

South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 23rd February 2012

10.00 a.m.

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

The public and press are welcome to attend.

Disabled Access is available at this meeting venue.



If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Andrew Blackburn** on Yeovil (01935) 462462
email: andrew.blackburn@southsomerset.gov.uk

This Agenda was issued on Wednesday, 15th February 2012

Ian Clarke, Assistant Director (Legal & Corporate Services)



2007-2008
*Neighbourhood and
Community Champions:
The Role of Elected Members*
2006-2007
*Improving Rural Services
Empowering Communities*
2005-2006
Getting Closer to Communities

This information is also available on our
website: www.southsomerset.gov.uk



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Audit Committee Membership

Chairman Derek Yeomans
Vice-Chairman Ian Martin

John Calvert Roy Mills
John Dyke John Richardson
Marcus Fysh Colin Winder
Tony Lock

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

- Increase economic vitality and prosperity
- Enhance the environment, address and adapt to climate change
- Improve the housing, health and well-being of our citizens
- Ensure safe, sustainable and cohesive communities
- Deliver well managed, cost effective services valued by our customers

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;
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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

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 23rd February 2012

Agenda

Preliminary Items

1. To approve as a correct record the Minutes of the previous meeting held on 26th January 2012
2. Apologies for Absence
3. Declarations of Interest

In accordance with the Council's Code of Conduct, which includes all the provisions of the statutory Model Code of Conduct, members are asked to declare any personal interests (and whether or not such an interest is "prejudicial") in any matter on the agenda for this meeting. A personal interest is defined in paragraph 8 of the Code and a prejudicial interest is defined in paragraph 10.

4. Public Question Time

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Items for Discussion

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Audit Committee – 23rd February 2012

5. Treasury Management Performance to December 2011

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham (Finance and Corporate Services)
Service Manager: Amanda Card, Finance
Lead Officer: Karen Gubbins, Principal Accountant - Exchequer
Contact Details: karen.gubbins@southsomerset.gov.uk or 01935 462456

Purpose of the Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the nine months ended 31st December 2011.

Recommendations

2. The Audit Committee are asked to:
 - note the Treasury Management Activity for the nine-month period ended 31st December 2011;
 - note the position of the individual Prudential Indicators for the nine-month period ended 31st December 2011.

The Investment Strategy for 2011/12

3. The Treasury Management Strategy for 2011/12 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
4. The Code of Practice recommends that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
5. The Council's strategy for investments is based upon minimising risk and safeguarding the capital sum. There is a reliance on the investment income receivable in maintaining a balanced revenue budget and therefore the long-term strategy is to maintain stability by having a significant amount invested in fixed rate of return investment instruments.
6. Our Minimum rating is A+ long term (or equivalent). Although Natwest does not meet the minimum credit criteria of A+ (or equivalent) long term, it is the Council's bank and will still be used for operational purposes. Balances of smaller amounts (less than £300,000) will be kept within our Natwest Account to ensure operational and contingency purposes are maintained.
7. From April until early September, where cash-flow permitted the Council followed a cautious investment strategy of a rolling programme of 12 month deposits with named counterparties for a proportion of its investments. Arlingclose have since reduced the limit of new investments on two separate occasions. On the 11th August, Arlingclose reigned in maturity limits to a maximum of 6 months on new investments (as previously reported) and again on 11th November to 3 months. The Council has maintained a rolling programme of deposits with named counterparties within these restrictions.

8. As previously reported, following the growing problems facing peripheral Europe, the Council responded to the growing stress by scaling back maturities for new investments on the advice of the Council's treasury advisors. Limits for European banks have been temporarily suspended for new investments. Limits for UK banks, Australian, Canadian and US banks have now been temporarily reduced to 3 months except for Santander UK plc which is now restricted to overnight deposits.

The ratings of most of the UK banks, Nationwide Building Society and non-UK banks were either downgraded or placed on review for possible downgrade. For the UK banks, the downgrades largely reflected the reassessment by the agencies of the extent of future systemic support that would be forthcoming from the sovereign. For Eurozone banks, the worsening sovereign debt crisis and poor growth outlook led to pressure on sovereign ratings and consequently on bank ratings. The downgrades resulted in the long-term rating of several UK institutions (Barclays, NatWest/RBS, Bank of Scotland/Lloyds TSB Bank, Clydesdale Bank and Nationwide BS) falling below the Council's minimum criteria of 'A+'. Even though there are no solvency issues with these institutions, they have been temporarily suspended as counterparties for new investments until a revision to the minimum credit criteria has been considered and approved by full Council.

9. The sum invested in longer dated securities at fixed rates of interest at the end of December represented 14% of the total portfolio. The sum invested in longer dated securities at variable rates of interest at the end of December represented 13.7% of the total portfolio. Investments made in longer dated securities comprise EuroSterling bonds and World bonds; these investments have all been made after advice from our treasury advisors, Arlingclose.
10. The Treasury Management Strategy Statement and Annual Investment Policy were both approved by Council on 17th March 2011. The strategy identified that the overall investment portfolio should, subject to current economic conditions, include investments in the following ranges:-

	%
Fund Managers and pooled managed funds.	0% - 25%
Term deposits (up to 2 years).	0% - 75%
3 – 5 year cash deposits.	0% - 25%
1 – 5 year callable deposits.	0% - 15%
1 – 5 year EuroSterling/Corporate/World Bonds & Treasury Bills.	10% - 75%

11. The table below compares the investment portfolio at 31st December 2011 to the investment strategy:-

	£'m	%	Strategic aim
Pooled Managed Funds and business reserve accounts	2.13	4.2	0% - 25%
Term deposits (up to 2 year)	34.75	68.1	0% - 75%
3 – 5 year cash deposits.	0	0	0% - 25%
1 – 5 year callable deposits.	0	0	0% - 15%
1 – 5 year EuroSterling/Corporate/World Bonds & Treasury Bills.	14.16	27.7	10% - 75%
	51.04	100	

The above table shows that the current portfolio broadly reflects the strategy.

Interest Rates 2011/12

12. Base rate began the financial year and remains at 0.5%.
13. Our advisors are forecasting that the outlook is for official interest rates to remain low for an extended period, as shown below.

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													

Investment Portfolio

14. The total amount of investments has increased since 1st April as the capital receipts from both Right to Buy (£323k) and the Birchfield Easement (£2.5m) and the income from the New Homes Bonus (£601k) have been received, but not yet spent. We are also now nine months into the ten month council tax collection cycle.
15. The table below shows the Council's overall investments as at 31st December 2011:

	Value of Investments at 01.04.11 £	Value of Investments at 31.12.11 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Euro Sterling Bonds	7,537,881	4,130,126	Fixed
Corporate Bonds	5,194,979	0	Fixed
World Bonds		3,027,100	Fixed
Treasury Bills		999,201	Variable
Euro Sterling Bonds	6,000,000	6,000,000	Variable
Total	18,732,860	14,156,427	
Internal Investments			
Short Term Deposits (Banks)	16,000,000	26,000,000	Variable
Short Term Deposits (Other LAs)		5,800,000	Variable
Short Term Deposits (DMADF)		2,950,000	Variable
Money Market Funds & Business Reserve Accounts	4,000,000	2,130,000	Variable
Total	20,000,000	36,880,000	
TOTAL INVESTMENTS	38,732,860	51,036,427	

16. Following the downgrading of the majority of the banks on our lending list this has left us with only 2 or 3 banks available to use. This is going to give us an issue with placing the £16 million due to be returned by the end of the financial year. As a result we have diversified into using Local Authorities because they are seen as a safe alternative and offer better rates than the DMADF. We do have

concerns about our ability to find local authorities requiring short term borrowing in the early part of the next financial year as Council Tax payments are received.

Returns for 2011/12

17. The returns to 31st December 2011 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Euro Sterling Bonds (Fixed)	361	
Corporate Bonds	140	
World Bonds	3	
Treasury Bills	1	
Euro Sterling Bonds (Variable)	<u>38</u>	
Total	543	3.42%
Internal Investments		
Short Term Deposits	242	
Money Market Funds & Business Reserve Accounts	43	
Total	<u>285</u>	1.22%
Other Interest		
Miscellaneous Loans	<u>49</u>	
Total	49	
TOTAL INCOME TO 31st DECEMBER 2011	<u>877</u>	2.03%
PROFILED BUDGETED INCOME	<u>600</u>	
FORECAST SURPLUS FOR YEAR END	150	
BENCHMARK RATE OF RETURN	0.61%	

18. The table above shows investment income for the first nine months of the year compared to the profiled budget. The figures show a surplus over budget of £277,000. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £150,000.

