

# South Somerset District Council

*Notice of Meeting*



## Audit Committee

*Making a difference where it counts*

**Thursday 22nd January 2015**

**10.00 am**

**Main Committee Room  
Council Offices  
Brympton Way  
Yeovil  
BA20 2HT**

(disabled access is available at this meeting venue)



The public and press are welcome to attend.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Anne Herridge 01935 462570**, website: [www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)

This Agenda was issued on Wednesday 14 January 2015.

A handwritten signature in black ink that reads 'Ian Clarke'.

*Ian Clarke, Assistant Director (Legal & Corporate Services)*

This information is also available on our website  
[www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)



INVESTORS IN PEOPLE

# **Audit Committee Membership**

The following members are requested to attend the meeting:

**Chairman:** Derek Yeomans  
**Vice-chairman:** Ian Martin

John Calvert  
John Dyke  
Tony Lock

Roy Mills  
Terry Mounter  
David Norris

John Richardson  
Colin Winder

## **South Somerset District Council – Council Plan**

**Our focuses are:** (all equal)

- Jobs – We want a strong economy which has low unemployment and thriving businesses
- Environment – We want an attractive environment to live in with increased recycling and lower energy use
- Homes – We want decent housing for our residents that matches their income
- Health and Communities – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

## **Members Questions on Reports prior to the Meeting**

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

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## **Information for the Public**

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

### **Internal Audit Activity**

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

### **External Audit Activity**

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

### **Regulatory Framework**

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

## **Financial Management and Accounts**

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

## **Overall Governance**

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at [www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

# Audit Committee

**Thursday 22 January 2015**

## Agenda

### *Preliminary Items*

**1. Minutes**

To approve as a correct record the minutes of the previous meeting held on 27<sup>th</sup> November 2014.

**2. Apologies for absence**

**3. Declarations of Interest**

In accordance with the Council's current Code of Conduct (adopted July 2012), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting. A DPI is defined in The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 (SI 2012 No. 1464) and Appendix 3 of the Council's Code of Conduct. A personal interest is defined in paragraph 2.8 of the Code and a prejudicial interest is defined in paragraph 2.9.

**4. Public question time**

**5. Date of the Next Audit Committee Meeting**

The next scheduled meeting of the Audit Committee should be held on Thursday 26<sup>th</sup> February 2015 at 10.00 am in the Main Committee Room, Brympton Way, Yeovil.

### *Items for Discussion*

**6. Financial Procedure Rules (Pages 1 - 27)**

**7. Treasury Management Strategy Statement and Investment Strategy 2015/16 (Pages 28 - 54)**

**8. Grant Thornton Audit Committee Update for SSSDC (Pages 55 - 67)**

**9. Grant Thornton Certification report for SSSDC (Pages 68 - 79)**

**10. Audit Committee Forward Plan (Pages 80 - 81)**

# Agenda Item 6

## **Financial Procedure Rules**

*Executive Portfolio Holder:* Councillor Tim Carroll, Finance and Spatial Planning  
*Assistant Director* Donna Parham, Finance and Corporate Services  
*Service Manager* Amanda Card, Finance Manager  
*Lead Officer:* Donna Parham, Finance and Corporate Services  
*Contact Details:* donna.parham@southsomerset.gov.uk or (01935) 462225

## **Purpose of Report**

This report introduces the changes to the Financial Procedure Rules that have been sent out with this agenda.

## **Recommendations**

1. The Audit Committee recommend full Council to approve the attached Financial Procedure Rules.

## **Background**

The Financial Procedure Rules outline the financial policies of this authority and the financial accountabilities of individuals that apply to both officers and members. The review of those rules is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of SSDC’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

The last review took place in 2011 and it is best practice to review and update the rules on a regular basis. The main emphasis of this review has been to adjust the rules to reflect changes to other policies and agreements.

## **Revised Financial Procedure Rules**

The attached document shows any revisions to the current approved rules highlighted in yellow. The Assistant Director – Finance and Corporate Services will attend the committee to explain those changes in detail.

The Assistant Director has been given delegated authority to change team/service titles and job titles as changes occur. This will ensure that the document can be updated to reflect the most up to date staffing structure.

## **Financial Implications**

There are no financial implications.



# FINANCIAL PROCEDURE RULES

## 1. INTRODUCTION

- 1.1** To conduct its business efficiently a local authority needs to ensure that it has sound financial management policies in place and that they are strictly adhered to. Part of this process is the establishment of Financial Procedure Rules that set out the financial policies of the authority. A modern council should also be committed to innovation, within the regulatory framework, providing that the necessary risk assessment and approval safeguards are in place.
- 1.2** The Financial Procedure Rules provide clarity about the financial accountabilities of individuals – Members – the District Executive – the Chief Executive – Strategic Directors, the Assistant Director Legal & Corporate Services, the Assistant Director Finance & Corporate Services, other Assistant Directors/ Managers and all other officers of the Council.
- 1.3** The Council has established other internal regulatory documents: these should all be viewed in the context of the Council's Constitution, and are set out in Part 4 of that document. The Council's governance structure is laid down in its Constitution, which sets out how the Council operates, how decisions are made and the procedures that are followed.
- 1.4** It is not possible to draft procedure rules to cover every eventuality or circumstance. Consequently, the principles of sound financial management, proper exercise of responsibility and accountability, as set out in this document should be applied in all circumstances.
- 1.5** The following general principles apply:-
- there should be adequate and understood separation of duties so as to maintain adequate control over all financial transactions and operations;
  - there should be a clear hierarchy of control;
  - there should be adequate training and supervision of staff and there should be adequate management and audit trails;
  - there should be adequate management of risks and additional checks where there are high levels of risk;
  - operational financial procedures should be clearly documented, key risks identified, and such documents kept up to date and there should be adequate business continuity plans in place to maintain effective administration of the Council's finances at all times.
- 1.6** Financial Procedure Rules apply to every member and employee of the Council and anyone acting on its behalf.
- 1.7** Executive members and Directors should, where decision-making has been delegated to them, maintain a written record of all decisions. Where decisions have been delegated or devolved to other responsible officers, references to Directors in the rules should be read as referring to them.
- 1.8** All members and employees have a general responsibility for taking reasonable action to provide for the security of assets, funds and resources under their control, and for ensuring that the use of these resources is legal, is properly authorised, provides value for money and achieves best value.
- 1.9** The Assistant Director Finance & Corporate Services is individually responsible for maintaining a continuous review of the Financial Procedure Rules and submitting any additions or changes necessary to the Audit Committee and then full Council for approval. She/he is also individually responsible for reporting, where appropriate, breaches to the Council, to the District Executive, or the Audit Committee. Strategic Directors and their staff are responsible for promptly notifying the Assistant Director Finance & Corporate Services of any breaches of these Financial Procedure Rules.
- 1.10** The Management Board is responsible for ensuring that all Managers are aware of the existence and content of the authority's Financial Procedure Rules, and other internal regulatory documents and that they are complied with by all employees. Strategic Directors and Assistant Directors shall also ensure that there is an adequate level of understanding of these rules within their teams and that copies are available for reference within their service area or are accessible via other media.



# FINANCIAL PROCEDURE RULES

	<b>Section</b>	<b>Description</b>
<b>1. FINANCIAL GOVERNANCE</b>	1.1	Full Council
	1.2	District Executive
	1.3	Chief Executive (Head of Paid Services)
	1.4	Assistant Director Legal & Corporate Services (Monitoring Officer)
	1.5	Assistant Director Finance & Corporate Services (Chief Finance Officer)
	1.6	Chief Executive, Strategic Directors, Assistant Directors/Managers and Budget Holders
	1.7	Executive Members Exercising Budget Responsibility
	1.8	All Other Employees
	<b>2. CASH LIMITS</b>	2.1
2.2		Variation to Structures and Staffing Levels
2.3		Revenue Virement Rules
2.4		Revenue Under/Overspends
2.5		General Capital and Budget Monitoring
2.6		Bidding for Capital Resources
2.7		Purchase & Disposal of Plant & Vehicles
2.8		Capital Receipts
2.9		Capital Virement Rules
2.10		Monitoring the Capital Programme and Capital Projects
2.11		Capital Under/Overspends
2.12		Post Project Appraisals
2.13		S106 Funds
<b>3. FINANCIAL CONTROL</b>	3.1	General
	3.2	Annual Governance Statement
	3.3	South West Audit Partnership
	3.4	IT and Furniture Budgets
	3.5	Operational Leases
	3.6	Treasury Management
<b>4. CONTRACTS</b>	4	General
<b>5. ORDERING</b>	5	Payment of Invoices
	5.1	Corporate Credit Cards
	5.2	Procurement Cards
<b>6. PAYROLL SERVICES</b>	6.1	Appointment of Employees
	6.2	Amendments to Payroll
	6.3	Other Payments
	6.4	Timesheets
<b>7. BANKING ARRANGEMENTS</b>	7.1	General
	7.2	Cash and Cheques Received
	7.3	Money Laundering
	7.4	Payments by Direct Debits
	7.5	Direct Debits and Cheques Paid
	7.6	Handling of Cheques
<b>8. INCOME</b>	8.1	Income Collection
	8.2	Fees and Charges
	8.3	Write-off of Debts





## FINANCIAL PROCEDURE RULES

	8.4	Cash Floats and Petty Cash
<b>9. IMPREST ACCOUNTS</b>	9	
<b>10. RISK MANAGEMENT AND INSURANCES</b>	10.1	Risk Management
	10.2	Insurances
	10.3	Notification of Loss
	10.4	Review
	10.5	Car Allowances
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<b>11. STOCKS, STORES, FURNITURE AND EQUIPMENT</b>	11.1	General
	11.2	Write Offs
	11.3	Stock Checks
	11.4	Corrections
	11.5	Disposal of Surplus Furniture and Equipment (including personal computers)
<b>12. CAR LOANS AND LEASED CARS</b>		
<b>13. BUILDINGS, LAND AND PROPERTY</b>	13.1	Asset Register
	13.2	Buildings, Land and Property Transactions
	13.3	Condition Surveys
	13.4	Asset Management Plans
	13.5	Custody of Deeds and Documents
	13.6	Security
<b>14. LOANS POLICY</b>		
<b>15. EXTERNAL ARRANGEMENTS</b>	15.1	Partnerships
	15.2	External Funding
	15.3	Grants to Outside Bodies
<b>16. BREACHES OF FINANCIAL REGULATIONS</b>		
<b>Appendix A</b>		Officer contacts for further information



## FINANCIAL GOVERNANCE

### 1.1 Full Council

- a. The full Council is responsible for approving the policy framework and the budget within which the Executive operates. This encompasses any medium and longer term plans for both revenue and capital. The policy framework shall also include approval of each annual revenue and capital budget and setting the Council Tax levy.
- b. It is also responsible for monitoring the budget including compliance with the authority's overall framework of accountability and control. If unallocated revenue balances fall below the risk assessed minimum requirement then full Council shall authorise any further use of those balances. Any use of capital balances greater than 5% of useable receipts in any one year shall be agreed by Council.

### 1.2 District Executive

- a. The District Executive is responsible for proposing the policy framework and detailed budget to the full Council and for discharging executive functions in accordance with the policy framework and budget agreed by full Council. The detailed budget should include the allocations to the various services and projects, proposed funding, including taxation levels, and minimum required levels of unallocated balances. District Executive can approve the use of unallocated balances subject to balances remaining at the risk assessed minimum requirements. Use of usable capital receipts up to a maximum of 5% of unallocated receipts can be approved in any one year.
- b. Where executive decisions are delegated to a committee of the District Executive, or an individual Executive member (Portfolio Holder), or a member of staff, that delegation will include the financial accountabilities relating to the administration of the budget and spending decisions.
- c. The relevant budget holder will be the employee with responsibility for the relevant service, policy, or project, unless the Executive specifically identifies to whom budget responsibility is delegated eg. to an Executive member.

- d. The Chief Executive, Strategic Directors or District Executive members who have responsibilities for budgets delegated to them will be accountable to the District Executive or full Council, as appropriate, for the use of delegated budgets and should report at least quarterly to their accountable body for the use of those budgets and on the latest budget position.
- e. The District Executive is responsible for ensuring individual Executive members with delegated powers consult with all relevant staff before taking decisions within their delegated authority, so that all implications, including financial implications are taken into account in the decision. The procedure for doing this is fully explained in The Decision Making Procedures folder.
- f. The District Executive will follow general good practice and comply with sound principles of accountability and effective management by delegating management and operational control normally to the Strategic Directors, Assistant Directors/Managers and other suitable officers wherever feasible and practical.
- g. It is the responsibility of the Executive or Executive member with delegated budget responsibility to consult with the Assistant Director Finance & Corporate Services over the availability of funds before committing the authority to expenditure.

## The Statutory Officers

### 1.3 The Chief Executive

The Chief Executive is the Council's Head of Paid Service, and is responsible for the corporate and overall strategic management of the authority as a whole. This includes responsibility for establishing a framework for management direction, style, and standards and for monitoring the performance of the authority.

### 1.4 Monitoring Officer

- a. The Assistant Director Legal & Corporate Services is the Council's Monitoring Officer and is responsible for promoting and maintaining high standards of conduct, including financial conduct.



