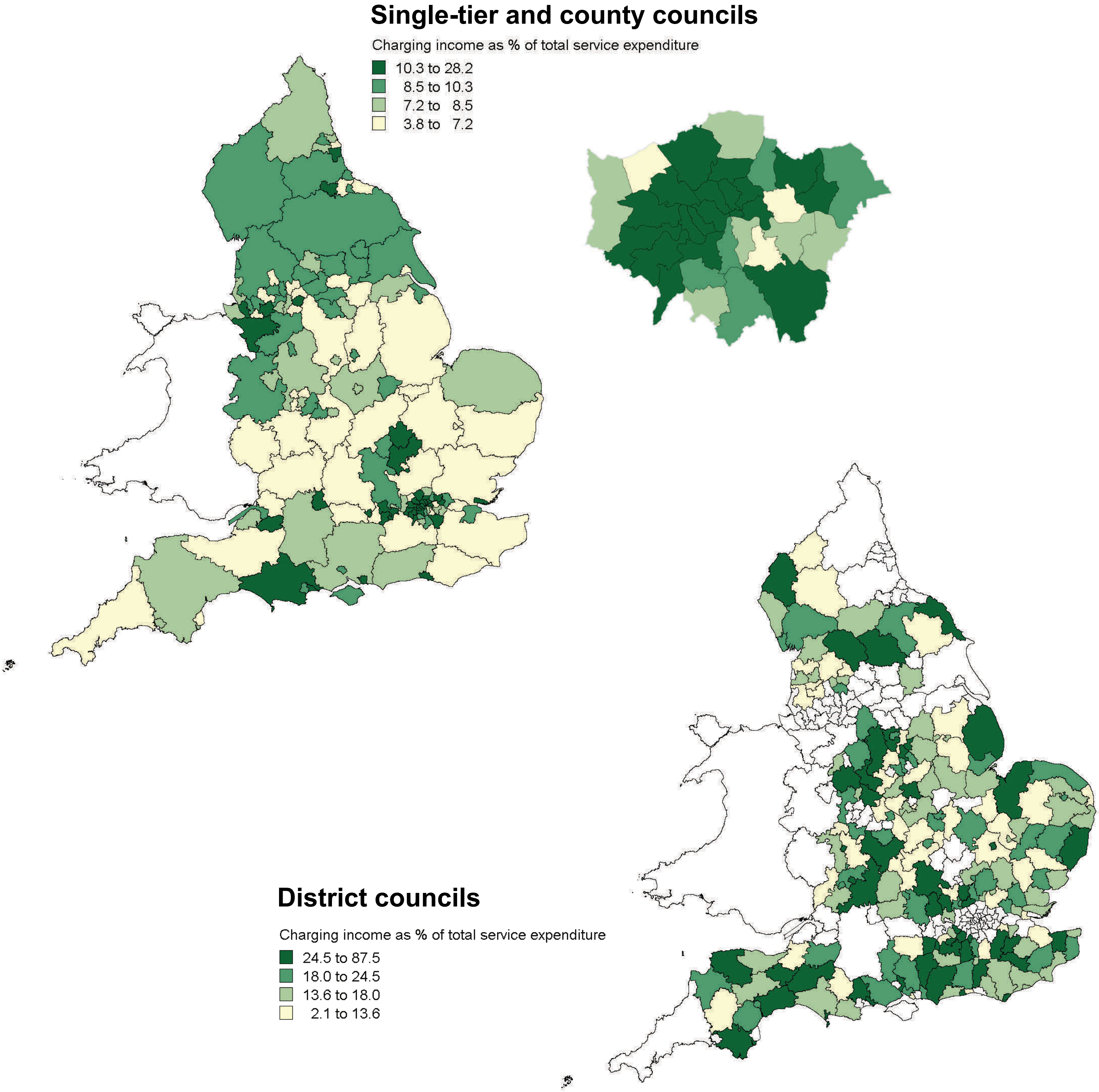
Figure 5: Variation in the contribution of charging income to service spending 2011/12



Source: Audit Commission analysis of DCLG RSX data 2011/12 **(Ref 2)**

15 These variations within council types are not explained by, for example, different levels of government funding to councils or different levels of council tax income. It is more likely that they result from the different opportunities councils have to charge for services, given their local circumstances, and the choices councils have made about whether and how much to charge when they are able to. Each English region had councils with high and low levels of cost recovery from charging in 2011/12 (Figure 6).

Figure 6: The contribution of charging income to service spending for 2011/12

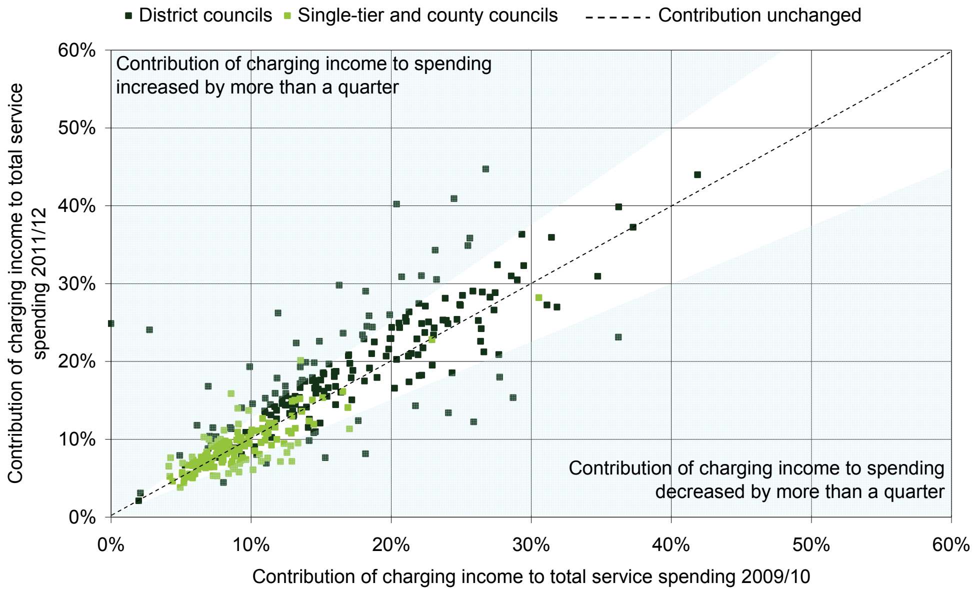


Note: Ranges for maps based on quartiles for type of council

Source: Audit Commission analysis of DCLG RO data 2011/12 **(Ref 4)**

16 For some councils, the contribution made by charging income to their service spending has changed significantly over time. These changes are the result of increases or decreases in levels of income, spending, or both income and spending. From 2009/10 to 2011/12, one in four councils (27 per cent) saw the contribution of charging income to spending vary by more than 25 per cent. Most of these saw overall cost recovery increase, with one in ten (10 per cent) single-tier and county councils and one in four (26 per cent) district councils seeing the ratio of charging income to total spending increase by more than a quarter over this period (Figure 7).

Figure 7: The changing contribution of charging income to total service spending 2009/10 to 2011/12



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 **(Ref 2)**

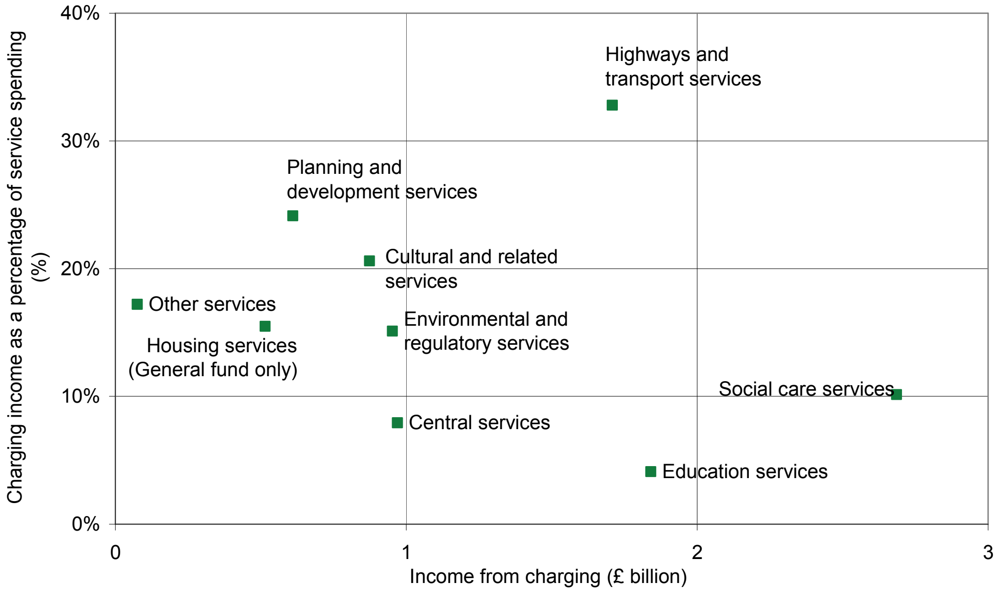
Section 3: How charging income supports service spending

17 Charging income makes a greater contribution to spending in some service areas than others due to a combination of:

- limitations on which services can be charged for and, in some cases, charges that are determined by statute;
- the use of means testing for some services to determine who pays and how much; and
- councils' choices about whether and how much to charge for services when they have discretion to do so.

18 Social care services accounted for £2.7 billion of charging income in 2011/12; more than one quarter (26 per cent) of all charging income (see detail below). This was around 10 per cent of social care spending that year. Education (£1.8 billion) and highways and transport services (£1.7 billion – see detail below) generated similar amounts of income in 2011/12, but the contribution to spending in those service areas varied considerably (4 per cent and 33 per cent of service spend respectively) (Figure 8).

Figure 8: Charging income 2011/12 by service



Source: Audit Commission analysis of DCLG RSX data 2011/12 **(Ref 2)**

Income from charging in social care services

Charges for adults' services accounted for 96 per cent of all social care charging income in 2011/12. More than three-quarters (77 per cent) related to services for older people, such as residential and nursing care, home and day care services, meals, equipment and adaptations. Charging income funded 7 per cent of the cost of services for this client group.

Income from services to adults under 65 with a physical disability represented 5 per cent of all social care income, but funded 21 per cent of the spending on this group.

	Charging income £m	(%)	Contribution to service expenditure
Children's social care	115	(4)	2%
Older people (aged 65 or over) including older mentally ill	2,060	(77)	7%
Adults aged under 65 with physical disability or sensory impairment	122	(5)	21%
Adults aged under 65 with learning disabilities	289	(11)	7%
Adults aged under 65 with mental health needs	70	(3)	5%
Other adult social care	30	(1)	4%
Total	**2,686**	(100)	**10%**

Note: Columns do not add due to rounding

Source: Audit Commission analysis of DCLG RO data 2011/12 **(Ref 2)**

Income from charging in highways and transport services

	Charging income £m	(%)	Contribution to service expenditure
Transport planning, policy and strategy	82	(5)	20%
Highways and roads - maintenance	126	(7)	6%
Traffic management and road safety	88	(5)	24%
Parking services*	1,292	(76)	160%
Public transport	87	(5)	6%
Airports, harbours and toll facilities	34	(2)	100%
Total	**1,708**	(100)	**33%**

*includes £340m income from Penalty Charge Notices

Note: Columns do not add due to rounding

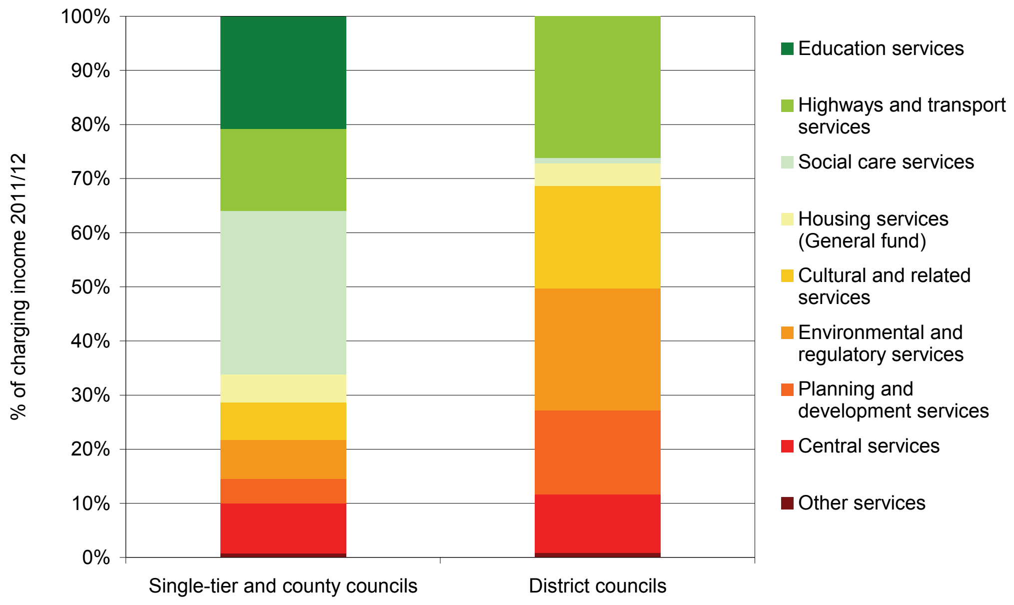
Source: Audit Commission analysis of DCLG RO data 2011/12 **(Ref 2)**

Highways and transport services accounted for 17 per cent of all charging income in 2011/12. Parking-related income accounted for more than three-quarters (76 per cent) of this, £1.3 billion. This was more than one-and-a-half times councils' revenue spending on parking services. Councils are required by law to spend surplus income on transport-related purposes.

Charges related to roads maintenance were the second largest source of income – 7 per cent of the total – and recovered 6 per cent of spending in that service area.

19 The profile of charging income varies for different types of council and between councils of the same type. Social care, education, and highways and transport services accounted for two thirds (66 per cent) of the charging income generated by all single-tier and county councils in 2011/12. A similar proportion (68 per cent) of district councils' collective charging income came from highways and transport, environmental and regulatory, and cultural and related services (Figure 9).

Figure 9: Charging income in 2011/12 by council type

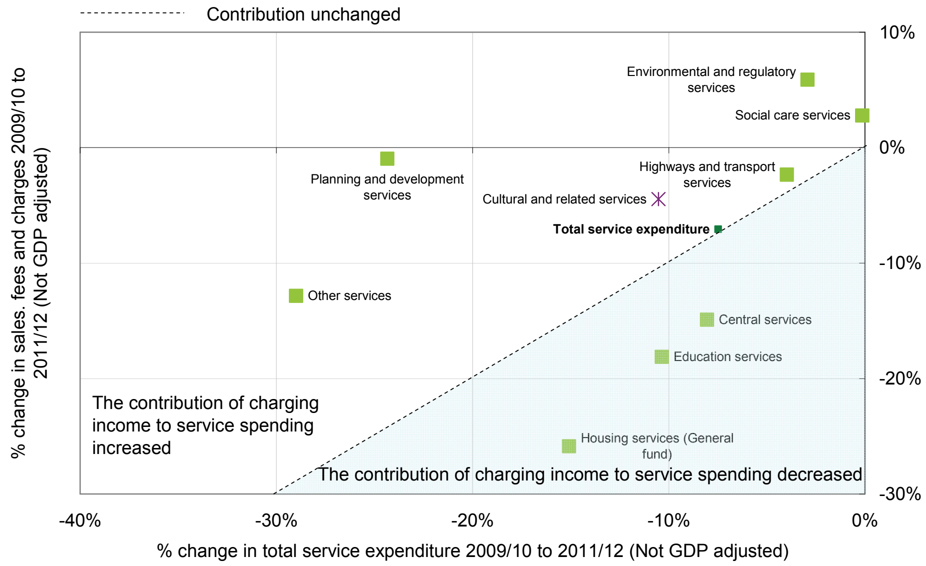


Source: Audit Commission analysis of DCLG RSX data **(Ref 2)**

20 The contribution of charging income to spending in service areas changed at different rates from 2009/10 to 2011/12. These service-level changes varied for different types of council.