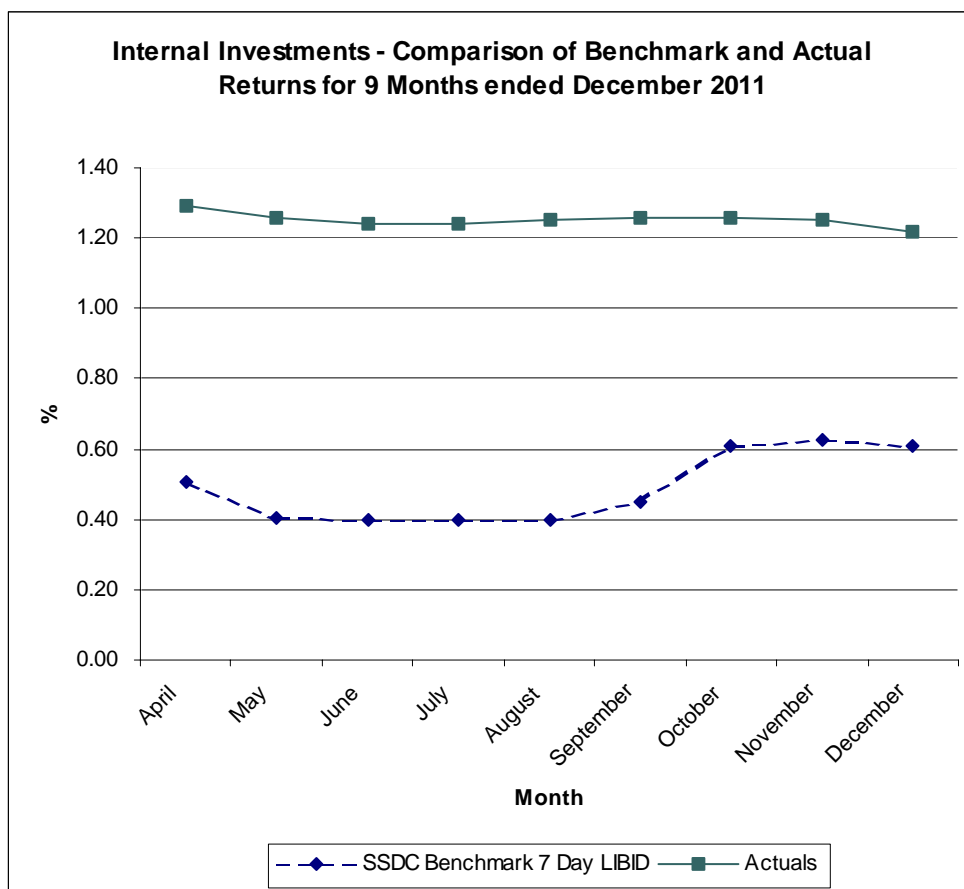
19. Following the crisis in the eurozone we have sold some of our Eurobonds on the advice of Arlingclose. This has contributed to the surplus in the current financial year but will affect next financial year's estimates. This will result in us having to draw on the Treasury Management Reserve for any shortfall.

20. The outturn position is affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of capital expenditure and the collection of council tax and business rates.

21. The original Treasury Management budget of £799,620 was derived by forecasting an average rate of return of 1.78%. The actual interest rate received up to quarter 3 was 2.03%.

Internal Investments (Short Term)

22. The graph below shows the In-house performance in respect of short-term investments as at 31st December 2011.



23. The current benchmark set for the in house team is the 7-day LIBID (London Interbank Bid) rate which is the rate used for quick benchmarking by the CIPFA benchmarking club.

24. The above graph shows that the internal investments returns are consistently outperforming the benchmark by around 60 basis points. This is due to maintaining a rolling programme of 12 month, reducing to 6 month in August and further reducing to 3 month in November, term deposits where cash flow permits.

Borrowing

25. An actual overall borrowing requirement (CFR) of £9.4 million was identified at the beginning of 2010/11. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 31st December 2011 the Council had no external borrowing.

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Breakdown of investments as at 31st December 2011

Date Lent	Counterparty	Amount	Rate	Maturity Date
10-Jan-11	Bank of Scotland	2,000,000	1.95%	10-Jan-12
1-Mar-11	Bank of Scotland	1,000,000	2.05%	1-Mar-12
14-Apr-11	Nationwide Building Society	1,000,000	1.44%	13-Apr-12
7-Jun-11	Nationwide Building Society	1,000,000	1.41%	6-Jun-12
5-Aug-11	Nationwide Building Society	1,000,000	1.03%	20-Feb-12
25-Aug-11	Barclays Bank Plc	1,000,000	1.09%	27-Feb-12
4-Nov-11	Barclays Bank Plc	1,000,000	1.21%	4-May-12
17-Nov-11	Barclays Bank Plc	1,000,000	0.91%	17-Feb-12
23-Mar-11	Bank of Scotland	1,000,000	2.05%	23-Mar-12
31-Mar-11	Barclays Bank Plc	2,000,000	1.58%	30-Mar-12
12-Jul-11	Nordea Bank	2,000,000	1.40%	12-Jul-12
15-Jul-11	Nordea Bank	2,000,000	1.38%	13-Jul-12
15-Jul-11	Nordea Bank	2,000,000	1.01%	15-Feb-12
2-Sep-11	Royal Bank of Scotland	1,000,000	1.10%	2-Mar-12
7-Sep-11	Barclays Bank Plc	1,000,000	1.13%	12-Mar-12
21-Sep-11	Nationwide Building Society	1,000,000	1.04%	17-Feb-12
26-Sep-11	Nationwide Building Society	1,000,000	1.11%	16-Mar-12
6-Oct-11	Nationwide Building Society	1,000,000	1.18%	10-Apr-12
2-Dec-12	National Australia Bank	2,000,000	0.65%	2-Mar-12
6-Dec-12	National Australia Bank	1,000,000	0.75%	6-Mar-12
19-Dec-12	DMADF	2,950,000	0.25%	5-Jan-12
30-Dec-11	Salford City Council	3,000,000	0.39%	8-May-12
30-Dec-11	Redditch Borough Council	1,500,000	0.30%	15-Feb-12
23-Dec-11	West Yorkshire Police Authority	1,300,000	0.30%	23-Jan-12
	Santander Business Reserve Account	1,000,000	0.60%	
	Invesco Aim*	250,000	0.58%	
	Ignis*	250,000	0.72%	
	Prime Rate Money Market Fund*	380,000	0.94%	
	Deutsche GLS Fund*	250,000	0.72%	
	Eurobond Fixed Rate	2,080,426	5.72%	6-Jun-12
	Eurobond Fixed Rate	2,049,700	0.78%	6-Jun-12
	International Bank for Reconstruction and Development (the World Bank)	2,016,600	0.84%	10-Dec-13
	International Bank for Reconstruction and Development (the World Bank)	1,010,500	0.71%	10-Dec-13
	Treasury Bill	999,201	0.40%	23-Jan-12
	Eurobond Floating Rate Note	6,000,000	SONIA+ 0.35%	18-Mar-14
		51,036,427		

**Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate*

Prudential Indicators – Quarter 3 monitoring

Background:

26. In March 2011, Full Council approved the indicators for 2011/12, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allowed local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

27. The revised estimates of capital expenditure to be incurred for the current year compared to the original estimates are:

	2011/12 Original Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Approved capital schemes	5,341	5,526	185	Increase arises from net slippage from previous year to current year and re-profiling of expenditure from current year to future years
Capital Investments	0	(5,000)	(5,000)	Corporate Bond matured in November 2011
Reserves	1,168	3,507	2,339	Slippage from 2010/11 accounts for the majority of the variance
Total Expenditure	6,509	4,033	(2,476)	

28. The above table shows that the overall estimate for capital expenditure has reduced. This is due to the maturity of a corporate bond that under statutory accounting procedures had to be treated as a capital receipt.

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

29. A comparison needs to be made of financing capital costs compared to the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

Portfolio	2011/12 Original Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Financing Costs*	(673)	(790)	(117)	
Net Revenue Stream	17,345	17,984	639	Carry forwards approved in June 2011 have now been incorporated within the overall budget and a transfer from the VR earmarked reserve to the budget
%*	(3.9)	(4.4)	(0.5)	

*figures in brackets denote income through receipts and reserves

30. The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for SSDC but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

31. 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:

	2011/12 Revised Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Opening CFR	9,352	9,415	63	
Capital Expenditure	5,341	5,526	185	See explanations for indicator 1 above
Capital Receipts*	(3,664)	(3,730)	(66)	Slippage of schemes approved in previous years
Grants/Contributions*	(1,677)	(1,796)	(119)	Reprofiling of income expected in future years
Minimum Revenue Position (MRP)	(126)	(159)	33	Additional finance leases
Additional Finance Leases		131	131	
Closing CFR	9,226	9,387	227	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Net external Borrowing compared to the medium term Capital Financing Requirement:

32. 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 net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2011/12 Original Estimate £'000	2011/12 Qtr 3 Actual £'000	2011/12 Variance £'000	Reason for Variance
Net Borrowing	(46,434)	(46,752)	(318)	
CFR	9,226	9,387	161	

33. The figures above in brackets described as net borrowing actually represent net investments. Our net borrowing is forecast to remain as net investment for the foreseeable future and therefore will not at any time be in excess of the capital financing requirement.