## FINANCIAL PROCEDURE RULES

- b. The Monitoring Officer in conjunction with the Chief Finance Officer is responsible for advising the Executive, full Council, Audit and Scrutiny Committee about whether a decision is likely to be considered contrary or not wholly in accordance with the budget.
- c. Actions that may be contrary to the budget include:
- initiating a new policy with additional unfunded budgetary implications;
  - committing expenditure in future years above the current year budget level or medium term plan;
  - incurring virement without approval or outside any limits set by Council;
  - causing total expenditure to increase above that stated in the budget approved by Council.
- g. Secure effective systems of financial administration and to provide appropriate financial information to enable budgets to be monitored;
- h. Manage the cash and investments of the Council in accordance with the relevant CIPFA Code of Practice and the Council's Treasury Management Strategy Statement and the Treasury Management Practices;
- i. Ensure that financial management arrangements are in line with the Council's policy objectives, the Council's overall governance arrangements and comply with any internally or externally set financial management standards;
- j. Advise the Council on the setting of its revenue and capital budgets and the adequacy of its reserves to meet possible future commitments and contingencies. It is the responsibility of the Assistant Director Finance & Corporate Services to advise the District Executive on the setting of budget guidelines, to ensure budget estimates reflect agreed service levels and any guidelines set by the District Executive, and to liaise with budget holders throughout the budget preparation process;

### 1.5 Chief Finance Officer

The Assistant Director Finance & Corporate Services is the Council's Chief Finance Officer or Section 151 Officer, and is responsible for the proper administration of the Council's financial affairs and shall:

- a. Advise the Council on insurance and financial risk;
- b. Advise the Council on effective systems of internal control;
- c. Ensure that there is an effective system of internal financial control;
- d. Advise the Council on anti-fraud and anti-corruption strategies and measures;
- e. Present each year's Statement of Accounts to the Audit Committee subsequent to external audit and submit to the appropriate departments of central government any associated grant claims. This includes responsibility for selecting and consistently applying accounting policies, determining accounting procedures and records, and ensuring compliance with relevant Accounting Codes of Practice;
- f. Ensure that there is an effective internal audit function and assisting managers to provide effective arrangements for financial scrutiny;
- k. Discharging statutory duties under Section 151 of the Local Government Act 1972, Section 114 of the Local Government Finance Act 1988, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Accounts and Audit Regulations 2003, and the Local Government Act 2003;
- l. Advise the District Executive and full Council on prudent levels of reserves for the Council and on the robustness of the Revenue and Capital Budgets;
- m. Advise the District Executive, the Chief Executive, the Strategic Directors, and Assistant Directors/ Managers on all taxation issues that affect the Council;
- n. Ensure the effective billing, collection and recovery of all sums due to the Council, in accordance with the Debt Recovery Policy.

### 1.6 Chief Executive, Strategic Directors, Assistant Directors and Budget Holders



## FINANCIAL PROCEDURE RULES

- a. All budgets agreed by the Council will be delegated for management purposes to a named employee of the Council. Each named employee shall:
- b. Ensure that the financial content of all reports, forms and procedures is approved by the Assistant Director Finance & Corporate Services (or a named representative within the Financial Services Team);
- c. Report any irregularities concerning the Council's financial affairs to the Assistant Director Finance & Corporate Services or Group Auditor at the earliest possible opportunity. The provisions of the Council's Whistle Blowing Policy shall also be followed where relevant;
- d. Ensure that there are sufficient funds available in their cash limited budget **before** commitments are entered into;
- e. Consult with the Assistant Director Finance & Corporate Services **prior** to submitting to the District Executive or any Committee any report that may have financial implications;
- f. Ensure that the Council's Standing Orders, Procurement Rules, and Human Resources Rules and procedural notes are complied with together with all applicable statutes, regulations, and best practice;
- g. Monitor and control expenditure against budget allocations and report to the District Executive quarterly in conjunction with the Assistant Director Finance & Corporate Services on variances and the action being taken to address them;
- h. Maintain systems of control that facilitate the achievement of the Council's objectives by using resources economically, efficiently, and effectively and by safeguarding the authority's assets and interests;
- i. Review and appraise their operations so as to achieve continuous improvement;
- j. Liase with the Council's external auditor and any other inspectorate with statutory rights of access.
- k. All compensation payments shall be authorised in accordance with the limits set in the Constitution (see Scheme of Delegation). The relevant Director to report

to the Management Board annually on the number and value of payments made.

- l. Maintain systems, procedures and sufficient resources to ensure that collection and recovery of all sums due to the Council follow the Debt Recovery Policy.

### 1.7 Executive Members Exercising Budget Responsibility

Where an Executive Member exercises budget responsibility they shall comply with the provisions of section 1.6 above and all related Financial Procedure Rules.

### 1.8 All Other Employees

All other employees of the Council have a responsibility to:

- a. Report any irregularities concerning the Council's financial affairs to the Assistant Director Finance & Corporate Services or the Group Audit Manager-SWAP at the earliest possible opportunity. The provisions of the Council's Whistle Blowing Policy and the Anti Money Laundering Policy shall also be followed where relevant;
- b. Ensure that the Council's Standing Orders, Financial Procedure Rules, Procurement Procedure Rules and procedural notes are complied with.

## 2 CASH LIMITS

### 2.1 General and Budget Monitoring

- a. Delegation of cash limits shall be in accordance with the Scheme of Delegation.
- b. Delegation of cash limits is to the Chief Executive, Strategic Directors or Assistant Directors. The Chief Executive and each Strategic Director or Assistant Director should prepare a full list of delegations at the beginning of each financial year and submit this to the Assistant Director Finance & Corporate Services. Any Assistant Directors, the Chief Executive, or Strategic Director when delegating budgets shall ensure that the delegation is made to a suitable officer and that she/he has been given the appropriate training necessary. Directors shall not delegate responsibility for employee budgets to other officers.



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- c. Accountability for appropriate budgets shall be held at Chief Executive, Strategic Director, or Assistant Director level.
- d. Cash limits can only be varied in accordance with these Financial Procedure Rules. Support service recharges will not be included in cash limits. These costs will be shown as "below the line" and will be managed as cash limits by the relevant support service Assistant Directors.
- e. Budget monitoring is the responsibility of each Strategic Director or Assistant Director. Where there is likely to be a significant variation between the budget and actual expenditure the Assistant Director Finance & Corporate Services shall be notified as soon as possible including an action plan to rectify the situation where appropriate.
- f. Budgets must be managed and monitored at nominal code level. (The nominal code describes what the money is being spent on) Virements must be requested where insufficient funds are available at nominal level. Virements are required where the variance is greater than £1,000.
- g. Budget monitoring reports shall be considered monthly by Management Board and quarterly by the District Executive.
- h. Centrally recharged support services are the responsibility of the appropriate Strategic/Assistant Director, who will provide a clear analysis of the services being recharged. No virements can be made between support service recharges and other cash limits.
- i. The Council has a statutory responsibility to produce a Statement of Accounts and all budget holders shall comply with the accounts closedown timetable produced by the Assistant Director Finance & Corporate Services.

### 2.2 Variations to Structures and Staffing Levels

- a. Within the total cash limit approved by the Council each year, the Strategic Directors or Assistant Directors shall be entitled to vary the numbers and composition of their workforce in order to meet service requirements, **provided such variations do not commit the Council to increased expenditure in future years and subject to Management Board approval.** Directors

proposing restructures shall liaise with both Finance and Human Resources to agree overall cost implications and HR process and procedure. Directors shall ensure they have included the cost implications of the Council's severance scheme, and that these costs are verified by the Assistant Director Finance & Corporate Services. The restructure shall be calculated at the top of the grade, include all potential redundancies and/or early retirements and salary protections, and then be compared to the previous structure. Where there are any actual or potential additional costs associated with restructuring proposals that may commit the Council to increased expenditure in future years, agreement shall first be sought from the Management Board and District Executive outlining the method of financing.

- b. Directors shall not enter into or change a contract of employment, including the grading of a post without prior consultation with the Human Resources Manager.
- c. Directors shall adhere to the Council's personnel policies and personnel delegations, including the proper use of appointment procedures, systems for determining remuneration and the method used to make payments to employees.

### 2.3 Virement Rules

- a. Full Council is to approve the detailed budgets for each Service as defined in Appendix B (Detailed Budget Analysis) of the Annual Budget Report. There are separate totals of income and expenditure for each service.
- b. District Executive have delegated authority to approve virements between services within the overall net budget total and have agreed the following flexibilities and freedoms:-

#### Directors/Managers

- c. Strategic/Assistant Directors & Managers, can increase their expenditure by up to £10,000 in one financial year for goods purchased for resale with a matching increase in income budgets **provided that** the Assistant Director Finance & Corporate Services approves the proposal in advance.
- d. Strategic/Assistant Directors & Managers can increase their income on services by up



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to a maximum of £10,000 in one financial year. This is **provided that** the Assistant Director Finance & Corporate Services approves the fully costed proposals.

- e. Strategic/Assistant Directors & Managers can authorise any budget virement within each individual service of their responsibility (as defined by Appendix B), except the 'employees' budget, **provided that** the Assistant Director Finance & Corporate Services is notified in advance.
- f. Strategic/Assistant Directors can authorise any budget virement to or from the 'employees' budget **provided that** Assistant Director Finance & Corporate Service's approval is obtained in advance.
- g. Strategic/Assistant Directors can increase their budgets in respect of 100% externally funded staff provided that HR has agreed the contract terms and that the Assistant Director Finance & Corporate Services is notified in advance. Any additional once off costs associated with that member of staff shall be financed at the outset and provision made for possible redundancy costs.
- h. Strategic/Assistant Directors & Managers can approve virements between services within their areas of responsibility up to a maximum of £25,000, provided that the Assistant Director Finance & Corporate Services is notified in advance.

Practical examples of the virement rules are shown in the following table:

From	To	£	Approval	Reason
Ham Hill cost centre for printing	Ham Hill Cost centre for tools	50k	Director/ Manager and Assistant Director Finance & Corporate Services.	Within an individual cost centre any amount allowed.
Ham Hill cost centre for printing	Octagon cost centre for printing	20k	Director and Assistant Director Finance & Corporate Services, reported to DX.	Within an overall Directorate, up to £25k allowed.
Ham Hill	Procure	15k	Portfolio	Different

cost centre for printing	ment cost centre for printing		holder and Assistant Director Finance & Corporate Services, reported to DX.	services but within same portfolio up to £25k allowed.
Ham Hill cost centre for printing	Legal Cost centre for court costs	3k	Written Approval by DX.	Different services different portfolio.

- i. Movements to and from specific reserves and earmarked balances can be actioned by the relevant Assistant Director/Manager provided that the use is for the purpose previously agreed by Members. All such transfers shall be reported to District Executive for noting.
- j. All budget virements properly approved shall be actioned in Cedar (the Council's financial ledger) only by the Financial Services Team.

### Elected Members

- k. Portfolio Holders can approve virements between services within their areas of responsibility, up to a maximum of £25,000 per virement, **provided that** all such approvals are agreed with the Assistant Director Finance & Corporate Services and reported to the District Executive for noting.
- l. Area Committees can approve virements between their reserves and budgets up to a maximum of £25,000 per virement, **provided that** all such approvals are reported to the District Executive for noting. (in accordance with the constitution)

### 2.4 Revenue Under/Overspends

- a. Assistant Directors/ Managers shall ensure that budgetary control is maintained.
- b. District Executive can approve an overspend of a maximum of £25,000 to be carried forward to the following financial year.
- c. Where overspendings occur on delegated budgets that cannot be covered by savings



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or under-spending elsewhere they **shall** be reported to the District Executive and earmarked from balances. All service overspend over £50,000 shall be fully explained within the budget monitoring process to District Executive with a recovery action plan where appropriate.

- d. Assistant Directors/ Managers can request that specific underspendings (within a minimum of £5,000 for any specific purpose) to be carried forward to the same budget heading in the following year. This will be subject to approval of the District Executive as corporate needs require.

### 2.5 Capital General and Budget Monitoring

- a. A five-year Capital Programme is to be prepared and reviewed annually to confirm the Capital Budget for each financial year.
- b. The Assistant Director Finance & Corporate Services will be responsible for compiling the Capital Budget and the 5-year Programme including the associated capital financing, in consultation with Management Board and Assistant Directors/ Managers for consideration by the District Executive prior to submission to full Council. The programme will include:
- committed schemes that are in the process of completion;
  - schemes for replacement/ maintenance of existing assets;
  - new starts for the following years;
  - receipts from expected sales of assets and;
  - external contributions expected.

- c. District Executive will set cash limits for the Capital Budget provisionally in December, based on resources available. New starts for the following year shall be submitted to District Executive for approval in accordance with the annual budget setting timetable. New schemes that are for urgent works, outside of the timetable will be considered by the Management Board and reported to District Executive (with proposed funding), together with proposals for funding of those works including the revenue implications.

- d. The Capital Programme will be monitored quarterly by District Executive and the appropriate Area Committee, where monitoring has been delegated. All Area Development Managers and the Assistant Director Finance & Corporate Services shall ensure that the area capital programmes should be reported in the same format as the district capital programme.
- e. The Assistant Director Finance & Corporate Services in consultation with Responsible Officers and the Management Board will prepare the quarterly monitoring reports to the District Executive and Area Committees.
- f. All schemes must follow the process below 2.6 even when the scheme is fully externally funded.

### 2.6 Bidding for Capital Resources

- a. Schemes where appropriate shall have completed a feasibility study before submission to Area Committees or District Executive. All schemes requiring Feasibility Funds require approval by Management Board and then District Executive.
- b. There is a de-minimus value of £10,000 for each Capital Scheme, £250 for Capital Grants, and £10,000 for capital receipts.
- c. During the annual budget setting process, decisions will be made on which new schemes are to be included in the following year's Capital Budget and 5 year Programme. Capital Investment Appraisal forms, through the project management methodology, can be submitted to the Assistant Director Finance & Corporate Services at any time during the year but will be considered by Management Board in September each year for onward approval by District Executive and full Council.
- d. Proposals shall be clearly linked to the Council Plan and any relevant Service Plans. All appraisals shall first be approved by the Project Resource Group and submitted on the appropriate forms. The Project Resource Group shall ensure that all proposals:
- are allocated a unique reference number;
  - the expected outcomes are clear;
  - include any revenue implications;



## FINANCIAL PROCEDURE RULES

- include the estimated staff resources required to carry out the project;
- a risk assessment is made of the project;
- allocate the type of project and therefore the requirements placed upon that project until completion;
- have a source of finance identified. Where the approved expenditure is dependent on a specific capital receipt the scheme cannot start until the income has been received unless District Executive approval has been obtained;
- Include the details of "Whole Life Cost" of the asset.