21 For single-tier and county councils the overall ratio of charging income to spending remained unchanged from 2009/10 to 2011/12 as both income and spending reduced at around the same rate (Figure 10). Income fell less sharply than spending in some services (such as planning and development services), or grew while spending fell (as in environmental and regulatory services). This resulted in an increase in the level of cost recovery for these services. In others (such as education services) income fell more sharply than spending, reducing the level of cost recovery.

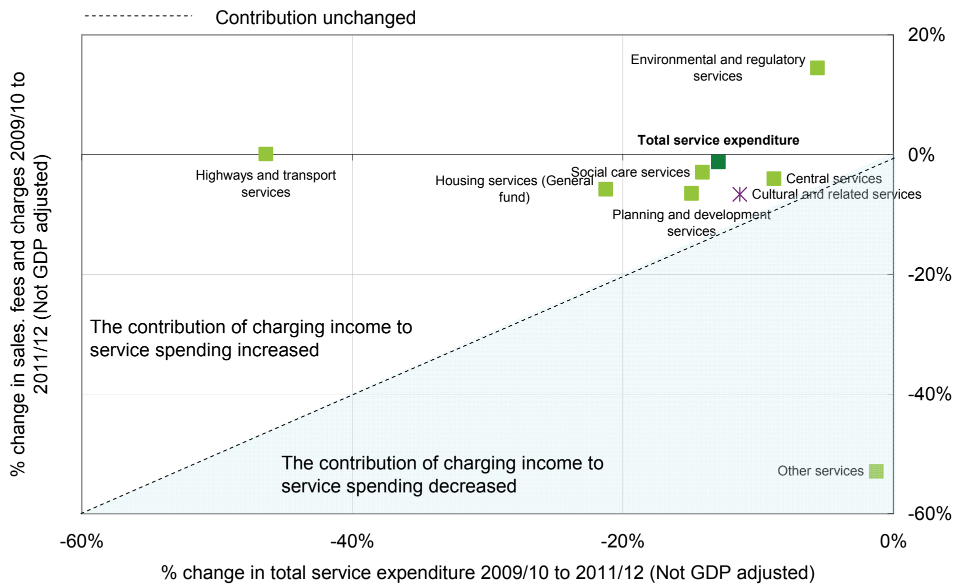
Figure 10: Changes in charging income and service spending 2009/10 to 2011/12 – single-tier and county councils



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 **(Ref 2)**

22 District councils saw an overall increase in the ratio of charging income to spending from 2009/10 to 2011/12 as income remained broadly stable while spending fell (Figure 11). In most service areas income fell less sharply than spending or (in environmental and regulatory services) grew while spending fell. Highways and transport services saw the greatest increase in contribution as income remained broadly unchanged while spending reduced by 46 per cent. This spending reduction was largely a result of the transfer of responsibility for concessionary fares from district to county councils.

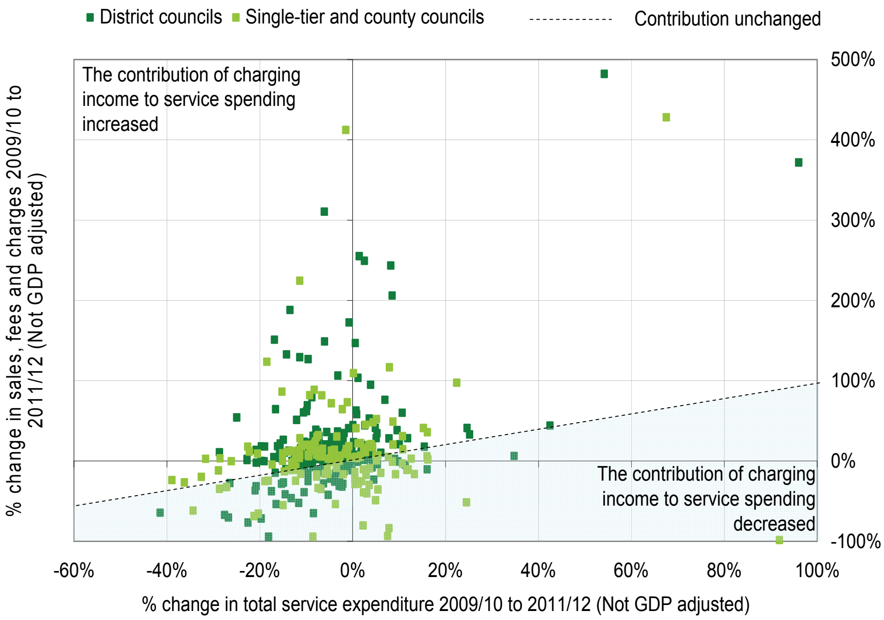
Figure 11: Changes in charging income and service spending 2009/10 to 2011/12 – district councils



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 **(Ref 2)**

23 These differential changes in the contribution of charging income to service spending also occur between individual councils. For example, in environmental and regulatory services (Figure 12), the ratio of charging income to service spending increased from 2009/10 to 2011/12 for 71 per cent of councils (two-thirds of single-tier and county councils and three-quarters of districts). In most of these councils (89 per cent) this was the result of increases in income, which were greater than spending increases in nearly a third (31 per cent) of cases. Among the 29 per cent of councils where the ratio of charging income to spending decreased, most (91 per cent) saw a reduction in income, which was greater than the reduction in spending in two-thirds (65 per cent) of these cases.

Figure 12: Changes in charging income and service spending 2009/10 to 2011/12 – environmental and regulatory services



Source: Audit Commission analysis of DCLG RSX data 2009/10 and 2011/12 **(Ref 2)**

Below is a screenshot of the Income & charging page of the Financial Resilience section of the VFM Profiles. It shows income from charging as a proportion of spending in different service areas.

Income & charging

Different types of council have different patterns of charging income. For county councils, most income from charges is from education and social services. For district councils income is more evenly spread across services. Over a quarter of councils (mainly district councils and some London boroughs) generate more income through charging than they do through council tax. In our study 'Positively Charged', most councils reported using charging as a means of minimising council tax increases.

Indicator	Period	Value	% change	DoT	Rank	Average
Income from sales, fees and charges from central & other services as a percentage of service spend	2011/12	10.95%	38%	↑	In the highest 10%	6.00%
Income from sales, fees and charges from planning & development services as a percentage of service spend	2011/12	21.54%	9%	↑	Average	21.37%
Income from sales, fees and charges from environmental & regulatory services as a percentage of service spend	2011/12	20.10%	-3%	↓	Average	21.57%
Income from sales, fees and charges from cultural & related services as a percentage of service spend	2011/12	26.25%	46%	↑	In the highest third	20.05%
Income from sales, fees and charges from housing services as a percentage of service spend	2011/12	21.30%	48%	↑	In the highest 20%	11.79%
Income from sales, fees and charges from social services as a percentage of service spend	2011/12	Unable to calculate	Unable to calculate	Unable to calculate	Unable to calculate	0.00%
Income from sales, fees and charges from transport services as a percentage of service spend	2011/12	119.43%	44%	↑	Average	110.72%
Income from sales, fees and charges from central & other services (£000s)	2011/12	£677	23%	↑	In the highest third	£627

24 At a time when funding reductions and rising demand for some services are presenting councils with difficult choices about which services they can afford to provide, the use of charging to support service expenditure or influence demand for services merits closer examination. Councils need to ensure that their approaches to charging deliver the benefits expected and remain lawful.

25 This briefing presents a high-level analysis of councils' income from charging and the contribution it makes to service spending. It focuses on the national picture in 2011/12 (the latest year for which data is available) and trends for different types of council across broad service areas. The data we have used can be found in the Financial Resilience section of the Audit Commission's VFM Profiles.

26 Our analysis shows that there is much variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years.

27 It is important that council staff and elected members monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements. Such analyses can provide the starting point for a more detailed review of local charging policies. This might examine, for example: the impact charging policies have on service demand; other influences on service demand that affect charging income; and the relative contributions charging makes to spending in different services.

28 The topic will also be of interest to others who wish to hold councils to account for discretionary decisions about whether and how much they charge for services.

29 The data in the VFM Profiles can be used to examine, for individual councils:

- how much charging income is generated in total and in broad service areas;
- how charging income contributes to total spending and spending in broad service areas;
- how charging income and cost recovery compares to other councils of the same type; to councils that serve areas that are similar in terms of population and economic factors; or to councils within geographic areas; and
- changes over time.

30 Those who wish to examine charging income at a more detailed service level can undertake similar analyses using the income and expenditure data contained within the revenue outturn statistics published annually by DCLG at https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-authority-revenue-expenditure-and-financing.

References

Ref 1. Audit Commission, *Positively Charged: Maximising the Benefits of Local Public Service Charges*, Audit Commission, 2008.

Ref 2. Department for Communities and Local Government, *Local authority revenue expenditure and financing England: 2011 to 2012 individual local authority data* [Online], Department for Communities and Local Government, 2012.

Ref 3. Audit Commission, *Tough Times: Councils' Responses to a Challenging Financial Climate*, Audit Commission, 2011.

Ref 4. Department for Communities and Local Government, *Local authority revenue expenditure and financing* [Online], Department for Communities and Local Government, 2013.

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Business Rates

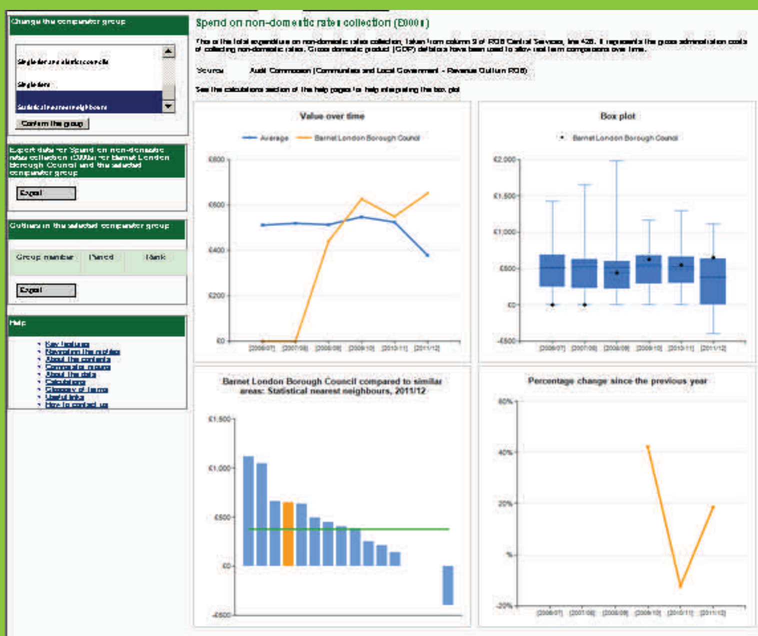
Using data from the Value for Money Profiles, October 2013

The government is legislating to close the Audit Commission by the end of March 2015 and the Local Audit and Accountability Bill is currently being scrutinised by Parliament. Until it closes, the Commission will continue to make available its Value for Money (VFM) Profiles, which bring together publicly available data about the cost, performance and activity of councils and fire authorities.

To enhance the visibility of its VFM Profiles the Commission is publishing a number of briefing papers presenting new analysis of existing data examining:

- how council spending and activity have changed over time;
- how councils' performance differs; and
- factors affecting variation in councils' activity and costs.

We hope these data briefings will help councillors and senior officers examine and improve their council's performance, and assist the public, auditors and others interested in local government to hold councils to account for their decisions.



Screenshot from the Value for Money (VFM) Profiles showing net expenditure on business rates
http://profiles.audit-commission.gov.uk/

This briefing provides an overview of data in the VFM profiles on councils' collection rates and costs for business rates. It also suggests further analyses that could be undertaken by anyone wishing to examine councils' collection rates and costs in more detail.

audit commission

Section 1: About business rates

1 Business rates[i] are a local tax paid by businesses occupying property. The money they raise helps to pay for local council services and they represent a substantial part of councils' income.

Amount of business rates councils collected in 2012/13

In 2012/13, councils collected a total of £21.9 billion from businesses.

The amount collected by each council ranged from £1.3 million to £1.6 billion.

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

2 The 326 district, London borough, metropolitan district and unitary councils in England are called 'billing authorities' and they collect business rates on properties in their area. County councils do not collect business rates.

3 The total amount of business rates a billing authority can collect depends on the number and rateable value of business properties in its area, and also on the amount of relief[ii] it gives.

Changes in the number and rateable value of business properties

Between 2008/09 and 2012/13, the number of business properties in England rose by 4 per cent to over 1.7 million. But their rateable value rose over the same period by 22 per cent to £57.2 billion, which partly reflects revaluations.

Source: Table 1, DCLG Statistical Release, NDDR Collected by LA s in England, 14 August 2013

Income from business rates

4 Before April 2013, billing authorities paid all business rates they collected into a 'national pool'. This also included business rates that the government collected in respect of major transport, utility and telecommunications property.

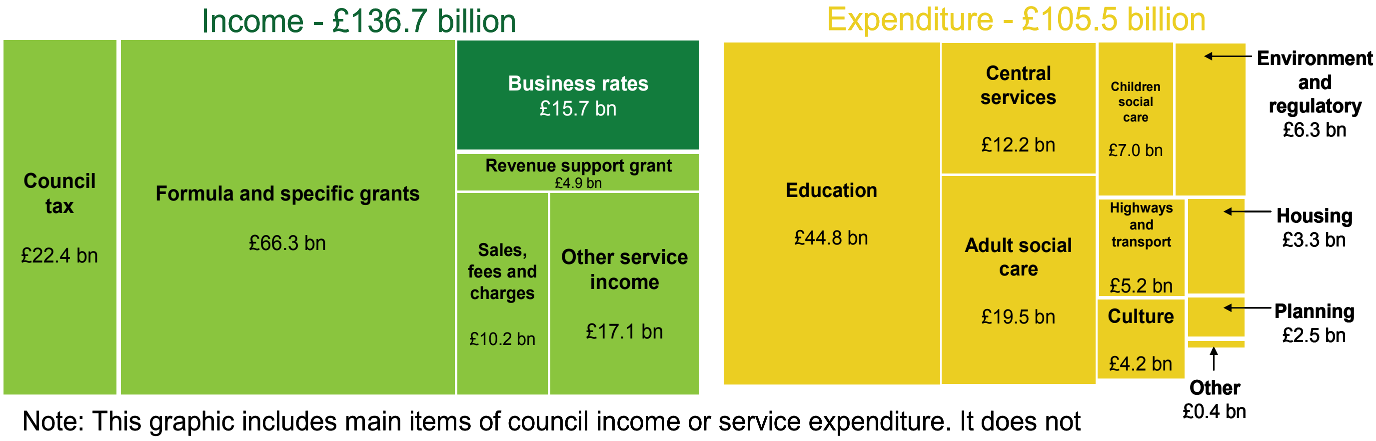
5 The government redistributed the business rates in the 'national pool' to all local authorities - including county councils, police and fire authorities - as part of the annual Local Government Finance Settlement. The amount paid to each council was based on a formula which took account of the size and demographics of the local population.