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

34. 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. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

	2011/12 % Limit	2011/12 Qtr 3 Actual %	2011/12 Variance %	Reason for Variance
Fixed	80	14.02	(65.98)	Within limit
Variable	100	85.98	(14.02)	Within limit

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

	2011/12 % Limit	2011/12 Qtr 3 Actual %	2011/12 Variance %	Reason for Variance
Fixed	100	0	(100)	SSDC currently has no borrowing
Variable	100	0	(100)	SSDC currently has no borrowing

36. 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:

37. SSDC must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that SSDC, at any time, has sufficient liquidity to meet all of its financial commitments.

Upper Limit for total principal sums invested over 364 days	2011/12 Maximum Limit £'000	2011/12 Qtr 3 Actual £'000	2011/12 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	3,027	(21,973)	Within limit
Between 2-3 years	20,000	6,000	(14,000)	Within limit
Between 3-4 years	10,000	0	(10,000)	Within limit
Between 4-5 years	10,000	0	(10,000)	Within limit
Over 5 years	5,000	0	(5,000)	Within limit

38. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

Prudential Indicator 7 - Actual External Debt:

39. 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 represents our finance leases). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£'000
Borrowing	0
Other Long-term Liabilities (Finance Leases)	301
Total	301

Prudential Indicator 8 - Authorised Limit for External Debt:

40. 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 will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set for each year.

	2011/12 Estimate £'000	2011/12 Qtr 3 Actual £'000	2011/12 Variance £'000	Reason for Variance
Borrowing	11,600	0	(11,600)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	400	273	(127)	Within limit
Total	12,000	273	(11,727)	

Prudential Indicator 9 – Operational Boundary for External Debt:

41. 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 for each of the next three years was set.

	2011/12 Estimate £'000	2011/12 Qtr 3 Actual £'000	2011/12 Variance £'000	Reason for Variance
Borrowing	9,700	0	(9,700)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	300	273	(27)	Within limit
Total	10,000	273	(9,727)	

Prudential Indicator 10 - Maturity Structure of Fixed Rate borrowing:

42. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2011/12 Upper Limit %	2011/12 Lower Limit %	2011/12 Qtr 3 Actual %	2011/12 Variance %	Reason for Variance
Under 12 months	100	0	0	Not applicable	
12 months and within 24 months	100	0	0	Not applicable	
24 months and within 5 years	100	0	0	Not applicable	
5 years and within 10 years	100	0	0	Not applicable	
10 years and within 20 years	100	0	0	Not applicable	
20 years and within 30 years	100	0	0	Not applicable	
30 years and within 40 years	100	0	0	Not applicable	
40 years and within 50 years	100	0	0	Not applicable	
50 years and above	100	0	0	Not applicable	

Prudential Indicator 11 - Incremental Impact of Capital Investment Decisions:

43. SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figure below actually shows the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2011/12 Original Estimate £
Decrease in Band D Council Tax	0.20

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Prudential Indicator 12 - Adoption of the CIPFA Treasury Management Code:

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

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

Conclusion

45. The council is currently within all of the Prudential Indicators and is not forecast to exceed them.

Background Papers: *Prudential Indicators Working Paper, Treasury Management Strategy Statement*

Audit Committee – 23rd February 2012

6. Prudential Indicators regarding External Debt

Strategic Director: *Mark Williams, Chief Executive*
 Assistant Director: *Donna Parham (Finance and Corporate Services)*
 Service Manager: *Amanda Card, Finance Manager*
 Lead Officer: *Karen Gubbins, Principal Accountant - Exchequer*
 Contact Details: *karen.gubbins@southsomerset.gov.uk or 01935 462456*

Purpose of the Report

- To review the Prudential Indicators for the Authorised Limit for External Debt and the Operational Boundary for External Debt and amend the split between borrowing and long term liabilities.

Recommendations

- The Audit Committee is asked to note the amended split between borrowing and long term liabilities whilst still maintaining the overall total for the Authorised Limit for External Debt and the Operational Boundary for External Debt, as follows:

The Authorised Limit for External Debt (Prudential Indicator 8)

Borrowing	£11,000,000
Other long term liabilities	£1,000,000
TOTAL	£12,000,000

The Operational Boundary for External Debt (Prudential Indicator 9)

Borrowing	£9,200,000
Other long term liabilities	£800,000
TOTAL	£10,000,000

Background

- Additional leases have been taken out, which have been classified as finance leases rather than operational leases. This has increased other long term liabilities so that they are now greater than the limits set within the Authorised Limit for External Debt (Prudential Indicator 8) and the Operational Boundary for External Debt (Prudential Indicator 9). This has resulted in changes being required to the split within the Council's Authorised Limit and the Operational Boundary.
- The Assistant Director (Finance and Corporate Services) has delegated authority, within the total limit for any individual year, to affect 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. This report is being brought before Audit Committee as the limits were originally approved as part of the annual Treasury Strategy.

Conclusion

- Following the increase of assets financed by finance leases, the Council's long term liabilities has increased by an amount that now exceeds the limits of other

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long term liabilities within the Authorised Limit for External Debt (Prudential Indicator 8) and the Operational Boundary for External Debt (Prudential Indicator 9) previously approved. Therefore, by not agreeing the recommendation we would be breaching the Prudential Indicators on External Debt.

Background Papers: *Prudential Indicators Working Paper, Treasury Management Strategy Statement*

Audit Committee – 23rd February 2012

7. Treasury Management Strategy Statement and Investment Strategy 2012/13

Strategic Director: Mark Williams, Chief Executive
 Assistant Director: Donna Parham (Finance and Corporate Services)
 Service Manager: Amanda Card, Finance Manager
 Lead Officer: Karen Gubbins, Principal Accountant – Exchequer
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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 2012/13.

Recommendation

To recommend the Treasury Management Strategy Statement and Investment Strategy for 2012/13 to full Council;

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 on an annual basis.

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.

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The proposed strategy for 2012/13 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 (pages 19-47) and is split into the following main areas:

- Background
- Balance Sheet and Treasury Position
- Outlook for Interest Rates
- Borrowing Requirement and Strategy
- Investment Policy and Strategy
- Balanced Budget Requirement
- 2012/13 MRP Statement
- Reporting
- Other Items

Changes

The major changes within the strategy are in response to changes in the CLG Guidance and evolving conditions in financial markets. This means that from 1st April 2012, accounting for any corporate bonds purchased after this date will be on a non-capital investment basis.

However, the principal amendments are in relation to the individual institutions to whom the Authority is prepared to lend funds. The Authority and its advisors - Arlingclose Ltd, select countries and financial institutions based on analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparts; AA+ or equivalent for non UK sovereigns). This is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay

By reducing the minimum long term rating of A- or equivalent the following types of investments can be made with the respective rates of returns

Treasury Bill	0.356%
DMADF	0.250%
High Street Bank A+ (HSBC)	0.300%
High Street Bank A- (Barclays)	0.970%
Other Local Authority	0.370%

Financial Implications

The revised strategy will achieve the budget for new investments in 2013/14. 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*
Arlingclose Technical Paper – Revisions to the TM Code and Prudential Code
Treasury Management Practices

South Somerset DC Treasury Management Strategy Statement and Investment Strategy 2012/13

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- 1. Background**
- 2. Balance Sheet and Treasury Position**
- 3. Outlook for Interest Rates**
- 4. Borrowing Requirement and Strategy**
- 5. Investment Policy and Strategy**
- 6. Balanced Budget Requirement**
- 7. 2012/13 MRP Statement**
- 8. Reporting**
- 9. Other Items**

Appendices

- A. Current and Projected Portfolio Position**
- B. Prudential Indicators**
- C. Interest Rate Outlook: The Council's Advisors, Arlingclose's**
- D. Specified Investments for use by the Council**
- E. Non- Specified Investments for use by the Council**
- F. Glossary of Terms**

1. Background

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

1.2 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."

1.3 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.

1.4 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.

1.5 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.

1.6 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 Corporate 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.

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

1.8 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.

1.9 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.

1.10 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.

1.11 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.

1.12 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. Balance Sheet and Treasury Position

2.1 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:

	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
CFR	9,435	9,309	9,213	9,124
Usable Capital Receipts	(39,104)	(36,014)	(31,338)	(29,413)
Balances & Reserves	(4,979)	(5,321)	(6,633)	(5,325)
Net Balance Sheet Position	(34,648)	(32,026)	(28,758)	(25,614)

2.2 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.

2.3 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.

2.4 It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of the invested sums until the related capital

expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

- 2.5 The estimate for interest payments in 2012/13 is nil and for interest receipts is £508,820

3. Outlook for Interest Rates

- 3.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C. The Council will reappraise its strategy from time to time in response to evolving economic, political and financial events.