"Save to Earn" schemes may be submitted using a "Save to Earn" Scheme Investment Appraisal form and can be submitted to the Assistant Director Finance & Corporate Services at any time during the year. Any "Save to Earn" scheme shall show that the income generated or the costs saved from the scheme at least equal the loss in revenue interest from the capital sum spent. The risks involved and break-even point shall be clearly laid out before being considered by District Executive. Any loss in revenue before the scheme can generate income shall be clearly outlined and sourced by the Responsible Officer.

- e. Any ICT bids for replacement IS systems shall be approved by the Management Board and the District Executive. Comments and recommendations shall be included from the relevant Assistant Director or Strategic Director and then cleared by Financial Services. The District Executive can approve both the capital and revenue implications of each capital scheme within the budget set by full Council.

f. Infrastructure Projects must follow the process agreed and all proposals must:-

- include clear expected outcomes;
- provide a business case to include the capital and revenue implications and a profile of spend and income;
- Include the estimate of staff resource to carry out the project;

- Include a risk assessment.

- g. The capital investment appraisal form shall disclose any revenue consequences. If these cannot be absorbed by the service a request shall be made to District Executive for additional resources.
- h. Each approved scheme will be the responsibility of a named Responsible Officer, who shall monitor the scheme's progress and report accordingly.
- i. Internal borrowing is delegated to the Assistant Director – Finance and Corporate Services for assets purchased by the authority and recharged to services within the approved budget.

### 2.7 Purchase & Disposal of Plant & Vehicles over £10,000

- a. When an Assistant Director/Manager judges that a vehicle or item of plant is required they shall outline in writing to the Strategic Director (Operations & Customer Focus) their request, detailing:
- The need for the vehicle or plant;
  - Whether it replaces redundant vehicles or plant;
  - The registration number/description of the redundant item, likely income and a proposal for disposal;
  - The value of the purchase;
  - funding source
  - A business case, if appropriate.
- b. The Assistant Director/Manager shall review at six monthly intervals the leases of vehicles and plant held within their service and reports any action necessary to the Strategic Director (Operations & Customer Focus).
- c. Once authorised by the Strategic Director (Operations & Customer Focus), the request to purchase/dispose shall be passed to the Assistant Director Finance & Corporate Services. The Assistant Director Finance & Corporate Services shall ensure that there is sufficient budget as outlined and calculate whether a lease or purchase through internal borrowing is the best financial option.





## FINANCIAL PROCEDURE RULES

Assistant Directors/ Managers shall ensure that Financial Procedure 3.5 Operational Leases is complied with. This also includes the written advice of the Procurement & Risk Manager.

- d. During the annual budget cycle each Assistant Director/ Manager shall list the items currently leased and replacement programme to the Assistant Director Finance & Corporate Services to ensure that sufficient funding is available each year.

### 2.8 Capital Receipts

- a. All Assistant Directors/ Managers shall inform the Assistant Director Finance & Corporate Services of all expected capital receipts as soon as they are identified. Where an asset is to be sold the Assistant Director Environment shall be consulted and a sale of asset pro forma submitted to District Executive for approval where the value is more than £10,000.

### 2.9 Virement Rules – Capital

- a. All contributions made from revenue budgets to capital budgets (other than those purely made for accounting adjustments such as accounting for leases) shall be approved by the relevant committee and authorised on the appropriate form by the Assistant Director Finance & Corporate Services or nominated representative.
- b. The Assistant Director Finance & Corporate Services (or nominated representative) will consult with Responsible Officer in order to prepare a quarterly monitoring statement for reporting to District Executive and the appropriate Area Committee. If, during the progress of approved schemes, it appears to the Assistant Director Finance & Corporate Services that there is a significant variation then virement can (subject to District Executive approval) be made **from** another scheme within the Corporate or Area totals. All such proposed virements shall be reported to the District Executive for approval.

### 2.10 Monitoring the Capital Programme and Capital Projects

- a. Where Responsible Officers require schemes to be re-phased between years they shall notify the Assistant Director Finance &

Corporate Services at least quarterly so that the overall financing of the Capital Programme can be maintained and investment income maximised.

- b. Progress on each project and funding projections must be submitted to the Assistant Director Finance & Corporate Services quarterly. This must include any slippage in the project timetable and spend with the actions being taken if necessary to bring the project back in line.
- c. Projects should be managed and monitored using the Council's Project Management Methodology and regular reports made to each Project Sponsor for monitoring purposes.
- d. Any projects amended between approval and implementation must be resubmitted to the District Executive for approval. This includes projects that have received further external financing to meet additional costs over a demimus of £10,000.

### 2.11 Capital Under/Overspends

- a. Underspends against budgets will be carried forward in the following year if the project has commenced before the year-end. District Executive or the appropriate Committee will decide at the year end whether projects that have a delayed start date of more than one year can continue.

### 2.12 Post Completion Appraisals

- a. On completion of a project the Responsible Officer will prepare a report in consultation with the Assistant Director Finance & Corporate Services (or nominated representative) stating how the project has performed against its set objectives. This will be reported as part of the outturn report to District Executive each year.

### 2.13 S106 Funds

- a. All S106 funds over £10,000 will be included **if appropriate** in the capital programme once received and included within a quarterly monitoring statement for reporting to District Executive.

## 3. FINANCIAL CONTROL

### 3.1 General



## FINANCIAL PROCEDURE RULES

- a. All accounting systems, procedures and records shall be subject to the approval of the Assistant Director Finance & Corporate Services. Changes to existing systems and the introduction of new systems shall also be approved by the Assistant Director Finance & Corporate Services.
  - b. All accounts and reports shall be prepared in accordance with these Financial Procedure Rules and in conformity with any Government Regulations and CIPFA Codes of Practice and any other professional guidance held to represent best practice.
  - c. The Chief Executive, Strategic Directors, and all Assistant Directors/ Managers are responsible for specifying the budget requirements for their cost centre in accordance with the cash limit rules and the timetables established by the Assistant Director Finance & Corporate Services. Directors & Managers should seek the advice of the Assistant Director Finance & Corporate Services, or nominated representative, to ensure that budgets are compiled in accordance with the financial policies agreed by the Council.
  - d. The Directors & Managers are responsible for the proper operation of financial processes within their group of services.
    - authority to enter any Council premises or land;
    - authority to access all Council records, documents and correspondence;
    - receive explanations from employees and members on any matter that they are reviewing or investigating.
- c. Such authority will not be used unreasonably.
  - d. All thefts and break-ins to Council property shall be reported to the South West Audit Partnership Ltd at the earliest possible opportunity.
  - e. Where officers enter into agreements with partners that involve financial contributions from the Council, those agreements shall give the South West Audit Partnership Ltd authority to examine the financial accounts of the partner.

### 3.2 Annual Governance Statement

South Somerset District Council is required to publish an annual Governance Statement at the end of each financial year. The Chief Executive, Strategic Directors and Assistant Directors/Managers shall annually sign and evidence that the internal controls within their service area are regularly monitored and reviewed.

### 3.3 South West Audit Partnership Ltd

- a. The general standards for Internal Audit shall be those of the Institute of Internal Auditors (IIA) in conjunction with Public Sector Internal Audit Standards (PSIAS). The South West Audit Partnership Ltd Manager shall compile an Annual Audit Plan to be approved by the Audit Committee.
- b. To assist in the objectivity and independence of the South West Audit Partnership Ltd, all audit employees have:

### 3.4 IT and Furniture Budgets

All IT purchases, stationary, and furniture budgets are held and controlled through the Procurement & Risk Manager. The manager has produced a specific procedure for new or the replacement of such items. Purchase of IT equipment and furniture shall follow the procedure as set by the Procurement & Risk Manager including consultation with the relevant Director.

### 3.5 Operational Leases

- a. The Assistant Directors/Managers may enter into an operational lease for equipment provided that the Assistant Director Finance & Corporate Services has confirmed in writing that the method of finance is appropriate for the asset concerned. Procedure 2.7 Purchase and Disposal of Plant & Vehicles over £5,000 shall be followed where appropriate. Assistant Directors/Managers may not enter into a lease without first taking written advice from the Procurement & Risk Manager. The Assistant Directors/Managers shall ensure that charges arising from such arrangements can be met from the delegated cash limit for current and future years.
- b. Virements from capital to revenue budgets cannot occur. The Assistant Director



## FINANCIAL PROCEDURE RULES

Finance & Corporate Services will advise on whether expenditure is revenue or capital.

### 3.6 Treasury Management

- a. The Council has adopted the CIPFA Code of Practice for Treasury Management in Local Authorities, and prepared a written statement of Treasury Management Practices, which include the main principals that the Council follows and detailed schedules of operational procedures.
- b. A Treasury Management Strategy Statement setting out the main principles shall be adopted by the Council once reviewed at the beginning and middle of each year by the Audit Committee.
- c. The Council has set a range of Prudential Indicators as required by the Prudential Code. These shall be reviewed regularly and any revisions shall also be subject to Council approval.
- d. All executive decisions on borrowing, investment or financing shall be delegated to the Assistant Director Finance & Corporate Services, or to nominated finance employees in accordance with Treasury Management practices. All employees are required to act in accordance with the CIPFA Code of Practice for Treasury Management in Local Authorities and the Council's Treasury Management Strategy Statement and comply with the Treasury Management Practices.
- e. The Assistant Director Finance & Corporate Services will provide an activity monitoring report at least three times per annum to the Audit Committee (including the mid year review of the Treasury Management Strategy Statement). In addition to this provide an annual report on Treasury Management activity in the previous year by no later than 30<sup>th</sup> June to the Audit Committee and by the 30<sup>th</sup> September to full Council.
- f. All investments shall be made in the name of the Council or its approved nominees.
- g. All financial balances in the possession of the Council shall be controlled by the Assistant Director Finance & Corporate Services.

### 4. CONTRACT

#### 4.1 General

All employees shall comply with the Procurement Procedure Rules. The rules are available through the Procurement Team.

### 5. PAYMENT OF INVOICES

- a. The Assistant Director Finance & Corporate Services shall make arrangements for the payments of all monies due from the Council, which shall comply with statutory provisions in force.
- b. Invoices to be paid shall not be made out by employees of the Council, except in any case or category of case agreed by the Assistant Director Finance & Corporate Services in advance. Employees shall not add any item to an invoice and only invoices that are in permanent ink or print shall be accepted. Copy invoices shall be clearly marked by the employee who authorises payment with a certification that the invoice has not previously been paid.
- c. Where an order has been raised for goods and services (see Procurement Procedure Rules) the invoice must be matched with the order. In most circumstances, it is appropriate for an official order to be raised. Any exceptions to this should be documented.
- d. All suppliers shall be asked to quote on all invoices the name of the group and section, the order number and the place where the work was done or goods delivered.
- e. Any amendments to invoices shall be made in ink and the reason clearly stated. If the invoice bears VAT then amendments are not acceptable and the invoice shall be returned to the supplier or a credit note obtained.
- f. No payment is to be made on the basis of a supplier's statement of account.
- g. The Chief Executive, Strategic Directors and Assistant Directors/Managers (or other delegated employees) shall be responsible for the verification and certification of all payments from their own budgets only. Certification means a manual signature or a computerised authorisation as required by the Council's Cedar Financial Management System. The certification by, or on behalf of the Assistant Directors/Managers shall be regarded as an assurance that:



## FINANCIAL PROCEDURE RULES

- value has been received and accounted for in the opinion of the Chief Executive, Strategic Directors and Assistant Directors/ Managers;
  - expenditure complies with the Procurement Procedure Rules and Financial Procedure Rules in force at the time;
  - the document presented to support the payment is correctly priced and the invoice has not been previously passed for payment;
  - all trade and prompt payment discounts have been deducted (where appropriate);
  - VAT has been properly accounted for in accordance with the HM Revenues and Customs regulations applicable at the time.
  - Expenditure and income is posted to the appropriate nominal codes on Cedar to ensure that the financial system reflects the correct nature of the expenditure/income incurred.
- h. Where the same person raises the order and authorises the payment, a second person shall input details of the transaction into the Council's Cedar Financial System.
- i. The Chief Executive, Strategic Directors and Assistant Directors/Managers can authorise any payments within their area of responsibility, and are allowed to delegate payments of up to £100,000 to their supporting officers by the process described in (i).
- j. A list of those employees authorised to certify all types of expenditure (including those authorisers via the Council's Cedar Financial System) shall be prepared and signed by the Strategic Directors or each Assistant Director/Manager and copies forwarded to the Assistant Director Finance & Corporate Services together with specimen signatures and initials. The lists shall be kept fully up to date by the Strategic Directors and Assistant Directors/Managers and all changes notified as soon as possible.
- k. Where invoices are authorised on line via the Council's Exchequer Services the Assistant Directors/Managers shall ensure the due date is in accordance with the invoice terms or the Council's payment policy. This requires that all undisputed invoices for goods and services supplied should be paid within 10 working days of their receipt by the Council.
- l. Invoices shall be kept for 6 months at the various locations and then forwarded to the Exchequer Team for CD conversion. The Exchequer Team will retain the CD copy in a secure and accessible manner.
- m. The CDs will be retained by the Exchequer Team for 6 years from the date of the invoice and then destroyed.
- n. As soon as possible after 31 March each year, Assistant Directors/Managers shall notify the Financial Services Team of all outstanding expenditure relating to the previous financial year. When such expenditure is subsequently certified for payment it shall be identified as required by the Assistant Director Finance & Corporate Services.
- o. The Assistant Director Finance & Corporate Services shall publish detailed closedown procedures each year.

### 5.1 Corporate Credit Cards

The Assistant Director Finance & Corporate Services and the Chief Executive are required to authorise the issue of a corporate credit card. The card shall only be used for business purchases. Receipts for all transactions shall be passed to Financial Services for reconciliation to the monthly statements.

### 5.2 Procurement Cards

The issue and use of a procurement card shall be in accordance with the Procurement Card Rules. These Rules are available from the Procurement Team.

