

South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 26 September 2013

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, **Anne Herridge** on Yeovil (01935) 462570
Email: anne.herridge@southsomerset.gov.uk

This Agenda was issued on Wednesday 18th September 2013

Ian Clarke, Assistant Director (Legal & Corporate Services)

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



INVESTOR IN PEOPLE

Audit Committee Membership

Chairman Derek Yeomans
Vice-Chairman Ian Martin

John Calvert Roy Mills
John Dyke Terry Mounter
David Norris John Richardson
Tony Lock Colin Winder

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

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

Members’ Questions on Reports prior to the Meeting

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

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Information for the Public

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

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

The terms of reference of the Audit Committee are:

Internal Audit Activity

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

External Audit Activity

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

Regulatory Framework

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

12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

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

Overall Governance

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

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

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

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 26 September 2013

Agenda

Preliminary Items

1. To approve as a correct record the Minutes of the previous meeting held on 22 August 2013
2. Apologies for Absence
3. Declarations of Interest

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

4. Public Question Time

Items for Discussion

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Audit Committee – 26 September 2013

5. 2012/13 Audit Findings Report

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

Purpose of the Report

This report introduces Grant Thornton's Audit Findings Report for 2012/13.

Recommendations

1. That the Audit Committee considers the matters raised in the report;
2. Approve that the Assistant Director – Finance and Corporate Services signs the representation letter on behalf of SSDC;
3. Note the draft audit findings as outlined in Section 2 of Appendix 1 and the one adjusted error, one unadjusted error and amended disclosure within the Statement of Accounts;
4. Note the Value for Money criteria has been met;
5. Note that no additional fees will be charged;
6. Agree the recommended actions in Appendix A and note that it has been actioned.

Background

Under the Audit Commission's Code of Audit Practice, Grant Thornton report on the overall financial statements and governance of South Somerset District Council. The review of these reports is included within the remit of Grant Thornton under its terms of reference as follows:

"To consider the reports of external audit including the Annual Audit Letter 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 Report

The report summarises the findings from the 2012/13 work of the Audit Commission relating to governance. It covers the following areas:

The Statement of Accounts/Annual Governance Statement

The Audit Commission report gives an unqualified opinion on the financial statements for 2012/13. It also outlines that in all material respects the Council has complied with the requirements of IFRS (International Financial Reporting Standards), which were introduced for the 2010/11 accounts.

The report outlines one adjusted misstatement, one unadjusted misstatement and a disclosure change.

The action plan outlines:

- That SSDC review the method of calculating provision of bad debt;
- That SSDC review the IT Security Policy;
- That SSDC review password complexity parameters in systems;
- That SSDC ensure that anti-virus software is installed on two Solaris servers not presently covered;
- That SSDC consider implementing a form process to review user access on to the network.

We have agreed to complete all of the recommended actions.

Value for Money

The Audit Commission is required to make a statement on whether the authority has made arrangements for securing economy, efficiency and effectiveness in its use of resources. This is now measured by two criteria as follows:

- Financial resilience;
- Securing economy efficiency and effectiveness.

The Audit Commission has assessed arrangements at SSDC meet the criteria.

Peter Lappin, the Audit Manager from the Audit Commission will be attending the meeting.

Financial Implications

There are no financial implications associated with these recommendations.



The Audit Findings for South Somerset District Council

Year ended 31 March 2013

September 2013

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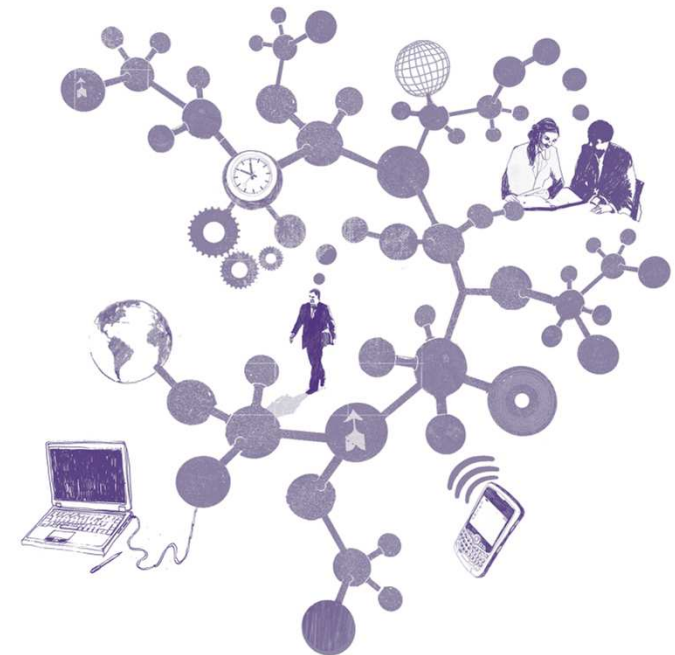
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of South Somerset District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated May 2013. Our audit is substantially complete although we are finalising our work in the following areas:

- awaiting a schedule of write offs that agree to the NNDR3 return
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Our audit of the financial statements submitted for audit did not identify any errors which would adjust the reported General Fund balance. There was a reduction in both creditors and cash at bank by £1.26m. The Finance team is now aware that items can be posted back into the previous year. This should allow an easier audit trail for the bank reconciliation and reduce the risk of misstatement.

There is one unadjusted misstatement relating to the inclusion of the current fair value of the investment of £587,000 in Lufton 2000 in the Council's balance sheet.

The accounts were produced to a good standard and the audit has been facilitated by excellent assistance by the finance team.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- review of IT security policy
- complexity of passwords
- anti virus software for Solaris servers
- review of user access

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director (Finance and Corporate Resources).

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director (Finance and Corporate Services) and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 23 May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 23 May 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Operating expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested operating expenses including obtaining supporting documentation for a sample of transactions in year 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Testing of year end creditors (unrecorded liabilities) 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed a sample of employee remuneration expenses to confirm they have been appropriately accounted for 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Review of reconciliaion of the housing benefit and council tax benefit subsidy claim to the ledger and accounts • Review of system parameters • testing a sample of benefit claims to ensure they were eligible and had been calculated correctly 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed a sample of capital expenditure transactions to confirm they had been appropriately accounted for 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • evaluated the qualifications and the work completed by the Valuer to ensure that the Code had been complied with • confirmed that the asset values had been appropriately accounted for in the asset register and accounts 	Our documentation and walkthrough of the transaction cycle has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:</p> <ul style="list-style-type: none"> • Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services. • Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. • Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected. 	<p>We have reviewed the Council's recognition of revenue and found that:-</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Revenue had been appropriately recognised 	<p style="text-align: center;">●</p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>



Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient



- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – depreciation – revaluations – impairments – provisions – accruals 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:-</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or a third party <p>However, for debts more than 90 days the Council calculates the provision / impairment based on the amount outstanding and original debt and applies this percentage as an average for different types of debt.</p> <p>Whereas it may provide a commentary on credit history it does not reflect that as time passes debt is less likely to be collected.</p> <p>For example, the percentage provision for housing benefits is greater for debts between 4-12 months than the percentage for debts more than one year.</p>	 <p>Refine method for calculation of bad debts</p>
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has highlighted that the Council could enhance disclosures for leases where it is the lessor – in terms of – when the amounts are due – similar to the bandings for the lease disclosures as a lessee.</p> <p>Although the Council has a rolling programme of revaluations, it could show the values of assets in each year of the revaluation cycle, e.g. Exm of land and buildings revalued on 1 April 201x.</p>	 <p>Consider lessor disclosure and amounts revalued by year.</p>

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Significant payments including £1.26 million of BACS paid through the bank account on 28 March but not recorded in the ledger at the year end. Both cash and creditors are overstated. Both have been reduced.		1,255	
Overall impact	NIL	No effect on net assets	NIL

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure			Capital receipts balance in explanatory foreword amended to ensure consistency with Note 29 and other minor disclosure enhancements

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 In 2010/11, with the agreement of the previous auditors the Council decided not to present group accounts for Lufton 2000, because the entries were not material. Although we agree that the Council does not need to produce group accounts, it should include its share of the fair value of the assets, liabilities, income and expenditure in its own accounts. The Council's share (50%) of the net assets of Lufton 2000 at 31 March 2013 is £587,000.</p>	7	587	<p>The net assets are not material and there is adequate disclosure of the investment in Note 50. The adjustment to the balance sheet would be of a technical nature and would represent the first time that the Council has included the net assets in its own accounts. We will consider incorporating the value of the investment in the joint venture in the financial statements for 2013/14.</p>
Overall impact	7	587	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<p>IT Security Policy</p> <p>There is an IT Security Policy in place which is hosted in a location that can be accessed by all staff and their acknowledgment of it is captured when they have their account creation. It was noted however that the IT Security Policy has a review date of January 2010, at the time of the audit there was no evidence available that this review had been completed.</p> <p>Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security requirements of the business, which may compromise the organisation's computing environment.</p>	<ul style="list-style-type: none"> The IT Security Policy should be reviewed in line with the planned schedule to ensure its continuing suitability, adequacy, and effectiveness. <p>Management response:</p> <ul style="list-style-type: none"> The policy refresh cycle used to be one year however our Lean review recommended that we review policy every three years. It is recognised however that the review is still overdue and this will be addressed.
2.	●	<p>Logical access controls</p> <ul style="list-style-type: none"> There are weak logical access controls on the EFinancials and Northgate systems as there is no enforcement of password complexity rules. The option to encrypt passwords in the Northgate system was also not selected for the sample of accounts viewed during the review. If password complexity rules are not enabled the risk of an account being compromised is increased as there is nothing to prevent a user selecting a weak or easily guessable password. The absence of password encryption also increases the risk of password secrecy being compromised. 	<p>The password complexity parameters should be enabled within the EFinancials and Northgate systems. Password encryption should also be enabled in the Northgate system.</p> <p>Management response:</p> <p>The following improvements will be completed by the end of September 2013 to bring EFinancials line with ICT policy –</p> <ul style="list-style-type: none"> increase the minimum password length from 5 to 7 characters; force the inclusion of at least 1 alpha and 1 numeric character. Agree to the actions regarding Northgate and these have been added to our work plans.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
3.	●	<p>Anti-virus software</p> <p>Kaspersky anti-virus software is installed on all Windows machines and servers, however there is no anti-virus software installed on the two Solaris servers which host the EFinancials and Northgate Revenues system.</p> <p>Whilst it is acknowledged that Solaris systems present a low risk of virus infection, it is good practice for anti-virus software to be installed in order to minimise the risk of viruses spreading.</p>	<p>Management should ensure that anti-virus software is installed on the two Solaris servers which are not presently covered.</p> <p>Management response: The risk presented is very low and we have measures in place to mitigate. There is no direct access to the servers by users, there is no exposure to the internet and they have been security trimmed to ensure only required services are running. One of the servers is due for replacement in October 2013 and one in April 2014, so anti-virus protection will be re-considered as part of that work.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
4.	●	<p>Network access review</p> <ul style="list-style-type: none"> There is no formal review of user access to the network system on a regular basis. If periodic reviews of user accounts are not conducted on a regular basis, there is a risk that dormant user accounts could be exploited to gain unauthorised access to the organisation's systems. Furthermore, there is a risk that network access rights may become disproportionate over time to the users' responsibilities and this may not be identified in a timely manner 	<p>Management should consider implementing a formal process to review user access to the network on a regular basis (e.g. quarterly) to ensure access is appropriate based on job functions and all terminated users have been appropriately removed.</p> <p>Management response:</p> <ul style="list-style-type: none"> ICT now run a quarterly check for dormant accounts as a backup for the normal process of being informed by HR. This addresses network logins, access to email and access to any systems for which the login has been integrated with Active Directory (AD). Rights to file systems and shared areas are also maintained by ICT through AD and these are updated when ICT are informed. Changes (and possibly a consequential reduction in rights) are normally picked up when ICT are asked to increase rights elsewhere. Systems not integrated with AD are maintained by service based system administrators who also are responsible for moves, additions and changes in relation to those systems.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously received a letter from the Chair of the Audit Committee detailing the risk of fraud. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We have made recommendations about enhancing disclosures for dates of valuations and operating leases where the Council is a lessor.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that the Council has managed its finances effectively. It has relatively high levels of reserves (as a percentage of gross expenditure) and it has delivered ambitious savings targets. This has led to significant underspends over recent years.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. The Council has used benchmarking in a focused manner, where there has been a review of the service or considering the impact of a LEAN review on performance.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>The current economic climate makes achieving financial balance and savings plans challenging. South Somerset's original budget had planned savings of £1.5 million in 2012/13. Review of its Medium Term Financial strategy and Medium Term Financial plan for 2013/2014 show that further savings need to be found in medium term.</p>	<p>The Council closed the budget gap for 2013/14 and set a balanced budget. The outturn for 2012/13 showed an underspend on its original budget of £0.26m and £0.82m on its revised budget.</p> <p>The General Fund balance increased by £0.185m in 2012/13 ensuring that balances are well above the minimum levels set by the Council. Earmarked reserves also increased by £1.08m.</p> <p>The Council has relatively high usable reserves (mainly capital but its revenue reserves are healthy as well).</p>	<p>The Council has effectively managed its financial risks. Although, in common with many local authorities, the Council has to find further savings over the medium term, its financial performance over recent years shows that it is well placed to manage its financial risks.</p>

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	£64,801	£64,801
Grant certification (indicative)	£16,850	£16,850
Total audit fees	£81,651	£81,651