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 interest rate forecast provided in appendix C indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.
- 4.2 As indicated in the following table, the authority has a gross borrowing requirement of £9m in 2012/13 but has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own surplus funds to itself the Authority is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances

	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
Capital Financing Requirement (CFR)	9,435	9,309	9,213	9,123
Less:				
Existing Profile of Borrowing and Other Long Term Liabilities	(322)	(196)	(100)	(10)
Cumulative Maximum External Borrowing Requirement	(9,113)	(9,113)	(9,113)	(9,113)
Capital Receipts, Balances & Reserves	(44,083)	(41,335)	(37,971)	(34,738)
Cumulative Net Borrowing Requirement (Investments/Call on capital receipts)	(44,083)	(41,335)	(37,971)	(34,738)

- 4.3 The Council's strategy is to maintain maximum control over any potential long term borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in

order to minimize borrowing costs over the medium to longer term (should SSDC decide to borrow). A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

- 4.4 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
 - Borrowing from other local authorities
 - Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
 - Borrowing from the Money Markets
 - Local authority stock issues
 - Local authority bills
 - Structured finance
 - Leasing
- 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 Policy and Strategy

Investment Policy

- 5.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.

Annual Investment Strategy

- 5.2 Investments are categorised as 'Specified' or 'Non Specified' investments within the investment guidance issued by the CLG.
- 5.3 Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else. The types of investments that will be used by the Authority and whether they are specified or non-specified are in Appendix D.
- 5.4 A number of changes have been implemented to investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This now means that from 1st April 2012, the accounting of any corporate bonds which we may purchase after this date will be classified as a non-capital investment. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.
- 5.5 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparts; AA+ or equivalent for non UK sovereigns). This is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay

Any institution can be suspended or removed should any of the factors identified above give rise to concern. The Countries and institutions that meet the criteria for term deposits, Certificate of Deposit (CDs) and call accounts are included in Appendix D

Investment Strategy

- 5.6 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.
- 5.7 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.
- 5.8 Money Market Funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.
- 5.9 The Assistant Director (Finance and Corporate Services), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Audit Committee on a quarterly basis.

The Council's current level of investments is shown at Appendix A.

- 5.10 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills (The

rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)

Investments managed externally

- 5.11 Currently the Council has no externally managed funds. However the following may be used once fully evaluated and with advice from Arlingclose;
- 5.12 Funds managed on a segregated basis: the Council will continue to evaluate funds managed externally. Fund Managers may be able to add value through the use of investments contained in Appendix D
- 5.13 Collective Investment Schemes (Pooled Funds): The Council will continue to evaluate the use of Pooled Funds and determine the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

6. Balanced Budget Requirement

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

7. 2012/13 MRP Statement

Background:

- 7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] place 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.
- 7.2 The CLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the Full Council.
- 7.3 The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant. Where a local authority's overall CFR is £nil or a negative amount there is no requirement to charge MRP.

MRP Options:

- 7.4 Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

Option 1 – Regulatory Method:

- 7.5 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:

- 7.6 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:

- 7.7 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.

- 7.8 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.

- 7.9 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.

- 7.10 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.

- 7.11 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:

- 7.12 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 2012/13:

- 7.13 It is proposed that for 2012/13 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.

7.14 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.

8. 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 30th September after the financial year end.

9. Other Items

Training

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

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

Treasury Consultants

The CLG's Draft revisions to its Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and;
- How the quality of any such service is controlled.

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2009 and Arlingclose was reappointed. Among the various services received is **advice** on capital financing, borrowing and investments 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
- Measurement through CIPFA's benchmarking club
- 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.

Publication

The CLG's Draft revisions to its Guidance on local government investments recommend that the initial strategy and any revised strategy should, when approved, be made available to the public free of charge, in print or online.

The Council makes available online its Treasury Management Strategies within the finance section of the website. This includes both the initial strategy as well as any revisions. Should any member of the public request a printed copy, this would be provided free of charge.

The Use of Financial Instruments for the Management of Risks

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Council does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/11 Actual £'000	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
External Borrowing:					
Long-term liabilities					
- Finance Leases	301	322	196	100	10
Total External Debt	301	322	196	100	10
Investments:					
<i>Managed in-house</i>					
• Deposits and monies on call and Money Market Funds	20,000	33,073	26,987	31,338	29,413
• Supranational bonds	13,538	13,157	9,027	0	0
• Corporate bonds	5,195	0	0	0	0
Total Investments	38,733	46,230	36,014	31,338	29,413
(Net Borrowing Position)/ Net Investment position	38,432	45,908	35,818	31,238	29,403

PRUDENTIAL INDICATORS 2012/13 TO 2014/15

Background:

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

Net Borrowing and the Capital Financing Requirement:

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

The Assistant Director Finance and Corporate Services reports that the authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

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. The actual expenditure for 2010/11 and the estimates of capital expenditure to be incurred for the current and future years are:

	2010/11 Actual £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Approved capital schemes	5,812	5,526	3,526	390	30
Reserve schemes	2,461	3,507	1,279	600	0
New Schemes for 2012/13 start	0		533		
Total Expenditure	8,273	9,033	5,338	990	30

The figures in the later years are lower at this stage but will increase 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 current and future years, and the actual figures for 2010/11 are:

Portfolio	2010/11 Actual £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Financing Costs*	(1,084)	(767)	(397)	(261)	(232)
Net Revenue Stream	20,716	17,984	16,577	16,687	16,238
%*	(5.2)	(4.3)	(2.4)	(1.6)	(1.4)

*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.

The finance costs have reduced at a faster rate than the Net Revenue Stream. This is because capital expenditure has been incurred (reducing balances held in capital receipts) and the rate of interest that we can achieve on our investments has drastically fallen due to maturities and early redemptions of Supranational bonds.

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:

	2010/11 Actual £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Opening CFR	9,461	9,414	9,435	9,310	9,213
Capital Expenditure	5,812	5,526	3,526	390	30
Capital Receipts*	(2,734)	(3,730)	(3,117)	322	93
Grants/Contributions*	(3,078)	(1,796)	(409)	(712)	(123)
MRP	(208)	(182)	(125)	(97)	(89)
Additional Leases taken on during the year	161	203	0	0	0
Closing CFR	9,414	9,435	9,310	9,213	9,124

*Figures in brackets denote financing through receipts or reserves.

As a result of agreeing a capital programme year by year, and the fact that we anticipated a large income stream from Lufton 2000, the current position is showing an abnormal contribution to capital receipts in 2013/14 and 2014/15 (as opposed to the usual funding from capital receipts).

Prudential Indicator 4 – Net external Borrowing compared to the medium term 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 net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2010/11 Actual £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Net Borrowing*	(37,936)	(46,230)	(36,014)	(31,338)	(29,413)
CFR	9,414	9,435	9,310	9,213	9,124

*The figures in brackets show the estimated level of investments we currently have.

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.

	2010/11 % Actual	2011/12 % Probable Outturn	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit
Fixed	32.9	14.3	80	80	80
Variable	67.1	85.7	100	100	100

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

	2010/11 % Actual	2011/12 % Probable Outturn	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit
Fixed	0	0	100	100	100
Variable	0	0	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	2010/11 Actual £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Between 1-2 years	3,218	9,027	25,000	25,000	25,000
Between 2-3 years	6,000	0	20,000	20,000	20,000
Between 3-4 years	1,174	0	10,000	10,000	10,000
Between 4-5 years	0	0	10,000	10,000	10,000
Over 5 years	0	0	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in 2010/11 and 2011/12 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 – Gross and Net Debt:

The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Outstanding Borrowing (at nominal value)	0	0	0	0
Other long-term liabilities (at nominal value)	322	196	100	10
Gross Debt	322	196	100	10
Less: Net Investments	(46,230)	(36,014)	(31,338)	(29,413)
Net Debt	(45,908)	(35,818)	(31,238)	(29,403)

Prudential Indicator 8 – 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. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 9 - 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 31/03/2011	£'000
Borrowing	0
Other Long-term Liabilities	301
Total	301

Prudential Indicator 10 - 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. The results for 2010/11 and 2011/12 show that this limit has not been used. 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.

The move to local authorities implementing International Financial Reporting Standards (IFRS) has had implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's leases against IFRS implications have resulted in the related assets and liabilities being brought onto the Council's balance sheet.

	2010/11 Actual £'000	2011/12 Approved £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing	0	11,000	0	11,000	11,000	11,000
Other Long-term Liabilities	301	1,000	322	1,000	1,000	1,000
Total	301	12,000	322	12,000	12,000	12,000

Prudential Indicator 11 – 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.

	2010/11 Actual £'000	2011/12 Approved £'000	2011/12 Probable Outturn £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing	0	9,200	0	9,200	9,200	9,200
Other Long-term Liabilities	301	800	322	800	800	800
Total	301	10,000	322	10,000	10,000	10,000

Prudential Indicator 12 - 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.