6 In 2011/12, the government paid £15.7 billion in redistributed business rates to councils (Figure 1). Redistributed business rates represented 11 per cent of councils' total income.

[i] Business rates are formally known as national non-domestic rates

[ii] Councils give a range of business rates relief, for example, for charities and empty properties. See Appendix for more details.

Figure 1: Councils' main sources of income and service expenditure 2011/12



Note: This graphic includes main items of council income or service expenditure. It does not include £24 billion of benefits payments, £3 billion of capital expenditure from the general fund and £5.5 billion of interest and financing.

Source: DCLG, 2011/12 Revenue Outturn Returns

Business rates: important changes

From April 2013, councils keep some of the business rates they collect under a new business rates retention scheme. This briefing provides more information about the new arrangements, and discusses their implications, in Section 5.

Knowing how much business rates they collected and what their collection costs were under the previous arrangements will help councils maximise the benefits of the new arrangements.

Section 2: Collecting business rates

7 In 2012/13, a total of £22.4 billion in business rates was due from businesses after taking account of all relief given by billing authorities. By the end of the year, these councils had collected £21.9 billion, leaving a shortfall of £513 million, which is 2.3 per cent.

8 In 2012/13, the median rate of collection in England was 98 per cent. A total of 156 councils collected less than 98 per cent. Had they reached this level, they would have received an additional £143 million due in that year.

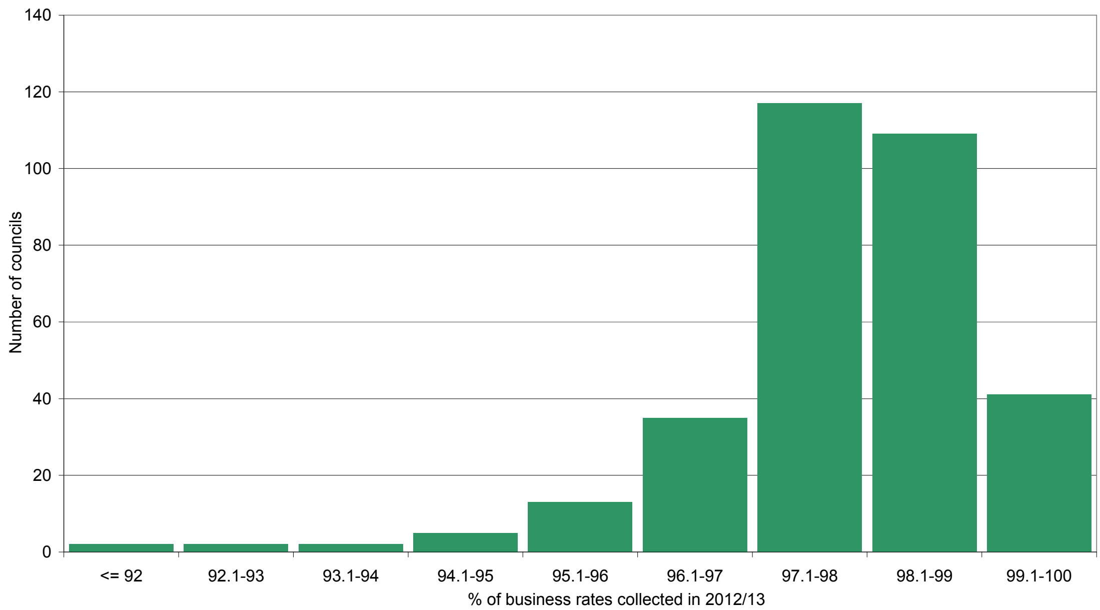
Figure 2: Business rates collection in 2012/13

£22.4 billion	98%	£513 million
This is the total amount due for 2012/13	The median collection rate for business rates due in 2012/13 across all councils	The amount of 2012/13 business rates that was uncollected at the end of March 2013

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

9 Figure 3 shows that most councils (82 per cent) collect around or above the median.

Figure 3: Percentage of business rates collected in 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

10 The overall median rate of collection varies both between and within different types of council. By council type, shire district councils had the highest median collection rate (98.2 per cent) and metropolitan district councils the lowest (96.7 per cent).

Figure 4: Collection rates for different types of council in 2012/13

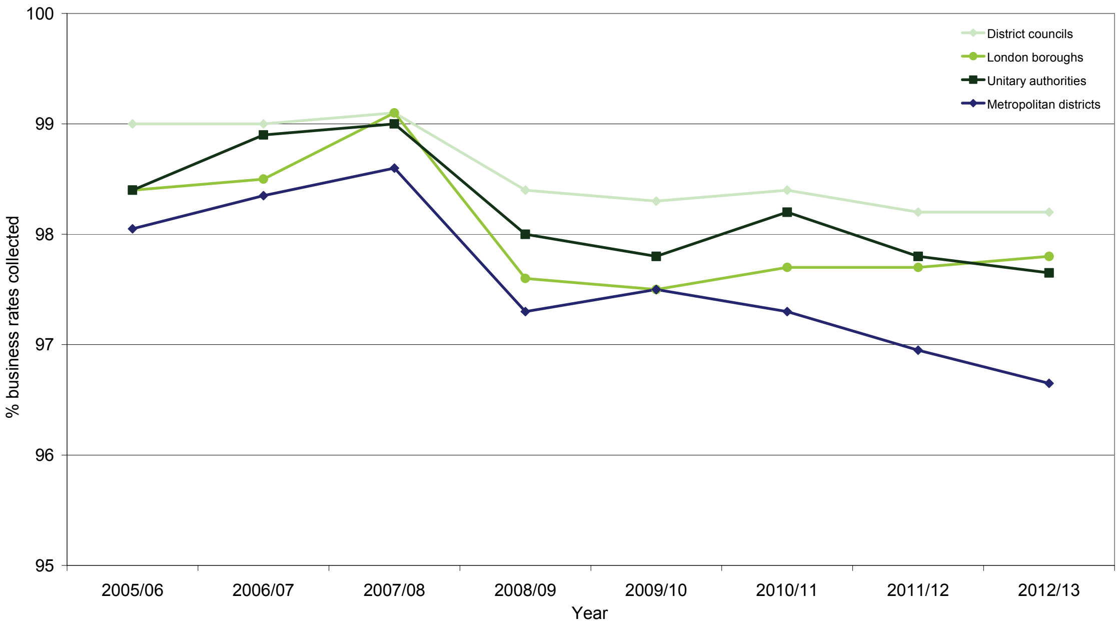
	In-year median collection rate for 2012/13 business rates	% of all councils in each group collecting more than 98% of 2012/13 business rates in-year
District councils	98.2%	55%
Unitary authorities	97.7%	38%
London boroughs	97.8%	42%
Metropolitan districts	96.7%	17%
All councils	98.0%	46%*

** The median figure is not exactly 50 per cent, because 19 councils collected exactly 98 per cent (the median collection rate). The 151 councils that collected more than 98 per cent are less than half of all councils that collect business rates.*

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

11 Across all types of council, Figure 5 shows that in-year collection rates increased between 2005/06 and 2007/08, but declined after that and have not yet returned to the 2005/06 level. Collection rates are likely to have been affected by the financial crisis, subsequent recession and its related impacts.

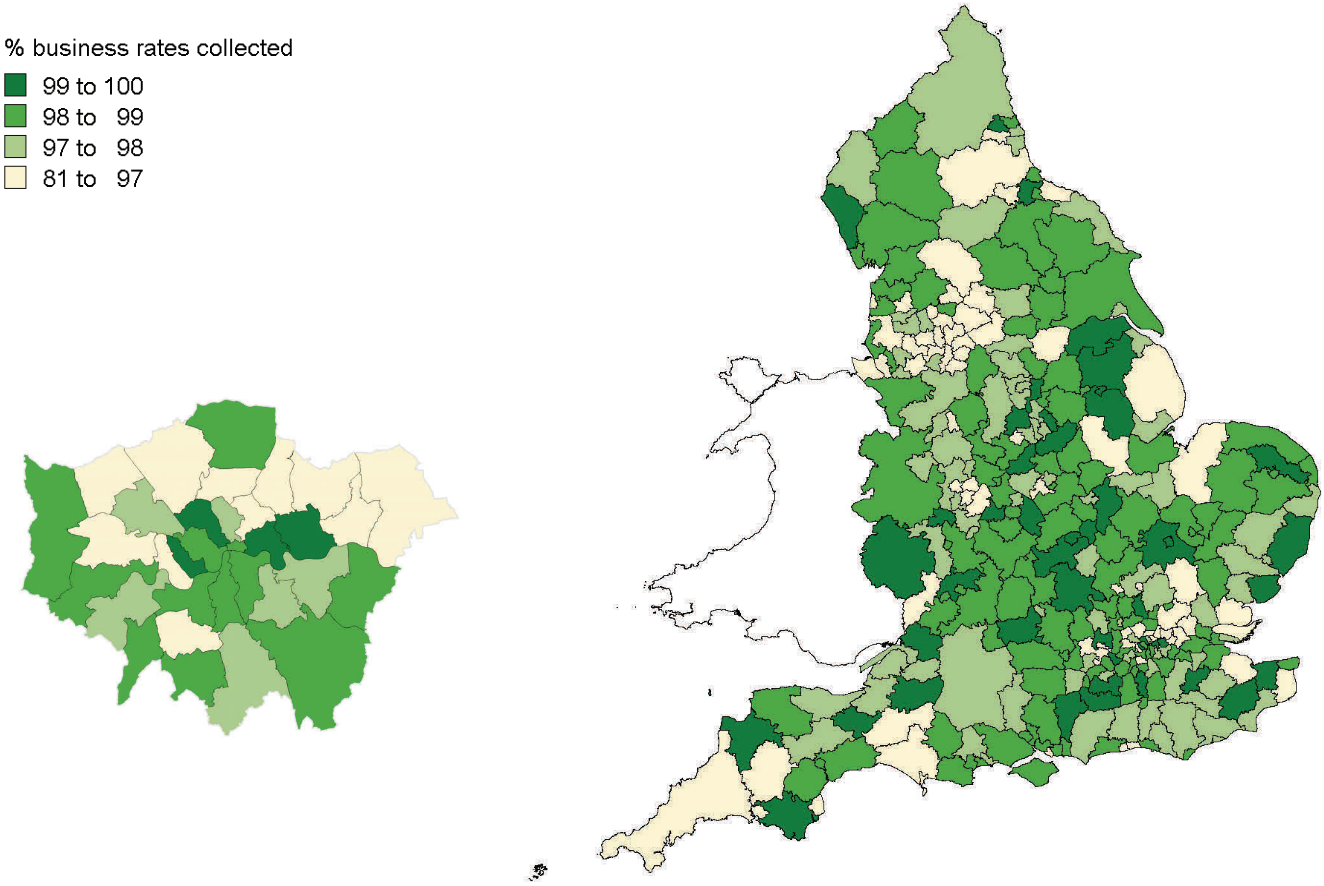
Figure 5: Median in-year collection rates



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

12 Over the last 8 years, median in-year collection rates have been consistently highest among shire district councils and lowest among metropolitan district councils. Figure 6 shows that the lowest in-year collection rates are found in the north west, where there is a high number of metropolitan districts.

Figure 6: Geographical variation in in-year collection rates 2012/13



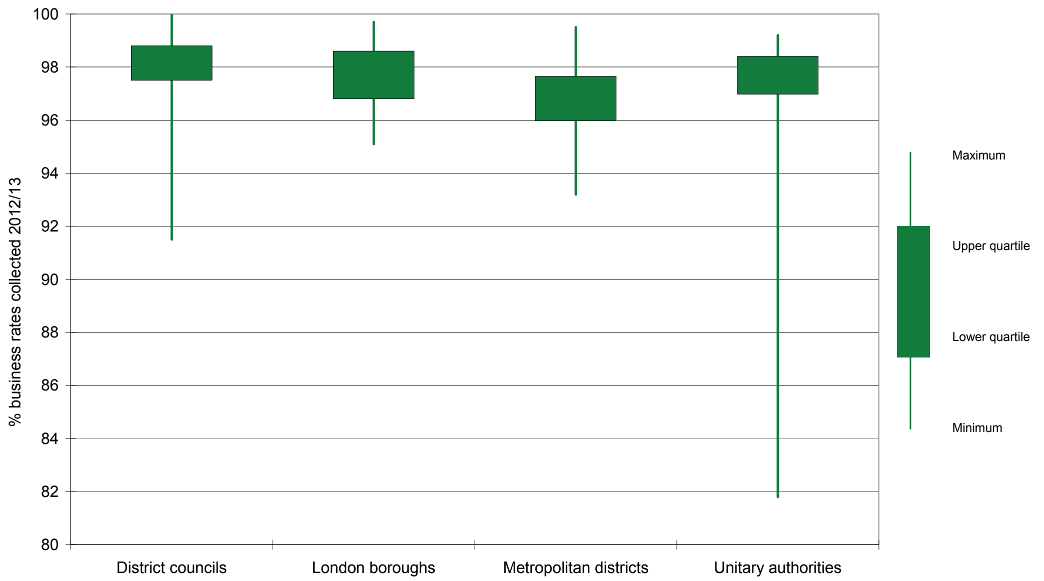
Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

13 It is likely that some councils face particular difficulties in collecting all the business rates due in areas where the recession has been more severe. Such areas may have a more transient business population, with more failures and greater 'churn' in start-ups.

14 Within each type of council, variation was highest among unitary councils[i] (Figure 7). The highest collection rates were achieved by district councils and one - Wyre Forest - collected 100 per cent of the business rates due. No other council of any type collected this amount in 2012/13.

[i] One unitary council had an unusually low collection in this year, because one large business did not pay the business rates due.

Figure 7: Variation in in-year collection rates by council type 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

15 Councils collect most of the business rates in the year they fall due. There may be good reasons why they cannot collect it all in-year. For example, some properties may not receive a valuation until after the year end, or relatively late in a billing year.

Section 3: Uncollected business rates and arrears

16 Councils try to collect due amounts until they decide it is uneconomical to do so, or that it is unlikely to lead to a successful outcome. At that point, they write off outstanding arrears as a loss.

17 Despite the high rates of in-year collection, business rates arrears are substantial over time and currently stand at £1.2 billion. This is money that, if collected in-year, would be available to the public purse sooner to support the delivery of services.

Cumulative business rates arrears

The total business rates arrears at 31 March 2013 for all billing authorities was £1.2 billion. The amount of arrears owed to individual councils ranged from just over £137,000 owed to a unitary council to £87.5 million owed to a metropolitan council.

Source: Department of Communities and Local Government, NNDR 3: national non-domestic rates 2012 to 2013

18 By council type, the range of business rates arrears reflects the size and scale of services and operations within each group. The bigger the council, the larger the amount of arrears is likely to be.