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should refine its revised method of calculating the provision for bad debts.	Medium	The method of calculating the provision of bad debt was made this year. Some tweaks need to be made to make the methodology more fit for purpose	Finance Manager, Amanda Card March 2014
2	The IT Security Policy should be reviewed in line with the planned schedule to ensure its continuing suitability, adequacy, and effectiveness.	Low	The policy refresh cycle used to be one year however our Lean review recommended that we review policy every three years. It is recognised however that the review is still overdue and this will be addressed.	End November 2013. Jess Power (ICT)
3	The password complexity parameters should be enabled within the EFinancials and Northgate systems. Password encryption should also be enabled in the Northgate system.	Low	The following improvements will be completed by the end of September 2013 to bring EFinancials line with ICT policy – increase the minimum password length from 5 to 7 characters; force the inclusion of at least 1 alpha and 1 numeric character. Agree to the actions regarding Northgate and these have been added to our work plans.	Amanda Card / Ian Potter Dec 2013

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	Management should ensure that anti-virus software is installed on the two Solaris servers which are not presently covered.	Low	The risk presented is very low and we have measures in place to mitigate. There is no direct access to the servers by users, there is no exposure to the internet and they have been security trimmed to ensure only required services are running. One of the servers is due for replacement in October 2013 and one in April 2014, so anti-virus protection will be re-considered as part of that work.	Not agreed for the reasons given in the management response.
5	Management should consider implementing a formal process to review user access to the network on a regular basis (e.g. quarterly) to ensure access is appropriate based on job functions and all terminated users have been appropriately removed.	Low	ICT now run a quarterly check for dormant accounts as a backup for the normal process of being informed by HR. This addresses network logins, access to email and access to any systems for which the login has been integrated with Active Directory (AD). Rights to file systems and shared areas are also maintained by ICT through AD and these are updated when ICT are informed. Changes (and possibly a consequential reduction in rights) are normally picked up when ICT are asked to increase rights elsewhere. Systems not integrated with AD are maintained by service based system administrators who also are responsible for moves, additions and changes in relation to those systems.	This has been implemented and is now an on-going process.
6	Consider enhancements to disclosures on leases (as a lessor) and dates and amounts for each year of revaluation.	Low	Yes – we will consider the enhanced disclosures and recognise that these are relatively minor.	Finance Manager, June 2014

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH SOMERSET DISTRICT COUNCIL

Opinion on the financial statements

We have audited the financial statements of South Somerset District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of South Somerset District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director (Finance and Corporate Services) and auditor

As explained more fully in the Statement of the Assistant Director's (Finance and Corporate Services) Responsibilities, the Assistant Director (Finance and Corporate Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director (Finance and Corporate Services) and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Somerset District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, South Somerset District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of South Somerset District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Simon Garlick
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street,
Bristol
BS1 6FT

26 September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 23 May 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

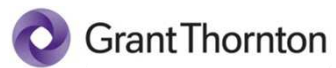
Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	See recommendation about bad debt provision
Assets held for sale	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Inventories	Inventories	None		No	None
Cash and cash equivalents	Bank and cash	None		No	Yes – see adjusted misstatements
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Yes – see adjusted misstatements
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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Audit Committee – 26 September 2013

6. 2012/13 Annual Statement of Accounts

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham (Finance and Corporate Services)
Service Manager: Amanda Card, Finance Manager
Lead Officer: Amanda Card, Finance Manager
Contact Details: amanda.card@southsomerset.gov.uk or (01935) 462542

1. Purpose of the Report

To present the 2012/13 Annual Statement of Accounts to the Audit Committee for approval.

2. Recommendations

- (a) To approve the 2012/13 Statement of Accounts. A copy of the Statement of Accounts has been circulated separately with this agenda;
- (b) To note the unqualified opinion on the financial statements;
- (c) To authorise that the Assistant Director (Finance and Corporate Services) sign the Letter or Representation.

3. Background

3.1 As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. One of the principles is accountability and preparing and publishing the annual Statement of Accounts is one way that the Council achieves this objective.

3.2 The Accounts and Audit Regulations (England) 2011 came into force on 1 April 2011. This revised procedures for the approval and publication of the annual Statement of Accounts. The Responsible Financial Officer must now sign the accounts as true and fair by 30th June of the following year and Members are required to formally approve the audited and amended annual Statement of Accounts by the 30th September of the following year. The Statement of Accounts needs to be approved and signed by the Chair of this committee. **Please contact Amanda Card before the meeting on 01935 462542 with any questions on the information presented.**

3.3 The Statement of Accounts for 2012/13 has been prepared following International Financial Reporting Standards (IFRS).

3.4 This report:

- Outlines the key features of the 2012/13 revenue outturn position;
- Summarises the 2012/13 capital outturn position;
- Presents the 2012/13 Statement of Accounts and explains the key features and reasons for variations within those accounts;
- Explains the reasons why misstatements to the financial statements will not be adjusted.

4. Key Features of the 2012/13 Outturn Reports

4.1 Revenue Outturn

4.1.1 The figures that were presented to District Executive on 6th June 2013 represent the “Above the Line” budgets that are monitored by the Executive on a quarterly basis. Members of the Audit Committee will find that the figures presented to them in the Statement of Accounts differ from those reported to District Executive as they represent both “Above” and “Below the Line” as a total cost. The “Below the Line” figures are distinguished from the “Above the Line” costs as they are outside the control of the delegated budget holder, being capital charges and recharges from support services such as Human Resources, Legal and Financial Services.

4.1.2 The overall outturn for SSDC Services in 2012/13 was £822,000 (4.8%) underspent. Outlined below is the summary of the figures presented to the District Executive on 6th June 2013;

	Original Budget	Movement During the Year	Outturn Budget	Actual Spend	Variation	
	£'000	£'000	£'000	£'000	£'000	
SSDC Services	16,577	562	17,139	16,317	(822)	F

(Note that all figures in brackets are underspends).

4.1.3 The comparative position over the last two years was 3.5% underspent in 2011/12 and 4.2% underspent in 2010/11. (This is after taking out the figures for Treasury Management and the Local Strategic Partnership to ease comparison).

4.2 Carry Forwards

4.2.1 The District Executive was asked to approve £338,920 of specific carry forwards to 2013/14.

4.3 Revenue Balances and Reserves

4.3.1 Unallocated general fund balances totalled £4,173,000 at the end of the 2012/13 financial year. Regular reviews of balances were carried out during 2012/13 and the required levels were met throughout the year. The review carried out in May 2013 has set a level of £3,156,000 for the 2013/14 year, an increase due to the risks of the economic downturn on the Medium Term Financial Plan, the raised risks within the banking sector, and possible greater litigation risks but as members can see the levels of balances are still sufficient for the new financial year.

4.3.2 Specific Reserves totalled £6,629,000 at the end of the financial year. These reserves are actual cash sums set-aside for specific purposes.

4.4 Capital Outturn Report

The capital programme spend for 2012/13 was £3,077,000, which equates to a 40.1% underspend. This compares to a 40.1% underspend in 2011/12.

5. Loans

SDDC has a loans policy where loans may be given at PWLB (Public Works Loans Board) rates to local voluntary and charitable organisations. The maximum outstanding sum of those loans must not exceed £1,000,000 at any time. At the end of 2011/12 the amount of loans outstanding under this policy was £406,876.

6. Statement of Accounts

6.1 The District Auditor will review the annual Statement of Accounts and supporting working papers and will issue his opinion as to whether they present fairly the financial position of South Somerset District Council at 31 March 2013 and its income and expenditure for the year then ended.

6.2 A copy of the Statement of Accounts has been circulated separately with this agenda. In addition to this, a summary of the statements will be prepared in leaflet format to make them more accessible to the end user.

7. Key Features from the Statement of Accounts

7.1 The Statement of Accounts contains four core statements reflecting the financial position of SDDC as at 31st March 2013. These are;

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement.

7.2 There are additional statements relating to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

7.3 It is a statutory requirement for all local authority financial statements to be IFRS compliant.

7.4 The Code of Practice on Local Authority Accounting did not introduce any further technical changes for 2012/13.

8. The Comprehensive Income and Expenditure Statement

8.1 This account gives detailed information about the total expenditure on the services we provide. It also shows the council tax and government grants received to help pay for those services. The net operating expenditure figure is reconciled to the outturn spend position outlined to District Executive in the following way:

	£'000
Total Spend Reported to the District Executive	16,317
Adjustments:	
Amounts not reported to management but included on Costs of Services in Comprehensive Income and Expenditure Statement.	4,326
Net Cost of Services (taken from the Comprehensive Income and Expenditure Statement, page 28 of the financial statements)	20,487

- 8.2 The major year on year variations (over £0.5 million) and explanations for those variances are outlined below:

Services	Previous Year 2011/12 £'000	Current Year 2012/13 £'000	Variance £'000	Reason for Variance
Central Services	460	(496)	(956)	Increase in New Homes Bonus payments
Environmental and Regulatory Services	7,895	8,496	601	Increase in waste collection costs and associated costs
Housing Services	2,230	1,669	(561)	Revised methodology to Bad Debt Provision.

Note that figures in brackets show underspends compared to the previous year spend.

9. The Balance Sheet

- 9.1 The Balance Sheet provides the Council with a snapshot of our financial position overall as at the 31st March 2013. At 31 March 2013 the authority's net assets amounted to £31.15 million (£30.54 million at 31 March 2012).
- 9.2 The authority's net assets are significantly reduced by the inclusion of the pension scheme liability of £68.47 million (compared to £65.53 million at 31 March 2012). The present value of the pension scheme liability has increased to £140.15 million (from £128.67 million at 31 March 2012) and the fair value of the scheme assets have increased to £71.67 million (£63.15 million at 31 March 2012).
- 9.3 In practice, the amount of net worth that can be used is £48.83 million (Usable Capital Receipts £36.97 million, Capital Grants Unapplied £0.87 million, Earmarked Reserves £6.63 million and Balances £4.35 million). The remaining - £17.68 million is held in technical reserves which are not available for use.
- 9.4 In addition, Members will note the Contingent liabilities disclosed in note 48. Contingent liabilities are possible future obligations; they are not accounted for within the balance sheet, as the obligation will only be confirmed if uncertain events happen in the future. Any claims would need to be funded from SSDC balances.

10. Cash Flow Statement

- 10.1 This statement outlines the changes in cash and cash equivalent of the authority during 2012/13.
- 10.2 There has been a net decrease in cash and cash equivalents of £258k.
- 10.3 Cash Equivalents are short-term highly liquid investments that are readily convertible within 24 hours to known amounts of cash and which are subject to an insignificant risk of changes in value.

11. Collection Fund

- 11.1 The Collection Fund shows the total SSDC has collected on behalf of all of the precepting authorities (e.g. Somerset County Council, Avon & Somerset Police Authority, Devon & Somerset Fire & Rescue Authority and town/parish councils). It also shows the amounts distributed to those authorities. The major variations are shown below:

Heading	Previous Year 2011/12 £'000	Current Year 2012/13 £'000	Variance £'000	Reason for Variance
Income from Council Taxpayers	(80,075)	(80,779)	(704)	Average Council Tax Increase of 0.30% (0.2% in 2011/12) and increase in tax base 1.2% (0.7% in 2011/12)
Income Collectable from Business Rates Payers	(38,637)	(40,548)	(1,911)	NNDR Rate poundage increase 5.7% (4.6% in 2011/12)
Precepts and Demands – Somerset County Council	62,120	62,845	725	Increase in tax base
Business Rates – Payment to National Pool	38,410	40,324	1,914	Increase in NNDR Rate poundage increase

Note that figures in brackets in the first two columns represent income, and in the last column represent an increase in income or a reduction in expenditure.

12. Auditor's Opinion

- 12.1 An unqualified opinion has been issued on the financial statements.
- 12.2 During the audit there were some amendments made to the draft financial statements. Processes have been put in place to eliminate errors that have been identified during the 2012/13 audit to ensure that they do not occur in future years.
- 12.3 There was one adjusted misstatement. Payments made via BACS were inadvertently recorded as a creditor rather than as cash, meaning that both the creditor figure and the cash figure were overstated. This error occurred due to timings. The error has been corrected in the accounts and processes have been identified to ensure that the error does not occur in future years.
- 12.4 There was one unadjusted misstatement relating to the fair value of investment in Lufton 2000. In previous years this would have been included within Group Accounts but it was agreed with the external auditors to produce Group Accounts due to materiality. Reference is made within the notes to this interest. This will be corrected in future years.
- 12.5 Some other amendments to disclosures were made to ensure consistency. This amendment included an align to the capital receipt balance in the explanatory

forward to the disclosure within the Movement in Reserves Statement and Usable Reserves note.

- 12.6 None of the adjustments made impacted upon the financial position of the Council.

13. Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *Revenue outturn 2012/13*
Capital outturn 2012/13
Accounting Policies 2012/13

Audit Committee – 26 September 2013

7. Summary Statement of Accounts

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham, Finance and Corporate Services
Service Manager: Amanda Card, Finance Manager
Lead Officer: Amanda Card, Finance Manager
Contact Details: amanda.card@southsomerset.gov.uk or (01935) 462542

Purpose of the Report

To ask Members of the Audit Committee to comment on the 2012/13 Summary of Accounts before publication.

Recommendation

To comment on the 2012/13 Summary of Accounts.

Summary Accounts

The first Summary of Accounts was produced in 2004/05 and we have continued to simplify the summary. Although it is no longer a requirement for the Use of Resources judgement given by the Audit Commission, it is believed that having such a document would still be of benefit.

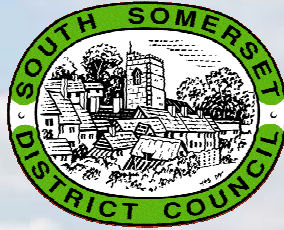
The key comments sought are in the following areas:

- Will members of the public understand the summary;
- Are the terms and wording easy to interpret;
- Are the areas of key financial performance outlined;
- General feedback on how it could be made more user friendly.

Financial Implications

The production of the summary of accounts can be financed within existing budgets. The Summary of Accounts will not be printed and distributed but will be a document accessible via the Council's website.