Maturity structure of fixed rate borrowing	2010/11 % Actual	2011/12 % Probable Outturn	Lower Limit %	Upper Limit %
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 13 - Incremental Impact of Capital Investment Decisions:

SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figures below actually show the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Decrease in Band D Council Tax	0.20	0.34	0.33	0.33

Prudential Indicator 14 - 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

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.
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Arlingclose's Economic and Interest Rate Forecast

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.00	2.00	2.00	2.00	2.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.20	1.30	1.40	1.50	1.60	1.70	1.80	2.00	2.00	2.00	2.10	2.15	2.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.10	2.15	2.30	2.40	2.50	2.60	2.70	2.75	2.80	2.85	2.90	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.20	3.40	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.

- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

Specified and Non Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 and subsequent amendments-

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities (including Police Authorities)
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- Local Authority Bills (LA Bills)
- Commercial Paper
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573 and subsequent amendments.

1. ** Investments in these instruments will be on advice from the Council’s treasury advisor.*

2. *The use of the above instruments by the Council’s fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings.

Long-term minimum: A3 (Moody's) or A- (S&P) or A- (Fitch)

Short-term P-1 (Moody's) or A-1 (S&P) or F1 (Fitch).

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits %/£m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities (including Police Authorities)	No limit
Term Deposits/Call Accounts/CDs	UK	Counterparties rated at least A- Long Term and F1 Short Term (or equivalent)	See following table
Term Deposits/Call Accounts/CDs	Non-UK	Counterparties rated at least A- Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	See following table
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Commercial Paper		Counterparties rated at least A- Long Term and F1 Short Term (or equivalent)	(6,000,000
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	N/A
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	Will not exceed 0.5% of the net asset value of the MMF
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£6,000,000

Under the new proposal our Current Counterparty list would be as follows:

Instrument	Country	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£6,000,000	
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£6,002,000	£9,002,000
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£6,000,000	
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£6,000,000	
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£6,000,000	
Term Deposits/Call Accounts	UK	Nationwide Building Society	£6,000,000	
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	£6,000,000	
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£6,000,000	
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£6,000,000	
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£6,000,000	
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd	£6,000,000	
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£6,000,000	
Term Deposits/Call Accounts	Canada	Bank of Montreal	£6,000,000	

Instrument	Country	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£6,000,000	
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£6,000,000	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£6,000,000	
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£6,000,000	
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£6,000,000	
Term Deposits/Call Accounts	France	BNP Paribas	£6,000,000	
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£6000,000	£6,000,000
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£6,000,000	
Term Deposits/Call Accounts	France	Societe Generale	£6,000,000	
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£6,000,000	
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£6,000,000	
Term Deposits/Call Accounts	Netherlands	Rabobank	£6,000,000	
Term Deposits/Call Accounts	Netherlands	Bank Nederlandse Gemeenten	£6,000,000	
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£6,000,000	
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£6,000,000	
Term Deposits/Call Accounts	US	JP Morgan	£6,000,000	

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies 	<p>✓</p> <p>✓</p>	<p>✓</p>	5 yrs	70% in aggregate	No
<ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments 	<p>✓ (on advice from treasury advisor)</p>	<p>✓</p>	10 years	70% in aggregate	No
Money Market Funds and Collective Investment Schemes which are not credit rated	<p>✓ (on advice from treasury advisor)</p>	<p>✓</p>	These funds do not have a defined maturity date	50%	No
bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	<p>✓</p>	<p>✓</p>	10 years	£10m	No
Collective Investment Schemes (Pooled funds) which do not meet the definition of	<p>✓ (on advice from treasury advisor)</p>	<p>✓</p>	These funds do not have a defined maturity date	£5m	Yes

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
collective investment schemes in SI 2004 No 534 or SI 2007 No 573 or subsequent amendments					

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

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

AC

Audit Committee – 23rd February 2012

8. 2011/12 Internal Audit Quarterly Update Report

Head of Service: Gerry Cox, Head of Internal Audit Partnership
Lead Officer: Andrew Ellins, Audit Manager
Contact Details: andrew.ellins@southwestaudit.gov.uk or 01935 462378

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2011-12 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2011/12 Internal Audit Plan at its February 2011 meeting. An update was provided in July 2011 for Qtr1, November 2011 for Qtr2 and this report provides the latest position for Qtr3.

Detailed Audit Progress Report
Appendix A – Annual Audit Plan Progress Table
Appendix B - Audit Assurance Definitions

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None



South Somerset District Council

Report of Internal Audit Activity
Quarter 3 Update

The contacts at SWAP in connection with this report are:

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Summary of Internal Audit Activity:

Internal Audit Work Programme	Page 3
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Conclusions	Page 4

APPENDICES:

Audit Plan Progress 2011/12	Appendix A
Audit Framework Definitions	Appendix B

Our Audit Activity is split between:

- Operational Audit
- Key Control Audit
- Governance Audit
- IT Audit
- Other Reviews

Role of Internal Audit

The Internal Audit service for South Somerset District Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually at its February meeting.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit includes:

- Operational Audit Reviews
- Cross Cutting Fraud and Governance Reviews
- Annual Review of Key Financial and Income System Controls
- IT Audit Review
- Other special or unplanned reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Plan. Following consultation with Senior Management and External Audit, the plan for 2011/12 was reviewed and agreed by the Audit Committee at its meeting on 24th February 2011. A separate report has been provided to this Audit Committee for the 2012-13 Plan approval.

A summary of Internal Audit Activity for 2010/11 was presented to the Committee in June of this year. I am pleased to report that all outstanding reports from last year have been agreed and the 2010/11 audit plan was completed several months ago.

The Audit Charter requires Internal Audit to provide the Audit Committee with regular updates on audit activity against the plan. The purpose of this report is to update the Committee on any previous Quarter audits that were not completed when we reported in November 2011 and on progress for Quarter 3.

Members are asked to comment on and note the content of this report.

Quarter 3 Outturn:

We provide an assurance opinion and rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concerns requiring expedient corrective action by the Service.

We also assess the Service Risk exposure at a Corporate level.

Internal Audit Work Programme

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the 2011/12 Annual Audit Plan. It is important that Members are aware of the status of all audits and this information helps them to place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective 'assurance opinion' rating together with the number of recommendations that have been raised with management. Ratings have been determined in accordance with the Internal Audit 'Audit Framework Definitions' as shown in [Appendix B](#).

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a degree of risk to the Authority's operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. Irrespective of the 'assurance opinion' I shall also provide a schedule of all level 4 or 5 priority actions for the Committee's information.

I am pleased to report that since the last quarterly update there have been no completed audits that found priority 4 or 5 actions. As such there is no Appendix C with this report.

Should an audit review identify a significant corporate risk, either 'High' or 'Very High', as described in [Appendix B](#), I will also bring these to the attention of the Audit Committee. I can report that there have been no such risks identified in any of the completed reviews. On occasion there will be risks assessed as 'High' but this will be very much as a result of the nature of the activity i.e. High Impact but Low Probability; I will not report these.

Quarter 3 Outturn:

We keep our audit plans under regular review so as to ensure we are auditing the right things at the right time.

Future Planned Work

The audit plan for 2011/12 is detailed in Appendix A. Should there be any changes to the plan, this will be agreed with the Council's Section 151 Officer and reported to the Audit Committee.

Conclusions

Although there have been a few audits where partial assurance has been provided, overall the vast majority of reviews find that the areas are well controlled. In total SWAP have provided management with 95 recommendations for improvement but only 19 were considered level 4 priority (12 of these were for Wincanton Sports Centre) and there have been no level 5 actions.

Plan progress is on target and it is expected that SWAP shall complete the revised audit plan by the year end.

SWAP has suffered some unplanned resource issues this year, with higher levels of long term sickness, maternity leave and delays in recruiting temporary support. However, as result of managing available resources effectively we are still on track to achieve our performance indicator, agreed by the SWAP Management Board, of 95% of all Partner plans being delivered. The 5% reduction for SSDC equates to 23 days and In discussion with the S151 Officer, we have agreed 4 reviews to be dropped from this year's plan without replacement; I have identified these in Appendix A with the annotation: **Removed**.