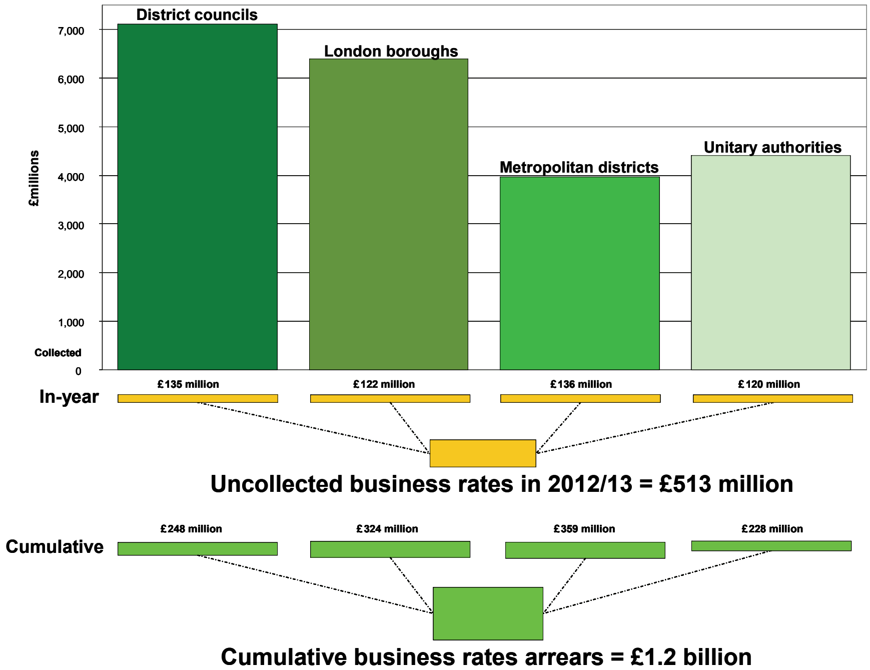
Figure 8: Business rate arrears by council type

	Total arrears £ million	Median arrears £ million	Minimum £ million	Maximum £ million
District councils	248.2	1.1	0.2	4.5
London boroughs	324.3	7.0	1.3	50.8
Metropolitan districts	358.7	5.6	1.1	87.5
Unitary authorities	228.2	3.4	0.1	10.5
England	1,159.4	1.7	0.1	87.5

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

19 Figure 9 shows that arrears represent a small proportion of the business rates due to councils. Metropolitan districts collect a smaller amount of business rates than other councils and have the largest amount of arrears.

Figure 9: Collected and uncollected business rates in 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

20 Before April 2013, councils could deduct any arrears they had written off from the amount they paid into the national pool, so there was no direct financial loss to the council. Under the new arrangements, councils have a greater incentive to continue to pursue uncollected business rates, as they keep a proportion of what they collect (see Section 5).

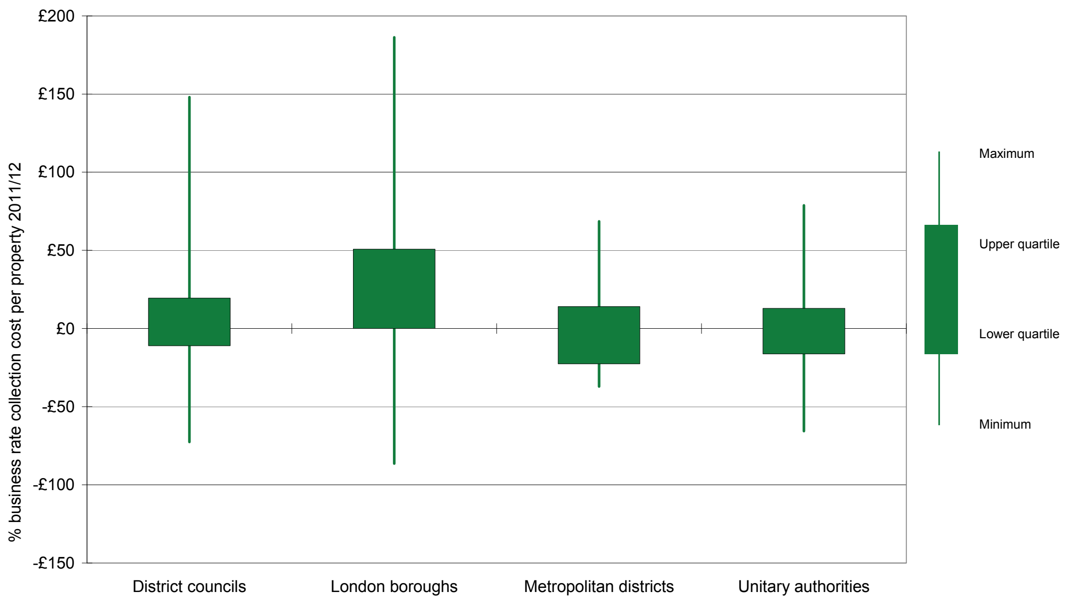
21 Before April 2013, councils deducted an allowance for collection costs from the amount they contributed to the business rates pool. Each council's allowance was calculated using a formula that took account of factors such as the number of business properties in the area and the higher cost of collecting business rates in some parts of the country.

22 In 2011/12[i], the total collection allowance for all councils was £84 million. Councils actually spent £90 million collecting business rates. The £6 million difference was funded from councils' own resources.

23 Overall in 2011/12, there was no relationship between the amount councils spent per property in collecting business rates and the amount of business rates they collected. Some councils spent less than their collection allowance, but collected a relatively high proportion of business rates. Others spent a lot more than their collection allowance, but had relatively low collection rates.

24 Figure 10 shows the variation in the collection cost per property for each type of council in 2011/12 after deducting the collection allowance. In half of councils (the inter-quartile range), costs varied from £-14.30 to £20.30 cost of collection per property. A cost below £0 indicates that a council spent less than their collection allowance. London boroughs had the highest level of variation in costs and metropolitan districts the lowest.

Figure 10: Net collection cost per property



Source: DCLG, 2011/12 Revenue Outturn Returns/CIPFA's Finance and General Actuals Statistics 2011/12

25 Councils face continuing financial pressures. This, plus the new arrangements for business rates, means they now have a greater incentive to reduce the costs of collecting business rates and to maximise the amount of business rates they collect.

[i] Data on costs for 2012/13 from the DCLG Revenue Outturns were not available at the time this briefing was published

26 In April 2013, the government introduced a business rates retention scheme. Councils as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, councils will keep half of the growth.

27 The aim is to give councils a financial incentive to promote economic growth and increase the number of new businesses in their area. It means that councils will benefit financially if they:

- increase the business rates base by encouraging new businesses and economic growth;
- maximise the amount of business rates they collect each year; and
- minimise the cost of collecting business rates.

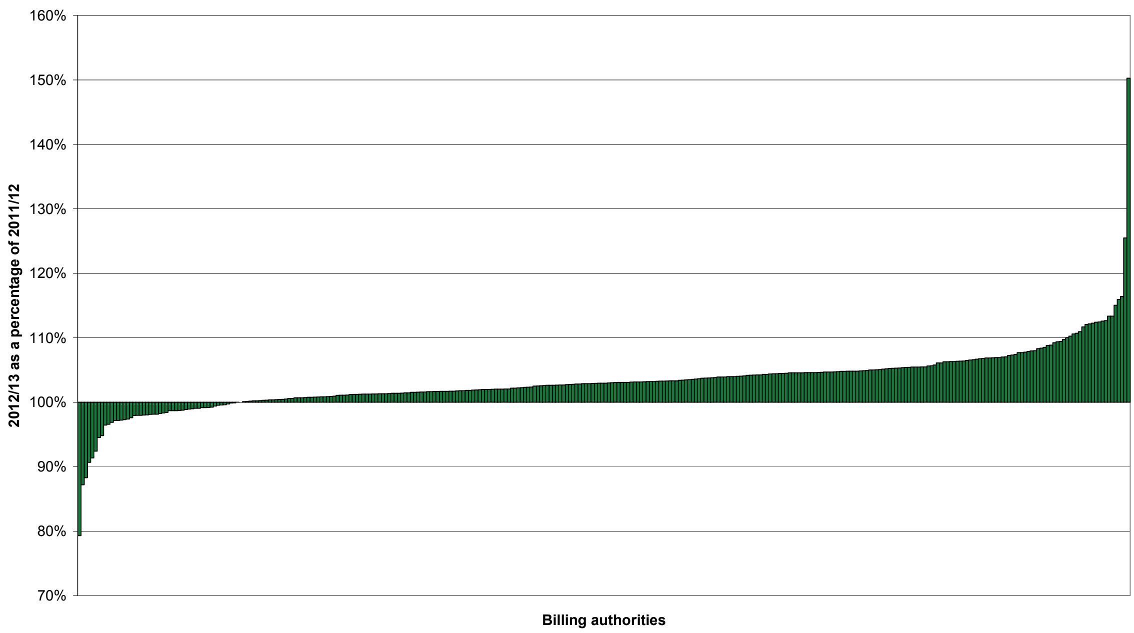
28 The amount of business rates individual councils collect will vary greatly in comparison to the size of their budgets. Accordingly, to avoid big changes in councils' income at the start of the new business rates retention system, the government put in place a system to reallocate funding by charging a 'tariff' on billing authorities that would be better off under the new arrangements. This will 'top up' the funding of billing authorities that would be worse off. All county councils will also receive top up payments to replace the redistributed business rates they used to receive.

29 From 2013/14 onwards, a council's income will be directly affected by changes in the amount of business rates it collects - the more it collects, the greater its income and the less it collects, the less its income will be. How much district councils collect will also directly affect how much income the county council in their area receives.

30 Since the size of growth or falls relative to council budgets will vary from area to area, the government has put in place arrangements to avoid extreme changes in individual councils' income. This is through a levy on 'disproportionate growth', which contributes to a 'safety net' for councils that experience severe falls in income. The government has published detailed guidance about how the new arrangements work (Ref 1).

31 Some councils will see variation in their income from business rates from year to year. In a few cases, this can be substantial. Figure 11 shows that, from 2011/12 to 2012/13, business rates income fell in 43 councils (13 per cent of all billing authorities), remained the same in 22 councils (7 per cent) and increased in 261 councils (80 per cent).

Figure 11: Change in business rates income from 2011/12 to 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

32 Councils will need good economic data to develop robust financial plans and forecast business rates income. Greater uncertainty about income - for example, about the timing and outcome of rating valuation appeal decisions - may mean councils will want to have contingency plans to deal with years when business rates income is lower than expected.

33 To help reduce volatility in business rates income, councils can voluntarily pool their business rates. This enables any growth or reduction in business rates income to be shared and may mean that lower levy rates are payable for business rates growth.

Pooling arrangements

For 2013/14, 13 pools were set up comprising 90 councils. These expected to see growth in their business rates income of £44 million in 2013/14. If this happens, the lower levy rates that apply because they are in pools would result in them being £17 million better off.

Source: DCLG Business Rates Retention Pooling Prospectus July 2013

34 The new business rates retention scheme gives councils a greater incentive to prevent and tackle business rates fraud, because fraud will now directly reduce the income councils receive.

Business rates fraud

In 2012/13, the Commission reports that the total value of business rate fraud detected was £7.2 million.

Source: Audit Commission, Protecting the public purse 2013 (due to be published November 2013)

35 In response to the financial challenges they face, all councils should consider ways of maximising their business rates income. Steps they could take include:

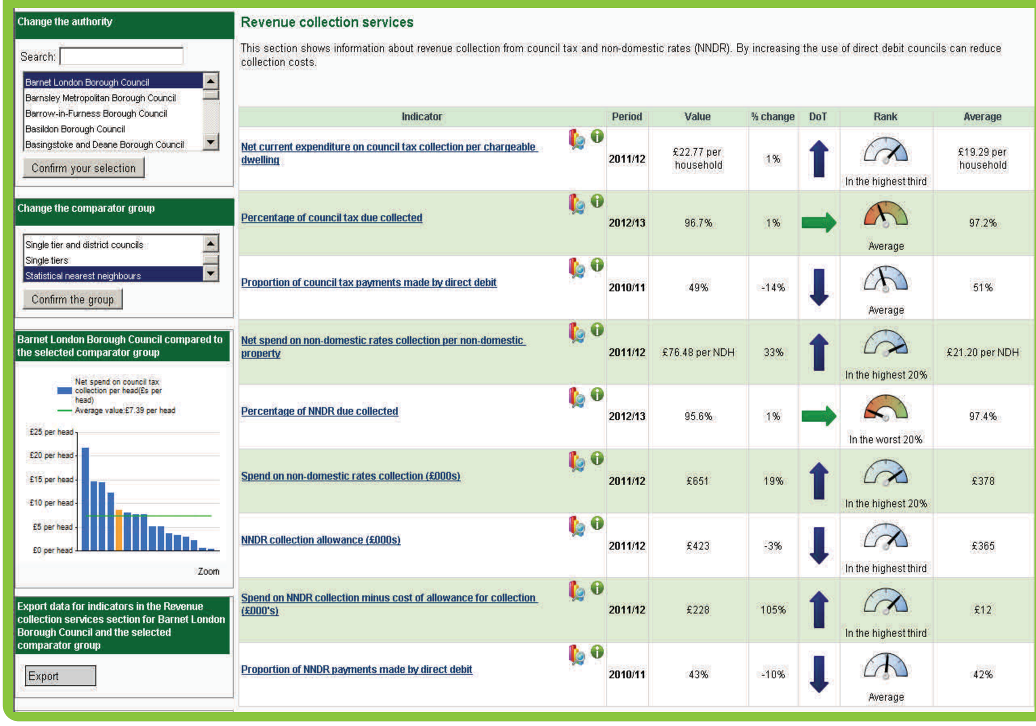
- supporting existing business to do well and finding ways of attracting new businesses to the area;
- making sure they identify and bill promptly all business properties with a rateable value;
- using discretionary relief in an effective way to make sure help is targeted at businesses that need it most;
- preventing and tackling fraudulent claims for relief;
- improving collection rates; and
- reducing collection costs.

36 The Commission's Value for Money Profiles can help councils understand their costs and rates of collecting business rates.

Section 6: Using the VFM profiles to explore business rates collection rates and costs

37 The Value for Money Profiles contain a range of data about business rates collection and other information about income and expenditure.

Below is a screenshot of the revenue collection services page of the financial resilience section. It shows the cost of collection per property and other information about business rates collection for each billing authority.



Indicator	Period	Value	% change	DoT	Rank	Average
Net current expenditure on council tax collection per chargeable dwelling	2011/12	£22.77 per household	1%		In the highest third	£19.29 per household
Percentage of council tax due collected	2012/13	96.7%	1%		Average	97.2%
Proportion of council tax payments made by direct debit	2010/11	49%	-14%		Average	51%
Net spend on non-domestic rates collection per non-domestic property	2011/12	£76.48 per NDH	33%		In the highest 20%	£21.20 per NDH
Percentage of NNDR due collected	2012/13	95.6%	1%		In the worst 20%	97.4%
Spend on non-domestic rates collection (£000s)	2011/12	£651	19%		In the highest 20%	£378
NNDR collection allowance (£000s)	2011/12	£423	-3%		In the highest third	£365
Spend on NNDR collection minus cost of allowance for collection (£000's)	2011/12	£228	105%		In the highest third	£12
Proportion of NNDR payments made by direct debit	2010/11	43%	-10%		Average	42%

38 The VFM Profiles use data supplied by English councils and published by a range of government departments and national agencies. The Department for Communities and Local Government collected and published the data used in this report on business rates collection rates (Ref 2) and costs (Ref 3).