Background Papers: None



South Somerset District Council

Summary of Accounts 2012/13

A simplified picture of the Council's 2012/13 Statement of Accounts

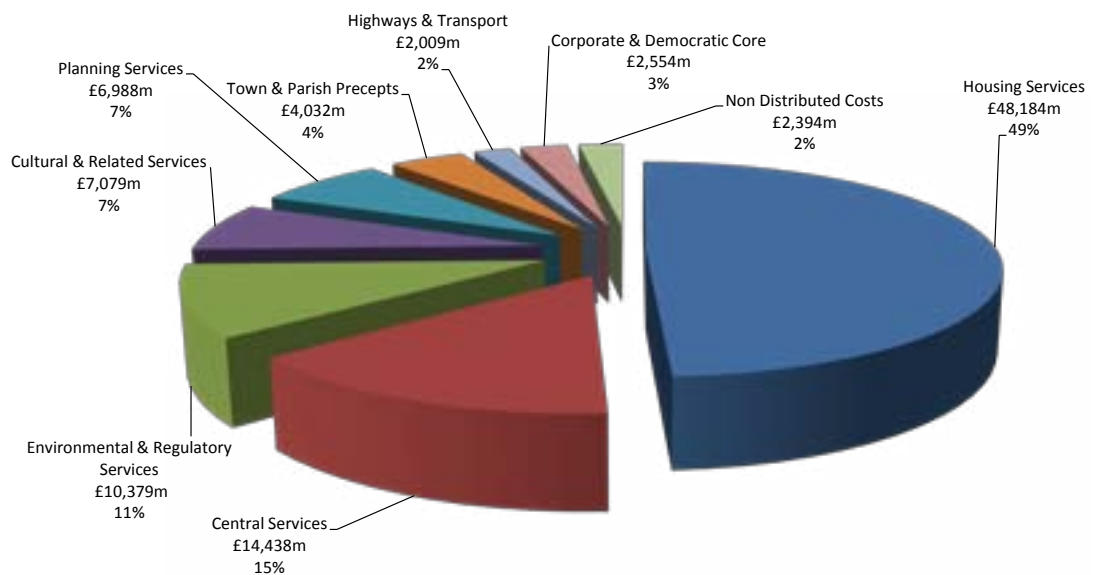
We would welcome any comments you have on the Summary of Accounts. Please call the number below or email accountancy@southsomerset.gov.uk

A full copy of the Council's 2012/13 accounts is available on request or from the Council's website - www.southsomerset.gov.uk Please telephone 01935 462462 if you wish to be sent a copy

Where the money goes:

We spent £98.056 million on running services. These costs are included in our revenue account, which shows the costs incurred between 1st April 2012 and 31st March 2013. This is summarised in the pie chart below:

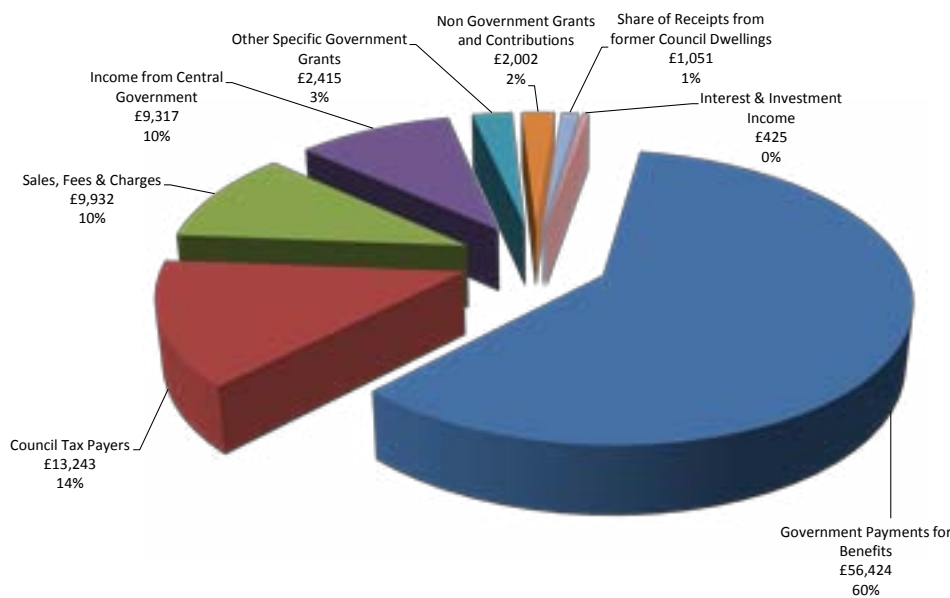
The revenue costs are those associated with the day-to-day spending of the Council eg. staff salaries, building maintenance and electricity. This is different to capital costs, which are detailed on the next page



Notes: Corporate & Democratic Core include the costs of the activities of Members in their democratic role and of providing the infrastructure to provide Council services. Non distributed costs includes costs that are unique to a local authority such as accumulated absences, and those costs not directly associated to a particular service eg. pension costs

Where the money comes from:

The chart below shows where South Somerset District Council obtained its gross income of £94.809 million from during 2012/13.



The Government payments for Benefits are ringfenced for Benefit Payments. This leaves £38.385 million available for expenditure on council services.

The rate of Business Rates per property is set by Central Government. SSDC collect this from local businesses on the Government's behalf and pay it over to them. It is then redistributed by the Government across the country based on the adult population.

Deducting the income of £94.809 million from the expenditure of £98.056 million leaves a net deficit of £3.247 million.

Day to day spending

Capital Expenditure:

Capital Expenditure is long term investments made by the council on upgrading and improving assets such as buildings and purchasing vehicles. The following table outlines the capital expenditure incurred during 2012/13:

Type	Description	2012/13 Actual £'000
Finance & Corporate Services	Council-wide projects	204
	Information technology systems	136
	Total Finance and Corporate Services	340
Place & Performance	Economic Development project	130
	Total Place & Performance	130
Economy	Affordable Housing	157
	Buildings at Risk	23
	Total Economy	180
Communities	Area Committee projects	66
	South Western Terrace, Yeovil improvements	35
	Market House, Castle Cary	28
	Market Town Visions	26
	Other communities projects	18
	Foundry House, Yeovil	17
	Total Economy	190
Environment	Disabled Facilities Grants	592
	Replacement Streetscene vehicles	164
	Empty property & HMO grants & home repairs assistance	151
	Loan Scheme for Somerset	150
	Enhancements to Council buildings	102
	Car park resurfacing and enhancements	66
	Contaminated Land works	50
	Burial projects	40
	Total Environment	1,315
Health & Well-being	Sports grants	299
	Grants for parishes with play areas	220
	Synthetic Grass Hockey Pitch	150
	Goldenstones and Wincanton Sport Centre	77
	Multi Use Games Area	76
	Community play schemes and Youth Facilities	71
	Bircfield Park Play Area	16
	Octagon Theatre	13
	Total Health & Well-being	922
	Total Capital spend in 2012/13	3,077
	Note: Explanation of project available if required	

Capital expenditure was financed from:

	Capital Receipts	1,630
	Capital grants from non government funding partners	788
	Capital grants from central government	659
	Gross Capital spend in 2012/13	3,077

Capital spending

What are we worth:

What the Council owns and is owed:

Net Assets	31 March 2013 £'000
Buildings, Land and Equipment owned by the Council	60,009
Stock	107
Cash in Bank and Investments	38,872
Money owed to the Council (Long and Short-term Debtors)	6,726
Money owed by the Council (Creditors, Provisions, Finance Leases and Developers Contributions)	(6,095)
Money owed by the Council relating to the Pension Scheme	(68,474)
Total Assets less total Liabilities	31,145

At the end of the year we draw up a balance sheet that shows how much SSDC's land and buildings are worth, what is owed to others, what others owe us and how much cash we have.

Usable Reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable Reserves are for technical adjustments for non-current assets, financial instruments, retirement and employee benefits.

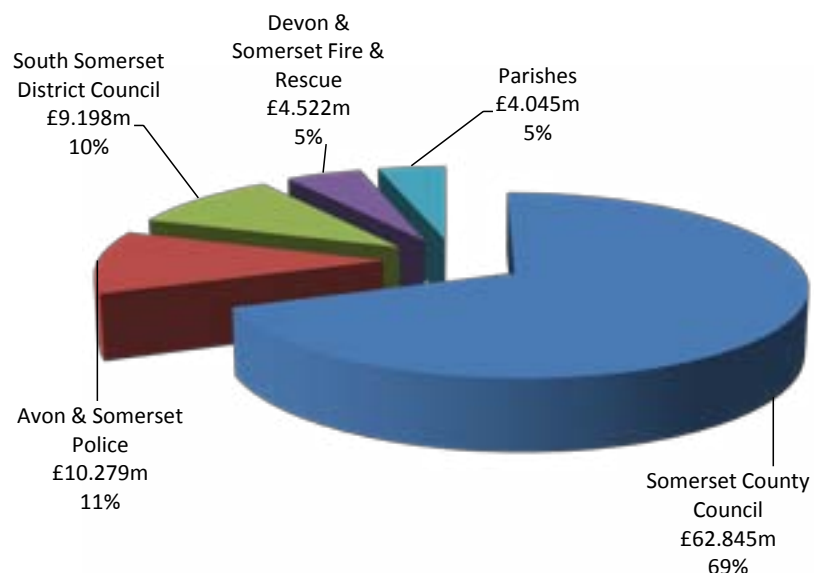
What SSDC is Worth:	31 March 2013 £'000
Usable Reserves	48,826
Unusable Reserves	50,793
Pensions Reserve	(68,474)
Total Reserves and Balances	31,145

(items in brackets represent council liabilities)

Council Tax facts and figures:

Description	2011/12	2012/13
Population of South Somerset	161,300	163,160
Collection of Council Tax in year	97.82%	97.81%
Value of Direct Debits	£61.953m	£63.448m
% Collected by Direct Debit	76.58%	77.45%

As a precepting (billing) authority we have to collect Council Tax on behalf of Somerset County Council, Avon & Somerset Police, Devon & Somerset Fire & Rescue and the Parish Councils within our district (we have no control over these authorities' expenditure). The most economical way of collecting this is by Direct Debit.



Statement from Assistant Director, Finance & Corporate Services

The council's Statement of Accounts has been prepared in accordance with the Accounting Code of Practice and has received an unqualified opinion. The figures in this summary were compiled having regard to proper accounting practices

Audit Committee – 26 September 2013

8. **Review of the Council's Arrangements for Securing Financial Resilience for South Somerset District Council**

Portfolio Holder *Cllr Tim Carroll, Finance and Spatial Planning*
Director: *Mark Williams, Chief Executive*
Lead Officer: *As above*
Contact Details: *mwilliams@southsomerset.gov.uk or (01935) 462101*

Purpose of the report

This report introduces the Review of the Council's Arrangements for Securing Financial Resilience for SSDC for the 2012/13 financial year.

Recommendations

The Audit Committee is asked to:

- (1) Note the contents of the Review of the Council's Arrangements for Securing Financial Resilience for SSDC.

Introduction

The Review of the Council's Arrangements for Securing Financial Arrangements for Securing Financial Resilience is included within the remit of the Audit Committee under its terms of reference as follows:

"To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken".

Financial Resilience is normally included within other reports but this is the first year where a specific report has been published on each authority by our external auditors.

The Report

Overall the report outlines that SSDC has a good level of financial resilience. Within the Executive Summary on page 8 there is an agreed action plan that will enhance that resilience over the next year.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

Review of the Council's Arrangements for Securing Financial Resilience for South Somerset District Council

Year ended 31 March 2013

August 2013

Simon Garlick

Director

T 0117 305 7878

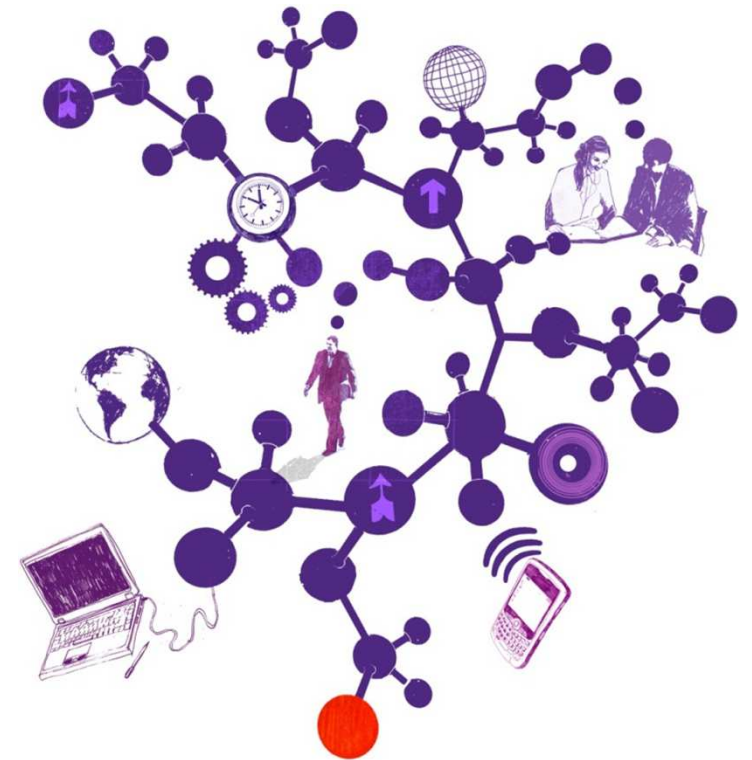
E simon.p.garlick@uk.gt.com

Peter Lappin

Senior Manager

T 0117 305 7865

E peter.lappin@uk.gt.com



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

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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- key indicators of financial performance;
- its approach to strategic financial planning;
- its approach to financial governance; and
- its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that the Council has adequate arrangements in place to secure financial resilience in the short term. Over the longer term, the uncertainties in the public sector finances will continue to affect the Council.

In a period of austerity, the Council has to date managed its finances effectively. Therefore, we assess the current arrangements for achieving financial resilience as adequate.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	Arrangements meet or exceed adequate standards. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	Potential risks and/or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	High risk: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

South Somerset is predominantly an agricultural area with over 40% of the population living in settlements of fewer than 2,500 people and 30% of the workforce is employed in manufacturing – nearly double the national average.