APPENDIX A

Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	← Major - Recommendations - Minor →				
							5	4	3	2	1
SSDC	Service Reviews	Licensing	Qtr 1	Complete	Reasonable	2	0	0	2	0	0
SSDC	Service Reviews	Pest Control	Qtr 1	Complete	Reasonable	4	0	0	2	2	0
SSDC	Service Reviews	Homelessness Debt Recovery	Qtr 1	Completed	Reasonable	6	0	0	5	1	0
SSDC	Core Cross-Cutting Services	Register of Interests - Members Related Parties	Qtr 1	Completed	Partial	3	0	1	0	2	0
SSDC	Core Cross-Cutting Services	Scheme of Delegation	Qtr 1	Completed	Comprehensive	0	0	0	0	0	0
SSDC	Service Reviews	Streetscene - Enforcement	Qtr 1	Completed	Reasonable	5	0	0	3	2	0
SSDC	Service Reviews	Streetscene - Workshops	Qtr 1	Completed	Reasonable	8	0	0	7	1	0
SSDC	Core Cross-Cutting Services	Annual Governance Statement	Qtr 1	Completed	Reasonable	2	0	0	2	0	0
SSDC	Core Cross-Cutting Services	Threat from Fraud & Corruption (Policy)	Qtr 1	Completed	Reasonable	7	0	0	5	2	0
SSDC	Core Cross-Cutting Services	Partnership Arrangements	Qtr 1	Completed	Reasonable	6	0	0	6	0	0
SSDC	Service Reviews	Wessex Homes Investment Loans	Qtr 1	Completed	Non Opinion	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Information Governance	Qtr 2	Completed	Reasonable	4	0	0	3	1	0
SSDC	Service Reviews	Legal Services	Qtr 2	Completed	Reasonable	5	0	0	4	1	0
SSDC	Service Reviews	Housing Benefit Fraud	Qtr 2	Draft	Partial	3	0	2	1	0	0
SSDC	Service Reviews	Wincanton Sports Centre	Qtr 2	Completed	Partial	23	0	12	9	2	0
SSDC	ICT	Information Security Regulatory Compliance	Qtr 2	Completed	Reasonable	4	0	1	3	0	0
SSDC	Service Reviews	Boden Mill & Chard Regeneration Scheme Statement of Accounts	Qtr 2	Complete	Non Opinion	0	0	0	0	0	0
SSDC	Service Reviews	Workplace Nursery	Qtr 2	Completed	Reasonable	3	0	3	0	0	0
SSDC	Service Reviews	Yeovil Recreation Centre	Qtr 2	Completed	Comprehensive	1	0	0	1	0	0
SSDC	Service Reviews	Yeovil Town Centre Partnership Bank Account	Qtr 2	Removed	Non Opinion	0	0	0	0	0	0
SSDC	Service Reviews	Yeovil Cemetary & Crematorium Annual Return	Qtr 2	Complete	Non Opinion	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Threat from Fraud & Corruption (Analytical Review)	Qtr 2	Draft	Reasonable	0	0	0	2	0	0
SSDC	Core Cross-Cutting Services	Maximising Income	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Monitoring Compliance with Contract Standing Orders	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Capital Accounting	Qtr 3	Complete	Comprehensive	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Debtors	Qtr 3	Draft	Reasonable	2	0	0	2	0	0
SSDC	Core Cross-Cutting Services	Main Accounting	Qtr 3	Complete	Comprehensive	2	0	0	0	2	0
SSDC	Core Cross-Cutting Services	Managing Complaints	Qtr 3	Complete	Reasonable	3	0	0	3	0	0

Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	← Major - Recommendations - Minor →				
							5	4	3	2	1
SSDC	ICT	Data Centre Follow-Up	Qtr3	Draft		0	0	0	0	0	0
SSDC	Service Reviews	Council Tax and NNDR	Qtr 3	Complete	Reasonable	3	0	0	3	0	0
SSDC	Core Cross-Cutting Services	Creditors	Qtr 4	Complete	Comprehensive	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Payroll	Qtr 4	Complete	Reasonable	2	0	0	1	1	0
SSDC	Service Reviews	Housing & Council Tax Benefits	Qtr 4	Draft	Reasonable	2	0	0	1	1	0
SSDC	Service Reviews	Play & Youth Facilities	Qtr 4	Draft	Reasonable	3	0	0	3	0	0
SSDC	Service Reviews	Treasury Management	Qtr 4	Complete	Comprehensive	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Fees and Charges	Qtr 4	Removed		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Health and Safety (Safeguarding)	Qtr 4	Removed		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Managing with Reduced Resources	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	MTFP Process	Qtr 4	Removed		0	0	0	0	0	0
SSDC	ICT	ICT Service Management & Governance	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Car Loans	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Car Parks	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Care Line	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Goldenstones	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Octagon Theatre	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Property Services	Qtr 4	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Section 106 & Commuted Sums	Qtr 4	In Progress		0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

Comprehensive	▲★★★ I am able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★ I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★ I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Committee – 23rd February 2012

9. Internal Audit Plan 2012-13

Head of Service: Gerry Cox, Head of Internal Audit Partnership
Lead Officer: Andrew Ellins, Audit Manager
Contact Details: andrew.ellins@southwestaudit.gov.uk or 01935 462378

Purpose of the Report

This report has been prepared for the Audit Committee to provide them with details of the audits planned for the next financial year.

Recommendation

To agree to the Internal Audit Plan for 2012-13.

Background

The total number of audit days planned for 2012-13 is 419 days which is a reduction on the current year of 40 days (following a reduction in 2011/12 of 111 days). This reduction was requested in order to reduce the cost of the internal audit service as part of the Council's budget cuts.

Historically audit plans have been derived from 4 year Strategic Plans. However, this plan has been pulled together with a view to providing assurance to both Officers and Members of the current and imminent risks faced by the Authority in an ever changing risk environment. The plan is only indicative to facilitate the planning of audit resources. We anticipate that, as the impact of continuing budget cuts, lean thinking process changes and other efficiency savings bite, the plan will have to remain flexible to address new and emerging risks faced by the Council.

The attached report provides more detail of the approach taken to produce the 2012-13 Audit Plan.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None



South Somerset District Council

Internal Audit Plan 2012/13

Contents

The contacts at SWAP in connection with this report are:

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Role of Internal Audit Background Page 1

The Annual Plan Page 2

The Annual Plan – Continued Page 3

The Annual Plan – Continued Page 4

Our audit activity is split between:

- **Key Control Audits**
- **Key Income Control Audits**
- **Fraud/Governance Audits**
- **IT Audits**
- **Operational Audits**
- **Follow Up Audits**
- **Non-Opinion Reviews**
- **Support Activities**

Role of Internal Audit

The Internal Audit service for South Somerset District Council (SSDC) is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved and last reviewed by the Audit Committee at its meeting in February 2011.

Internal Audit provides an independent and objective opinion on the Authority’s control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split between the reviews outlined alongside.

Background

It is recommended by the Audit Commission and is recognised best practice that an appropriate Committee of the Council scrutinises and approves the annual internal audit plan. The plan is presented as an Appendix to this report and represents the internal audit activity for the 2012/13 financial year.

There has been a reduction in the plan for this year of 40 days (459 down to 419 days), representing almost 9% and a saving to SSDC of £11,200. It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review; of course any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council.

The plan is pulled together with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving Senior Management and the Council’s Client Officer.

The Annual Plan

The Annual Plan

In order to develop the plan for the year, the Audit Manager engaged with the Assistant Director (Finance and Corporate Services) and liaised with Heads of Service and the Management Team. In addition, SWAP Management facilitated a Control and Risk Self-Assessment (CRSA) session with the SWAP Management Board. This session identified emerging risks facing local authorities in general with a view to co-ordinate, where possible, with the audit plans of the other members of the South West Audit Partnership (SWAP). Joint audits of this kind derive real benefits in both reducing the overall time taken and in the shared lessons that can be learnt by all the partners.

The audit plan is broken down into the activities identified on page 1. Each of these activities is considered following consultation and assessment. The following is a summary of each activity:

Key Control Audits – focus primarily on key risks relating to the Council’s major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. To this end we have liaised with the Audit Commission representatives and included any requirements they have in providing them necessary assurance, in line with the International Auditing Standards, that they are required to audit against.

Key Income Control Audits – focus primarily on key risks relating to the Council’s major income stream systems. It is essential that there is ongoing effective governance in respect of the business income and shortfalls do not go undetected.

Fraud/Governance Audit – This year SWAP have introduced a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to Partners should the need arise. These themes and the Governance reviews were identified at the CRSA session involving Partner Section 151 Officers or their representatives.

The Annual Plan - Continued

The Annual Plan - Continued

The focus of the Governance reviews is primarily the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.

IT Audits –are completed to provide the Authority with assurance with regards to their compliance with industry best practice. The IT audit plan is a specialist area and SWAP has appointed an IT Audit Manager to lead these audits. The systems to be reviewed will be agreed between the ICT Manager and the SWAP Audit Manager.

Operational Audits - are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. The areas identified for 2012-13 are those where the Client Officer (S151 Officer) is seeking assurance; usually as significant change is planned or there have been several years since the area was last reviewed in detail.

Non-Opinion Reviews - are undertaken at the specific request of management, where they may have some concerns or are looking for advice on a particular subject matter. Such reviews are not normally afforded an audit opinion.