39 Some things councils could consider when using the VFM Profiles include:

- how the cost and rate of collection compare to different comparator groups;
- how collection costs compare with the amount of collection allowance;
- how changes over time compare to the overall trends described in this briefing; and
- what impact the new business rate retention scheme will have.

40 Other relevant sections of the VFM Profiles include:

- sources of income, in the financial resilience section;
- council tax collection rates and costs, in the financial resilience section; and
- an overview of anticipated income and expenditure, in the planned budget section.

41 Billing authorities have a 'local list' of the business properties[i] in their area that have a rateable value. The Valuation Office Agency (VOA) independently sets a property's rateable value, based on its annual market rental value. The VOA has reassessed rateable values every five years and the last revaluation was in 2010, based on the value on 1 April 2008. The government has announced it intends to postpone the next revaluation to 2017.

42 Councils calculate the business rates due for a property by multiplying its rateable value by a national multiplier provided by central government. The multiplier changes every year to reflect inflation. Councils use a standard multiplier for medium-sized and large organisations, and a lower one for small businesses[ii]. In 2013/14, the national multiplier standard rate is 47.1p and 46.2p for small businesses.

Business rates relief

43 Councils give various types of relief to reduce some business rates bills. Most of this relief is mandatory and includes relief for small businesses, empty or partly-occupied properties, and charities. For example, mandatory relief reduces charities' business rates bills by 80 per cent. Councils also automatically reduce bills for a period where a business receives a significant change in its rateable value. This transitional relief limits the increase or decrease in business rates following a revaluation.

44 Councils have discretion to give other relief, for example, up to 20 per cent more for charities, or up to 100 per cent for some non-profit organisations and rural businesses.

45 Before April 2013, the full amount of mandatory relief and a proportion of the discretionary relief councils gave were deducted from their contribution to the national pool. This meant that the remaining proportion of discretionary relief (between 25 and 100 per cent depending on the type of relief given) had to be funded from councils' own resources.

[i] The local list includes business premises (buildings) and other structures used for business activities such as pylons and advertising hoardings.

[ii] The City of London gets a different and usually slightly higher multiplier.

Mandatory and discretionary relief

In 2012/13, councils granted nearly £2.4 billion of mandatory relief; an increase of over 12 per cent from 2011/12. This included a total of £1.3 billion of mandatory charity relief (13 per cent higher than the previous year) and nearly £1 billion of relief for empty properties (over 11 per cent higher than the previous year).

The amount of discretionary relief councils granted which was offset against their contribution to the pool reduced by over 4 per cent from £47 million in 2011/12 to £45 million in 2012/13.

Source: DCLG Statistical Release, National Non-Domestic Rates Collected by Local Authorities in England 2012/13, 14 August 2013

46 The growth in charitable relief probably reflects the economic downturn in some areas. Councils will need to be vigilant that applications for charitable relief are genuine. Business rate fraud includes:

- falsely claiming mandatory or discretionary rate relief or empty property exemptions;
- failure to declare occupancy of a property;
- falsely claiming insolvency status to evade payments; and
- not disclosing relevant information, for example, about the size of the company, to gain rate relief.

References

Ref 1. Department for Communities and Local Government, Business rates retention and the local government finance settlement: A practitioner's guide (version 3), DCLG, February 2013.

Ref 2. Department for Communities and Local Government, *Statistical Release: Collection Rates and Receipts of Council Tax and Non-Domestic Rates in England 2012 – 13*, 26 June 2013.

Ref 3. Department for Communities and Local Government, *Local authority revenue expenditure and financing England final outturn: 2011 to 2012 individual local authority data*, 27 November 2012.

Tough Times 2013

Councils' responses to financial challenges from 2010/11 to 2013/14

November 2013

Executive summary

This is the Audit Commission's third and final report examining the financial resilience of English councils. It is based on our latest analysis of financial data supplied by councils to government, and responses to a survey of the appointed auditors for all 353 single-tier, county and district councils.

Our research over the last three years has been set against the backdrop of a significant reduction in central government funding to councils as part of the government's overall deficit reduction programme. These funding reductions will continue beyond 2013/14, although their full extent is not yet known. Councils have also experienced real-terms reductions in other income, such as council tax, and face uncertainty from 2013/14 about the level of income from locally retained business rates.

Alongside reduced income, councils have been contending with rising demand for some services, especially social care. From 2015/16, councils will be expected to work in a more integrated way with local health partners to improve care services and achieve greater efficiency.

Our conclusion this year is that, in the face of financial challenges from 2010/11 to 2013/14, almost all councils have demonstrated a high degree of financial resilience. A small minority of councils, however, have found it harder to cope than others as funding levels have reduced. A few of these have been a source of concern to auditors in successive years.

With uncertainty about the future funding available to deliver services, councils cannot be sure what savings they will need to make. Auditors report that at least one in ten councils do not yet have plans for how they will address the expected gap between funding and spending in coming years. It is understandable, therefore, that auditors are less confident about the medium-term financial prospects of one third of councils.

Our research shows councils have already adopted a wide range of strategies in response to financial challenges. They have valuable learning to share from their savings initiatives to date. Where conventional strategies can no longer be relied on to deliver the savings needed, councils will need to innovate to develop new approaches to public service delivery that rely less on funding from government.

Councils must adapt in order to continue to provide services that meet their statutory obligations and the needs of their local communities with reduced levels of income. There will be ongoing risks for councils as they do so. As the Audit Commission is expected to close in March 2015, it will be for the government and others to find alternative ways to draw on the insights auditors can provide about the financial resilience of England's councils and remain vigilant for signs of financial stress.

Councils' spending in 2012/13

We examined councils' spending on non-education services in 2012/13 and how this differed from 2011/12.

- Councils spent £38.0 billion (net of fees, charges and other income) on services in 2012/13. More than half was used to fund social care services for adults and children.
- On average, single-tier and county councils (STCCs) spent 2.4 per cent less on services in 2012/13 than in 2011/12.
- District councils (DCs) spent 2.8 per cent less on average in 2012/13 than in 2011/12.
- During 2012/13, 63 per cent of councils increased reserves while 37 per cent reduced them.
- In aggregate, councils increased reserves by £0.9 billion in 2012/13 – a smaller increase than in 2011/12.

Financial stress in 2012/13

We asked auditors whether councils experienced significant difficulties, or took unplanned actions, in delivering the budgets they agreed for 2012/13.

- In the view of auditors, 89 per cent of councils experienced no significant difficulties in delivering the budget they agreed for 2012/13; but agreeing the budget and identifying how savings would be delivered was challenging for some councils.
- Auditors indicated that 17 per cent of STCCs and 6 per cent of DCs experienced significant difficulties in delivering their agreed budgets in 2012/13. The main difficulties were: overspending due to additional service demand; shortfalls in income; and not achieving planned savings.
- Three in ten councils (29 per cent) needed to take one or more unplanned actions during the year to deliver their budget.
  - Councils that took unplanned actions to deliver their budgets in 2011/12 were more likely to do so again in 2012/13.
- The unplanned actions most commonly taken in 2012/13 were:
  - reductions in service spend;
  - re-profiling/re-evaluation of the savings from major savings initiatives; and
  - reductions in staffing levels or restrictions on recruitment.
- Based on auditors' responses, three in ten councils (29 per cent) exhibited some form of financial stress in 2012/13; experiencing significant difficulties, needing to take unplanned actions, or both.
  - One in five councils (18 per cent) exhibited financial stress in both 2011/12 and 2012/13, including 25 per cent of metropolitan district councils and 24 per cent of unitary authorities.
  - 4 per cent of councils exhibited high financial stress in both years.

Councils' income in 2013/14

We looked at what income councils expected for 2013/14 when they were setting their budgets, compared with earlier years.

- From 2010/11 to 2013/14, government funding to councils reduced by £6 billion (19.6 per cent) in real terms.
  - Metropolitan district councils saw the largest aggregate reduction – 22.5 per cent.
  - County councils' saw the smallest reduction over this period – 16.4 per cent.
- Funding reductions have been proportionally greater for councils that are more dependent on government income to fund spending. Reductions in funding to STCCs are equal to 12.1 per cent of their 2010/11 spending, on average. For DCs, reductions are equal to 10.5 per cent of their 2010/11 spending, on average.
- One in five councils (20 per cent of STCCs and 23 per cent of DCs) have seen reductions in funding that were greater than 15 per cent of their planned revenue spending in 2010/11.
- Councils serving the most-deprived areas have seen the largest reductions in funding relative to spending since 2010/11.
  - In almost half the councils (49 per cent) serving the most-deprived 20 per cent of areas, the reduction in funding from 2010/11 to 2013/14 exceeded 15 per cent of their spending in 2010/11.
  - Of the councils serving the least-deprived 20 per cent of areas, fewer than one in ten (8 per cent) saw funding reductions as large.
- Council tax income fell by £0.3 billion (1.7 per cent) in real terms from 2010/11 to 2013/14, after council tax freeze grant is taken into account.
  - The 63 per cent of councils that froze or reduced council tax in each of the last three years saw the largest overall reduction in council tax income from 2010/11 to 2013/14 – 2.2 per cent in real terms.
  - The 8 per cent of councils that only froze or reduced council tax in 2011/12 saw a real-terms net increase in council tax income of 1.6 per cent from 2010/11 to 2013/14.

Councils' spending plans for 2013/14

We looked at what councils planned to spend on non-education services in 2013/14 compared with earlier years.

- From 2010/11 to 2013/14, service spending by STCCs reduced by 9.4 per cent on average. Service spending by DCs reduced by 16.6 per cent on average.
- Spending on planning and development services by STCCs reduced by 37.6 per cent on average from 2010/11 to 2013/14. The average reduction for DCs was 19.3 per cent.
- Spending by STCCs on cultural services reduced by 24.4 per cent on average. For DCs the average reduction was 19.4 per cent.
- Children's social care spending has increased by 1.2 per cent on average since 2010/11.

- The contribution of reductions in spending on adult social care to total spending reductions has increased over time. This service accounts for 52 per cent of the total spending reduction from 2012/13 to 2013/14.
- There have also been large increases in the share of total spending reductions that come from:
  - cultural and related services – 31 per cent of the total service spending reduction for all councils in 2013/14; and
  - environment and regulatory services – 22 per cent of the total 2013/14 spending reduction.
- As a result of councils' spending decisions, social care services in STCCs and central services in DCs account for a larger share of their total service spending in 2013/14 than they did in 2010/11.

Councils' responses to financial challenges since 2010/11

We asked auditors what strategies councils had adopted since 2010/11 in response to financial challenges, and which of these had made the greatest contribution to achieving their financial objectives.

- STCCs adopted a wider range of strategies in response to their financial challenges from 2010/11 to 2013/14 than DCs.
- The three strategies most widely adopted by councils were:
  - reducing overall staff numbers (96 per cent of STCCs and 86 per cent of DCs);
  - delivering some services more efficiently (91 per cent of STCCs and 81 per cent of DCs); and
  - reducing or restructuring the senior management team (79 per cent of STCCs and 69 per cent of DCs).
- The three strategies that made the greatest financial contribution were:
  - reducing overall staff numbers (for 76 per cent of STCCs that did so and 61 per cent of DCs);
  - delivering some services more efficiently (60 per cent of STCCs and 59 per cent of DCs); and
  - entering into new service delivery arrangements with other public bodies (25 per cent of STCCs and 52 per cent of DCs).
- Our financial analysis shows that from 2010/11 to 2012/13, reduced spending on staff accounted for 48 per cent of councils' total spending reductions.

Financial resilience in 2013/14 and beyond

We asked auditors how well placed councils were to deliver their budgets in 2013/14 and their medium-term financial plans.

- Auditors reported that nine out of ten councils were well placed to deliver their budget in 2013/14; a small increase on last year.
- Auditors were unsure about budget delivery in the remaining one in ten councils, mainly due to: concerns about councils' ability to deliver savings of the scale required by funding reductions; rising cost pressures; weaknesses in financial controls; and uncertain prospects for income.
- About two-thirds of councils (64 per cent) were well placed, in the view of auditors, to deliver their medium-term financial plans. But auditors had

concerns about the medium-term financial prospects of the other third of councils (36 per cent). Auditors were more likely to be concerned about the future financial prospects for:
  - unitary authorities (47 per cent of auditors had concerns);
  - London boroughs (45 per cent); and
  - metropolitan district councils (42 per cent).
- Councils where auditors were concerned about the delivery of medium-term financial plans had seen larger average reductions in government funding from 2010/11 to 2013/14 than those which auditors thought were well placed to deliver in the medium term.
- Based on auditors' responses, we consider two thirds of councils (63 per cent) to present a low financial risk. Three in ten (28 per cent) present a future financial risk. Nearly one in ten (8 per cent) present a current and ongoing financial risk.
  - At least two in five London boroughs, metropolitan districts and unitary authorities are in the ongoing or future risk categories.
  - Metropolitan district councils present the highest level of ongoing risk in 2013 with 14 per cent in this category.
- Councils that present an ongoing or future financial risk in 2013 were more likely to have experienced high in-year financial stress in 2012/13.

Conclusions

110 In the face of financial challenges from 2010/11 to 2013/14, almost all councils have demonstrated a high degree of financial resilience. Auditors report that nine out of ten councils delivered their budgets in 2011/12 and 2012/13 without experiencing significant financial difficulties. Seven out of ten councils delivered their budgets in those years without needing to take unplanned actions. The prospects for delivering the budget in 2013/14 also appear good for about nine out of ten councils.

111 Our research also shows that funding reductions have not fallen equally. A small minority of councils have found it harder to cope than others, with one in ten experiencing significant difficulties in delivering the budgets they set in 2011/12 and 2012/13 and three in ten needing to take unplanned actions in those years to balance the books. One fifth of councils overall and a quarter of metropolitan and unitary authorities exhibited financial stress in both 2011/12 and 2012/13. Auditors have concerns about the ability of one in ten councils to deliver their budget in 2013/14. A few of these have been a source of concern to auditors in successive years.

112 In our first report on councils' financial resilience in 2011 we noted that councils were 'at the start of a difficult and uncertain period for their finances'. Our analysis this year shows councils' funding from government reduced by 19.6 per cent in real terms from 2010/11 to 2013/14 and council tax fell by 1.7 per cent. Central funding to councils will reduce further in 2014/15 and 2015/16 as part of the government's ongoing strategy to reduce the UK's budget deficit. Policies that aim to reduce or freeze council tax will continue in these years. There is uncertainty for councils about funding from government beyond that, and about the income they can expect from retained business rates in the future as the UK economy recovers from a period of low growth.

113 With uncertainty about the future funding available to deliver services, councils cannot be sure what savings they will need to make. Auditors report that at least one in ten councils do not yet have plans for how they will address the expected gap between funding and spending in coming years. It is understandable, therefore, that auditors are less confident about the medium-term financial prospects of one third of councils.

114 Our research shows councils have already adopted a wide range of strategies in response to financial challenges, although the long-term effect of these on councils' financial resilience or their ability to meet the needs of local communities is unknown. Councils, nevertheless, have valuable learning to share about how to secure the maximum benefit from their savings initiatives to date.