The Council employs 451 full time equivalent staff who work together with 60 elected councillors. It covers one of the biggest districts in the country, both in terms of geographical size and population.



The baseline figures in the settlement overall reduced grant by £0.39million or 5.7% for 2013/14 and £1.1 million or 29.35% for 2014/15. This will mean that South Somerset District Council will have had a cut in grant of £3.7 million or 41% over the Comprehensive Spending Review period.

South Somerset faces financial challenges as significant reductions in Central Government funding have continued to impact on the funding available to provide statutory services and deliver the Council's priorities. However the Council will benefit from increased receipts from new homes bonus.

The Council has adopted a strategy of managed use of balances, releasing the previous year's new homes bonus to support revenue expenditure. In 2012/13 the Council has been successful in delivering £1.3 million from an ambitious savings target of £1.5 million.



Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	<p>The Council has a relatively high working capital ratio (second highest in its comparator group) which reflects the decision by the Council to disinvest in long term investments (typically Eurobonds) into short term investments. This allows the Council more flexibility to respond to changes in market conditions.</p> <p>The Council has achieved significant underspends against its original and revised budgets in each of the past five years. The cumulative underspend in those 5 years against the original budgets was £2.3m.</p> <p>The Council has relatively high levels of usable reserves (53% of gross revenue expenditure), the highest in its comparator group. However, most of this balance £37.8m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.</p> <p>Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period 2007/08 to 2011/12 but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness.</p>	 Green
Strategic Financial Planning	<p>The Council annually produces a five-year Medium Term Financial Plan (MTFP). The MTFP covers financial issues that the Council will face during the five year period. The Council has developed a strategy for dealing with the financial difficulties it is facing which include:</p> <ul style="list-style-type: none">• Making annual savings• Managed use of balances• Partial use of new homes bonus• Council tax increase• Growth in business rates <p>The current MTFP shows a budget gap of £2.2m in 2014/15 but the underspends from previous years and use of new homes bonus should help address this gap. The Council has sufficient balances and reserves to address any budget shortfall in the short term.</p>	 Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	<p>The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of Council tax benefits and the pooling of business rates.</p> <p>The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council.</p> <p>There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders.</p> <p>There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved).</p>	 Green
Financial Control	<p>In June 2013 the Council reported final outturns on its 2012/13 budget . Of the original £1.5 million planned savings, £1.3 million had been delivered. The shortfall of £0.2m related to less than anticipated car park income of £193,000 and a shortfall of £28,000 on the Streetscene post.</p> <p>The Council's savings targets are challenging but achievable. The underspend on budgets showed that the Council was able to have sufficient savings to offset any slippage.</p> <p>In its review dated July 2013 internal audit was only able to offer partial assurance on the Council's risk management system and identified that there is insufficient review of the corporate risk register at senior management and Member level. The Council has responded to the action plan and the Audit Committee is receiving the key risks from the risk register, the mitigating action being taken and the responsible officer for the residual risk.</p>	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council should review its collection rates for NNDR that the dip in performance in 2012/13 is addressed.	Assistant Director – Finance and Corporate Services	30/9/13	We are reviewing and revising the recovery plan for 2013/14 to improve the collection rate including some additional measures that are currently being trialled.
	The Council should consider its response to the increase in days lost to sickness.	Chief Executive	31/3/14	The data for quarter 1 in 2013/14 compared to the first quarter 2012/13 already shows an improvement and is within target.
Strategic Financial Planning	The current MTFP shows a budget gap of £2.2m in 2014/15 and the Council needs to identify the actions to close this gap.	Chief Executive/ Assistant Director - Finance and Corporate Services	20/2/14	The budget process is now well underway and a plan to find £4 million over the next three years will be put forward to the Executive in October. We have already identified just under £0.5 million in savings in preparation for the 2014/15 budget.
	The Council needs to review the robustness of the process for producing revised estimates and identify the reasons for variances in the final quarter of the year.	Assistant Director – Finance and Corporate Services		We will be working with our Corporate Performance Team over the next few months to improve the understanding and accuracy of budget monitoring.
Financial Governance	None			
Financial Control	The Council needs to address the weaknesses in the risk management system, identified by Internal Audit.	Assistant Director – Finance and Corporate Services	As per the agreed Action Plan	We have an agreed Action Plan that will be implemented and monitored.

1 Executive Summary

2 Key Indicators

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Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:




- Working capital ratio
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Amber Valley Borough Council
Babergh District Council
Borough Council of King's Lynn and West Norfolk
Braintree District Council
Breckland Council
East Lindsey District Council
Mendip District Council
Newark and Sherwood District Council
South Kesteven District Council
South Norfolk District Council
St Edmundsbury Borough Council
Stafford Borough Council
Stroud District Council
Taunton Deane Borough Council
Wychavon District Council



Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<p>The Council has a relatively high working capital ratio (second highest in its comparator group) which reflects the decision by the Council to disinvest in long term investments (typically Eurobonds) into short term investments. This allows the Council more flexibility to respond to changes in market conditions.</p> <p>The most recent figures for Council Tax collection for 2012/13 shows South Somerset at 97.8% which is slightly below the average of the comparator group of 98.3%.</p> <p>For non domestic rates (NNDR) South Somerset's collection rate at 96.4% is again below average in the comparator group whose average is 97.9%. South Somerset is in the lowest 20% of NNDR collection rates of district councils in the country.</p> <p>Locally collected taxes from council tax and non domestic rates accounted for £19.9m and non-ringfenced government grants such as revenue support grant and new homes bonus accounted for £2.6m.</p>	 Green
Borrowing	<p>The Council does not have any long term borrowing. It has a long term liability of £0.27 million related to finance leases. The Council sets out its Treasury Management Strategy before the beginning of the financial year and reports its performance no later than 6 months after the year end. The Council monitors its performance against its prudential indicators and there is robust review from the Audit Committee</p>	 Green
Performance Against Budgets: revenue & capital	<p>The Council has achieved significant underspends against its original and revised budgets in each of the past 5 years. The cumulative underspend in those five years against the original budgets was £2.3m. In the past three years, the underspend against the revised budget has been greater than that recorded against the original budget. This shows that the original budget has been a more accurate forecast of the final outturn than the revised budget.</p> <p>In 2012/13 there was a significant underspend of £5m on the capital budget of £8m. In 2011/12 the capital underspend was £2m.</p>	 Amber

Key Indicators

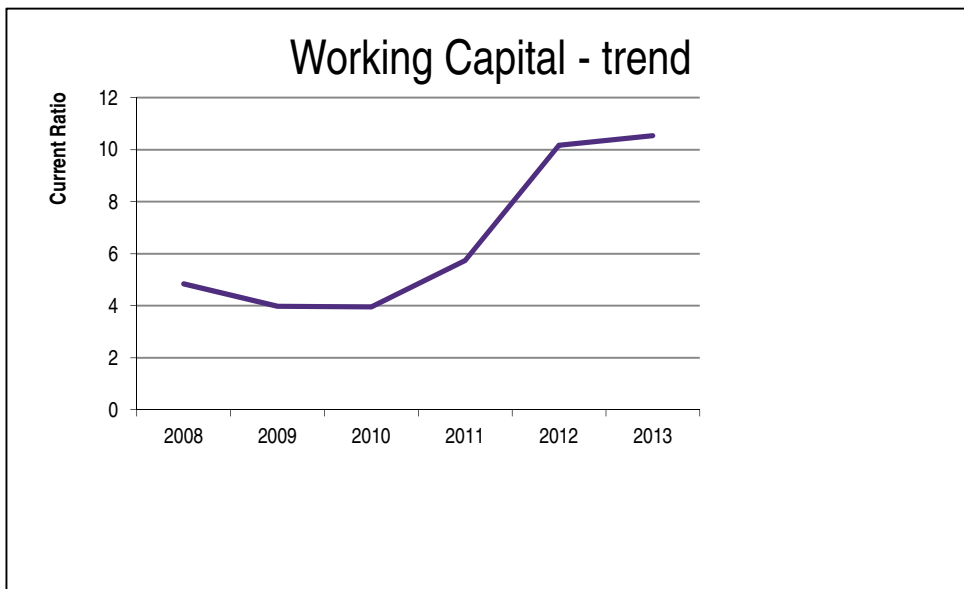
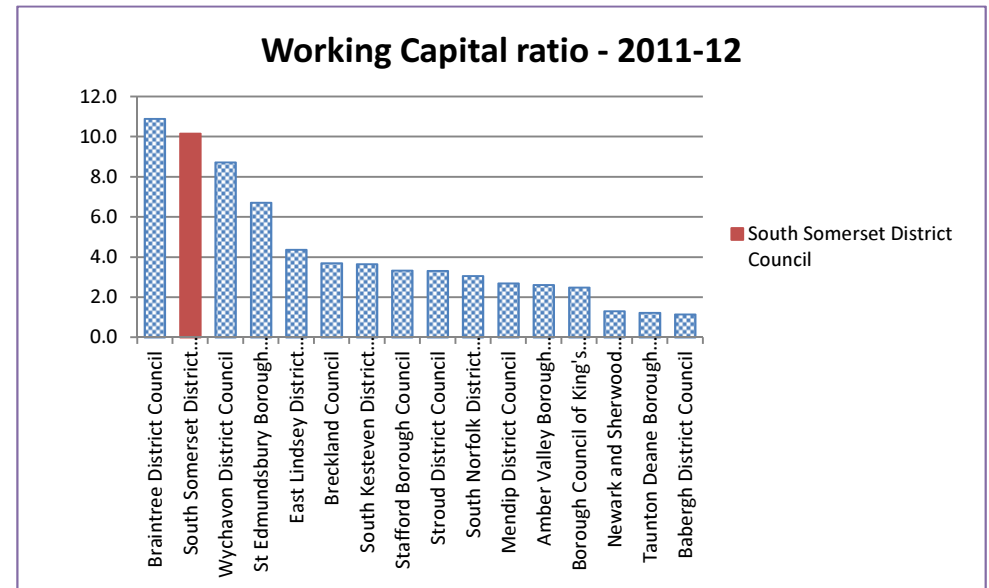
Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	<p>The Council has relatively high levels of usable reserves (53% of gross revenue expenditure), the highest in its comparator group. However, most of this balance £37.8m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.</p> <p>The Council has consistently maintained its general fund balance above the minimum level it has set. This minimum level was increased to £2.865 m in January 2013 in response to the increased risks to financial forecasting from the uncertainty of particular Government funding reductions combined with the general impact of the economic climate.</p>	 Green
Workforce	<p>Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period 2007/08 to 2011/12 but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness.</p>	 Amber

Working capital ratio

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets – may indicate potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.



Findings

South Somerset's working capital ratio has increased from 4.8 in 2008 to 10.5 in 2013. Following the turmoil in financial markets and advice from its treasury management advisors the Council reviewed its investment portfolio.

It had significant long term investments (£15m in 2010) which had generated a higher than average return. As these investments have been realised the Council has invested in the short term investments allowing the Council more flexibility to respond to changes in the market.

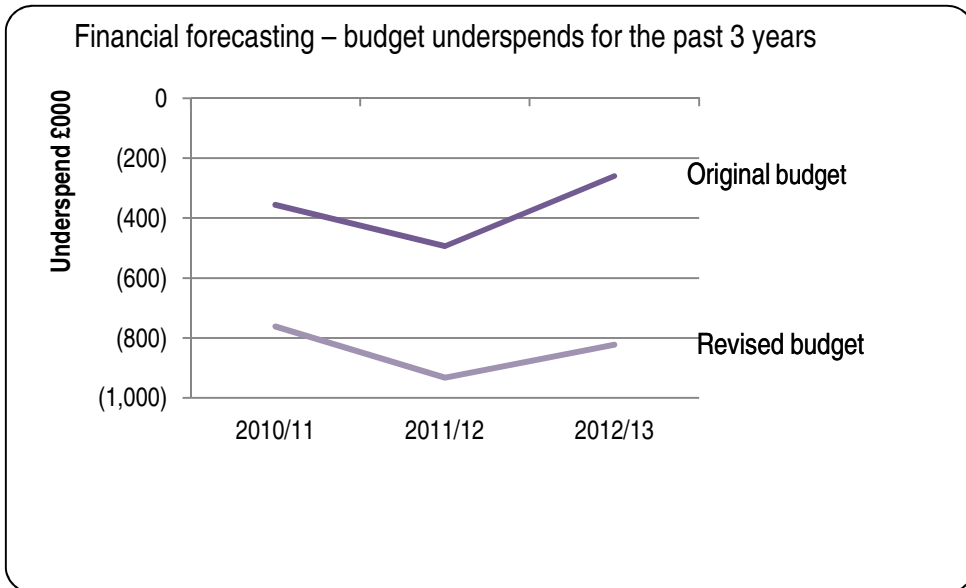
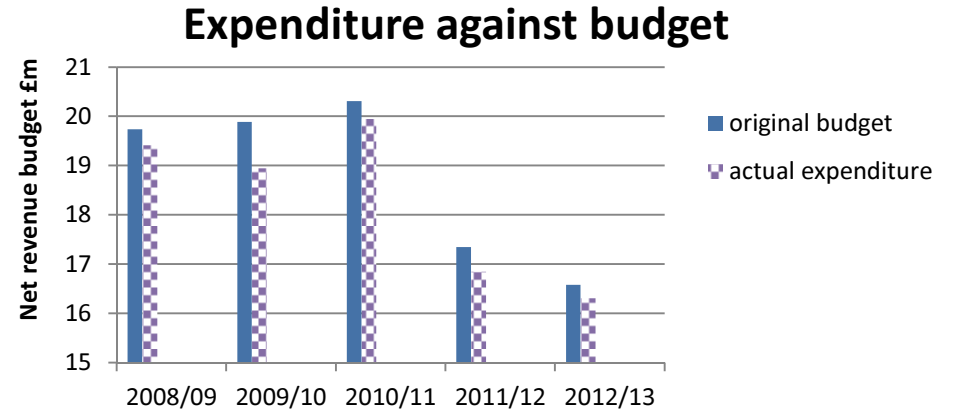
Its long term investments now stand at only £2,000.