Follow Up Audits – Where an audit receives a Partial or No Assurance level, SWAP are required to carry out a follow up review to provide assurance that identified weaknesses have been addressed and risks mitigated. A contingency has been built in to the plan for quarters 3 and 4 so that should any early reviews be awarded this level of assurance they can be followed up in a timely manner.

The Annual Plan - Continued

The Annual Plan - Continued

Support Activities – are included to allow time for SWAP to provide on-going advice and administer the Internal Audit Service for the Council, including Committee Reporting and liaison with the Council's External Auditors.

The SSDC Annual Internal Audit Plan for 2012/13 is attached as an Appendix.

SOUTH SOMERSET DISTRICT COUNCIL AUDIT PLAN 2012-13

Audit Type and Area	Plan Days
Key Control Audits	
Capital Accounting	5.00
Council Tax and NNDR	15.00
Creditors	10.00
Debtors	10.00
Housing Benefit	15.00
Main Accounting	15.00
Payroll	5.00
Treasury Management	5.00
Total	80.00
Key Income Control Audits	
Car Parks Income	10.00
Homelessness Income	10.00
Licensing Income	5.00
Octagon Theatre Income	15.00
Section 106 Agreements Income	5.00
Wincanton Sports Centre Income	10.00
Workplace Nursery Income	5.00
Plant Nursery Income	5.00
Careline Income	5.00
Total	70.00
Governance and Fraud Audits	
ACI Site & Chard Regeneration Scheme Statement of Accounts	3.00
Change Management	15.00
Asset Management Planning	15.00
Treasury Management Strategies	10.00
Yeovil Cemetery and Crematorium Annual Return	5.00
Data Security Breaches	10.00
Non-compliance with EU rules	10.00
Fraud and Corruption (Creditor, contract, expenses claims)	30.00
Total	98.00
IT Audits	
Various	20.00
TEN Risk Management System	10.00
Total	30.00
Operational Audits	
Debt Management	20.00
Energy Management	15.00
Development Control	20.00
Goldenstones Trust	15.00
Crematorium (combine with annual return)	15.00
Total	85.00
Audit Type and Area	Plan Days

Non-Opinion Reviews	
Financial Processes Corporate Lean Review	10.00
Follow-Up Audits	
Follow ups of no or partial assurance audits	15.00
Key Control Audits	80.00
Key Income Control Audits	70.00
Governance Audits	98.00
IT Audits	30.00
Operational	85.00
Non-Opinion Reviews	10.00
Follow-Up Audits	15.00
<i>TOTAL AUDIT TIME</i>	<i>388.00</i>
Corporate Advice	5.00
Corporate Meetings	8.00
External Audit (Audit Commission)	3.00
General Advice	10.00
Waste and Recycling (County-Wide)	5.00
<i>Total Plan Days (inc Advice etc)</i>	<i>419.00</i>

Audit Committee – 23rd February 2012

10. Internal Audit Charter – Annual Review

Head of Service: Gerry Cox, Head of Internal Audit Partnership
Lead Officer: Andrew Ellins, Audit Manager
Contact Details: andrew.ellins@southwestaudit.gov.uk or 01935 462378

Purpose of the Report

This report has been prepared for the Audit Committee to review the Internal Audit Charter and approve any changes.

Recommendation

To agree to the revised Charter as attached at pages 68-70.

Background

The Audit Committee agreed the Audit Charter at its meeting in February 2011. The Charter is required to be reviewed annually. There are minor changes this year, which have been highlighted for ease of reference.

Audit Charter (Revised Version @ February 2012)

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None

Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within the South Somerset District Council, and to outline the scope of internal audit work.

Approval

The Internal Audit Charter is reviewed each year by the Audit Committee to confirm it remains accurate and up to date. It was last reviewed by the Audit Committee at its meeting on the 23rd February 2012.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership (SWAP) on a 5 year contract expiring on 31 March, 2015. This charter should be read in conjunction with the Trading Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the SWAP Partnership Board. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Partnership Board. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the S151 Officer (Assistant Director - Finance and Corporate Services) in consultation with the Head of Internal Audit Partnership.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors. Internal Audit also complies with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

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Internal audit is not responsible for any of the activities which it audits. Members of SWAP will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas of South Somerset District Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Head of the Internal Audit Partnership is responsible to the SWAP Management Board and the Partnership Board. The Head of Internal Audit Partnership and the **Group Audit Manager** also report to the Assistant Director - Finance and Corporate Services as Section 151 Officer, and reports to the Audit Committee as set out below.

Appointment or removal of the Head of Internal Audit Partnership is the sole responsibility of the Partnership Board.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. Members of SWAP engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of South Somerset District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraising the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assisting management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether South Somerset District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised

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- the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
- the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
- management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Corporate Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the S151 Officer (Assistant Director - Finance and Corporate Services) and the Monitoring Officer (Assistant Director - Legal and Corporate Services) as well as to other relevant line management.

The Head of Internal Audit Partnership will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Head of Internal Audit Partnership and the **Group Audit Manager** have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Chief Executive Officer or the External Audit Manager.

Revised February 2012

Audit Committee – 23rd February 2012

11. Certification of Claims and Returns: Annual Report

Strategic Director: Mark Williams, Chief Executive
Assistant Director Donna Parham (Finance and Corporate Services)
Lead Officer: Donna Parham Assistant Director (Finance and Corporate Services)
Contact Details: donna.parham@southsomerset.gov.uk or 01935 462225

Purpose of the Report

This report introduces the annual report from the Audit Commission on their findings from signing off of claims and returns for 2010/11.

Recommendations

The Audit Committee is asked to note the contents of the Certification of claims and Returns: Annual Report 2010/11.

Introduction

The Certification of Claims and Returns: Annual 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 Claims

The Audit Commission reviews three key claims/ returns for SSDC. These are:

- Housing and Council Tax Benefit Scheme;
- Disabled Facilities grants;
- National Non-Domestic Rates (NNDR) Return.

The report from the Audit Commission is attached at pages 73-86. As was the case in the previous year the Housing and Council Tax Benefit scheme was given a qualified opinion. This was because of errors found in claims once tested, although as members can see from pages 5 and 6 that the values of the errors were very low.

An action plan has been agreed to improve this position in future years and the plan is outlined on page 11 of the Audit Commissions report and the current status of last year’s action plan is outlined on pages 9 and 10 showing that all actions have been implemented. No errors were found within the Disabled Facilities Claim. An error was found of £306,100 regarding bad debt provisions within the NNDR claim and an amendment made.

AC

Financial Implications

None as a consequence of this report but the audit has meant that further funds have been returned to SSDC.

Background Papers: *Housing Benefit Subsidy Claim*
Disabled Facilities Grants Claim
National Non-Domestic Rates Return.

Certification of claims and returns - annual report

South Somerset District Council

Audit 2010/11



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Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of 2010/11 certification work

My work gave rise to amendment of two of the three claims and returns for the year ended 31 March 2011 that the Council was required to submit for certification. In one case I issued a qualification letter accompanying my certificate on a claim or return. A summary 2010/11 certification work is set out in the following table.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total number of claims and returns certified	3
Total value of claims and returns certified	£86,729,975
Number of claims and returns amended due to errors	2
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	1
Total cost of certification work	£28,387

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

The results of my 2010/11 certification work are summarised in table 2 and table 3.

Table 2: **Claims and returns above £500,000**

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	£50,425,200	N/A HB Count audit approach followed	£-1,244	Yes
National non-domestic rates return	£35,933,775	Yes	£-306,100	No

The following summarises the issues that have arisen from the certification work.

Housing and council tax benefit scheme

The certification instruction is issued by the Audit Commission with the agreement of the relevant paying department (in this case the Department for Work and Pensions). It sets out the number of benefit cases that we are required to test in our initial sample. For South Somerset District Council the initial sample was 60 cases.

The certification instruction also prescribes additional testing when errors have been found in the initial sample or when errors found in previous years audit testing suggest a high risk of error in the current year. I found errors in the initial samples and an additional 155 cases were tested by the Council.

The additional sample for testing was passed to the Council to complete; and I reviewed its work and agreed with its findings.

The following issues were identified from the audit.

- Incorrect calculation of claimants' weekly earned income resulting in five claimants being overpaid, 8 claimants being underpaid and for a further five claimants, benefit paid had been incorrectly classified as an overpayments (under/overpayments ranged from £0.12 - £213 for any individual claimant).
- Incorrect input of deductions for fuel and heating for Non HRA Rent Rebate claims resulting in 1 claimant being underpaid £7 and 1 claimant being overpaid £6.
- Incorrect classification of Non HRA Rent Rebate between expenditure up to and including the cap and above cap, due to a housing benefit software error, resulting in a reduction in subsidy due to the council of £210.
- Incorrect classification of 1 Modified Scheme claim. For one case income from a Service Attributable Pension had been flagged 'for information only' and excluded from the benefit calculation. This income should have been included in the benefit calculation and disregarded under the modified scheme rules. Impact on this error was to overstate subsidy.