115 For about one in five councils, the available options to reduce spending in the future are becoming more limited. One in twenty auditors told us that councils are finding savings harder to identify, and harder to deliver with fewer resources. Where conventional strategies can no longer be relied on to deliver the savings needed, councils will need to innovate to develop new approaches to public service delivery that rely less on funding from government.

116 Councils must adapt in order to continue to provide services that meet their statutory obligations and the needs of their local communities with reduced levels of income. There will be ongoing risks for councils as they do so. As the Audit Commission is expected to close in March 2015, it will be for the government and others to find alternative ways to draw on the insights that auditors can provide about the financial resilience of England's councils and to remain vigilant for signs of financial stress.

Report to the Audit and Governance Committee

Report Reference: AGC-024-2013/14
Date of meeting: 6 February 2014

Epping Forest District Council

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 2012/13. 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 Mr David Eagles, Partner.

Resource Implications:

Sufficient allowance was made in the original estimates for 2013/14 to cover the fees for the 2012/13 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

EPPING FOREST DISTRICT COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2013

CONTENTS

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 2013.

We undertake grant claim and return 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 with the reasons for qualification set out in a letter to the grant paying body. Sample sizes used in the work on the housing and council tax benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

A summary of the fees charged for certification work for the year ended 31 March 2013 is shown to the right.

Appendix I of this report (page 5) shows the Council's progress against the action plan included in our 2011/12 Grant Claims and Returns Certification report (presented to the Audit and Governance Committee on 7 February 2013).

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

FEES	PLANNED SCALE FEE (£)	OUTTURN FEE (£)
Housing and council tax benefit subsidy	28,070	28,070
National non domestic rates return	2,900	2,900
Pooled housing capital receipts return	1,280	1,280
TOTAL FEES	**32,250**	**32,250**

KEY FINDINGS

Summary of high level findings

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing and council tax benefit subsidy	46,901,290	Yes	Yes	5,652 decrease in the amount payable to DWP
National non-domestic rates return	32,127,305	No	No	-
Pooled housing capital receipts return	1,156,573	No	No	-

Detailed Findings

Below are details of each grant claim and return subject to certification by us for the financial year to 31 March 2013. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan in respect of these matters is included at Appendix II of this report on page 6.

Housing and council tax benefit subsidy

Local authorities responsible for managing housing benefit and council tax benefit schemes are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A. The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions (DWP). We have no discretion over how this methodology is applied.

Findings and impact on claim

During our initial testing of a sample of cases four errors were identified. These resulted in additional tested being required, as follows:

- **Non-HRA rent rebates rent liability:** Testing of the initial sample of eight cases identified one case where the rent liability had not been calculated correctly, resulting in an underpayment of benefit. As the population was small, testing on 100% of the remaining population was completed. No further errors were identified and therefore this error was concluded to be isolated. As this was an underpayment, no amendment was made to the claim form. The error was reported in our qualification letter.
- **Rent Allowances eligible rent:** Testing of the initial sample of twenty cases identified one case where the ineligible service charges were included within the eligible rent amount and one case where a rent increase was applied from the incorrect date. An additional, random sample of 40 cases was tested, where one further error was identified. No amendments were made to the claim form but an extrapolation of these errors, totalling £27, was reported in our qualification letter.
- **Rent Allowances tax credits:** Testing of the initial sample of twenty cases identified

Housing and council tax benefit subsidy	Findings and impact on claim
	one case where the tax credit income had not been input correctly, although the benefit paid was correct because the claimant's income was too low for this to have any effect on their entitlement. However, an error of a similar type could lead to an overpayment and therefore an additional, random sample of 40 cases with tax credits was chosen for testing. One further error was identified. No amendments were made to the claim form but an extrapolation of these errors, totalling £0.30, was reported in our qualification letter. The additional '40+' testing and 100% testing is required by the methodology agreed with the Department for Work and Pensions (DWP). This methodology requires that, for situations where errors are identified that cannot be concluded as isolated, extended testing of an additional sample of 40 cases is required. Where there is a small population (less than 100) a 100% check is undertaken. The extrapolated errors all relate to over-claims of subsidy. If DWP decide to adjust for the extrapolated errors, then the total adjustment to the overpayments reported would be £27.30. The Capita system reconciliation was carried out, but there were unreconciled differences of £1,112 in relation to Rent Rebates and £7 in relation to private tenants. These were both reported in our qualification letter. Whilst the level of additional testing required by the methodology is similar to the previous year, we recognise that improvements have been made in the year, with 5% benefit checks now being undertaken by Benefits staff of new and amended claims.

National non-domestic rates return	Findings and impact on return
The Council is a billing authority and as such is required, on an annual basis, to calculate its contribution to the centrally-administered non-domestic rates pool. The value of the contribution must be notified to the Secretary of State. This is done on form NNDR3, which is subject to certification.	No issues were identified from our testing and the return was certified without amendment.

Pooling of housing capital receipts	Findings and impact on return
Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received. The information in these returns is subject to certification on an annual basis.	No issues were identified from our testing and the return was certified without amendment.

APPENDICES

APPENDIX I: STATUS OF 2011/12 RECOMMENDATIONS

HOUSING AND COUNCIL TAX BENEFIT SUBSIDY					
RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
Perform 5% (minimum) checks on new and amended claims to ensure that claims are being processed accurately.	High	Checking has been undertaken to cover the whole of 2012/13.	Assistant Director on Finance & ICT (Benefits)	Immediate, but checking is on-going	Implemented.
Split the component parts of long term incapacity benefit rate.	High	Agreed	Assistant Director on Finance & ICT (Benefits)	Before February 2014	Implemented.

APPENDIX II: 2012/13 ACTION PLAN

HOUSING AND COUNCIL TAX BENEFIT SUBSIDY					
CONCLUSIONS FROM WORK	**RECOMMENDATIONS**	**PRIORITY**	**MANAGEMENT RESPONSE**	**RESPONSIBILITY**	**TIMING**
Although the Council completed the subsidy reconciliation using the spreadsheet methodology provided by Capita for the Academy system, un-reconciled differences remained and explanations could not be provided for all differences.	Investigate any differences arising from completion of the subsidy reconciliation prior to claim submission.	Medium	The timescale to submit the claim is very tight. Within the time available, all significant variances will be investigated. Given the amount of expenditure and the size of the caseload, a reconciliation to the last penny will not always be a good use of resources.	Assistant Director of Finance & ICT (Benefits)	April 2014
A small number of errors were identified during our testing regarding the input rent liability, eligible rent and tax credits.	Carry out refresher training for staff that specifically covers the correct treatment of these areas	Medium	Agreed	Assistant Director of Finance & ICT (Benefits)	April 2014

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Report to the Audit and Governance Committee

Epping Forest District Council

Report reference: AGC-025-2013/14
Date of meeting: 6 February 2014

Portfolio: **Finance and Technology**

Subject: **Internal Audit Monitoring Report - October to December 2013**

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 2013/14:

(a) The reports issued between October and December 2013 and significant findings (Appendix 1);

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

(c) The 2013/14 Audit Plan status report (Appendix 3).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2013, and details the overall performance to date against the Audit Plan for 2013/14. The report also contains a status report on outstanding priority 1 audit recommendations which continues to be 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 3 below.

2. Audits completed in the third quarter have included a number of financial systems and the prevention and detection of fraud, the detailed findings of which are in appendix 1.

<u>Reports Issued</u>

3. The following audit reports were issued in the quarter:

(a) Full Assurance:

- Housing Contracts;

(b) Substantial Assurance:

- Budgetary Control;
- Risk Management and Insurance;
- General Ledger;
- National Non Domestic Rates;
- Countrycare;
- Waste Management and Recycling;
- Recruitment and Selection;
- Commercial Property Portfolio;
- Fleet Operations Income; and
- Contracts / Procurement (Fraud Prevention and Detection);

(c) Limited Assurance:

- None; and

(d) No Assurance:

- None.

Limited Assurance

4. No limited assurance reports were issued in this quarter.

Follow Up of Previous Priority 1 Recommendations

5. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

Audit Plan 2013/14 (Appendix 3)

6. The status of the 2013/14 Audit Plan is set out at Appendix 3.

Performance Management

7. The Internal Audit Team has local performance indicator targets to meet in 2013/14, as set out below:

	Actual 2010/11 For year	Actual 2011/12 For year	Actual 2012/13 For year	Target 2013/14 For year	Actual 2012/13 Quarter 3	Actual 2013/14 Quarter 3
% Planned audits completed	82%	82%	85%	90%	63%	64%
% chargeable “fee” staff time	66%	71%	69%	72%	69%	70%
Average cost per audit day	£307	£213	£243	£245	£229	£232
% User satisfaction	86%	89%	N/A	90%	N/A	90%

8. 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. The third quarter figure has dropped to 70% (second quarter 77%) due to staff sickness.

(c)) Average cost per audit day - the calculation is based on the costs for each quarter taken from the budget monitoring reports, divided by the number of fee earning days extracted from the time recording system.

(d) User satisfaction has been based on a customer survey form. A replacement electronic form has been developed for use from April with the new audit plan from which data is currently compiled. The new form has been simplified to encourage completion which has resulted in a higher return rate and positive comments from managers.

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.

EFDC - Definition of Levels of Assurance

Assurance levels:
The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings
Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 3
October - December 2013

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Contracts	Housing	**Full Assurance** The audit did not highlight any areas of concern and found a clear audit trail of the process supported by the required documentation. No recommendations have been raised.	The review of Housing Contracts showed excellent understanding of the required processes and policy. Each required stage could be evidenced and that the CSO'S are fully adhered to. Supporting documentation is retained and monitoring is demonstrated.
Budgetary Control	Finance and ICT	**Substantial Assurance** The systems and controls in place in relation to budget setting, monitoring and reporting are operating effectively. However, the final budget working papers should be signed by the relevant spending control officer as evidence that the budget under their control is agreed, and the Councils key objectives should be approved prior to approval of the budget in February each year.	Budgets are prepared in accordance with Council policies, which are set out in Financial Regulations and were approved by full Council on 19th February 2013. Some final estimates were not signed by the relevant Spending Control Officer as evidence that they agree with the budgets under their control. There is a good level of budget monitoring and reporting in the Authority. Monthly cost centre monitoring reports, showing actual expenditure against budget, are sent to Spending Control Officers in order for them to monitor their budgets. These are also used as the basis for discussing budgets within directorates; a standing item on directorate team meeting agendas.
Risk Management and Insurance	Finance & ICT	**Substantial Assurance** There is a sound system in place for identifying and managing risk. However training should be provided to ensure risk management is fully embedded within the Authority.	Risk Management processes are in place. The Risk Management Group is responsible for maintaining the Corporate Risk Register. There are sound arrangements in place for processing insurance claims. Records are

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			retained.
General Ledger	Finance & ICT	**Substantial Assurance** The systems and controls surrounding the processing of data on the general ledger are operating satisfactorily. A recommendation has been raised with respect to updating the procedure notes.	Data from the feeder systems is completely and accurately transferred to the general ledger. The system automatically rejects any invalid codes loaded by Journal entry. These corrections are made immediately and reposted. Reconciliations between the general ledger and the feeder systems are carried out in the directorates raising the feeder system journal transfer.
National Non Domestic Rates	Finance & ICT	**Substantial Assurance** The section has well established procedures for ensuring that the NNDR database is complete and accurate and the liability is correct. Income and refunds are accurately recorded but should be reconciled regularly to the general ledger to identify any discrepancies.	The NNDR database, Academy, holds a complete and accurate record of hereditaments, and amendments are promptly and correctly actioned. The liability is correctly calculated by Academy with reference to the system parameters, rateable value and any applicable reliefs or exemptions. Entitlement to the relief or exemption is checked and authorised prior to inputting to the system. However, empty properties should be inspected as soon as possible after notification.
Countrycare	Planning & Economic Development	**Substantial Assurance** The systems and controls within Countrycare are operating effectively.	The systems and controls in relation to the purchase of goods and services are carried out in accordance with Financial Regulations and good practice. However, the inventory list should be updated to ensure it records all assets currently held by the section.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			Sundry debtors are raised for all work carried out for other organisations. Consideration has been given to formalising the arrangements with Service Level Agreements, and this is currently with Legal Services.
Waste Management and Recycling	Environment and Street Scene	**Substantial Assurance** The controls surrounding the monitoring of the waste management contract payments and recycling credit income are operating effectively, and there is a good separation of duties between authorising orders and invoices.	The waste management contract payments are properly monitored and authorised. Recycling credit income due to the Authority has been correctly calculated and billed to Essex County Council. Stock counts are carried out twice yearly, although this was not independently verified by Internal Audit. Internal Audit will attend the year end stock count.
Recruitment and Selection	Corporate Support Services	**Substantial Assurance** The current Recruitment and Selection Policy is in the process of being reviewed and amended.	Management and Human Resources need to ensure documentation is completed and retained on file and that procedures are operating satisfactorily. A review into the most cost effective and efficient advertising methods should be undertaken. This will ensure value for money is attained whilst still enabling the authority to select suitable candidates for vacant roles.
Commercial Property Portfolio	Corporate Support Services	**Substantial Assurance** The systems and controls surrounding the management of the Council's commercial property portfolio are operating effectively, and ensure that rent reviews and lease renewals are carried out in a timely manner and that rent invoices are accurate and rental income is effectively monitored.	The excel spreadsheets, which are used by the Valuers to manage their own portfolio of properties, are not as secure as GVA, It is recognised that GVA does not lend itself to day-to-day property management, and as a new IT system is currently being implemented, no recommendation has been raised in relation to this. However, the data on GVA must be checked to ensure it is accurate prior to transferring the

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			data to the new property management system. The commercial valuation forms should be approved by the Chief Estates Officer prior to sending the notices to the tenants, and the procedures checklists should be used by the valuers to enable progress to be monitored.
Fleet Operations Income	Corporate Support Services	**Substantial Assurance** The systems and controls surrounding the recording, reconciliation and monitoring of fleet operations income are operating satisfactorily.	MOT and cab inspection income is recorded manually on 'booking-in' sheets. These are checked to the VOSA reports of MOTs, the licences issued, and the income received each day. Any discrepancies are followed up promptly.
Contracts / Procurement (Fraud Prevention and Detection)	Finance & ICT	**Substantial Assurance** There was no evidence of fraudulent activity found. However there were issues identified which need to be addressed to reduce the risk to the Council.	Tender evaluation reports are not standardised across the organisation. There were instances where portfolio holders approved the scheme and expenditure but were not always notified of the outcome of the tender evaluation; tender evaluations were not routinely contained within the legal contract files.

INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT January 2014 Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Recruitment and Selection	Management to be reminded of the importance of ensuring the recruitment process is fully documented, including all inductions completed timely and all required paperwork provided to the employee.	Assistant Director HR	30/4/14	Management will be reminded to complete and record all inductions. The HR apprentice will update the checklist for employees when filing the PDR and data cleanse forms.		
Commercial Property Portfolio	Some rent review dates on GVA do not agree to the information held on the Valuers spreadsheets. Therefore the data held on GVA should be checked to ensure that it is correct prior to transferring it to the new IT system.	Chief Estates Officer	31/3/14	Agreed. The data will be cleansed before being loaded onto the new system. There are currently delays in the implementation of the new system.		