Performance against budget

The Council has a trend of underspending against its original budgets over the last five years which has helped it maintain a strong financial position. As well as updating financial forecasts throughout the year, the Council produces revised budgets at the same time as preparing the following year's budget. The Medium Term Financial Plan (MTFP) is revised every January.

The Foreword to the Statement of Accounts provides a thorough analysis of variances for 'above the line' revenue budgets. The efficiency savings from "LEAN" reviews have contributed to the Council's ability to reduce expenditure to meet the reduction in Government financial support.

The most significant areas of underspend are Revenues and Benefits (£197,000) and Waste and Recycling (£142,000).



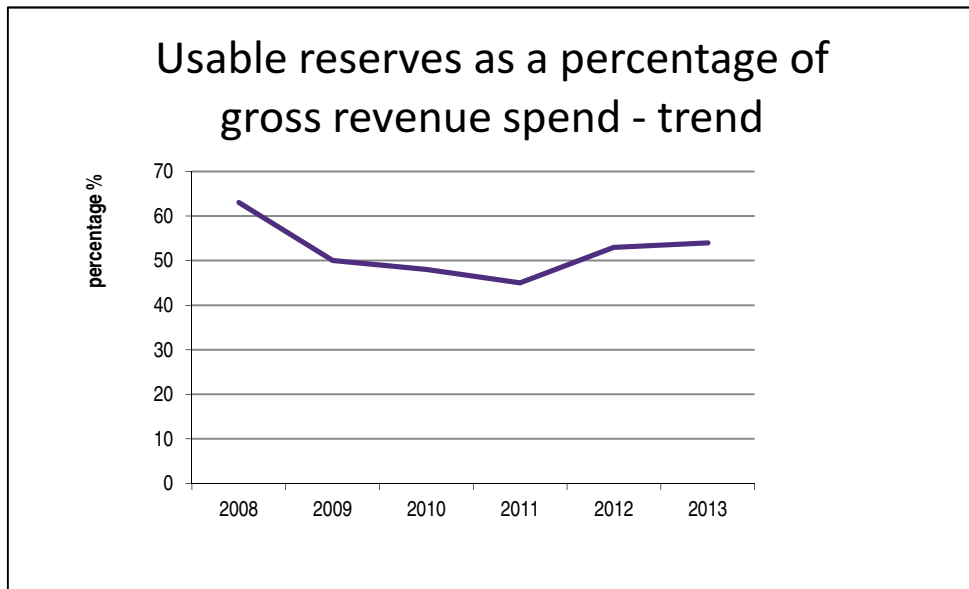
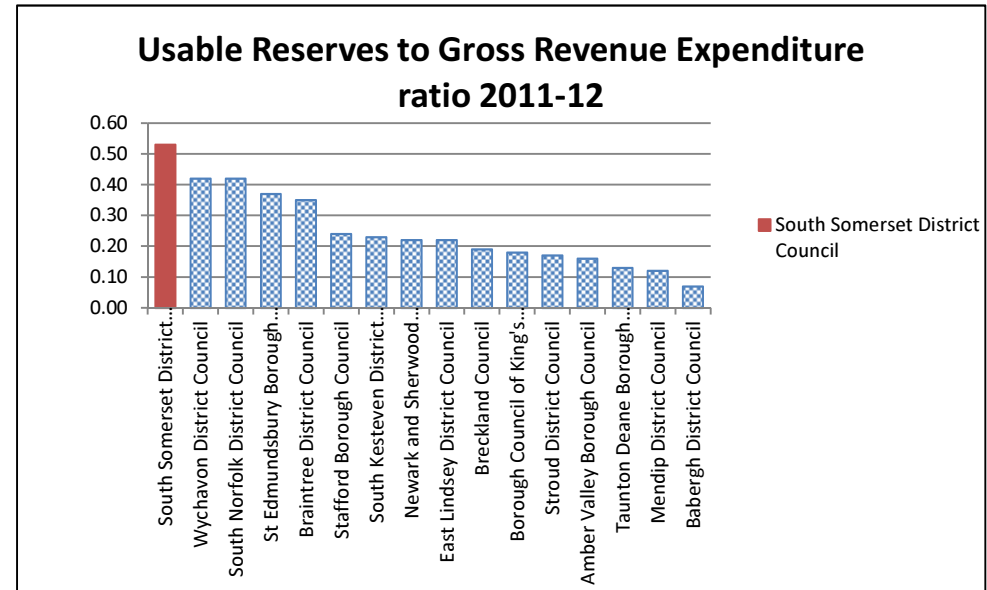
The Council has achieved significant underspends against its original and revised budgets in each of the past five years. In the past three years, the underspend against the revised budget has been greater than that recorded against the original budget. This shows that the original budget has been a more accurate forecast of the final outturn than the revised budget.

In 2012/13 there was a significant underspend of £5m on the capital budget of £8m. In 2011/12 the capital underspend was £2m.

Reserves

South Somerset's usable general reserves at 31 March 2013 amounted to £48.8 m and as a proportion of gross revenue expenditure (53.9%).

The Council has relatively high levels of usable reserves. However, most of this balance £37.8m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.



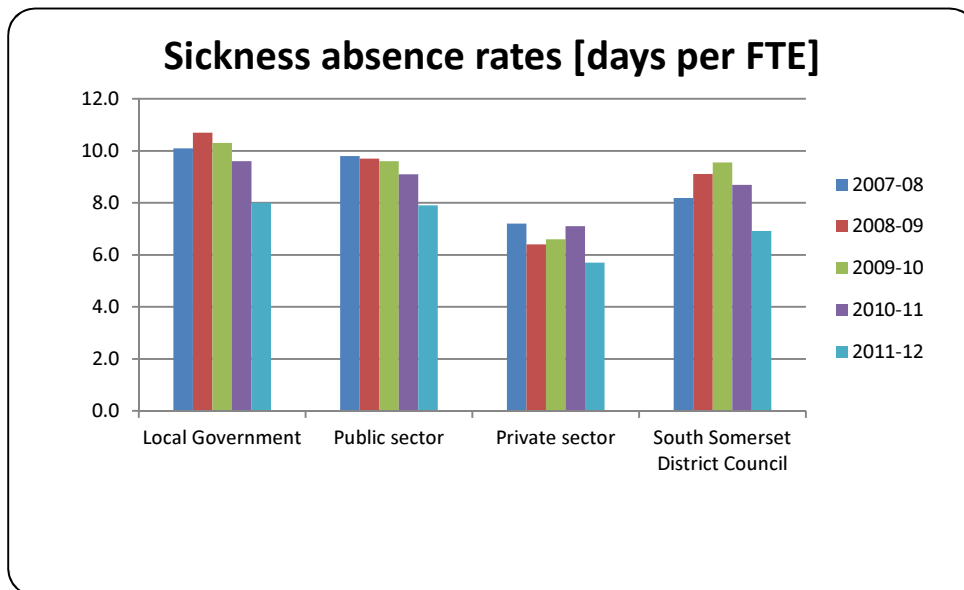
There has been relatively little change in reserve levels today compared to 2007/08.

In January 2013 the Council increased the minimum level of general revenue balances from £2.2million to £2.865 million due to the uncertainty of particular Government funding reductions combined with the general impact of the economic climate. The Council undertakes a risk based calculation quarterly to ensure the level is still appropriate.

Sickness absence levels

The average sickness absence level for the public sector in 2011/12 was 7.9 days per FTE, whilst the private sector average was 5.7 days. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities, given the context of significant pressures on staff to deliver "more for less".



Findings

South Somerset's sickness absence levels have fluctuated over the past five years but they have been consistently below the local government and public sector average between 2007/08 and 2011/12. South Somerset's lowest sickness absence was in 2011/12 at 6.49 days. However, in 2012/13 there was a significant increase to an average of 11.49 days. There was not much of a change for short term sickness but long term sickness days lost more than doubled and accounted for the overall increase.

Sickness absence levels have an appropriate profile in quarterly performance reporting to members.

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Strategic Financial Planning




Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.



Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	<p>The Council's medium term financial plan (MTFP) outlines how the budget will be delivered over the medium to long term. The MTFP at South Somerset spans three years plus a further two years added to show the likely longer term picture – a total of five years. It is updated each January to inform budget setting for the following year.</p> <p>In formulating the MTFP, the Council has focussed on both the key areas of risk and uncertainty, particularly in the areas of national non domestic rate and welfare reform and the continuing pressure and uncertainty in government funding.</p>	 Green
Adequacy of planning assumptions	<p>The MTFP includes key assumptions covering , government funding and legislative changes, income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need , assessment of strategic priorities and effectiveness of current priorities and savings plans.</p> <p>The most recent MTFP (January 2013) assumed a reduction of 6.82% in formula grant. In July the Government announced the formula grant for 2015/16 which saw a larger than expected reduction for local government including South Somerset. Management is confident that there is sufficient flexibility in the sources of income, such as the use of new homes bonus to allow the Council to respond to these further reductions in formula grant.</p>	 Green
Scope of the MTFP and links to annual planning	<p>The Strategy to deliver the MTFP links the resources required to deliver the Corporate Plan and the Council's strategies.</p> <p>There are assumptions in the MTFP that the new capital strategy will release capital receipts from 2013/14 to fund capital schemes. The Council's ICT strategy covered the potential savings of the public communicating with the Council on line. The savings are appended to the medium term financial plan and are linked with initiatives to look at alternative management arrangements of the Council's assets.</p>	 Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	<p>The MTFP is kept under review in the light of changing events and it is updated each January before budget setting. There is also a revision in October following any Government announcement in funding arrangements. Revisions are presented to the District Executive. Members of the Scrutiny Committee have also been involved in reviewing savings plans to feed into the MTFP. There is ample opportunity for councillors to influence the financial planning at South Somerset.</p> <p>The plan takes into account changes in legislation, and announcements on Government funding, delivery of savings and LEAN reviews. Savings plans which form part of the MTFP are monitored and those above £25,000 are reported separately as part of the budget monitoring process.</p> <p>The Plan sets out the level of scrutiny of the proposed budgets and savings:</p> <ul style="list-style-type: none">• The finance team• Management Board• Portfolio Holders• A Scrutiny Task and Finish Group• Scrutiny Committee	 Green
Responsiveness of the Plan	<p>The Council has employed realistic scenario planning in its Plan in terms of inflation and assumptions on the continuing reductions in formula grant and receipt of new homes bonus based on estimates for housing growth.</p> <p>In terms of new homes bonus, the Council has decided to use to support its revenue expenditure but in a phased way which allows one year of bonus to be held in reserve at any one time, should new homes bonus not materialise as planned. Currently there is a balance at 31 March 2013 of £1.3 million.</p> <p>The Plan sets out risks to be managed by named individual officers and the sensitivity of assumptions:</p> <ul style="list-style-type: none">• Impact of the use of principal on investment income• Business rate retention – maximum risk of £271,000• Council tax reduction scheme• Housing benefit subsidy• Planning, building control and car park income• Pay inflation. An increase of 1% equates to £142,000. <p>The Council has been actively reviewing alternative ways of delivering services using voluntary and community groups as well as parish councils to reduce costs, such as the management of the Community Resource Centre. South Somerset has also reviewed the operation of its area offices and generated savings to support expenditure on services.</p>	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement



- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).




Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	<p>The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of council tax benefits and the pooling of business rates.</p> <p>Portfolio holders present savings plans to other members. They answer questions from other members including Scrutiny about the impact of savings on services. Officers provide the support to allow Portfolio holders to take on this role with confidence.</p> <p>The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council.</p> <p>The Council's commitment to communicating financial issues is demonstrated through the Chief Executive's presentations to staff and the financial training provided to members, including the Audit Committee.</p> <p>Financial instructions & standing orders cover financial management responsibilities.</p>	 Green
Executive and Member Engagement	<p>There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders. The Council consults with external groups affected by proposals.</p> <p>The Assistant Director (Finance and Corporate Services) – Section 151 officer - is a member of the Corporate Management Team and attends District Executive, where she provides the financial expertise to support the decision making process. The S151 officer organises workshops with managers to discuss the financial challenges and identify savings so that staff are fully engaged in the process to find savings.</p> <p>The Audit Committee provides effective challenge on financial matters and the Scrutiny Committee is involved in the review of the savings plans and budgets before being approved by Council. For the 2013/14 budget setting process there was a Scrutiny task and finish group to look at the proposed budgets.</p> <p>Members receive training in finance as part of the induction process with additional training available if required. Members and officers are sufficiently financially aware and aware of the key risks facing the Council.</p>	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	<p>The Financial Procedure Rules set out that all budgets agreed by the Council are delegated for management purposes to a named employee of the Council. That budget holder is responsible for monitoring and controlling expenditure against budget allocations and report to the District Executive quarterly in conjunction with the Assistant Director (Finance & Corporate Services) on variances and the action being taken to address them.</p> <p>Budget monitoring is the responsibility of each Strategic Director or Assistant Director. Where there is likely to be a significant variation between the budget and actual expenditure the Assistant Director Finance & Corporate Services is notified as soon as possible including an action plan to rectify the situation where appropriate. (Financial Procedure Rules).</p> <p>Budget monitoring reports are considered monthly by the Management Board and quarterly by the District Executive.</p>	 Green
Budget reporting: revenue and capital	<p>There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved).</p> <p>The quarterly budget updates to District Executive set out movements in reserves and the estimated general fund balance and there are updates against the risks identified in the budget setting report.</p> <p>There are quarterly reports to the District Executive on capital budgets with explanations of slippage or overspends. Expenditure is re-profiled into future years (up to five years in advance). There is also reporting of additional income through successful bids.</p>	 Green
Adequacy of other Committee/Cabinet Reporting	<p>The Council has significant investments ranging between £40m and £50m over the year and there is regular reporting of treasury management activity and returns on investments to the Audit Committee, which actively engages in the consideration of risks and rewards. There are quarterly performance reports to District Executive, covering collection rates for council tax and non domestic rates.</p> <p>There is reporting of the risk register and risk management arrangements to the Audit Committee, which can view the mitigating actions taken by the Council. The current risk register considers treasury management and potential risks to counterparties and to interest rates and the impact on the revenue income.</p>	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department




- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.




Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<p>The 2012-13 revenue and capital budgets were approved in February 2012 at a meeting of the full Council. This followed a detailed process of challenge and review using the medium term financial plan (MTFP) as a foundation document for the budget setting process through District Executive and Scrutiny.</p> <p>There are quarterly monitoring reports to the District Executive including a summary for each service (with more detail as an appendix).</p> <p>A revised budget is prepared to inform the budget setting of the following year. The revised budget for 2012/13 was reported to the District Executive in February 2013 and showed a potential overspend of £166,000 which was turned around to give an underspend of £822,000 by the end of the year.</p> <p>Treasury Management reports are taken to the Audit Committee and the mid-year performance is reported to full council when it is considering the approval of the Treasury Management Strategy for the forthcoming year.</p>	 Green
Performance against Savings Plans	<p>In setting its budget for 2012/13 the Council identified a total of £1.5 million of savings – analysed into £0.96m of efficiency savings, £0.47m of increased income and £0.083 million of other savings.</p> <p>In February 2013 the report to the District Executive showed progress against major savings of £0.85m, all savings were on target to be achieved except for £180,000 of car park income.</p> <p>In June 2013 the Council reported final outturns and that of the original £1.5 million planned savings, £1.3million had been delivered. The shortfall of £0.2million related to less than anticipated car park income of £193,000 and a shortfall of £28,000 on the Streetscene post.</p> <p>The Council's savings targets are challenging but achievable. The underspend on budgets showed that the Council was able to have sufficient savings to offset any slippage.</p> <p>The 2012/13 budget did not include a contingency budget but a carry forward of £45,000 was available for the District Executive to meet unplanned expenditure.</p> <p>The Council's arrangements to monitor delivery of savings is robust and there are sufficient reserves to cover any slippage in savings programmes.</p>	 Green
Key Financial Accounting Systems	<p>Internal audit have reviewed the critical financial systems during the year, all these reviews have received reasonable or substantial assurance.</p>	 Green


Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<p>The Council has a reasonably sized finance department commensurate with its size as a large district council and the finance department will be subject to a LEAN review in the next twelve months. This will assess the efficiency of the processes and the resources required to undertake the work. The department has recently taken over more responsibility for debt recovery, following issues with devolved function. The Finance staff are well experienced, with a number of qualified accountants in post.</p>	 Green
Internal audit arrangements	<p>The Council has an effective internal audit function. The internal audit function was an an internal audit consortium, South West Audit Partnership (SWAP) which is now a company limited by guarantee. SWAP provides internal audit services to other Somerset Councils as well as coverage in Wiltshire, Dorset, East Devon and Forest of Dean.</p> <p>The Audit Committee approves the internal audit plan on an annual basis and receives quarterly updates on key findings and progress with the planned reviews.</p> <p>The Assistant Director (Finance and Corporate Services) reports her annual review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2012-13. Recommendations are made and followed up and progress reported to the Audit Committee.</p> <p>In May 2013 the Group Internal Auditor concluded that he was "...able to offer reasonable assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed...."</p>	 Green
External audit arrangements	<p>The 2011/12 Annual Audit letter and Annual Governance Report summarised the work performed by the Council's previous auditors, the Audit Commission. An unqualified audit opinion and value for money (vfm) conclusion were issued. The reports did not highlight any significant concerns for the Council to address.</p>	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/risk management	<p>In its review dated July 2013 internal audit was only able to offer partial assurance on the Council's risk management system, TEN. It reported that "Although a structure of risk management was in place at the Council, which set out the processes that should be in place, it was noted that these processes were not always functioning effectively in practice, and had in some cases become out of date.</p> <p>Risk Management has not received sufficient corporate visibility to become implanted in services from the top of the management structure, to the officers carrying out day-to-day operations.</p> <ul style="list-style-type: none">• Some system users have forgotten earlier training on where to look for guidance and how to navigate the system;• The Risk Management Policy and Guidance is out of date (refers to Magique system) and has not been reviewed since 2007; and• there is insufficient review of the corporate risk register at senior management and Member level..." <p>Although Internal Audit identified the weaknesses in the risk management system, there is monitoring of corporate risks – the most recent review being to the Audit Committee in August 2013 showing key risks, mitigating actions and residual risks with nominated officers to take responsibility.</p>	 <p>Amber</p>



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Audit Committee – 26 September 2013

9. Grant Certification Work Plan for SSDC

Portfolio Holder Cllr Tim Carroll

Director: Donna Parham, Assistant Director – Finance and Corporate Services

Lead Officer: Donna Parham

Contact Details: donna.parham@southsomerset.gov.uk or (01935) 462225

Purpose of the report

This report introduces the work plan from our external auditors Grant Thornton for grant certification work for the 2012/13 financial year.

Recommendation

The Audit Committee is asked to:

- (2) Note the contents of the Grant Certification Work Plan for 2012/13 grant claims.

Introduction

The Grant Certification Work Plan 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 external auditors certify two key claims/ returns for SSDC. These are:

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

The report from Grant Thornton is attached at Appendix A.

Financial Implications

None as a consequence of this report.

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



Grant certification work plan for South Somerset District Council

Year ended 31 March 2013

September 2013

Simon Garlick

Engagement Lead

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Audit Manager

T 0117 305 7865

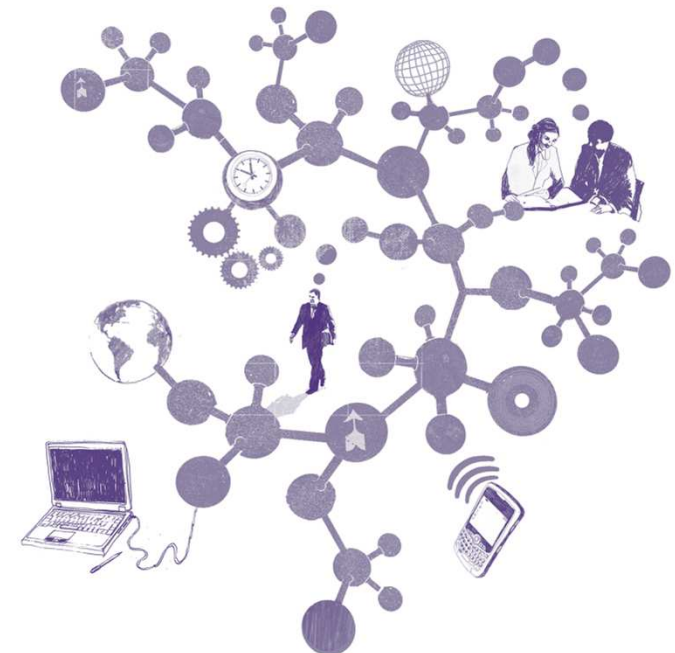
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1. Our approach to grant certification work	3
Appendix A Summary of expected claims and returns for the year ended 31 March 2013	7

Our approach to grant certification work

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2012-13 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data
- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council's role is set out in more detail below:

- the Assistant Director (Finance and Corporate Services) is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Assistant Director (Finance and Corporate Services)
- the Council should monitor arrangements with any third parties involved in the certification process.

Claims history

The most significant claims and returns in 2012/13 are:

- housing and council tax benefit claim
- national non-domestic rates return

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

Certification work fees

The Audit Commission sets an indicative scale fee for grant claim certification based on 2010/11 actual certification fees for each Council. The indicative scale fee for the Council is £16,850. This fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim/return
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

Administration

When each expected claim or return is completed, a copy of the signed claim should be sent to Simon Garlick at the following address:

Grant Thornton UK LLP
Suite 4
Stowey House
Bridport Road
Poundbury
DORCHESTER
Dorset
DT1 3SB

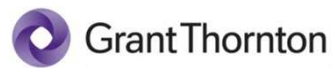
- The **original** claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

Managing the certification process – our role

- We intend to certify all claims and returns in accordance within the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by November 2013 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.

Appendix A: Summary of expected claims & returns for the year ended 31 March 2013

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year	Prior year outcome
Housing and council tax benefits scheme (BEN01)	30/04/13	30/11/13	Yes	The claim was qualified and amended.
National non-domestic rates return (LA01)	28/06/13	27/09/13	Yes	The return was amended.



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Audit Committee – 26 September 2013

10. Treasury Management Performance to June 2013

Chief Executive: Mark Williams
Assistant Director: Donna Parham – Finance and Corporate Services
Service Manager: Amanda Card - Finance
Lead Officer: Stephen Meers, Interim Accountant
Contact Details: stephen.meers@southsomerset.gov.uk or (01935) 462612

Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the three months ended 30th June 2013.

Recommendations

2. The Audit Committee are asked to:
 - Note the Treasury Management Activity for the three-month period ended 30th June 2013;
 - Note the position of the individual prudential indicators for the three-month period ended 30th June 2013.

The Investment Strategy for 2013/14

3. The Treasury Management Strategy for 2013/14 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
4. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
5. Treasury management is defined as: *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
6. With short term interest rates remaining lower for even longer than anticipated, our investment strategy will typically result in the lengthening of investment periods, where cash flow permits, in order to lock into higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.
7. In order to diversify the authority's investment portfolio which is 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

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 it 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.
9. The Authority has evaluated the use of pooled funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.
10. Investments in pooled funds will be undertaken based on advice received from Arlingclose Ltd.
11. 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).

Interest Rates 2013/14

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

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Official Bank Rate												
Upside risk			0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75
Arlingclose Central	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

Investment Portfolio

14. The table below shows the Council's overall investments as at 30th June 2013:

	Value of Investments at 01.04.13 £	Value of Investments at 30.06.13 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
World Bonds	3,028,271	3,015,330	Fixed
Certificates of Deposit	8,501,524	9,502,122	Variable
Money Market Fund(Variable Net Asset Value)		1,000,000	
Property Fund		1,005,000	Fixed
Euro Sterling Bonds	5,985,000	5,985,000	Variable
Total	17,514,795	20,507,452	

Internal Investments

Short Term Deposits (Banks)	12,000,000	14,000,000	Variable
Short Term Deposits (Other LA's)	5,000,000	2,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	4,810,000	10,810,000	Variable
Total	21,810,000	26,810,000	

TOTAL INVESTMENTS

39,324,795	47,317,452
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Note:

Variable Net Asset Value (VNAV) Money Market Funds - where there is greater than 12 month history of a consistent £1 Net Asset Value although there is a risk you may receive less than the £1 you originally invested. This is monitored closely by Arlingclose before they recommend the use of the fund.

Constant Net Asset Value (CNAV) Money Market Funds – where £1 is invested you receive £1 back on withdrawal.

Returns for 2013/14

15. The returns to 30th June 2013 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
World Bonds (Fixed)	8	
Certificate of Deposits (CDs)	12	
Payden Money Market Fund (VNAV)	2	
Euro Sterling Bonds (Variable)	8	
Total	30	0.81
Internal Investments		
Short Term Deposits	22	
Money Market Funds (CNAV) & Business Reserve Accounts	12	
Total	38	0.70
Other Interest		
Miscellaneous Loans	11	
Total	11	
TOTAL INCOME TO 30th June 2013	79	0.75
PROFILED BUDGETED INCOME	78	
FORECAST DEFICIT FOR YEAR END	0	
BENCHMARK RATE OF RETURN		0.45

16. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £313,900. Current estimates are predicting income to be on budget. Treasury Management Reserve balance is £500,000.
17. 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.

Investments

18. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14. New investments can be made with the following institutions:
 - Other Local Authorities;
 - AAA-rated Money Market Funds;
 - Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);
 - T-Bills and DMADF (Debt Management Office);
 - Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
 - Commercial Paper
 - Other Money Market Funds and Collective Investment Schemes meeting the criteria in SI 2004 No 534, SI 2007 No 573 and subsequent amendments.
19. The graph shown in Appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 30th June 2013 in comparison to all other clients of Arlingclose.
20. The graph shows that SSDC is in a satisfactory position in terms of the risk taken against the return on investments.

Borrowing

21. An actual overall borrowing requirement (CFR) of £9.7 million was identified at the beginning of 2013/14. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th June 2013 the Council had no external borrowing.