This year as a result of the issues identified the claim was amended by the Council and a qualification letter issued to the grant paying department. A qualification letter has been issued for the past three years. To put this into context, this is a highly complex claim, and a large number of qualification letters are issued by auditors annually on the benefit claim.

The claim was amended by £1,244, increasing the amount the Council owes to the Department for Work and Pensions.

Recommendations

- R1** Deliver a training update to housing benefit assessors covering the calculation of weekly earned income based on payslip data.
- R2** Review a sample of 2011/12 benefit payments based on weekly earned income.
- R3** Review a sample of 2011/12 Non HRA Rent rebate claims for correct fuel and heating deductions and accuracy of classification of expenditure up to and including the cap and above cap.
- R4** Review the housing benefit system for income inappropriately flagged 'for information only'.

National non-domestic rates return

It was identified during my review that the figures for preparing the NNDR3 return, that the return included an incorrect figure for yield lost in respect of bad debts written off and doubtful debts for which provision should be made.

The claim was amended by £306,100 reducing the amount payable by the Council to the National Pool by the same amount.

The claim was certified without qualification

Recommendation

- R5** Carry out a reasonableness check on the bad debt provision in the NNDR3 return by comparing with the previous year and by checking consistency with underlying records.

Table 3: **Claims between £125,000 and £500,000**

Claim or return	Value of claim or return presented for certification	Value of any amendments made	Qualification letter
Disabled facilities	£371,000	Nil	No

Disabled facilities

My review identified no issues and was certified without amendment or qualification.

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

The Council has implemented all of the recommendations I have previously made arising from certification work. The findings are shown in the following table.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
R1 The Council should check that there are no inconsistencies between numbers in household of council tax benefit claimants and awards of single person discounts. The Council can generate these reports and review them on a quarterly basis.	Medium	31 December 2010	Revenues & Benefits Manager	Implemented	Reports are now run and correction made on a weekly basis.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
R2 The Council should generate reports (on a quarterly basis) to identify and amend any incorrect deductions from board and lodging charges	Medium	February 2011	Revenues & Benefits Manager	Implemented	The reports form part of the Council's ongoing subsidy monitoring work.
R3 The Council should review benefit payment run reports and check any unexpectedly large payments for errors resulting in overpayments.	Medium	14 January 2011	Revenues & Benefits Manager	Implemented	
R4 The Council should provide briefings to staff on backdate rules for board and lodging cases.	Medium	January 2011	Revenues & Benefits Manager	Implemented	

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Recommendations arising from 2010/11 certification work are set out and prioritised in the following table. For each recommendation an action has been agreed together with an implementation date and a responsible officer has been identified.

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R1 Deliver training update to housing benefit assessors covering the calculation of weekly earned income based on payslip data.	High	Have already alerted team to the detail of the issue found by the audit. Follow up training planned for all Benefit Officers.	Training date is 9 February 2012	Lynne Joyce Mandy Stewart
R2 Review a sample of 2011/12 benefit payments based on weekly earned income.	High	Sample to be checked through daily quality checking programme. Earnings to be checked, where applicable, on all cases reviewed as part of ongoing subsidy monitoring	9 January 2012	Melissa Rogers Kim Arthur
R3 Review a sample of 2011/12 Non HRA Rent rebate claims for correct fuel and heating deductions and accuracy of classification of expenditure up to and including the cap and above cap.	Medium	Sample check already in progress. Classification of expenditure is a software issue. Supplier fix to be tested	In progress 31 March 2012	Kim Arthur Kim Arthur

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R4 Review the housing benefit system for income inappropriately flagged 'for information only'.	High	One hundred per cent check to be carried out on the income type identified in audit plus a sample check of all other relevant income types	31 January 2012	Kim Arthur
R5 Carry out a reasonableness check on the bad debt provision in the NNDR3 return by comparing with the previous year and by checking consistency with underlying records.	Medium	Reconciliation of NNDR3 with Collection Fund Account as per statement of Accounts	June 2012	Amanda Card Karen Case

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£26,079	£28,970	Included in the fee for 2009/10 was additional work to answer the requests from the Department of Work and Pensions regarding the qualification of the 2008/09 claim.
National non-domestic rates return	£ 1,560	£ 1,942	In 2010/11 the Council provided the all supporting prints from the NNDR system at the beginning of the audit. In 2009/10 the Council had to contact the software supplier for advice.
Disabled facilities	£ 365	£ 392	
Grants planning and reporting	£ 383	£ 390	
Total	£28,387	£31,694	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



Audit Committee – 23rd February 2012

12. Annual Audit Plan

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham (Finance and Corporate Services)
Lead Officer: Donna Parham, Assistant Director (Finance and Corporate Services)
Contact Details: donna.parham@southsomerset.gov.uk or 01935 462225

Purpose of the Report

This report introduces the Annual Audit Plan for 2011/12.

Recommendations

That the Audit Committee note the Annual Audit Plan.

Background

The Annual Audit Plan is included within the remit of the Audit Committee under its terms of reference as follows:

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

“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”

The Annual Audit Plan

The plan is attached (pages 89-109) to this report and covers a range of matters that are included under the remit (as outlined above) of the Audit Committee. The Audit Manager, Peter Lappin, will attend the Committee to present the plan and answer any questions.

Financial Implications

A budget of £129,970 is allocated in 2012/13 to fund the work of the Audit Commission. The fees are expected to be £129,528 for the work within the plan.

Background Papers: Audit Commission Audit Plan

Audit plan

South Somerset District Council

Audit 2011/12



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[

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Account

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of significant risks

I have considered whether there any significant risks that are relevant to the audit of the accounting statements and have concluded there are none at the current time.

However, I have identified the following matters to which I will need to give specific attention to this year.

Table 1: **Specific risks**

Risk	Audit response
<p>The Code of Practice on Local Authority Accounting 2011/12 adopts the requirements of FRS 30, Heritage Assets. The Council needs to identify and account for all heritage assets using the most appropriate valuation method. The Code does not require valuations to be undertaken by external valuers.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also review how Council has accounted for heritage assets in accordance with FRS 30 and the disclosures required by the Code.</p>

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	General ledger and review of all internal audit reports relating to material systems and risk identification	General ledger			
Final visit			Pensions assets and liabilities – auditor to Somerset Pension Fund.	Pensions liabilities and assets – Barnett Waddingham and our own consulting actuary Valuation of property, plant and equipment – District Valuer	All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have not identified any significant risks that will increase the work necessary to reach my conclusion. I am not aware of any relevant work of other relevant regulatory bodies or inspectorates and I will therefore carry out sufficient work in relation to the two assessment criteria together with a review of the Annual Governance Statement (AGS).

On the basis of this review I will determine whether there are any matters that I need to report.

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	December 2011-February 2012	Exception report only if required.
Opinion: receipt of accounts and supporting working papers	18 June 2012	Audit opinion
Opinion: substantive testing – key dates on site	18 June – 15 August 2012	Audit opinion
Value for money	February to July 2012	VFM conclusion
Present Annual Governance Report at the Audit Committee	27 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Martin Robinson District Auditor	m-robinson@audit-commission.gov.uk 07799 932608	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Peter Lappin Audit Manager	p-lappin@audit-commission.gov.uk 07909 930437	Manages and coordinates the different elements of the audit work. Key point of contact for the Assistant Director (Finance and Corporate Services).
Jennifer Hunnisett Principal Auditor	j-hunnisett@audit-commission.gov.uk 07786 702090	Day to day supervision of team on site. Responsible for system evaluation and review, controls and substantive testing at interim and opinion audit visits.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £108,001 as set out in my letter of 6 April 2011. The Audit Commission has since issued a rebate of 8% or £8,640.

The audit fee

The Audit Commission set a scale audit fee of £108,001 which represented a 5 per cent reduction on the audit fee for 2010/11 of £113,685. A subsequent rebate of £8,640 further reduces the amount payable by the Council.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Assistant Director (Finance and Corporate Services) and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. We now classify you as a low risk audit and I have not therefore identified any further actions that you could take to reduce your fee.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 5: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£108,001	£113,685	-£5,684
Certification of claims and returns	£30,167	£28,387	My letter of 6 April estimated the cost for 2010/11 to be £33,250. The actual time and cost was less than planned. I will undertake the full schedule of tests for 2011/12 for NNDR3, as I am required to, at least once every 3 years (For 2009/10 and 2010/11 I was able to rely on the Council's control environment and I undertook a reduced number of tests)

	2011/12 proposed	2010/11 actual	Variance
Non-audit work	NA	NA	NA
Total (before rebates)	£138,168	£142,072	
Rebates to date	-£8,640	-£9,047	
Total payable	£129,528	£133,025	£3,497

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 6: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors;
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 18 June;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues his/her opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of the Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



AC

Audit Committee – 23rd February 2012

13. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday, 22nd March 2012 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.