## 6 PAYROLL SERVICES

### 6.1 Appointment of Employees

The appointment of all employees shall be made in accordance with the procedures set out in the Employment Policies and Procedures Manual. The Assistant Directors/Managers shall complete a replacement post form signed off by the appropriate accountant and Director/Chief Executive to ensure that there is sufficient budget provision and necessity for the post.



## 6.2 Amendments to Payroll

The Strategic/Assistant Directors shall notify the Human Resources Manager as soon as possible, in the prescribed form, of:

- all appointments, promotions, resignations, retirements, dismissals and suspensions from duty;
- all transfers between services within the control of the Strategic/Assistant Directors;
- all periods of sickness and absence, except normal annual leave;
- all changes in remuneration of employees, except normal increments;
- all payments for compensation and any other emoluments to any employee;
- such other information as may be required by the HR Manager in connection with the calculation and payment of pay related expenditure.
- All leavers should be immediately reported to the ICT Manager to enable their access to be cancelled on the financial system.
- The Strategic/Assistant Directors are also required to contact the ICT Manager and the Revenue and Benefits Manager to identify if there is any outstanding debt owing to the Council. If this is the case, the Strategic Director or Assistant Director shall then instruct payroll to deduct any debt from the last salary payment.
- The Financial Systems support team will circulate at least once a year an up to date list of Cedar users and access levels to the Strategic/Assistant Directors, who will be required to sign and return this list, noting any amendments.

## 6.3 Other Payments

- a. All travelling, subsistence, financial loss, and any other reimbursements to employees shall be paid through the payroll system and in accordance with the detailed arrangements required by the Assistant

Director Finance & Corporate Services and approved by the Council. In special cases a payment can be made through BACS.

- b. All travelling claims from both Officers and Members shall be submitted on the appropriate form monthly to payroll by the 5<sup>th</sup> working day of the month, together with appropriate VAT receipts to cover the mileage claimed. All high mileage claims over 300 miles per month shall be submitted monthly, claims under 300 miles per month shall be submitted at least quarterly.
- c. Valid insurance (showing cover for business use) must be provided before new starters to the authority can claim mileage and then annually to payroll. Travel payments will cease until this information is provided.
- d. All payments for allowances, travel and subsistence etc. to elected members shall be paid through the payroll system and in accordance with the detailed arrangements required by the Assistant Director Finance & Corporate Services and approved by the Council.

## 6.4 Time Sheets

- a. All timesheets and records for overtime, expenses etc. shall be in a form approved by the Assistant Director Legal & Corporate Services. All claims shall be submitted at least quarterly. Any claims submitted outside of this time limit (without the approval of the Chief Executive) will not be paid.
- b. The standard procedure for employees leaving the Council, or transferring to another post shall be followed in all cases. These procedures are laid down in the **Employment Policies and Procedures Manual**.

## 7 BANKING ARRANGEMENTS

### 7.1 General

- a. All arrangements with the Council's bankers concerning the Council's bank accounts and partnership accounts which the Council manages on behalf of any partnership, and the issue and deposit of cheques shall be made through the Assistant Director Finance & Corporate Services.



## FINANCIAL PROCEDURE RULES

- b. The Assistant Director Finance & Corporate Services shall be authorised to operate such subsidiary bank accounts as deemed necessary. All amendments/ changes to these arrangements shall be reported to the District Executive.
- c. Any overdraft on the Council's bank accounts shall be kept within the limits set out in the Treasury Management Strategy Statement. Bank accounts shall be reconciled by the Assistant Director Finance & Corporate Services at intervals no longer than one month and kept up to date.

### 7.2 Cash and Cheques Received

- a. All monies received on behalf of the Council shall, without delay, be banked in the Council's name in accordance with the instructions of the Assistant Director Finance & Corporate Services. Post dated cheques will not be accepted.
- b. There shall be separation of duties between receiving and paying out monies. Employees who collect cash shall not be involved in the maintenance of cash and deposit books or other financial records in respect of that cash. This requirement can only be accepted on the written approval, in advance, of the Assistant Director Finance & Corporate Services.
- c. Post that may contain income shall be subject to control by not less than two persons from the point of delivery through to the receipt of a signature at the cash desk. The Assistant Director Finance & Corporate Services will issue detailed written instructions for the handling of postal income and these instructions shall be adhered to at all times.
- d. Where a person or body claims to have made a payment which has not been credited to their account, the Senior Cashier, or in his/her absence another senior employee, shall follow the agreed procedure immediately.
- e. All copies of cancelled receipts shall be retained for inspection.
- f. Assistant Directors/Managers are responsible for ensuring the control, monitoring and regular banking of daily

receipts arising from cash collection points under their control. The Assistant Director Finance & Corporate Services will provide detailed procedure notes which shall be adhered to at all times.

### 7.3 Money Laundering

- a. The Council has a nominated officer in respect of Money Laundering (MLRO). The MLRO is the Assistant Director – Finance and Corporate Services.
- b. Any transaction involving an unusually large amount of cash should cause questions to be asked about the source. This may particularly be the case where cash paid exceeds the amount needed to pay the transaction and a refund is requested but not in cash form. Any suspicious transaction in cash over £10,000 should be directly reported to the Money Laundering Responsible Officer and Money Laundering procedures followed.
- c. Any property or assets purchased from this Council shall be properly traced to the source of funds. Any suspicious transaction shall be reported to the Money Laundering Responsible Officer.

### 7.4 Payments by Direct Debit

- a. All agreements with banking organisations regarding direct debits shall be approved by the Assistant Director Finance & Corporate Services.
- b. Any telephone lines used to transmit confidential banking information regarding the Council's customers shall meet security standards approved by the ICT Manager. The ICT Manager shall ensure that direct debits requested from banks are made on the dates specified by the Senior Cashier.

### 7.5 Direct Debits and Cheques Paid

- a. All cheques and direct debit mandates drawn on bank accounts of the Council shall:
  - be signed only by the Assistant Director Finance & Corporate Services or other employee authorised by the District Executive to sign on behalf of Assistant Director Finance & Corporate Services;



## FINANCIAL PROCEDURE RULES

- bear the name of the Assistant Director Finance & Corporate Services as produced by the Council's computers where this has been specifically agreed by the Assistant Director Finance & Corporate Services.
- b. The Assistant Director Finance & Corporate Services shall arrange for such safeguards as are deemed necessary and practicable, including the separation of duties, so that as far as possible the following procedures are the responsibility of separate employees:

- the checking of creditors' accounts;
- the control of cheques;
- the preparation of cheques;
- the signature of cheques;
- authorisation procedures for electronic payments (BACS, CHAPS);
- the entry of the cash account;
- the reconciliation of bank balances.

### 7.6 Handling of Cheques

The list of outstanding cheques shall be examined at least monthly by the Exchequer Services and reasons sought for cheques that have not been cashed. Cheques, which have not been cashed six months after the date of issue, shall be cancelled.

## 8 INCOME

### 8.1 Income Collection

- a. Arrangements for the collection of all monies due to the Council shall be subject to the control or approval of the Assistant Director Finance & Corporate Services.
- b. Assistant Directors/ Managers shall maintain such information in connection with the work done, goods supplied or services provided so that a correct record of all sums due is maintained. Wherever possible income due should be collected in advance. Assistant Directors/Managers, shall ensure that individual sundry debtors are raised as soon as possible but no later than **five** working days from the delivery of goods or provision of services, unless specified terms have been agreed by the Assistant Director Finance & Corporate Services.

- c. Monthly and where appropriate quarterly accounts should be produced five working days after the month or quarter's end. Assistant Directors/Managers shall record promptly, within the Council's Sundry Debtor System, all money due to the Council. The records shall include details relating to contracts, leases and other agreements and any arrangements entered into which involve the periodic receipt of money by the Council.

### 8.2 Setting Fees and Charges

In line with the budget setting timetable all fees and charges shall be reviewed annually by each Strategic Director and Assistant Director/Manager in consultation with the Assistant Director Finance & Corporate Services. All changes to such charges shall be agreed in advance with the Assistant Director Finance & Corporate Services and recorded annually within the Fees and Charges Register. The Register will be published on the Council's website and it is the responsibility of each Strategic Director and Assistant Director/Manager to notify the Assistant Director Finance & Corporate Services of any changes made in addition to the annual review.

### 8.3 Writing Off of Debts

- a. Any debts written off shall be in accordance with procedures approved by District Executive. Debts of less than £100 can be written off with the approval of the Finance Manager (Deputy S151 Officer). Debts over £100 (including cumulative invoices) but less than £20,000 can be written off with the approval of the Assistant Director Finance & Corporate Services; Write off of debts over £20,000 shall require approval of the Portfolio Holder- Finance & Spatial Planning after liaising with the relevant Ward Member **where appropriate**. The Assistant Director Finance & Corporate Services is responsible for reviewing these procedures annually with the Portfolio Holder- Finance and Spatial Planning and advising District Executive of any recommended amendments.
- b. The Assistant Director Finance & Corporate Services shall promptly create and submit debtors' accounts in accordance with the information recorded by Assistant Directors/Managers, on the Sundry Debtor System. The recovery of all debts shall be in accordance with the procedures laid down



by the Assistant Director Finance & Corporate Services in the Debt Recovery Policy. It is the responsibility of Assistant Directors/Managers to adhere to those debt recovery procedures and to respond promptly to the monthly aged debt report.

- c. Assistant Directors/Managers shall be responsible for accounting for VAT on income, fees and charges in accordance with the Regulations of HM Revenue and Customs. The Assistant Director Finance & Corporate Services shall advise those managers of any changes to the Regulations.

## 8.4 Cash Floats and Petty Cash

Where cash floats, petty cash or cash remittances are held, Assistant Directors/Managers shall ensure that cash holdings and receipts should be regularly reconciled and recorded to evidence monitoring and minimise the risk of cash differences.

## 9 IMPREST ACCOUNTS

The Senior Cashier is responsible for the arrangements for imprest accounts. Guidance notes will be issued and employees in control of Imprest Accounts shall follow the correct procedures at all times. Assistant Directors/Managers shall ensure that all monies authorised for reimbursement in an Imprest Account are accounted for in accordance with the guidance notes.

## 10 RISK MANAGEMENT AND INSURANCES

### 10.1 Risk Management

- a. The Assistant Director Finance & Corporate Services will prepare the authority's risk management policy statement and strategy for the approval of the District Executive and review the effectiveness of those arrangements. Systems will be developed to identify and evaluate all significant risks to the authority by all associated in the planning and delivery of services.
- b. A computerised central risk register will be maintained by the Procurement & Risk Manager. All risks identified in respect of the activities of the Council will be recorded on the register.

- c. The Strategic/Assistant Directors are responsible for managing all risks in respect of their service. The Assistant Director/Manager will nominate a named officer (or officers) who will be responsible for maintaining risk data and profiles, on the computerised central risk register for their service.

- d. Risks will be identified by:

- Programmed Control and Risk Self Assessments sessions facilitated by the South West Audit Partnership;
- Audit reviews;
- The Strategic/Assistant Directors as part of their responsibilities for maintaining accurate risk records.

- e. The South West Audit Partnership in conjunction with the Strategic/Assistant Directors will devise Action Plans to actively manage risks, following all control and risk self assessment sessions. The Strategic/Assistant Directors will be responsible for ensuring that all actions identified, in respect of any risk, are dealt with in accordance with the timetable specified.

- f. The Procurement & Risk Manager will provide reports, providing details of the Council's current risk status, to the Management Board biannually and to the Audit Committee annually.

### 10.2 Insurances

- a. The Assistant Director Finance & Corporate Services shall make arrangements for approved insurance cover, maintaining adequate records and negotiating claims with the Council's insurers.
- b. The Strategic/Assistant Directors shall advise the Insurance Officer of the extent and nature of all new risks where insurance may not exist or may be inadequate.
- c. The Assistant Director Finance & Corporate Services can authorise payments of small claims from self insured funds of up to £2,000.

### 10.3 Notification of Loss





- a. The Strategic/Assistant Directors/**Managers** shall notify immediately the Insurance Officer, in writing, of any loss, liability or damage or any event likely to lead to a claim in connection with their areas of responsibility.
- b. All employees of the Council shall be included in a fidelity guarantee policy.

## 10.4 Review

The Assistant Director Finance & Corporate Services shall review insurance cover annually.

## 10.5 Car Allowances

Recipients of car allowances shall provide Payroll with copies of policies or premium receipts as may be necessary to ensure adequate cover against any liability of the Council arising from official use of their vehicle.

## 10.6 Current Insurance

The Insurance Officer shall keep all Strategic/Assistant Directors notified as to the nature and extent of the various risks that are covered or left exposed.

## 10.7 Inventories

Assistant Directors/Managers shall be responsible for ensuring proper maintenance of inventories of furniture, equipment and the means for prompt and efficient identification of each item for the purposes of insurance claims or claims under suppliers' guarantees. The information shall be recorded in the format specified by the Assistant Director Finance & Corporate Services.

## 11 STOCKS, STORES, FURNITURE AND EQUIPMENT

### 11.1 General

Assistant Directors/Managers shall be responsible for the care and physical control of all stocks, stores, furniture, plans and equipment in their custody. Records shall be maintained in a form specified by the Assistant Director Finance & Corporate Services.

### 11.2 Write Offs

Any items of stocks, stores, furniture or equipment to be written off shall require the certification of the Director or an employee nominated by the Assistant Directors/Managers. The certification shall be in writing and details notified to the Assistant Director Finance & Corporate Services as soon as possible.

### 11.3 Stock Checks

All stocks of goods held as stores, or for resale, shall be subject to stock check quarterly. Assistant Directors/Managers, shall certify a certificate of the value held at 31 March each year at cost and the certificate forwarded to the Assistant Director Finance & Corporate Services within 10 days of the year end. The de minimus level for year end stock certificate being returned to Financial Services is £1,000.