Breakdown of investments as at 30th June 2013

Date Lent	Counterparty	Amount	Rate	Maturity Date
7-May-13	Bank of Scotland	1,000,000	0.80%	7-Nov-13
20-Mar-13	Barclays Bank Plc	1,000,000	0.88%	20-Mar-14
12-Dec-12	Barclays Bank Plc	1,000,000	0.98%	12-Dec-13
11-Jan-13	Nationwide Building Society	1,000,000	0.76%	17-Oct-13
02-Aug-12	National Australia Bank	1,000,000	0.55%	2-Aug-13
17-Jan-13	Barclays Bank Plc	1,000,000	0.60%	17-Jul-13
16-Apr-13	Nationwide Building Society	1,000,000	0.50%	18-Sep-13
12-Mar-13	Tayside Fire and Rescue	1,000,000	0.48%	12-Sep-13
03-Jun-13	Nationwide Building Society	1,000,000	0.70%	3-Jun-14
07-Jan-13	Bank of Scotland	1,000,000	1.60%	8-Jul-13
15-Apr-13	Bank of Scotland	1,000,000	0.8%	15-Oct-13
12-Oct-12	Canadian Imperial Bank of Commerce	1,000,000	0.50%	11-Oct-13
13-Jun-13	Credit Agricole Corporate and Investment Bank	1,000,000	0.52%	13-Sep-13
07-Nov-12	Barclays Bank Plc	1,000,000	1.05%	7-Nov-13
12-Nov-12	Nationwide Building Society	1,000,000	0.80%	12-Aug-13
28-Nov-12	Birmingham City Council	1,000,000	0.50%	30-Sep-13
	Santander Plc Business Reserve	5,300,000	0.60%	
	Royal Bank of Scotland Business Reserve	5,500,000	0.73%	
	Payden Money Market Fund*	1,000,000	1.34%	
	International Bank for Reconstruction and Development (the World Bank)	2,009,399	0.84%	10-Dec-13
	International Bank for Reconstruction and Development (the World Bank)	1,005,931	0.71%	10-Dec-13
	Eurobond Floating Rate Note	5,985,000	SONIA+ 0.35%	18-Mar-14
	Certificate of Deposit	1,500,335	0.83%	14-Oct-13
	Certificate of Deposit	3,000,891	0.97%	2-Aug-13
	Certificate of Deposit	1,000,150	0.50%	4-Oct-13
	Certificate of Deposit	1,000,297	0.47%	5-Jun-14
	Certificate of Deposit	2,000,151	0.49%	15-Aug-13
	Certificate of Deposit	1,000,297	0.60%	4-Jun-14
	CCLA Property Fund	1,005,000		
		47,317,452		

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

Prudential Indicators – Quarter 1 monitoring**Background:**

22. In March 2013, Full Council approved the indicators for 2013/14, 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:

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

	2013/14 Original Estimate £'000	Expected Outturn £'000	2013/14 Variance £'000	Reason for Variance
Approved capital schemes	2,140	4,532	2,392	Slippage from previous years makes up the majority of the variance as well as new allocations in year and transfers into the main programme from the reserve schemes
Reserves	1,062	3,537	2,475	The variance is due to slippage from last financial year into this financial year and new allocation of monies
Total Expenditure	3,202	8,069	4,867	

24. The above table shows that the overall estimate for capital expenditure has increased.

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

25. 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	2013/14 Original Estimate £'000	Expected Outturn £'000	2013/14 Variance £'000	Reason for Variance
Financing Costs*	(193)	(193)	0	
Net Revenue Stream	17,955	18,281	326	Carry forwards of £339k and £25k funding for Empty Homes Officer less £24k Save to Earn Transfer re Public Conveniences and £14k from VR in Democratic Services
%*	(1.1)	(1.1)	0	

*figures in brackets denote income through receipts and reserves

26. 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:

27. 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:

	2013/14 Original Estimate £'000	Expected Outturn £'000	2013/14 Variance £'000	Reason for Variance
Opening CFR	9,666	9,666	0	
Capital Expenditure	3,202	7,481	4,279	See explanations for indicator 1 above
Capital Receipts*	(1,744)	(4,018)	(2,274)	Slippage of schemes approved in previous years
Grants/Contributions*	(1,458)	(3,463)	(2,005)	Re-profiling of income expected in future years
Minimum Revenue Position (MRP)	(121)	(121)	0	
Additional Finance Leases	0	0	0	
Closing CFR	9,545	9,545	0	

*Figures in brackets denote income through receipts or reserves.

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

28. 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.

	2013/14 Original Estimate £'000	2013/14 Qtr 1 Actual £'000	2013/14 Variance £'000	Reason for Variance
Net Borrowing	(38,910)	(49,117)	(10,207)	The estimate is a prediction of the year end balance whilst quarter 1 is always higher as we are 3 months into the 10 month council tax collection cycle
CFR	9,545	9,545	0	

29. 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:

30. 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.

	2013/14 % Limit	2013/14 Qtr 1 Actual %	2013/14 Variance %	Reason for Variance
Fixed	80	8.9	(71.1)	Within limit
Variable	100	91.1	(8.9)	Within limit

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

	2013/14 % Limit	2013/14 Qtr 1 Actual %	2013/14 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

32. 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:

33. 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	2013/14 Maximum Limit £'000	2013/14 Qtr 1 Actual £'000	2013/14 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	0	0	Within limit
Between 2-3 years	20,000	0	0	Within limit
Between 3-4 years	10,000	0	0	Within limit
Between 4-5 years	10,000	0	0	Within limit
Over 5 years	5,000	0	0	Within limit

34. 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 – Credit Risk:

35. 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 8 - Actual External Debt:

36. 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 31/03/2013	£'000
Borrowing	0
Other Long-term Liabilities (Finance Leases)	267
Total	267

Prudential Indicator 9 - Authorised Limit for External Debt:

37. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy. Borrowing will arise as a consequence of all the financial transactions of the Council not just arising from capital spending.
38. 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 to allow flexibility to support new capital projects over and above the identified borrowing requirement.

	2013/14 Estimate £'000	2013/14 Qtr 1 Actual £'000	2013/14 Variance £'000	Reason for Variance
Borrowing	11,000	0	(11,000)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	1,000	267	(733)	Within limit
Total	12,000	267	(11,733)	

Prudential Indicator 10 – Operational Boundary for External Debt:

39. 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 was set.

	2013/14 Estimate £'000	2013/14 Qtr 1 Actual £'000	2013/14 Variance £'000	Reason for Variance
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	267	(533)	Within limit
Total	10,000	267	(9,733)	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

40. This indicator is relevant to highlight 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 changes in any one period. When we borrow 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 Actual	2012/13 Actual	2013/14 Qtr 1 Actual	Lower Limit	Upper Limit
	%	%	%	%	%
Under 12 months	0	0	0	0	100
12 months and within 24 months	0	0	0	0	100
24 months and within 5 years	0	0	0	0	100
5 years and within 10 years	0	0	0	0	100
10 years and within 20 years	0	0	0	0	100
20 years and within 30 years	0	0	0	0	100
30 years and within 40 years	0	0	0	0	100
40 years and within 50 years	0	0	0	0	100
50 years and above	0	0	0	0	100

As the council doesn't have any fixed rate external borrowing at present the above upper and lower limits have been set to allow flexibility.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

41. 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	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£	£	£	£
Decrease in Band D Council Tax	0.34	0.47	0.67	0.67

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

42. 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.

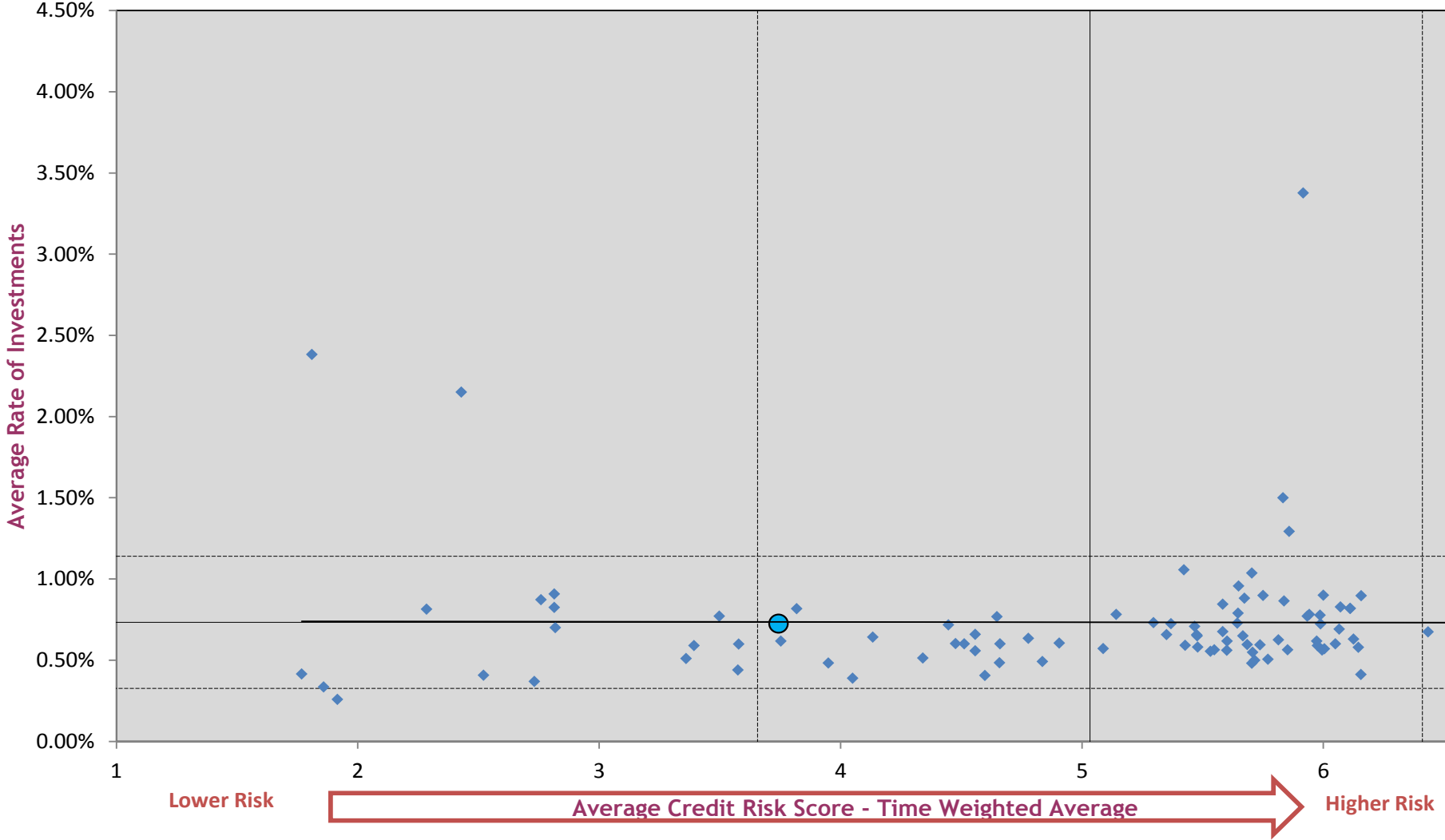
Conclusion

43. 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*

Appendix A

Arlingclose Client Benchmarking



Audit Committee – 26 September 2013

11. Treasury Management Practices

Head of Service: Donna Parham, Assistant Director Finance and Corporate Services
Lead Officer: Amanda Card, Finance Manager
Contact Details: amanda.card@southsomerset.gov.uk or 01935 462542

Purpose of the Report

To request members of the Audit Committee approve the attached Treasury Management Practices (TMPs).

Recommendations

1. That members approve the attached Treasury Management Policy (Appendix 1);
2. That members approve the attached Treasury Management Practices (Appendix 2).

Background

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council had adopted the original Code and has similarly adopted the revised 2011 Code in March 2013. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities;
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices comprise:

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

This differs significantly from the Treasury Management Practices that were approved last year. The schedules supporting these practices are now at a higher level giving an overview of the processes to be followed. The detail specifying the systems and routines

to be employed and the records to be maintained in fulfilling the Council's treasury functions and any other documents supporting the processes are now held at an operational level within an operations manual.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

Background Papers: *Cipfa Treasury Management Code of Practice*
Treasury Management Strategy Statement
Treasury Management Operations Manual

Appendix 1**TREASURY MANAGEMENT POLICY STATEMENT****1. Introduction and background**

- 1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Assistant Director, Finance and Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Policies and objectives of treasury management activities

- 2.1 The Council defines its treasury management activities as:

“The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

- 2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- 2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Treasury Management Practices

Principles and Schedules

September 2013



South Somerset District Council

Introduction

The CIPFA Code of Practice on Treasury Management in the public services (the Code) was last revised in November 2011. The Code requires for the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. South Somerset District Council has adopted the original Code and has similarly adopted the revised 2011 Code in March 2013. The Code recommends the creation and maintenance of:

A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,

Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

- TMP 1: Risk management
- TMP 2: Performance management
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

TMP 1: Risk management

All treasury management activities involve both risk and the pursuit of reward or gain for the council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The responsible officer will design, implement and monitor all arrangement for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6: Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

1. **Credit and counterparty risk management: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.**

Principle: The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4: Approved instruments, methods and techniques, are listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Schedule:

Criteria to be used for creating/managing approved counterparty lists/limits

- The Assistant Director – Finance and Corporate Services is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria
- The criteria will be agreed by Audit Committee/Full Council
- The current criteria is contained within the operations manual
- The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties

Approved methodology for changing limits and adding/removing counterparties

- The Assistant Director – Finance and Corporate Services has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above

Appendix 2

Counterparty list and limits

- A full individual listing of counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the operations manual

Country, sector and group listings of counterparties and overall limits applied to each where appropriate

- Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above in terms of monetary value/percentage of overall portfolio, where appropriate

Details of credit rating agencies' services and their application

- The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions

Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment

- The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information of share price. In addition the Corporate Director – Finance and Corporate Services reads quality financial press for information on counterparties
2. **Liquidity Risk Management: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objective will be thereby compromised.**

Principle: The Assistant Director – Finance & Corporate Services will ensure the Council has adequate (though not excessive) cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme.

Schedule:

Cash flow and cash balances

- The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 6 month cash flow forecast.
- The treasury team will seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.
- In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's bank account

Appendix 2

Short term investments

- The Council uses various Reserve Accounts and Money Market Funds to manage its liquidity requirements. These accounts/funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.

Temporary Borrowing

- Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.
- At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.

Bank overdraft and standby facilities

- The Council has an authorised overdraft limit with its bankers Natwest of £2,500,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive, or for amounts of less than £500,000.
3. **Interest Rate Risk Management: Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.**

Principle: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

Schedule:

Minimum/maximum proportions of fixed/variable rate debt/interest

- Borrowing/investments may be at a fixed or variable rate
- The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.
- In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effect of potentially disadvantageous changes.
- The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.