Internal Audit Plan as at January 2014

Appendix 3

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	FFS
Sundry Debtors	system/follow up	15	Completed	FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	15		FFS/R26
Budgetary Control (capital and revenue)	system/follow up	10	Completed	FFS
Risk Management and Insurance	system/follow up	15	Completed	FFS
Main Accounting and Financial Ledger	system/follow up	15	Completed	FFS
Housing Benefits	system/follow up	20		FFS
Council Tax	system/follow up	20	In Progress	FFS/R27/AC
National Non Domestic Rates	system/follow up	15	In Progress	FFS/R27
Cash receipting and Income control	system/follow up	15	In Progress	FFS
Provision for ‘top up’ testing	systems	30	Completed	FFS
ICT				
ICT Procurement	ICT	10	Completed	AC/R2
Access controls	ICT	10	Completed	FFS
Disaster recovery/business continuity	ICT	10	Completed	R8
TOTAL		**230**		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Countrycare	System	10	Completed	R
TOTAL		**30**		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	system	20	Completed	R20
Car Parking Contract	system	10	In Progress	R27
North Weald airfield	establishment	15		R27
TOTAL		**45**		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	20	In Progress	FFS/R27
Right to Buy	system	10		AC
Housing Repairs Service	system	20	In Progress	
Housing Contracts	system	20	Completed	R2
Private Sector Housing - Grants	system	15	Completed	
Norway House	Establishment	10		??
TOTAL		**95**		
CORPORATE SUPPORT SERVICES				
Human Resources				

Payroll	System/follow up	20		FFS
Recruitment and Selection	Follow up	5	Completed	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10	In Progress	R
Estates/Facilities Management/Other				
Commercial Property portfolio	Follow up	5	Completed	R9
Reprographics	System	10		??
Fleet Operations income	system	5	Completed	R27
Facilities Management Contracts	system	10	Carried Fwd.	R2
Legal				
Debt recovery	Follow up	10		R27
TOTAL		**100**		
PERFORMANCE IMPROVEMENT				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
FRAUD PREVENTION & DETECTION				
Contracts	fraud }	15	Completed	AC/R20
Procurement	fraud }	15	Completed	AC/R2
Council Tax Discounts	fraud	15	Completed	AC/R23
National Fraud Initiative (NFI)	fraud	20	In Progress	R23
Data matching and analysis (IDEA software)	fraud	25	In Progress	AC
CORPORATE				
Corporate Procurement	system/follow up	15	Carried Fwd.	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Corporate Asset Register	system	5	Completed	FFS
Priority 1 Audit recommendations	follow up	10	In Progress	R23
Governance Statement	management review	5	Completed	AC/R
TOTAL		**170**		
TOTAL DAYS ALLOCATED		**670**		
Contingency/Minor investigations		**40**		R23
Corporate/Service Advice		**65**		
TOTAL		**775**		

Key	**Risk Identifier**
AC	Audit Commission
FFS	Fundamental Finance System
R no.	Risk No. in Corporate Register
R	Reputation of Council

Report to the Audit and Governance Committee

Epping Forest District Council

Report reference: ***AGC-026-2013/14***
Date of meeting: ***6 February 2014***

Portfolio: **Finance and Technology**

Subject: **Protecting the Public Purse 2013, Audit Commission Publication**

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 summary of the Audit Commission publication, Protecting the Public Purse.

Executive Summary:

Summary of the most significant issues raised in the publication including recommendations concerning an action plan for any matters which this Council needs to address.

Reasons for Proposed Decision:

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

Other Options for Action:

No other options.

Report:

Introduction

1. The latest Audit Commission Publication "Protecting the Public Purse 2013" published in November 2013 builds upon the previous two publications of "Protecting the Public Purse, 2011 and 2012". The Local Audit and Accountability Bill contains provision for the closedown of the Audit Commission in March 2015. While the government has announced the transfer of the National Fraud Initiative to the Cabinet Office on 1 April 2015, no decision has been made yet as to whether, or if, any organisation will assume responsibility for carrying out the detected fraud and corruption survey on which the Protecting the Public Purse publications are based.

2. The Audit Commission has made a commitment to publish its final report in the series in 2014.

3. This report shows those responsible for governance in local government bodies how they can fight fraud more effectively:

- fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion;
- in a time of austerity, preventing fraud is even more important to protect the public purse; and

- every pound lost through fraud cannot be spent on providing public services.

4. Local government bodies detected fewer frauds in 2012/13, excluding housing tenancy frauds, compared with the previous year. For those frauds:

- Local government bodies detected 107,000 cases, with a value of £178 million, down by 14 per cent and £1 per cent respectively compared with 2011/12;
- Housing Benefit (HB) and Council Tax Benefit (CTB) fraud accounted for over two thirds of the total fraud loss value in 2012/13, at £120 million, but only 44 per cent of the total cases detected;
- The average value of all detected non-tenancy frauds increased by 15 per cent in 2012/13 ; and
- Had local government bodies detected the same number of cases as in 2011/12, the reported loss would have been far greater.

5. London boroughs detected more fraud than in 2011/12. London boroughs increased both the number and value of frauds detected by 36 per cent in 2012/13, but most non-London regions showed a decline in the number of detected fraud cases in 2012/13, ranging from 6 per cent to 46 per cent.

6. The pace of local authority activity to tackle housing tenancy fraud is accelerating:

- local authorities recovered over 2,600 homes from tenancy fraudsters, a 51 per cent increase since 2011/12;
- London councils detected over half (58 per cent) of all tenancy fraud, although the capital accounts for only a quarter of all council housing in England; and
- councils outside London more than doubled the number of tenancy fraud cases they detected, reflecting their increasing commitment to, and success in, tackling this fraud.

Key Fraud Risks

(a) Housing and council tax benefit fraud

7. In 2012/13, there were 47,000 detected benefit fraud cases with a total value of £120 million. This is the single largest amount of detected fraud in local government.

(b) Non Benefit Frauds

8. Non-benefit frauds, such as those in council tax discounts, housing tenancies and social care, directly cause a financial loss to councils. Benefit fraud, on the other hand, principally represents a loss to the national exchequer. Action to tackle benefit fraud is mainly funded by central government. Non-benefit frauds warrant particular attention by councils, since they bear the main loss.

9. Local authorities are encouraged to adopt a response to fraud that is proportionate to the level of financial loss. This may not currently be the case across all local government bodies. For example, according to the National Fraud Authority (NFA) housing benefit fraud accounts for just 15% of the total annual loss to all fraud in local government, But the 2012/13 survey shows that detected benefit fraud accounts for 67per cent of the value and 44 per cent by cases of all detected fraud reported by local government bodies.

10. The survey showed that the number of reported detected non-benefit frauds varies widely across and within council types. But it is striking that 79 district councils did not detect a single non-benefit fraud. In contrast, only nine councils among all London boroughs, metropolitan districts and unitary authorities combined did not detect any non-benefit fraud.

11. Some variation in reported fraud between councils in the same group is inevitable which may result partly in the differences in the scale of services they provide. It must to

some extent be due to the way they record fraud, but particularly the different priorities that councils in each group place on detecting fraud.

Is Fraud Declining?

12. It is not possible to say whether the decline in detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils, it may signal the effect of reduced investigatory resources.

13. There has been a 14 per cent decline in the number of detected fraud cases in 2012/13, compared with the previous year. The amount of fraud an organisation detects will reflect the range of services it provides, the size of the population it serves, and how well it prevents and deters fraudsters. But the Audit Commission believe that fraud is endemic and that the level of detected fraud is significantly affected by:

(a) the level of resources councils devote to identifying and investigating fraud;

(b) how effectively they use those resources; and

(c) how effectively they record fraud.

14. Organisations that do not look for fraud, or do not look in the correct way, will not detect it. Organisations and individuals are often embarrassed to admit they have been defrauded. This attitude continues to hinder effective action against fraud.

15. The different priority councils place on detecting fraud leads to substantial variation within and between council types. But variation may also be caused by changes in capacity, as councils restructure to make savings, or to prepare for national changes in counter-fraud arrangements.

16. One view held by many counter-fraud professionals is that "there is no such thing as a small fraud, just a fraud that has been caught early". In other words, older frauds will generally be of higher value than newer frauds because they have been running for longer.

17. Thus, where there has been effective action to tackle specific fraud types, their average value should reduce over time, other things being equal. For example, if the number of frauds detected remains broadly unchanged over time, but councils detect them earlier, councils will lose less money.

18. The Audit Commission have no evidence that councils have substantially improved their fraud prevention arrangements. Although most councils say they have maintained their levels of investigative capacity in 2012/13, others have reduced it. Councils should always seek to maintain a capacity to detect fraud, proportionate to risk.

19. All local authorities should compare their own non-benefit fraud figures against the average number of cases detected by councils in the top quartile. In particular, councils who report little or no non-benefit fraud detection should consider whether they have enough investigative capacity, and are using it as effectively as possible.

20. The average number of cases detected in the top quartile of district councils was 234. (EFDC recorded non-benefit fraud cases = 664 single person discount award removals generating £255,270 additional revenue and 17 successful housing fraud cases leading to the recovery of 10 properties).

Current Developments

21. Benefit fraud is a substantial loss to the national public purse, but has less impact on

council budgets. The introduction of the Single Fraud Investigation Service (SFIS) will affect councils' priorities in tackling fraud. Because SFIS will investigate benefit fraud, councils have an opportunity to focus more resources on other frauds, such as housing tenancy fraud, that have a local impact.

22. Councils that have prepared for the introduction of SFIS will be better placed to deal with non-benefit fraud risks. To a large extent London boroughs have done this. Unless councils follow their example, they will lose much of their capability to investigate non-benefit fraud once SFIS starts. This would be a mistake, as non-benefit frauds cause much greater financial loss and harm. Effective local engagement with SFIS will also be required to ensure action taken to tackle benefit fraud continues to reflect local priorities and risks.

23. Councils should consider whether they have the skills they need to investigate different frauds. For example, tackling procurement fraud can sometimes be more complex than investigating other types of fraud. It often requires knowledge of company accounts and contracts, as well as risks of possible corruption.

24. As well as the right skills, counter-fraud specialists in local government need sufficient powers to detect fraud. In April 2013, Council tax benefit (CTB) was replaced by the council tax reduction (CTR) scheme. However, unlike CTB, CTR does not fall under benefit legislation.

25. In May 2013, the government provided councils with CTR specific investigative powers, including requiring employers, banks and utilities to provide financial details to aid investigations. In October 2013, councils were given similar powers to tackle tenancy fraud. This leaves a gap in terms of other frauds. Councils need equivalent powers for all fraud types to protect the public purse effectively.

26. The need to make savings combined with national changes to counter fraud arrangements make it even more important that councils have effective fraud risk management.

<u>Checklist for those Responsible for Governance</u>

27. As with the previous two surveys, a checklist is included as an appendix to the document which has been reviewed against relevant council strategies, existing fraud prevention and detection controls and Internal Audit findings during 2013/14. Of the 29 questions, the Council meets the requirements of 21, partially meet 6 and 2 are not relevant to this Council as they relate to social care.

28. Of the six questions the Council partially meet, the checklist requirements are currently under review to ensure that our policies and procedures are up to date with current thinking, particularly that EFDC policies are aligned with the national Fighting Fraud Locally (FFL) strategy and that resources are sufficient to cover all areas of fraud. As part of the Directorate Restructuring approved by Full Council on 17 December 2013, a Corporate Fraud Investigation Team will be brought together under the Chief Internal Auditor consisting of benefits fraud and housing fraud officers along with the fraud auditor. The corporate team will enable the weaknesses identified to be targeted, and enable the Council to plan for the introduction of SFIS and its effects on the Council when they are known.

<u>Recommendations</u>

29. All local government bodies should:

(a) use our checklist for councillors and others responsible for governance to review their counter-fraud arrangements; and

(b) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

30. Councils in particular should:

(a) actively promote a vigorous counter-fraud culture by:

(i) enforcing robust sanctions for fraud and publicise the action taken, to enhance local deterrence;

(ii) encouraging councillors to play an enhanced role in managing the risk of fraud effectively; and

(iii) reviewing their own whistle-blowing arrangements in line with current best practice and applying the lessons learned from the findings of the 2013 Public Concern at Work research on whistle-blowing.

(b) develop a clear strategy to tackle fraud by:

(i) reviewing their own counter-fraud strategies in the context of the national Fighting Fraud Locally (FFL) strategy to tackle local authority fraud; and

(ii) reviewing their own arrangements against FFL good practice guidance to be issued in 2013 and 2014 about frauds in schools, business rates and personal budgets, where applicable.

(c) work in partnership to reduce fraud by:

(i) considering how best to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations;

(ii) exploring joint working with other councils, particularly smaller councils with limited investigative capacity; and

(iii) realising the benefits of county councils and district councils working together to tackle blue badge fraud (disability parking) in two-tier areas.

(d) prepare effectively for the introduction of the Single Fraud Investigation Service by:

(i) considering the impact that SFIS will have on their capacity to tackle non-benefit frauds;

(ii) maintaining a capability to investigate non-benefit related fraud, proportionate to the risk; and

(iii) working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks.

(e) allocate sufficient resources to tackling fraud by:

(i) focusing more on detecting and recording non-benefit fraud, particularly district councils; and

(ii) targeting their counter-fraud resources where they will produce the most benefit, assessing the risk of harm against the measures needed to reduce it.

(f) improve their use of data to measure their performance in tackling fraud by:

(i) challenging their performance in tackling non-benefit frauds, in particular against the results achieved by the top performing councils;

(ii) considering whether to apply the National Fraud Authority's (NFA's) Annual Fraud Indicator methodology to assess the local impact of the most financially significant frauds;

(iii) maximising the benefits of reporting frauds through the Action Fraud website; and

(iv) requesting an individual fraud briefing from their external auditor.

Conclusions

31. The Council currently has effective benefits fraud and housing fraud teams providing prevention and detection services relating to housing and council tax benefit fraud and Housing tenancy and right to buy fraud. Within Internal audit there is a part time member of staff specifically recruited to work on fraud prevention and detection, who has been concentrating on procurement and contracts and is now developing audit's use of analytical audit software (IDEA) which will enable internal data analysis and matching and automated data monitoring in the future.

32. With the government proposal to set up a Single Fraud Investigation Service (SFIS) to combat benefit fraud, resulting in the probable loss of the Council's benefit fraud investigation team to that service, it is important that the capability to investigate fraud unrelated to housing benefit is retained by the Council. A recent news release from the Department of Work and Pensions (DWP) has stated that SFIS will be launched within the DWP as a single organisation. The release also indicated that SFIS will be implemented on a phased basis from October 2014 to March 2016. They are also currently considering a small number of test sites before that point. The DWP have said that at this point they are unable to say whether TUPE will or will not apply to the transfer of any staff. While at the present time the actual impact the implementation of SFIS will have on the authority's existing benefit fraud staff is not known, the increased risk to the Council by the probable loss of trained fraud staff to SFIS should be considered and an action plan drawn up to mitigate the risk.

33. The Council has continued to use an organisation call Datatank for data matching council tax single persons discounts to credit bureau financial data, which in the last 12 months has resulted in the removal of 664 discount awards, resulting in the generation of £255,270 in additional revenue. The use of Datatank provides a greater level of matching than the National Fraud Initiative (NFI) and provides a full service, saving the Council the cost of administration.