### 11.4 Corrections

Correction of deficiencies and surpluses on stocks and stores accounts shall be in accordance with the procedures laid down by the Assistant Director Finance & Corporate Services, and adjustments exceeding £1,000 shall be reported to the appropriate Committee.

### 11.5 Disposal of Surplus Furniture & Equipment (including personal computers)

- a. Prior to disposal the Assistant Director/Manager shall offer the surplus furniture or equipment to other services within the organisation at no cost. Only when there is no organisational need to retain the equipment can it be sold.
- b. If there is no established organisational need disposal of unwanted furniture is the responsibility of the Assistant Director/Manager. In order to ensure a consistent approach, and that the Council receives value for money from disposal, the Procurement & Risk Manager shall co-ordinate disposal of furniture, equipment, personal computers and related items.
- c. The Assistant Director/Manager who wishes to dispose of surplus furniture and equipment shall advise the Procurement &



Risk Manager. If it is reusable it will be sold. An advertisement shall be placed on the Bulletin Board and sealed bids submitted. The highest bid will be accepted and the income credited to the appropriate cost centre.

- d. All redundant personal computers and related items shall be returned to the ICT Service who will offer the equipment to other units/sections of the Council or to be disposed of securely.
- e. Assistant Directors/Managers shall amend inventories to reflect disposals and acquisitions.
- f. Disposal of mobile telephones belonging to SSDC shall be agreed through the Procurement & Risk Manager.

## 12 CAR LOANS AND LEASED CARS

All loans and leases for the provision of motor vehicles shall be administered in accordance with the scheme approved by the District Executive.

## 13 BUILDINGS, LAND AND PROPERTY

### 13.1 Asset Register

The Assistant Director Finance & Corporate Services shall maintain a full and accurate register of all Council fixed assets for the purpose of calculating capital charges in accordance with relevant Codes of Practice.

### 13.2 Buildings, Land and Property Transactions

- a. No arrangements shall be made for the acquisition or disposal of land and buildings where the value is estimated to exceed £10,000 (with the exception of transfers of housing or parking land to Registered Social Landlord (RSL)), without first gaining the approval of the District Executive and meeting any requirements stipulated by the District Executive. If the proposal is not within the approved Capital Budget, the District Executive will make a recommendation.
- b. A Capital Investment Appraisal form for acquisitions and an Asset Sale Appraisal Form for disposals shall be completed and submitted to the appropriate Committee.

- c. Requests for the transfer of land or property valued at under £100,000 transferred at less than best value to an RSL for social housing or parking associated with social housing purposes should be made through an Asset Sale Disposal Form and follow the agreed policy for such a disposal. Approval is required of the Assistant Director Finance & Corporate Services and the Portfolio Holder – Strategy and Policy. Any transfers outside of the agreed policy or where land/property is valued at £100,000 or more shall seek District Executive approval.

- d. All arrangements for the acquisition and disposal of land and buildings shall be in accordance with Council Asset Management Strategy, and be conducted by the Assistant Director Finance & Corporate Services (or designated representative), including all negotiations and the preparation and certification of valuation certificates (which certification shall be carried out by properly qualified persons designated by the Assistant Director Finance & Corporate Services).

- e. All disposals made under the Community Asset Transfer Policy must be approved through District Executive.

- f. Receipts generated from the sale of assets where the value is £10,000 or more shall be set aside to replace any loss in revenue income before the receipt becomes available for other purposes. The net proceeds after also deducting costs will then form part of the overall available capital receipts and be distributed in accordance with the Council's overall corporate priorities. Where the net receipt is less than £10,000 the proceeds will be credited to the appropriate revenue budget.

- g. The Assistant Director Finance & Corporate Services (or designated representative) shall, in the absence of any specific conditions or exemptions agreed by the District Executive and these Financial Procedure Rules, have authority to undertake the following in consultation with the relevant Strategic Director, Assistant Director, or Portfolio Holder, where the value of the consideration, rent, licence fees, easement or wayleave payment in each case does not exceed £50,000 annually and is in accordance with the District Valuer (or other properly qualified professional) valuation:-



- the agreement of all monthly tenancies;
  - the agreement of all licences;
  - the conducting and agreement of all rent reviews;
  - the agreement of all lease renewals;
  - the agreement of lettings;
  - the agreement of all easements and wayleaves;
  - the agreement of all changes of use;
  - the agreement of all compensation claims where there is budgetary provision;
  - the agreement of all releases/variations of covenants.
- h. In respect of a disposal at less than best consideration (with the exception of transfers of land valued under £100,000 to RSLs), the relevant Strategic Director, Assistant Director, or Portfolio Holder shall, in conjunction with the Assistant Director Finance & Corporate Services report to the District Executive, requesting approval to proceed with the disposal in such circumstances where either the use of a specific, or general disposal consent is required, or a Qualifying Meeting (as defined in the General Disposal Consent of 1998) is required, before the disposal can be completed, or in any other circumstances where the recommendation is to accept a tender which is other than the tender which offers the best consideration reasonably obtainable.
- i. The Assistant Director Finance & Corporate Services (or designated representative) shall, in the absence of any specific conditions or exemptions agreed by the District Executive and these Financial Procedure Rules, have authority to undertake the following in consultation with the relevant Strategic Director, Assistant Director, or Portfolio Holder, where the value of the compensation claim in each case does not exceed £50,000 and is in accordance with the District Valuer (or other **properly qualified** professional) valuation.

### 13.3 Condition Surveys

The Assistant Director Environment shall ensure that condition surveys of all buildings and property assets in which the Council has a proprietary interest are carried out at least once every 5 years. Survey details are to be recorded in appropriate systems and work programmes prepared in accordance with priorities set out in the Property Repairs and Maintenance Policy.

### 13.4 Asset Management Plans

- a. The Assistant Director Finance & Corporate Services **and the Assistant Director – Environment** shall maintain an Asset Management Plan in respect of the Council's land and property portfolio. The Plan must **detail the actions to be monitored by the Strategic Asset Steering Group.**
- b. The Assistant Director Finance & Corporate Services shall maintain records and systems that enable the Council to ensure that the best use is made of all properties. The Assistant Director Finance & Corporate Services shall advise the Council on alternative uses of land and property as best serves the Council's interests at the time.
- c. The Assistant Director Finance & Corporate Services shall, in consultation with the Assistant Director Legal & Corporate Services, ensure that all leases are kept up to date and rents due are revised at the appropriate time.

### 13.5 Custody of Deeds and Documents

The Assistant Director Legal & Corporate Services shall have custody of the title deeds and other agreements under seal or hand of all land owned by the Council (together with all deeds and documents held as security for any monies owed to the Council) and are responsible for their safe-keeping.

### 13.6 Security

- a. The Strategic/Assistant Directors shall be responsible for ensuring the proper security at all times for buildings, stocks, stores, furniture, equipment, cash and information held on files. The Strategic/Assistant Directors shall consult with the Assistant Director Environment in any instance where security is thought to be defective or where it is considered that special security



arrangements may be needed, or where circumstances suggest the possibility of any irregularity.

- b. The Strategic/Assistant Directors shall ensure that there are appropriate arrangements for the control of all door, safe and cabinet keys held within their areas of responsibility. There shall be independent control of all receipt forms, cheques, tickets, store notes, order forms or similar documents and it shall be the responsibility of the appropriate Strategic Director or Assistant Director to ensure that all such items are serially numbered and controlled in accordance with arrangements agreed with the Group Auditor-SWAP.

## 14 LOANS POLICY

- a. The Council should only provide small loans to outside bodies where alternative forms of borrowing are not available or at prohibitive costs. The loans will only be made to outside bodies that operate from within the South Somerset District geographical area and are either registered charities, public sector, or not for profit organisations.
- b. All loan agreements will either be charged on the property to which they relate (like a mortgage) or a guarantee will be required from a surety which could be an individual, group of individuals or body.
- c. The maximum repayment period will be 10 years and all loans will be repaid on a repayment basis so that the loan is repaid across the loan period at instalment rates approved in advance. (ie in the same way as mortgage repayments)
- d. Loans will be given at the appropriate PWLB rate for the period of the loan. The maximum amount of a loan to an outside body shall be £150,000.
- e. Approval of loans shall be by District Executive and a full appraisal submitted which shall include details of the security offered. In order to qualify for a loan the outside body shall also submit a Business Plan to the Assistant Director Finance & Corporate Services covering the period of the loan.
- f. For small loans of £5,000 or less the approval procedure may be delegated to the area portfolio holders, in consultation with the Area Development Managers. The

interest rate will be the relevant PWLB rate and the loans should be guaranteed by the Town or Parish Council, or similar trustees.

- g. Any loans agreed outside of the loans policy shall be agreed by full Council

## 15 EXTERNAL ARRANGEMENTS

### 15.1 Partnerships

- a. In leading the community and entering into partnerships the Council will seek to achieve the promotion or improvement of the economic, social or environmental wellbeing of its area.
- b. The main criteria for SSDC entering into a partnership are:-
- to provide improvements in service delivery;
  - to provide efficiency in the costs of service provision;
  - to share risk;
  - to achieve specific corporate priorities.
- c. A partner is defined as a formal working arrangement involving one or more independent bodies, from any sector, who pool resources and share responsibility for agreeing and then delivering a set of planned actions and outcomes. A formal agreement is made by all partners to work together for specific outcomes.
- d. Partners may participate by;
- acting as a deliverer or sponsor, solely or jointly with others;
  - acting as a funder or part funder;
  - being the beneficiary group (or part thereof) of the activity undertaken in a partnership.
- e. The District Executive is responsible for determining and agreeing all key partnerships. Directors are responsible for agreeing all substantial and minor partnerships. At inception a review period must be agreed and any associated delegation arrangements approved by District Executive if a key partnership or by the appropriate Director if a substantial or minor partnership.



- f. All partnerships must be reviewed annually and reported by the appropriate Assistant Director to the relevant committee (either District Executive or Area Committee). All partnerships must be included within the Partnership Register and updated annually by the appropriate Assistant Director.
- g. The Strategic/Assistant Directors and Portfolio Holders shall consider and make provision for any overall corporate governance issues and shall ensure account is taken of any legal issues when arranging contracts with external bodies. They shall ensure that risks have been fully appraised before agreements are entered into with external bodies.
- h. The governance arrangements of all key and significant partnerships require approval of the members of Corporate Governance Group.
- h. All key partnerships have a requirement to produce, maintain, and monitor a shared risk register.
- i. The same high standards of conduct that apply throughout the authority shall be maintained in partnerships, and representatives to partnerships should exercise these same high standards.
- j. The Assistant Director Finance & Corporate Services shall ensure that accounting arrangements to be adopted in relation to partnerships and joint ventures are satisfactory.
- k. Regular monitoring arrangements must be in place. For key partnerships monitoring must be reported regularly to the District Executive and other partnerships (substantial and minor) to the Area Committees. This can be carried out through the quarterly budget monitoring reports as a minimum.
- l. Strategic/Assistant Directors and Portfolio Holders are responsible for ensuring that appropriate Council approvals are obtained before concluding negotiations in relation to work with external bodies.

## 15.2 External Funding

The Assistant Director Finance & Corporate Services in consultation with the relevant

Strategic Director, Assistant Director/Manager, or Portfolio Holder is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the Council's accounts. Each Strategic Director, Assistant Director, and Portfolio Holder is responsible for informing the Assistant Director Finance & Corporate Services promptly about such funding. Where such income is receivable against a grant claim the relevant Strategic Director, Assistant Director, or Portfolio Holder shall provide written confirmation to the Assistant Director Finance & Corporate Services that all output and other grant requirements have been properly and fully met.

## 15.3 Grants to Outside Bodies

- a. The District Executive or relevant Area Committee shall approve all grants and other assistance to external bodies, except where such annual assistance in total is less than £1,000 in value to any one body and there is budgetary provision for such assistance. It must not form a commitment of future year's annual budget unless it matches the criteria as set within the Community Grants Policy (4) in respect of those bodies with approved three-year SLA agreements. Where the total value per annum to any one body is below £1,000 the relevant Strategic Director, Assistant Director, or Portfolio Holder may approve such assistance subject to the requirements of these Financial Procedure Rules being met. Where the total value per annum to any one body is below £1,000 the relevant Strategic Director or Assistant Director may delegate the approval to the appropriate designated officer, again subject to the requirements of these Financial Procedure Rules being met.
- b. The District Executive Committee may approve a framework for the administration of any specified class of grant and assistance under that committee's control over the value of £1,000 by a relevant Strategic Director for the efficient conduct of business, subject to the agreed framework and meeting the other requirements of these Financial Procedure Rules.
- c. Reports to the District Executive Committee or Area Committees (and decisions taken under the provisions of (a) above) seeking approval to assist an outside body by grant or other assistance in kind shall provide



assurance that the following requirements have been met or will be met, and ensure that the Council's interests are protected before any grant or assistance is actually made:

- the receiving body has been properly identified, has suitable lead parties, a defined work area/purpose, and suitable trust documents/constitution;
- any conflicts of interest have been declared and properly managed;
- any risks to such agreements and the Council's interests are being adequately and appropriately managed;
- it will be possible to confirm the proper use of the Council's assistance;
- the assistance contributes to the delivery of the Council's services or achievement of the Council's corporate objectives;
- the extent and purpose of the assistance have been properly identified;
- arrangements for the repayment of any loans have been made;
- arrangements to gain repayment /recovery for the value of the assistance are in place in the event of default by the recipient;
- any specific conditions relating to the assistance are identified;
- monitoring arrangements are to be set in place to ensure the assistance is used for the purpose approved;

- the recipient will provide evidence to the Council demonstrating proper accounting for, and use of the assistance, including, for assistance over £1,000 in value, access to the accounts of the body for Assistant Director Finance & Corporate Services, or designated representative and to supporting information, documents and evidence;
  - a legally binding agreement is in place between the Council and the body covering the above conditions relating to the use of grant or other assistance.
- d. Full records will be maintained of all grants and related applications for assistance, which should identify which staff are involved in the processing of applications and grants, and record the date of approval of any grant or other assistance and by whom, and any other relevant transaction information.

### **16 BREACHES OF FINANCIAL REGULATIONS**

- a. Where a failure to comply with these regulations is identified the matter should be brought to the immediate attention of the Assistant Director Finance & Corporate Services and the Group Auditor.
- b. A report shall be made to the Assistant Director Finance & Corporate Services for minor breaches and to the District Executive where the Assistant Director Finance & Corporate Services and the Group Auditor consider the matter to be of significance.



## Appendix A

### Guidance on Interpretation –Officer Contacts

Section Ref.	Financial Regulation	Contact Officer
<b>1</b>	<b>FINANCIAL GOVERNANCE</b>	
1.2(e)	Decision Making Procedures	Assistant Director Finance & Corporate Services Member Services Manager
<b>2</b>	<b>CASH LIMITS</b>	
		Assistant Director Finance & Corporate Services
<b>3</b>	<b>FINANCIAL CONTROL</b>	
3.1	General	Assistant Director Finance & Corporate Services
3.2	Statement of Internal Control/Statement of Governance	Assistant Director Finance & Corporate Services
3.3	South West Audit Partnership	Group Auditor-SWAP
3.4	IT and Furniture Budgets	ICT Manager/Procurement & Risk Manager
3.5	Operational Leases	Assistant Director Finance & Corporate Services/Procurement & Risk Manager
3.6	Treasury Management	Principal Accountant – Exchequer
<b>4</b>	<b>CONTRACTS</b>	
4.1	General	Procurement & Risk Manager
<b>5</b>	<b>PAYMENT OF INVOICES</b>	
5	Payment of Invoices	Principal Accountant – Exchequer
5.1	Corporate Credit Cards	Assistant Director Finance & Corporate Services
5.2	Procurement Cards	Procurement & Risk Manager
<b>6</b>	<b>PAYROLL SERVICES</b>	
6.1	Appointment of Employees	HR Manager
6.2	Amendments	HR Manager
6.3	Other Payments	HR Manager
6.4	Timesheets	HR Manager
<b>7</b>	<b>BANKING ARRANGEMENTS</b>	
7.1	General	Assistant Director Finance & Corporate Services
7.2	Cheques/Cash Received	Principal Accountant - Exchequer
7.3	Money Laundering	Group Auditor-SWAP
7.4	Direct Debits (received)	Assistant Director Finance & Corporate Services
7.5	Direct Debits and Cheques Paid	Assistant Director Finance & Corporate Services
7.6	Handling of Cheques	Principal Accountant - Exchequer
<b>8</b>	<b>INCOME</b>	
		Assistant Director Finance & Corporate Services
<b>9</b>	<b>IMPREST ACCOUNTS</b>	
		Assistant Director Finance & Corporate Services
<b>10</b>	<b>RISK MANAGEMENT AND INSURANCES</b>	
10.1	Risk Management	Procurement & Risk Manager
10.2	Insurances	Insurance and Accounting Technician



## FINANCIAL PROCEDURE RULES

10.3	Notification of Loss	Insurance and Accounting Technician
10.4	Review	Insurance and Accounting Technician
10.5	Car Allowances	Insurance and Accounting Technician
10.6	Current Insurance	Insurance and Accounting Technician
10.7	Inventories	Insurance and Accounting Technician
<b>11</b>	<b>STOCKS, STORES, FURNITURE AND EQUIPMENT</b>	
11.1	General	Assistant Director Finance & Corporate Services
11.2	Write Offs	Assistant Director Finance & Corporate Services
11.3	Stock Checks	Assistant Director Finance & Corporate Services
11.4	Corrections	Assistant Director Finance & Corporate Services
11.5	Disposal of Surplus	Procurement & Risk Manager
<b>12</b>	<b>CAR LOANS AND LEASED CARS</b>	Assistant Director Finance & Corporate Services
<b>13</b>	<b>BUILDINGS, LAND AND PROPERTY</b>	
13.1	Asset Register	Finance Manager
13.2	Buildings, Land and Property Transactions	Assistant Director Finance & Corporate Services
13.3	Condition Surveys	Assistant Director Environment
13.2	Asset Management Plans	Assistant Director Finance & Corporate Services
13.3	Custody of Deeds	Assistant Director Legal & Corporate Services
13.4	Security	Assistant Director Environment
<b>14</b>	<b>LOANS POLICY</b>	Assistant Director Finance & Corporate Services
<b>15</b>	<b>EXTERNAL ARRANGEMENTS</b>	
15.1	Partnerships	Assistant Director Finance & Corporate Services
15.2	External Funding	Assistant Director Finance & Corporate Services
15.3	Grants to Outside Bodies	Assistant Director Finance & Corporate Services
<b>16</b>	<b>BREACHES OF FINANCIAL REGULATIONS</b>	Group Auditor-SWAP /Assistant Director Finance & Corporate Services



# Agenda Item 7

## **Treasury Management Strategy Statement and Investment Strategy 2015/16**

*Executive Portfolio Holder:* Councillor Tim Carroll  
*Assistant Director* Donna Parham, Assistant Director – Finance and Corporate Services

*Service Manager* Amanda Card, Finance Manager  
*Lead Officer:* Karen Gubbins, Principal Accountant – Exchequer  
*Contact Details:* donna.parham@southsomerset.gov.uk or (01935) 462225

### **Purpose of the Report**

This report has been prepared for Audit Committee who has been tasked with the scrutiny of treasury management and to recommend to full Council the Treasury Management Strategy Statement and Investment Strategy for 2015/16.

### **Recommendation**

To recommend the Treasury Management Strategy Statement and Investment Strategy for 2015/16 to full Council;

### **Introduction**

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy 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 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.

### **Background**

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

CIPFA has defined Treasury Management as:

*“the management of the organisation’s 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.”*

The 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. Specific treasury management risks are identified in the Council’s approved Treasury Management Practices. The risks include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

The proposed strategy for 2015/16 takes into account the Council’s current treasury position and the approved Prudential Indicators and draws upon the forecasts for interest rates provided by the Council’s treasury advisers.

The Strategy is attached at Appendix 1 and is split into the following main areas:

- Background
- Credit Outlook and Interest Rate Forecast
- Balance Sheet and Treasury Position
- Borrowing Requirement and Strategy
- Investment Policy and Strategy
- Policy on use of financial Derivatives
- Balanced Budget Requirement
- 2014/15 MRP Statement
- Monitoring and Reporting on Treasury Management
- Other Items

### **Financial Implications**

The revised strategy will achieve the budget for new investments in 2015/16. If members would prefer to accept a more risk averse strategy we will be unable to achieve the Treasury Management Interest budget because the Authority will be restricted to counterparties who offer lower rates of return. In addition, there would be less diversification within the Council’s portfolio, ultimately concentrating all risks within a select few counterparties.

**Background Papers:** *Cipfa Treasury Management Code of Practice*  
*Treasury Management Practices*  
*Arlingclose Treasury Strategy Template*

## **South Somerset District Council Treasury Management Strategy Statement and Investment Strategy 2015/16**

### **Contents**

- 1. Background**
- 2. Credit Outlook and Interest Rate Forecast**
- 3. Balance Sheet and Treasury Position**
- 4. Borrowing Requirement and Strategy**
- 5. Investment Policy and Strategy**
- 6. Policy on use of financial Derivatives**
- 7. Balanced Budget Requirement**
- 8. 2015/16 MRP Statement**
- 9. Monitoring and Reporting on Treasury Management**
- 10. Other Items**

### **Appendices**

- A. Existing and Projected Portfolio Position**
- B. Prudential Indicators**
- C. Arlingclose's Economic and Interest Rate Forecast**
- D. Glossary of Terms**

## 1. **Background**

- 1.1 In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 1.2 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.
- 1.3 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
- 1.4 CIPFA has defined Treasury Management as:  
  
*"the management of the organisation's 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."*
- 1.5 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.
- 1.6 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.
- 1.7 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.8 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Assistant Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.
- 1.9 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 1.10 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.

- 1.11 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.
- 1.12 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.
- 1.13 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.
- 1.14 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:
- Liquidity Risk (Adequate cash resources)
  - Market or Interest Rate Risk (Fluctuations in the value of investments)
  - Inflation Risk (Exposure to inflation)
  - Credit and Counterparty Risk (Security of Investments)
  - Refinancing Risk (Impact of debt maturing in future years)
  - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

## **2. Credit Outlook and interest rate forecast**

- 2.1 Credit outlook: The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.
- 2.2 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.
- 2.3 Interest rate forecast: The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more

towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

- 2.4 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix C.

### **3. Balance Sheet and Treasury Position**

- 3.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	<b>31/03/14 Actual £'000</b>	<b>31/03/15 Estimate £'000</b>	<b>31/03/16 Estimate £'000</b>	<b>31/03/17 Estimate £'000</b>	<b>31/03/18 Estimate £'000</b>
CFR	9,624	9,484	9,361	9,316	9,293
Usable Capital Receipts	(36,396)	(32,117)	(30,601)	(30,276)	(30,276)
Balances & Reserves	(15,089)	(17,967)	(17,866)	(17,866)	(17,866)
<b>Net Balance Sheet Position **</b>	<b>(41,861)</b>	<b>(40,600)</b>	<b>(39,106)</b>	<b>(38,826)</b>	<b>(38,849)</b>

*\*\*excluding working capital.*

- 3.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.
- 3.3 As the CFR represents the underlying need to borrow and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.
- 3.4 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.
- 3.5 The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget. The estimate for interest payments in 2015/16 is nil and for interest receipts is £461,320

### **4. Borrowing Requirement and Strategy**

- 4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. 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.

- 4.2 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. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 4.3 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. 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 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 4.4 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

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

- Public Works Loan Board (PWLB) or its replacement body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except [your local] Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- include any other counterparty you intend to borrow from

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

- 4.5 The Council will undertake a financial options appraisal before any borrowing is made.
- 4.6 For any borrowing that may be undertaken in advance of need the Council will adopt the same rigorous policies and approach to the protection of capital as it does for the investment of its surplus balances.

## **5. Investment Strategy**

- 5.1 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 £42.9 and £64.7 million, and similar levels are expected to be maintained in the forthcoming year.
- 5.2 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 receiving unsuitably low investment income.

- 5.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and higher yielding asset classes during 2015/16.

The Authority may invest its surplus funds with any of the counterparties in the following table, subject to the cash limits (per counterparty) and time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2 m 5 years	£4 m 20 years	£4 m 50 years	£3 m 20 years	£2 m 20 years
AA+	£2 m 5 years	£4 m 10 years	£4 m 25 years	£3 m 10 years	£2 m 10 years
AA	£2 m 4 years	£4 m 5 years	£4 m 15 years	£3 m 5 years	£2 m 10 years
AA-	£2 m 3 years	£4 m 4 years	£4 m 10 years	£3 m 4 years	£2 m 10 years
A+	£2 m 2 years	£4 m 3 years	£2 m 5 years	£3 m 3 years	£2 m 5 years
A	£2 m 13 months	£4 m 2 years	£2 m 5 years	£3m 2 years	£2 m 5 years
A-	£2 m 6 months	£4 m 13 months	£2 m 5 years	£3 m 13 months	£2 m 5 years
BBB+	£1 m 100 days	£2 m 6 months	£2 m 2 years	n/a	£2 m 2 years
BBB or BBB-	n/a	£2 m 100 days	n/a	n/a	n/a
None	n/a	n/a	£4 m 25 years*	n/a	£2 m 5 years
Pooled funds	£4 m (nominal value) per fund				

\*includes unrated UK Local Authorities

- 5.4 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

- 5.5 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank National Westminster Bank Plc.

- 5.6 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The



combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 5.7 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.8 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.
- 5.9 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.
- 5.10 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market 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 pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. The limit on pooled funds is on the nominal value not the valuation.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short 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.

- 5.11 **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,
  - on the advice of Arlingclose, any existing investments that can be recalled or sold at no cost will be following consultation with the chair of Audit Committee, and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.12 Where a credit rating agency announces that a credit 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.

**5.13 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.

**5.14** 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.

**5.15 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.

**5.16 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 the following table:

Non-Specified Investment Limits

	Cash limit
Total long-term investments (over 364 days)	£30m
Total investments without credit ratings or rated below A- (does not include other UK Local Authorities)	£5m *

Total investments in foreign countries rated below AA+	£4m
Total non-specified investments	£32m

\*This limit will be reviewed in the event a change in EU legislation results in MMFs no longer being credit rated.

5.17 Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £4 million on 31st March 2014. South Somerset District Council has allocated a weighting of 25% to this risk, meaning that no more than 25% of available reserves (£1 million) 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 £4 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 (*e.g. King & Shaxson*), foreign countries and industry sectors as below:

#### Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates	£4m in total
Money Market Funds	£20m in total

5.18 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.

5.19 **Liquidity Management:** The Authority uses cash flow forecasting spreadsheets 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.

## **6 Policy on use of financial Derivatives**

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

- 6.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 6.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 6.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

## **7. Balanced Budget Requirement**

- 7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## **8. 2014/15 MRP Statement**

### **Background:**

- 8.1 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.
- 8.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 8.3 The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

### **Option 1 – Regulatory Method:**

- 8.4 This method replicates the position that would have existed under the previous Regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes, however this option allows a historical adjustment to take place that is beneficial to some authorities. This method can only be used for supported expenditure.

### **Option 2 – CFR Method:**

- 8.5 This method simplifies the calculation of MRP by basing the charge solely on the authority's CFR but excludes the technical adjustments included in Option 1. The

annual MRP charge is set at 4% of the CFR at the end of the preceding financial year. This method can only be used for supported expenditure.