34. Over the last twelve months the two housing fraud investigators have been successful in 17 housing fraud cases leading to the recovery of 10 properties for re-letting. The National Fraud Authority estimates that housing tenancy fraud represents the second largest financial loss to fraud in local government costing £845 million in 2013, with 98,000 social homes in England being subject to some form of tenancy fraud. It is not possible to estimate the extent of housing fraud at EFDC but it is fair to say that the more the fraud officers investigate, the more they uncover.

35. The report once again highlights the importance of a corporate counter-fraud response and the significant impact seen where corporate counter-fraud teams have been

established. The corporate fraud investigation team included in the Directorate restructuring will enable the council's already robust fraud response to be further developed and directed as best needed to protect public finances.

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:

Protecting the Public Purse 2013 published by the Audit Commission and audit files and working papers.

Impact Assessments:

<u>Risk Management</u>
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. A key element to this objective is the prevention and detection of fraud and the safeguarding of the public purse on which guidance is provided within this publication.

<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?	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.

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Report to the Audit & Governance Committee

Report reference: AGC-027-2013/14
Date of meeting: 6 February 2014

Epping Forest District Council

Portfolio: **Finance & Technology**

Subject: **Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17**

Responsible Officer: **Simon Alford (01992 564455).**

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 2014/15 to 2016/17; 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 2014/15 to 2016/17.

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:

Introduction

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 2014/15 to 2016/17 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 carry out its capital programme. As mentioned in Appendix 1 it may borrow additional sums to pre or post-fund future years requirements. The capital programme is shown below in the table:

Capital Expenditure	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Non-HRA capital expenditure	4.555	8.629	1.417	1.397
HRA capital expenditure	11.130	17.823	15.490	15.187
Total Capital expenditure	**15.685**	**26.452**	**16.907**	**16.584**
Financed by:				
Government Grants	1.254	2.346	0.549	0.495
Capital receipts	3.402	7.895	2.040	1.938
Revenue	4.350	5.700	5.700	5.700
Major Repairs Allowance	6.679	10.511	8.618	8.451
Total resources Applied	**15.685**	**26.452**	**16.907**	**16.584**
Closing balance on:				
Capital Receipts	12.741	5.875	4.836	3.864
Major Repairs Reserve	9.998	6.532	5.160	4.143

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 no longer included in the Council's Corporate Risk Register, as the impact has reduced.

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 £59.943m and is fully funded. It is predicted that at the end of 2016/17 there will still be £3.864m available in usable Capital Receipts and £4.143m 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.

However, borrowing is anticipated for Land Purchase or Development and the Waste Management Contract, but these are not yet certain. This report sets an authorised limit for borrowing of £230 million.

CFR	**31-Mar-14 £m**	**31-Mar-15 £m**	**31-Mar-16 £m**	**31-Mar-17 £m**
Non-HRA	38.6	48.6	63.6	63.6
HRA	155.1	155.1	155.1	155.1
Total Capital expenditure	**193.7**	**203.7**	**218.7**	**218.7**

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 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. Additional borrowing if it were to take place for General Fund purposes in 2014/15 would create a MRP in 2015/16. The MRP statement is at Appendix E.

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 31/03/13 %**	**Lower Limit for 2014/15 %**	**Upper Limit for 2014/15 %**
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;

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

(iv) A maximum maturity limit of Overnight applies to RBS and NatWest.

(b) European Banks:

(i) A maximum maturity limit of 100 days applies to Credit Suisse , ING Bank and Landesbank Hesses-Thuringen;

(ii) A maximum maturity limit of 6 months applies to Pohjola Bank; and

(iii) A maximum maturity limit of 12 months applies to Svenska Handelsbanken, Rabobank, Bank Nederlande Gemeenten, Deutsche Bank, Nordea Bank.

(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 £61m, 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	51.0
Euro Zone	0.0
Australia/Canada/USA	0.0
Ireland**	2.0
Sweden	8.0
Total	**61.0**

** 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 31 December 2013	£m
Overnight (Call / Money Market Fund)	16.0
Up to 7 days	5.5
7 days to 1 month	5.0
1 month to 3 months	16.2
3 months to 6 months	5.0
6 months to 9 months	2.0
9 months to 1 year	1.3
> 1 year	10.0
Total	**61.0**

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 2016/17;

(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 that 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 continues to represent 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 2013/14 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 2014/15 to £399,000.

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 2014/15 to 2016/17

Introduction

In April 2002 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management Code (the "CIPFA TM Code") which requires the Authority to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an Investment Strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

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

External Context

Economic background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain other conditions. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook: The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a haircut on its conversion bail-in to alternative securities and/or equity. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast: Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at ***Appendix A***.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.8%.

Local Context

The Authority currently has £185m of borrowing and £61m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.13 Actual £m	**31.3.14 Estimate £m**	**31.3.15 Estimate £m**	**31.3.16 Estimate £m**	**31.3.17 Estimate £m**
General Fund CFR	33.6	38.6	48.6	63.6	63.6
HRA CFR	155.1	155.1	155.1	155.1	155.1
Total CFR	**188.7**	**193.7**	**203.7**	**218.7**	**218.7**
Less: Other long-term liabilities *	0	0	0	0	0
Borrowing CFR	**188.7**	**193.7**	**203.7**	**218.7**	**218.7**
Less: External borrowing **	185.5	185.5	200.5	215.5	215.5
Internal borrowing	**3.2**	**8.2**	**3.2**	**3.2**	**3.2**
Less: Usable reserves	49.1	45.4	44.6	45.8	45.0
Less: Working capital	14.8	15.0	15.0	15.0	15.0
Resources Available for Investment	**60.7**	**52.2**	**56.4**	**57.6**	**56.8**

* finance leases and PFI liabilities that form part of the Authority's debt
** shows loans which the Authority may make and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £50m. Borrowing is anticipated in future for Land Purchase or development and the Waste Management Contract, but these are not yet certain.

The Authority has an increasing CFR due to the capital expenditure described above, retaining considerable investments and may therefore be seeking to borrow up to £30m over the forecast period. £15m in each financial year 2014/15 and 2015/16 is possible depending on the many potential development opportunities.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2014/15.

Borrowing Strategy

The Authority currently holds £185 million of loans, the same as the previous year, as part of its strategy for funding Housing Self-Financing. The balance sheet forecast in table 1 shows that the Authority may increase borrowing up to £200.5m in 2014/15. The Authority may also borrow additional sums to pre or post-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £230 million.

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Internal
- Public Works Loan Board (effectively part of HM Treasury)
- UK local authorities
- European Investment Bank
- Leasing
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except Essex Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

The Authority has previously raised all of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £54.0 and £61.5 million, and similar levels are expected to be maintained or reduced in the forthcoming year dependent on capital spending and borrowing decisions.

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown. The detailed list of counterparties is in Appendix C.

Table 2: Approved Investment Counterparties

<table>
<tr><th colspan="2">Counterparty</th><th>Cash limit</th><th>Time limit †</th></tr>
<tr><td rowspan="7">Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:</td><td>AAA</td><td rowspan="7">£10m each</td><td>10 years*</td></tr>
<tr><td>AA+</td><td>5 years*</td></tr>
<tr><td>AA</td><td>4 years*</td></tr>
<tr><td>AA-</td><td>3 years*</td></tr>
<tr><td>A+</td><td>2 years</td></tr>
<tr><td>A</td><td rowspan="2">1 year</td></tr>
<tr><td>A-</td></tr>
<tr><td colspan="2">The Authority's current account bank (National Westminster Bank plc) if it fails to meet the above criteria</td><td>£10m</td><td>next day</td></tr>
<tr><td colspan="2">UK Central Government (irrespective of credit rating)</td><td>unlimited</td><td>50 years**</td></tr>
<tr><td colspan="2">UK Local Authorities (irrespective of credit rating)</td><td>£10m each</td><td>50 years**</td></tr>
<tr><td colspan="2">UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher, or who are recommended by Treasury Advisor</td><td>£1m each</td><td>10 years**</td></tr>
<tr><td colspan="2">UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings or who are recommended by Treasury Advisor</td><td>£1m each</td><td>5 years</td></tr>
<tr><td colspan="2">UK Building Societies with credit rating A- or above</td><td>£10m each</td><td>1 year</td></tr>
<tr><td colspan="2">UK Building Societies without credit ratings – seeking to add at A-</td><td>£1m each</td><td>1 year</td></tr>
</table>

or above or equivalent as recommended by Treasury Advisor		
Money market funds and other pooled funds	£5m each	n/a

† the time limit is doubled for investments that are secured on the borrower's assets
* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments

Current Account Bank: Following a competitive tender exercise held in 2012, the Authority's current accounts are held with National Westminster Bank plc which is currently rated A-/A-2 the minimum being A- rating in table 2. The credit ratings fell below A- in November 2013. the Authority continues to deposit surplus cash with National Westminster Bank plc providing that the investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating). In line with Arlingclose's recommendations.

Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Building Societies: The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with un-rated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Arlingclose have removed the requirement for AAA ratings following EU proposals to stop money market funds from having credit ratings.

Other Pooled Funds (Collective Investment Schemes): Table 1 above indicates that the Authority will have substantial cash balances available for investment over the medium term. It will therefore consider using pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly. Investments in Pooled Funds will be undertaken with advice from Arlingclose Ltd. The Council currently has none of these investments.

Risk Assessment and Credit Ratings: The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit

Total long-term investments	£30m
Total investments without credit ratings or rated below A-	£5m
Total investments in foreign countries rated below AA+	£5m
Total maximum non-specified investments	£40m

Investment Limits: The Authority's total useable reserves theoretically available to cover investment losses are forecast to be £30 million on 31st March 2014. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors. Arlingclose Ltd. Will aslo advise on individual investment links.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£5m per manager
Foreign countries	£10m per group
Registered Providers	£5m in total

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £10 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management: The Authority uses cash flow forecasting calculations to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast calculations.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2,A-=7 etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target
Portfolio average credit rating	A-

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£5m

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:-

	2014/15	**2015/16**	**2016/17**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	25%	25%	25%

(Investments count as negative borrowing.)

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Fixed Rate Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	**Upper**
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and within 20 years	0%	100%
20 years and within 30 years	0%	100%

30 years and within 40 years	0%	100%
40 years and within 50 years	0%	100%
50 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Upper Limit on principal invested beyond year end	£30m	£30m	£30m

<u>Other Items</u>

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives: 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 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.

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.

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

Policy on Apportioning Interest to the HRA: From 1st April 2012, the Council can notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will probably be assignable in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) can be identified/ credited to the respective account. 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 and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed every month as part of the Treasury Management meetings, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by Officers experienced in these matters.

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £230 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2014/15 is £399.0 thousand, based on an average investment portfolio of £57 million at an interest rate of 0.8%. The budget for debt interest paid in 2014/15 is £5.5 million, based on an average debt portfolio of £185 million at an average interest rate of 3%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and ICT, having consulted the Portfolio Holder for Finance and Technology, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-	Debt interest costs will rise;	Higher investment balance

term fixed interest rates	this is unlikely to be offset by higher investment income	leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2013

Underlying assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for December has fallen to 2.0%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose 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													
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.75	0.75	0.75	0.75	0.75	0.80	0.80	0.80
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Appendix B - Existing Investment & Debt Portfolio Position

	31.12.13 **Actual Portfolio** **£m**	31.12.13 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**153.656**	**3.000**
PWLB – Variable Rate	**31.800**	**0.620**
Local Authorities	**0**	**0**
LOBO Loans	**0**	**0**
Total External Borrowing	**185.456**	
Other Long Term Liabilities:		
PFI	0	
Finance Leases	0	
Total Gross External Debt	185.456	
Investments:		
Managed in-house		
Short-term investments	43.06	0.632
Long-term investments	10.0	1.15
Managed externally		
Fund Managers	0	0
Pooled Funds *(please list)*	7.0	0.4
Total Investments	60.06	
Net Debt	125.396	

Appendix B
Prudential Indicators 2014/15 – 2016/17

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 2013/14, nor are 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	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Non-HRA	4.293	4.555	8.629	1.417	1.397
HRA*	13.918	11.130	17.823	15.490	15.187
Total	**18.211**	**15.685**	**26.452**	**16.907**	**16.584**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital receipts	4.315	3.402	7.895	2.040	1.938
Government Grants	0.987	1.254	2.346	0.549	0.495
Major Repairs Allowance	8.709	6.679	10.511	8.618	8.451
Revenue contributions	4.200	4.350	5.700	5.700	5.700
Total Financing	**18.211**	**15.685**	**26.452**	**16.907**	**16.584**

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	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Non-HRA	-3.28	-0.25	-0.05	-0.06	-0.83
HRA	16.97	16.30	16.05	15.81	15.03

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 Actual £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
HRA	155.1	155.1	155.1	155.1	155.1
Non-HRA	33.6	38.6	48.6	63.6	63.6
Total CFR	**188.7**	**193.7**	**203.7**	**218.7**	**218.7**

5.2 The Council is to embark on a house building programme. The preliminary work started during 2012/13 with the works themselves having started 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	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**

Decisions	£	£	£	£
Increase in Band D Council Tax	2.69	-0.45	-0.28	0.15
Increase in Average Weekly Housing Rents	-2.84	-0.48	0.02	0.01

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.

	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m

Authorised Limit for Borrowing	200.00	200.00	230.00	230.00	230.00
Authorised Limit for External Debt	**200.00**	**200.00**	**230.00**	**230.00**	**230.00**
Operational Boundary for Borrowing	188.00	188.00	204.00	219.00	219.00
Operational Boundary for External Debt	**188.00**	**188.00**	**204.00**	**219.00**	**219.00**

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 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 2012/13 **%**	**2013/14 Approved** **%**	**2013/14 Revised** **%**	**2014/15 Estimate** **%**	**2015/16 Estimate** **%**	**2016/17 Estimate** **%**

Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	96	100	100	100	100	100
Upper limit for Fixed Interest Rate Exposure on Investments	(76)	(100)	(100)	(100)	(100)	(100)
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	4	25	25	25	25	25
Upper Limit for Variable Interest Rate Exposure on Investments	(24)	(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.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/13 %	Lower Limit for 2014/15 %	Upper Limit for 2014/15 %
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	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
	30	30	30	30	30

Appendix C – Current Recommended Sovereign and Counterparty List as at 31/12/2013

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		6 months
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	Overnight
UK	Royal Bank of Scotland (RBS Group)	10.0		Overnight
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		12 months
Finland	Pohjola Bank	8.0		6 months
France	BNP Paribas	Suspended		Suspended
France	Credit Agricole CIB (Credit Agricole Group)	Suspended		Suspended

France	Credit Agricole SA (Credit Agricole Group)	Suspended		Suspended
France	Société Générale	Suspended		Suspended
Germany	Deutsche Bank AG	8.0		1 year
Germany	Landesbank Hessen-Thuringen	8.0		100 days
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 D – 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 E – MRP Statement 2014/15

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 2014/15 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 regulations intended to mitigate this impact, and as such under Option 2 (the CFR method) there is no requirement to charge MRP for Self-financing debt.

The Authority may in 2014/15 borrow additional funds to pre or post fund future capital requirements. If this happens the MRP will not be effective until 2015/16.

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 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 the Finance & Performance Cabinet Committee and for the execution and administration of treasury management decisions to the 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 the 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.