### **Option 3 – Asset Life Method:**

- 8.6 Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods:
- (a) Equal Installments: where the principal repayment made is the same in each year,  
or
  - (b) Annuity: where the principal repayments increase over the life of the asset.  
The annuity method has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.
- 8.7 MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP “holiday” to be taken in relation to assets which take more than one year to be completed before they become operational.
- 8.8 The estimated life of the asset will be determined in the year that MRP commences and cannot be revised. However, additional repayments can be made in any year which will reduce the level of payments in subsequent years.
- 8.9 If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure, where this would exceed 50 years.
- 8.10 In instances where central government permits revenue expenditure to be capitalised, the Statutory Guidance sets out the number of years over which the charge to revenue must be made.

### **Option 4 - Depreciation Method:**

- 8.11 The depreciation method is similar to that under Option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the Income and Expenditure account

### **MRP Policy for 2015/16:**

- 8.12 It is proposed that for 2015/16 the Council adopts Option 3 – Asset Life Method. Option 3 enables the calculation of MRP to be aligned with the life of the asset. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised statement will be made to Council at that time.
- 8.13 MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

## **9. Monitoring and Reporting on Treasury Management**

The scrutiny of the treasury management function is carried out by the Audit Committee who then make recommendations to Full Council. The Assistant Director

(Finance and Corporate Services) will report to Council/Audit Committee on treasury management activity / performance as follows:

- (a) Audit Committee will be responsible for the scrutiny of treasury management activity and practices.
- (b) Audit Committee will review the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators twice per year and recommend them to Council for Approval
- (c) Audit Committee will monitor Treasury Management activity quarterly and annually and will approve the Treasury Management Practices on an annual basis
- (d) Full Council will receive the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators prior to the start of the financial year and a mid year review against the strategy approved for the year.
- (e) The Council will produce an outturn report on its treasury activity no later than 30<sup>th</sup> September after the financial year end.

## 10. Other Items

### Training

CIPFA's revised Code requires the Assistant Director (Finance and Corporate Services) ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Officers tasked with treasury management responsibilities are engaged in regular financial and treasury training through attendance at selective seminars/workshops and treasury courses.

### Treasury Management Advisors

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2014 and Arlingclose was reappointed. Among the various services received is **advice** on investment, debt and capital finance issues appropriate to the Council's individual circumstances and objectives.

The Council monitors the service through measuring:

- The timeliness of advice
- The returns from investments
- The accuracy of technical advice
- Regular market testing
- Regular internal meetings to discuss performance
- Direct access to a nominated advisor
- The quality and content of training courses

However, this doesn't divest the Council from its responsibility of its treasury decisions.

### **Financial Implications**

The budget for investment income in 2015/16 is £461k, based on an average investment portfolio of £51.3 million at an interest rate of 0.9%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

**APPENDIX A****EXISTING PORTFOLIO PROJECTED FORWARD**

	31/03/14 Actual £'000	31/03/15 Estimate £'000	31/03/16 Estimate £'000	31/03/17 Estimate £'000
<b>External Borrowing:</b>				
<i>Long-term liabilities</i>				
• <i>Finance Leases</i>	511	371	248	203
<b>Total External Debt</b>	<b>511</b>	<b>371</b>	<b>248</b>	<b>203</b>
<b>Investments:</b>				
• Short term Deposits	18,500	21,028	27,000	27,000
• Monies on call and Money Market Funds	7,690	8,000	8,000	8,000
• Long term Deposits	2,000	8,000	4,000	4,000
• Bonds	10,750	6,912	5,000	5,000
• Property Fund & Other pooled funds	4,000	4,000	4,000	4,000
<b>Total Investments</b>	<b>42,940</b>	<b>47,940</b>	<b>48,000</b>	<b>48,000</b>
<b>(Net Borrowing Position)/ Net Investment position</b>	<b>42,429</b>	<b>47,569</b>	<b>47,752</b>	<b>47,797</b>



**PRUDENTIAL INDICATORS 2014/15 TO 2016/17****Background:**

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

**Prudential Indicator 1 - Capital Expenditure:**

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. The approved expenditure for 2014/15 and the estimates of capital expenditure to be incurred for 2015/16 and future years are:

	<b>2014/15 Approved £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
Approved capital schemes	4,561	5,046	304	0
Reserve schemes	1,847	404	600	0
New Schemes for 2015/16 start		522		
<b>Total Expenditure</b>	<b>6,408</b>	<b>5,972</b>	<b>904</b>	<b>0</b>

The figures in the reserve scheme for 2015/16 is showing lower than in 2016/17. This is due to income already budgeted from previously approved schemes. The expenditure for 2017/18 is currently nil. This will change as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

**Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure. This shows how much of the revenue budget is committed to the servicing of finance.

Estimates of the ratio of financing costs to net revenue stream for the 2015/16 and future years, and the approved figures for 2014/15 are:

<b>Portfolio</b>	<b>2014/15 Approved £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
Financing Costs*	(226)	(338)	(416)	(438)
Net Revenue Stream	17,541	17,543	16,933	16,718
%*	<b>(1.3)</b>	<b>(1.9)</b>	<b>(2.5)</b>	<b>(2.6)</b>

\*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figures are in brackets due to investment income outweighing financing costs significantly for SSDC. This shows the extent that the Council is dependent on investment income.

### Prudential Indicator 3 - Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Opening CFR (Actual 14/15)	9,624	9,484	9,361	9,316
Capital Expenditure	5,410	5,192	335	0
Capital Receipts*	(4,461)	(5,046)	(304)	0
Grants/Contributions*	(949)	(146)	(31)	0
MRP	(140)	(123)	(45)	(23)
<b>Closing CFR</b>	<b>9,484</b>	<b>9,361</b>	<b>9,316</b>	<b>9,293</b>

\*Figures in brackets denote financing through receipts or reserves.

### Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the gross external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period. This is a key indicator of prudence.

	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	0	0	0	0
Finance leases	371	248	203	180
<b>Total Debt</b>	<b>371</b>	<b>248</b>	<b>203</b>	<b>180</b>

Total debt is expected to remain below the CFR during the forecast period

### Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. Overall the authority is aiming to keep within the following exposure to fixed rates as and when market conditions improve.

	2014/15 % Limit	2015/16 % Limit	2016/17 % Limit	2017/18 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

The Council must also set limits to reflect any borrowing we may undertake.

	2014/15 % Limit	2015/16 % Limit	2016/17 % Limit	2017/18 % Limit
Fixed	100	100	100	100
Variable	100	100	100	100

The indicator has been set at 100% to maximise opportunities for future debt as they arise.

#### **Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:**

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

Upper Limit for total principal sums invested over 364 days	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Between 1-2 years	25,000	25,000	25,000	25,000
Between 2-3 years	20,000	20,000	20,000	20,000
Between 3-4 years	10,000	10,000	10,000	10,000
Between 4-5 years	10,000	10,000	10,000	10,000
Over 5 years	5,000	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in previous years to ensure the Council has sufficient flexibility to deal with any unexpected events. **The overall limit for maturities of greater than 364 days will not exceed 70% of the portfolio.**

#### **Prudential Indicator 7 – Credit Risk:**

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

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

The Council 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 and its sovereign
- 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

The only indicators with prescriptive values remain to be credit ratings. The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average long-term credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

The Council targets a portfolio average long-term credit rating of 'A' or higher. (This target rating is one notch above the Council's minimum rating criteria of A-.)

Other indicators of creditworthiness are considered in relative rather than absolute terms.

**Prudential Indicator 8 - Actual External Debt:**

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	<b>£'000</b>
Borrowing	0
Other Long-term Liabilities	511
<b>Total</b>	<b>511</b>

**Prudential Indicator 9 - Authorised Limit for External Debt:**

The Council 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 Council and not just those arising from capital spending reflected in the CFR.

This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council has acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A £9.1m borrowing requirement has been identified to finance the capital programme and further borrowing may be undertaken to increase our borrowing to this level if and when it is the most cost effective way of funding SSDC's requirements. A ceiling of £12 million for each of the next three years is recommended, to allow flexibility to support new capital projects over and above the identified borrowing requirement.

	<b>2014/15 Approved £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
Borrowing	11,000	11,000	11,000	11,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
<b>Total</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>

**Prudential Indicator 10 – Operational Boundary for External Debt:**

The Operational Boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million is recommended for each of the next three years. The table overleaf shows that SSDC's current borrowing is well within this limit. This indicator more than covers the capital financing requirement.

The Assistant Director (Finance and Corporate Services) has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	<b>2014/15 Approved £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
Borrowing	9,200	9,200	9,200	9,200
Other Long-term Liabilities	800	800	800	800
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

#### **Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:**

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.

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.

<b>Maturity structure of fixed rate borrowing</b>	<b>2014/15 % Actual</b>	<b>2015/16 % Estimate</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

#### **Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:**

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2015/16 Estimate £</b>	<b>2016/17 Estimate £</b>	<b>2017/18 Estimate £</b>
Increase in Band D Council Tax	0.07	0.17	0.17

**Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:**

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

Adoption of the CIPFA Code of Practice in Treasury Management
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The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 <sup>th</sup> April 2002.
--

**Arlingclose's Economic and Interest Rate Forecast**

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.25</b>	<b>1.50</b>	<b>1.50</b>	<b>1.75</b>	<b>1.75</b>
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
<b>3-month LIBID rate</b>													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	<b>0.55</b>	<b>0.60</b>	<b>0.65</b>	<b>0.85</b>	<b>1.00</b>	<b>1.15</b>	<b>1.30</b>	<b>1.45</b>	<b>1.60</b>	<b>1.75</b>	<b>1.85</b>	<b>2.05</b>	<b>2.15</b>
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
<b>1-yr LIBID rate</b>													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.20</b>	<b>1.35</b>	<b>1.50</b>	<b>1.65</b>	<b>1.80</b>	<b>1.95</b>	<b>2.10</b>	<b>2.20</b>	<b>2.40</b>	<b>2.50</b>
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
<b>5-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
<b>Arlingclose Central Case</b>	<b>1.70</b>	<b>1.75</b>	<b>1.90</b>	<b>2.00</b>	<b>2.10</b>	<b>2.20</b>	<b>2.30</b>	<b>2.40</b>	<b>2.50</b>	<b>2.60</b>	<b>2.70</b>	<b>2.90</b>	<b>2.95</b>
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
<b>10-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
<b>Arlingclose Central Case</b>	<b>2.40</b>	<b>2.45</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>3.05</b>	<b>3.10</b>
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
<b>20-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
<b>Arlingclose Central Case</b>	<b>2.90</b>	<b>2.95</b>	<b>3.05</b>	<b>3.10</b>	<b>3.15</b>	<b>3.20</b>	<b>3.25</b>	<b>3.30</b>	<b>3.35</b>	<b>3.40</b>	<b>3.45</b>	<b>3.50</b>	<b>3.55</b>
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
<b>50-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
<b>Arlingclose Central Case</b>	<b>3.00</b>	<b>3.05</b>	<b>3.10</b>	<b>3.15</b>	<b>3.20</b>	<b>3.25</b>	<b>3.30</b>	<b>3.35</b>	<b>3.40</b>	<b>3.45</b>	<b>3.50</b>	<b>3.55</b>	<b>3.60</b>
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

**Underlying assumptions:**

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.
- We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
- Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and

underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.
- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.
- The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

#### Arlingclose Forecast:

- Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.



**Glossary of Terms**

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
ECB	European Central Bank

Federal Reserve	The US central bank. (Often referred to as “the Fed”)
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
Gilt	Is a fixed rate security issued as debt and repaid at a future date.
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
Maturity	The date when an investment or borrowing is repaid
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Pooled funds	See Collective Investment Schemes (above)
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice
Prudential Indicators	Indicators determined by the local authority to define the its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
SI (Statutory Instrumeny)	Is the principal form in which delegated or secondary legislation is made in Great Britain.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).

Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Supported Capital Expenditure	The financing element of Capital expenditure that is grant funded by Central Government
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Capital Expenditure	The financing of Capital expenditure is financed internally through the revenue budget
Yield	The measure of the return on an investment instrument

# Agenda Item 8

## **Grant Thornton Audit Committee Update for SSDC**

*Executive Portfolio Holder*                      *Cllr Tim Carroll*  
*Assistant Director:*                              *Donna Parham, Assistant Director –*  
*Finance and Corporate Services*  
*Lead Officer:*                                      *Donna Parham*  
*Contact Details:*                                 *Donna.parham@southsomerset.gov.uk*    o.  
*(01935) 462225*

### **Purpose of the report**

This report introduces an update on the work of our external auditors Grant Thornton.

### **Recommendations**

The Audit Committee is asked to:

- (1) Note the attached report.

### **Introduction**

Considering reports from Grant Thornton is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of SSDC’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”

### **The Report**

The report from Grant Thornton is attached at Appendix A.

### **Financial Implications**

None as a consequence of this report.

### **Background Papers**

None

# Audit Committee Update for South Somerset District Council

Year ended 31 March 2015

7 January 2015

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**Simon Garlick**

Director

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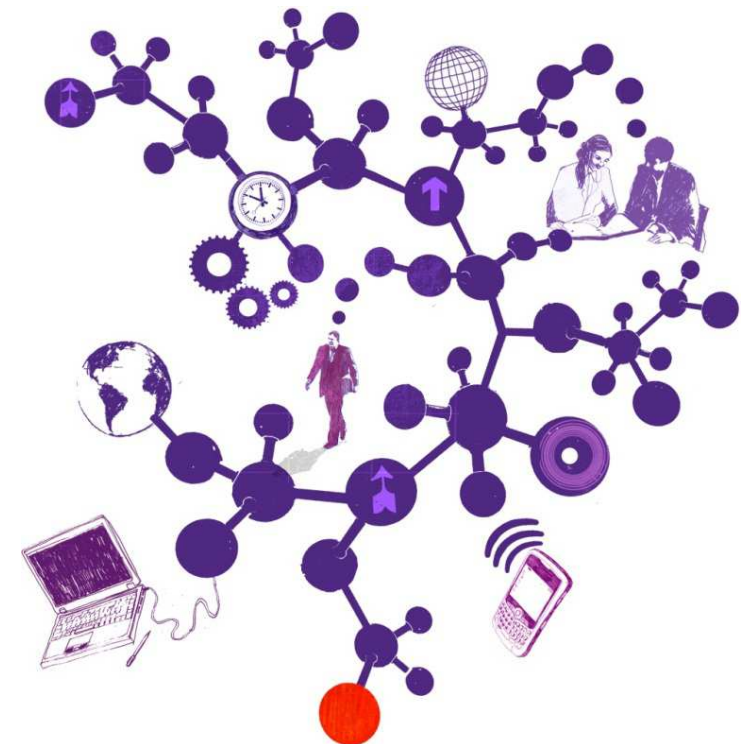
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**Peter Lappin**

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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# Progress at 7 January 2015

Work	Planned date	Complete?	Comments
<p><b>2013-14 Certification work</b></p> <p>As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.</p> <p>The only claim which requires Audit Commission certification at South Somerset District Council for 2013/14 relates to housing benefits for which the deadline was 30 November 2014.</p>	27 November 2014	Yes	<p>We completed our work and certified the return and issued a qualification letter by the deadline.</p> <p>The details of our findings are reported in our annual certification report which is presented to this Committee.</p>
<p><b>2014-15 Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014/15 financial statements.</p>	January to February 2015	N/A	We will draft the plan once our risk assessment and walkthrough testing have been completed.
<p><b>2014-15 Interim accounts audit</b></p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	January to February 2015	Planned to start in January	We are due to begin our interim visit in January.

# Progress at 7 January 2015

Work	Planned date	Complete?	Comments
<p><b>2014-15 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	<p>July to September 2015</p>	<p>Not yet planned</p>	<p>Not yet started</p>
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• Follow up of previous recommendations</li> <li>• The organisation has proper arrangements in place for securing financial resilience</li> <li>• The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul>	<p>January / August 2015</p>	<p>Not yet planned</p>	<p>Not yet started</p>
<p><b>Other activity undertaken</b></p> <p>Meetings with the Chief Executive, Assistant Directors – Finance and Legal and senior officers to discuss the Council's future strategies and plans.</p>	<p>On-going</p>	<p>On-going</p>	<p>Regular programme of meetings with Chief Executive, Assistant Directors – Corporate Services and Finance, Corporate Services and Legal</p>

# 2020 Vision

## Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios\* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

# Where Growth Happens

## Grant Thornton

Our national report 'Where Growth Happens' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/>

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEAs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

# Anti - fraud and corruption update

## Grant Thornton

Key current issues include:

**Single Fraud Investigation Service (SFIS)** - The SFIS will bring together all investigative capacity in relation to benefits and tax credits under the control of the Department of Work and Pensions. However a number of local authorities have expressed concern that such a transfer will cause them to lose the capacity to readily investigate other issues such as employee fraud and corruption allegations.

**Corruption risk** - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that audit committees were unable to fulfil the function of reducing risks in many authorities.

**Non-benefits fraud** - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your audit manager.

# Managing council property assets

## Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

*"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."*

# The National Fraud Initiative

## Local government guidance

On 12 June 2014 the Audit Commission released its national report, [The National Fraud Initiative \(NFI\): National Report \(June 2014\)](#) highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

*"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".*

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .



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# Agenda Item 9

## **Grant Thornton Certification report for SSDC**

*Portfolio Holder*                      *Cllr Tim Carroll*  
*Director:*                                Donna Parham, Assistant Director – Finance and Corporate Services  
*Lead Officer:*                         *Donna Parham*  
*Contact Details:*                      *Donna.parham@southsomerset.gov.uk or (01935) 462225*

### **Purpose of the report**

This report introduces the annual report from our external auditors Grant Thornton on their findings from the signing off of the Housing Benefit Subsidy Claim for 2013/14.

### **Recommendations**

The Audit Committee is asked to:

- (1) Note the contents of the Certification of Claim Report for 2013/14.
- (2) Note that SSDC is appealing the extrapolation process with the Department for Work and Pensions (DWP).

### **Introduction**

The Certification of Claims Report is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of SSDC’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”

### **Grant Claim**

The external auditors certify the subsidy claim for the Housing Benefit Scheme. The report from Grant Thornton is attached at Appendix A. The total claim was £45,936,089 and through the audit process £231,021 is required as an amendment to the claim. This sum is due to be paid to the Department for Work and Pensions (DWP).

The areas where errors were found were:-

- Earned income.
- Classification of overpayments

The 21 errors (15 affecting the 2013/14 claim) found totalled £1,288 but because the errors are extrapolated over high value cells the overall impact on SSDC will be £231,021. We have contacted the DWP to appeal on the basis that the cells where the extrapolation has taken place ought to be broken down to like for like claims rather than all of the claims contained in that cell (i.e. only those claims with an income figure and excluding passported claims). An example of how this extrapolation works is shown below:-

Sample	Movement / brief note of error:	Original cell total	Sample error	Sample value	Percentage error rate	Cell adjustment	Revised cell total if cell adjustment applied
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
<b>Combined sample- 60 cases</b>	Cell 102 had 3 claims overstated due to incorrect calculation of earned income	<b>£30,555,309</b>	<b>(£237)</b>	<b>£138,929</b>	<b>0.17%</b>	<b>(£51,944)</b>	<b>£30,503,365</b>

So in the example above the error of £237 is 0.17% of the total value of benefits in the sample. The error rate i.e. the 0.17% has then been extrapolated against the overall cell value of £30.6 million. This then becomes the amount that the authority must repay.

At the time of the audit the Council was not able to produce a report to sub-total earned/self-employed income cases but we are confident that we will now be able to provide this analysis so that a fairer method of calculation can be provided to the DWP over the next couple of months through the appeal process. We are also looking to extend testing. We are hopeful that the revised calculations will reduce significantly the overall loss in subsidy to the Council.

The following actions have been agreed and are outlined in the Grant Thornton report:-

- Improvements to the forms filled out by the Housing Benefits Team to calculate earned income (already completed).
- Further training on the areas outlined (partially completed).
- An information sheet to give the team more guidance (to be completed by the end of January).
- Further testing on the areas where errors were found (to be completed by the 31<sup>st</sup> March 2015).

### **Financial Implications**

Any final payment will be found from the Housing Benefit Reserve which was set up for this purpose.

### **Background Papers**

Housing Benefit Subsidy Claim

# Certification report for South Somerset District Council

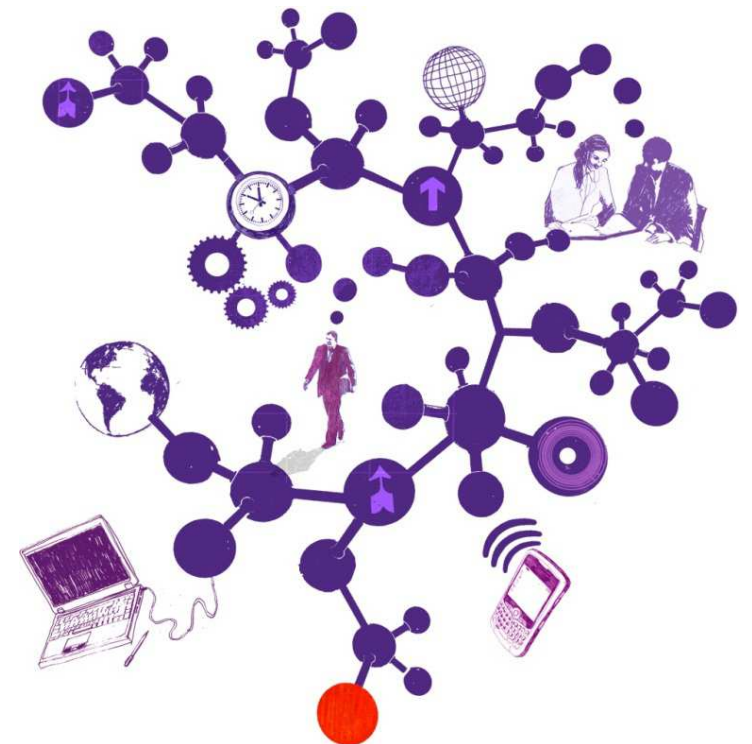
Year ended 31 March 2014

January 2015

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# Section 1: Summary of findings

01. Summary of findings

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# Summary of findings

## Introduction

We are required to certify certain claims and returns submitted by South Somerset District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We certified one claim (the housing benefit subsidy claim) to the Department for Work and Pensions (DWP) for the financial year 2013/14 relating to expenditure of £46 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process.

## Approach and context to certification

Arrangements for certification of some claims and returns are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform remain unchanged from previous years.

## Key messages

A summary of all claims and returns subject to certification under the Audit Commission regime is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	Submitted by the Council and certified by Grant Thornton by the due deadline.	GREEN
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	There were errors in the calculations regarding earned income and the misclassification of overpayments. We issued a qualification letter to the DWP setting out the details of the errors.	RED
<b>Supporting working papers</b>	There were no issues noted with the Council's working papers.	GREEN

## Certification fees

The indicative certification fee set by the Audit Commission for 2013/14 for South Somerset District Council is based on final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix B.

The indicative fee for certification work for 2013/14 was £10,736. We have not requested a fee variation for any additional work.

## The way forward

We set out one recommendation to address the findings arising from our certification work at Appendix B.

In view of the number of data entry errors that our audit identified this year we recommend that the Council should arrange for more internal checks to be undertaken to safeguard against inaccurate awards and overpayments.

Implementation of the agreed recommendation will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

## Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**December 2014**

# Appendices

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# Appendix A: Details of claims and returns certified for 2013/14

Claim	Subsidy claimed (£)	Claim amended?	Claim qualified?	Comments
Housing benefit subsidy claim	45,936,089	N	Y	<p>The claim was qualified because of two issues noted in our sample testing of rent allowances. Our initial sampling identified:</p> <ul style="list-style-type: none"> <li>• Two incorrect calculations of weekly earnings</li> <li>• One misclassification of an overpayment.</li> </ul> <p>As a result the Council carried out additional 40+ testing on these areas and found further errors:</p> <ul style="list-style-type: none"> <li>• Further 8 misclassifications of overpayments (from a sample of 40)</li> <li>• Further 11 incorrect calculations of weekly earnings (from a sample of 80) of which 6 were overpayments and 5 were underpayments) Only overpayments impact on the Council's subsidy claim: the Council cannot receive subsidy on payments it should have made but did not. Adjustments can be made in the following year for underpayments to award the claimants what should have been paid and can be then claimed as subsidy.</li> </ul> <p>We re-performed an element of this additional testing and confirmed the Council's findings. We reported the results in our qualification letter.</p> <p>We are required to report all errors to the DWP in a prescribed report format which extrapolates the error over the relevant population. Most notable was the percentage of overpayments which had been classified as eligible but were actually caused by local authority error or delay (6.71% by value in the sample). Combined with the extrapolated errors in earned income, the Council has estimated that the potential loss of subsidy to the Council could be £231,021.</p> <p>However, it is up to the DWP to agree with the Council how to deal with the reported errors.</p>

# Appendix B: Action plan

**Priority**

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1 Page 77	<p>The Council should arrange for more internal checks regarding:</p> <ul style="list-style-type: none"> <li>- Earned income</li> <li>- Classification of overpayments</li> </ul> <p>These checks should be undertaken to safeguard against inaccurate awards and classification of overpayments.</p>	High	<p>The Council will address the recommendation through:</p> <ul style="list-style-type: none"> <li>• Improvements to the forms filled out by the Housing Benefits Team to calculate earned income (already completed).</li> <li>• Further training on the areas outlined (partially completed).</li> <li>• An information sheet to give the team more guidance (to be completed by the end of January).</li> <li>• Further testing on the areas where errors were found (to be completed by the 31 March 2015).</li> </ul>	Benefits and Control Officer (all actions will be completed by 31 March 2015)

# Appendix C: Fees

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance year on year (£)	Explanation for significant variances
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 78</p> <p>Housing benefits subsidy claim</p>	15,900	10,736	10,736	-5,164	<p>The fees for certification of housing benefit subsidy claims were reduced from those set in 2011/12 of £20,382 by 40 per cent (saving from Audit Commission contracts with new audit suppliers from 2012/13) and then a further 12 per cent, to reflect the removal of council tax benefit from the scheme.</p> <p>These savings are in addition to the removal of the requirement for audit certification of the NNDR3 return.</p>



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# Agenda Item 10

## **Audit Committee Forward Plan**

*Assistant Director: Donna Parham, Finance and Corporate Services*  
*Lead Officer: Anne Herridge, Committee Administrator*  
*Contact Details: anne.herridge@southsomerset.gov.uk or (01935) 462570*

### **Purpose of the Report**

This report informs Members of the agreed Audit Committee Forward Plan.

### **Recommendation**

Members are asked to:-

1. Comment upon and note the proposed Audit Committee Forward Plan as attached at Appendix A.

### **Audit Committee Forward Plan**

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

***Background Papers:***        *None*

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## AUDIT COMMITTEE - FORWARD PLAN 2014/15

Committee Date	Responsible Officer
26 <sup>th</sup> February 2015 <ul style="list-style-type: none"> <li>• Annual Fraud Programme</li> <li>• Treasury Management Strategy and Prudential Indicators for 2014/15 – <b>Needs to go to Full Council in March</b></li> <li>• Annual Governance Statement Action Plan</li> <li>• Treasury Management – Third quarter monitoring report</li> <li>• Internal Audit – third quarter update</li> <li>• Internal Audit Plan – approve 15/16 plan/</li> <li>• Internal Audit - Charter</li> <li>• External Audit – Audit Plan</li> </ul>	Tom Chown/Lynda Creek Karen Gubbins  Donna Parham Karen Gubbins Andrew Ellins Andrew Ellins Andrew Ellins Donna Parham
26 <sup>th</sup> March 2015 <ul style="list-style-type: none"> <li>• Health, Safety, and Welfare (Annual Report)</li> <li>• Risk Management Update</li> </ul>	Pam Harvey Gary Russ