Managing changes to interest rate levels

Appendix 2

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.
- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- For its investments, the Council also considers dealing from forward periods dependent upon market conditions

Details of approved interest rate exposure limits

- As per the Council's prudential indicators, the upper limit for variable interest rate investment as a proportion of total investments is 100%. In terms of long term borrowing, the Council can have no more than 80% in variable interest rate borrowings

Details of hedging tools used to manage risk

- The Authority's legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives to manage interest rate risk.
 - Should this position change, the Authority will develop a detailed risk management framework governing the use of derivatives, but this will also require full Council approval.
4. **Exchange Rate Risk Management: The risk that the fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.**

Principle: The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuation in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

Exchange rate risk management

- This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.
 - If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.
 - At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has determined that all its investments will be in sterling.
5. **Refinancing Risk Management: The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and**

current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule:

Projected capital investment requirements

- 3 year projections are in place for capital expenditure and its financing of funding. Financing will be from capital receipts, reserves and any grants or contributions awarded. Funding will be from internal or external borrowing, as decided.
- As required by the Prudential Code, the Council will undertake options appraisal to evaluate the best capital expenditure financing route.
- The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

Debt profiling, policies and practices

- Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.
- The Council will maintain through its treasury and capital systems reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancings.
- Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

Policy concerning limits on revenue consequences of capital financings

- The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.
6. **Legal and Regulatory Risk Management: The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.**

Principle: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 (1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers. Authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule:

References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
 - CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
 - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
 - CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
 - CIPFA Standard of Professional Practice on Treasury Management
 - The Local Government Act 2003
 - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
 - The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
 - The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
 - The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
 - LAAP Bulletins
 - Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
 - Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
 - The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
 - Council's Constitution including:-
 - Standing Order relating to Contracts
 - Financial Regulations
 - Scheme of Delegation

Procedures for evidencing the organisation's powers/authorities to counterparties

- The Council's Financial Procedure Rules contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee.
- The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.
- Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

Required information from counterparties concerning their powers/ authorities

- Lending shall only be made to institutions on the Council's authorised lending list.
- The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial

banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

Statement on political risks and management of the same

- Political risk is managed by:
 - adoption of the CIPFA Treasury Management Code of Practice
 - adherence to Corporate Governance (TMP 12 – Corporate Governance)
 - adherence to the Statement of Professional Practice by the Assistant Director Finance & Corporate Services
 - the roles of the Audit Committee

7. **Fraud, Error and Corruption, and Contingency Management: This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.**

Principle: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Schedule:

Details of systems and procedures to be followed, including Internet services

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.
1. Electronic Banking and Dealing
 - a) The Council's online banking service provided by Natwest is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data
 - b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password
 - Assistant Director – Finance & Corporate Services
 - Finance Manager
 - Principal Accountant – Exchequer
 - Management Accountant
 - Benefits and Control Officer
 - Insurance and Accounting Technician
 - c) Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented and included within the operations manual.
 2. Standard Settlement Instructions
 - a) a list is maintained of named officers who have the authority to transact loans and investments
 - b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list

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3. Payment authorisation

- a) payments can only be authorised by an agreed signatory(ies) of the council, the list of signatories having previously been agreed with the Council's bank
- b) inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts

Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.
- Transactions will be cross checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.

Substantiation

- The Treasury Management spreadsheets are reconciled with financial ledger codes at the end of each month and at the financial year end.
- Working papers are retained for audit inspection.
- The bank reconciliation is carried out monthly from the bank statement to the financial system.

Internal Audit

- Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

Contingency Management

- All treasury spreadsheets are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT department to restore files, if necessary.
- If the electronic banking system fails the Council have to contact the bank via telephone who will provide balances for the day. If any CHAPS payments are to be made manual forms are completed and faxed to the bank before 12 noon so it can be processed on the Council's behalf.

Insurance Cover details

- The Council has Fidelity guarantee insurance cover. Details of the provider and cover are held by the Insurance and Accounting Technician.
8. **Market Risk Management: This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.**

Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule:

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)

- Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these, risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.
- Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk :
 - (a) Maximum weighted average duration of the fund;
 - (b) Maximum permitted exposure to gilts/bonds;
 - (c) Maximum maturity of any instrument.

Accounting for unrealised gains/losses

- The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice
- VNAV pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.

TMP 2: Performance Measurement

Principle: The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule:

Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided by :
 - Challenging
 - Comparing performance
 - Consulting with other users and interested parties
 - Applying competition principlesin order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

Policy concerning methods for performance measurement

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- Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.
- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to
 - 1) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and
 - 2) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.
- In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

Methodology to be applied for evaluating the impact of treasury management decisions

- Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to Audit Committee on a quarterly basis.
- The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.
- The Council's Treasury Management advisors compare the performance of the Council's in-house funds against all its other clients and submits the results quarterly.

Benchmarks and calculation methodology with regard to risk and return

- Investment returns are compared to the 7-day LIBID benchmark. For Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.

Best Value

- The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.
- When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations.

TMP 3: Decision Making and Analysis

Principle: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to

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be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule:

Major treasury decisions

- As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:
 - a) Changes to Prudential Indicator(s) during the course of the financial year
 - b) Options Appraisal to determine a funding decision
 - c) raising a new long-term loan / long-term source of finance
 - d) prematurely restructuring/redeeming an existing long-term loan(s)
 - d) investing longer-term (i.e. in excess of 1 year)
 - f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a corporate body)
 - g) leasing
 - h) change in banking arrangements
 - i) appointing/replacing a treasury advisor
 - j) appointing/replacing a fund manager

Process

- The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.
- Based on the Annual Treasury Management Strategy, the Principal Accountant - Exchequer will prepare monthly for the ensuing 24 months rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:
 - applying the strategy on a day to day basis
 - monitoring the results of the strategy
 - recommending amendments to the strategy to the Audit Committee where applicable during the course of the year.

Delegated powers for treasury management

- The Assistant Director – Finance & Corporate Services has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

Issues to be addressed, evaluation, authorisation

- In exercising these powers, the Assistant Director – Finance & Corporate Services and those to whom the treasury activity have been delegated will
 - have regard to the nature and extent of any associated risks to which the Council may become exposed;
 - be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
 - be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
 - ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits;

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- be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive;
- follow best practice in implementing the treasury transaction.
- In exercising Borrowing and Funding decisions, the responsible person will:
 - evaluate economic and market factors that may influence the manner and timing of any decision to fund;
 - consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
 - consider ongoing revenue liabilities created.
- In exercising Investment decisions, the responsible person will:
 - Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
 - consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
 - consider the alternative investment products and techniques available if appropriate.

Processes to be followed

- The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.

Evidence and records to be kept

- The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for a historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.
- Records and working papers will be maintained by the Council electronically, and in relevant files.

TMP 4: Approved Instruments, Methods and Techniques

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk Management.

Schedule:

Approved treasury management activities

- The Council is permitted to undertake the following activities:
 - Managing cashflow
 - Capital financing
 - Borrowing including debt restructuring and debt repayment
 - Lending including redemption of investments
 - Banking
 - Leasing

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- Managing the underlying risk associated with the Council's capital financing and surplus funds activities.
- The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

Approved capital financing methods and types/sources of funding

- On balance sheet
 - Public Works Loans Board (PWLB) loans
 - long term money market loans including LOBOs
 - temporary money market loans (up to 364 days).
 - bank overdraft
 - loans from bodies such as the European Investment Bank (EIB)
 - Stock issues
 - Finance Leases
 - Deferred Purchase
 - Government and EU Capital Grants
 - Lottery monies
 - Other Capital Grants and Contributions
 - PFI/PPP
- Internal Resources
 - Capital Receipts
 - Revenue Balances
 - Use of Reserves
- Off balance sheet
 - Operating Leases
 - Structured Finance
- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved investment instruments

- The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).
- The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.
 - Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
 - Term deposits with banks and building societies

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- Certificates of deposit
 - Callable deposits
 - Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
 - 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
 - Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534
 - Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534
 - Bonds and debt instruments issued by corporate bodies e.g.
 - Corporate bonds
 - Commercial Paper
 - Floating Rate Notes
 - Asset Backed Securities
- 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 manager

Use of Derivatives

- The Council intends to use derivative instruments for the management of risks, limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.
- 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 Authority does not intend to use derivatives. Should this position change, the Authority 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.

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

Principle: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the responsible officer in respect of treasury management are set out in the schedule below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule:

- Limits to responsibilities at Executive levels

Council

- Budget consideration and approval.
- Approval of amendments to the Treasury Management Strategy, the organisation's adopted clauses and treasury management policy statement
- Approval of annual report on Treasury Management

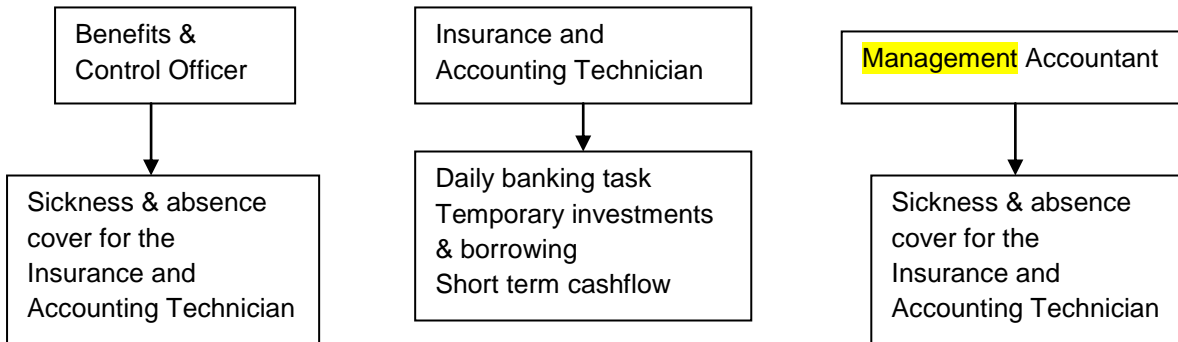
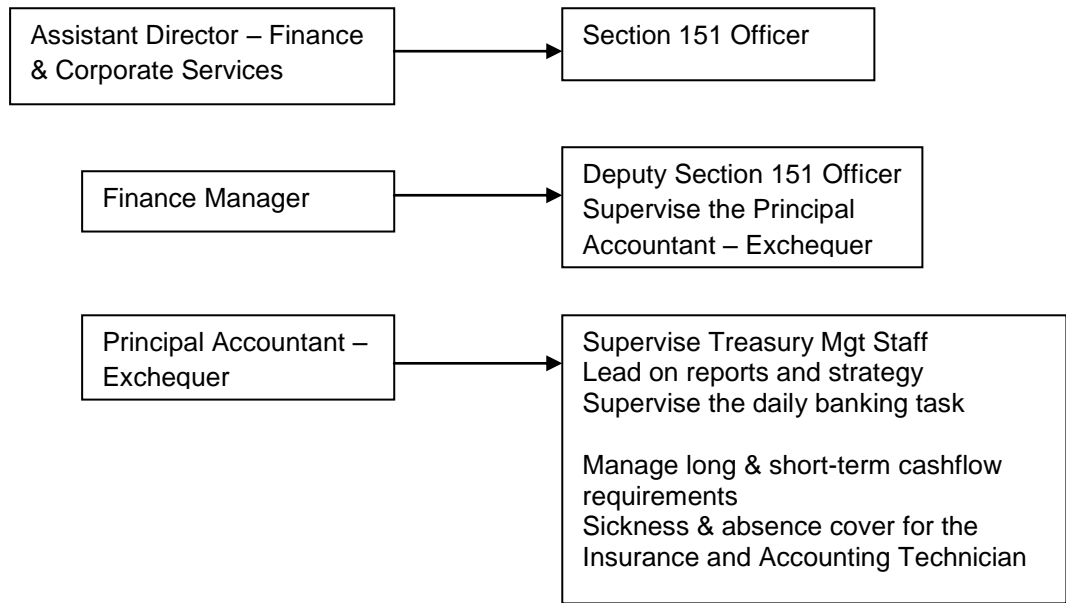
Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities
- Receiving and reviewing Prudential Indicators as part of the budget setting process
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the Treasury Management Practices
- Approving the selection of external service providers and agreeing terms of appointment
- Overview of Treasury Management function

- Principles and practices concerning segregation of duties

- Officers involved in the daily banking task are not to undertake bank reconciliation duties.
- Authorised signatories signing CHAPS forms are not to authorise that payment on the Bankline system.

- Statement of duties/responsibilities of each treasury post



Statement of duties/responsibilities of each treasury post

Assistant Director – Finance & Corporate Services

1. The Assistant Director – Finance and Corporate Services will:
 - a) Recommend clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
 - b) Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy
 - c) Submit regular treasury management policy reports
 - d) Submit budgets and budget variations
 - e) Receive and review management information reports
 - f) Review the performance of the treasury management function and promote best value reviews
 - g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - h) Ensure the adequacy of internal audit, and liaising with external audit
 - i) Recommend the appointment of external service providers.
- 2 The Assistant Director – Finance & Corporate Services has delegated powers in consultation with the Assistant Director – Legal & Corporate Services through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.
- 3 The Assistant Director – Finance & Corporate Services may delegate her power to borrow and invest to members of her staff. The Finance Manager, Principal Accountant – Exchequer, Corporate Accountant, Insurance and Accounting Technician or Benefits & Control Officer must conduct all dealing transactions, or staff authorised by the Assistant Director – Finance & Corporate Services to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- 4 The Assistant Director – Finance & Corporate Services and the Assistant Director – Legal & Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Assistant Director – Finance & Corporate Services to be satisfied, by reference to the Monitoring Officer (Assistant Director – Legal & Corporate Services), the Organisation's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Organisation's Financial Regulations
- 6 It is also the responsibility of the Assistant Director – Finance & Corporate Services to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Principal Accountant – Exchequer

The responsibilities of this post will be:-

- a) Adherence to agreed policies and practices on a day-to-day basis
- b) Supervising treasury management staff
- c) Monitoring performance on a day-to-day basis
- d) Monitoring responsibility of the Treasury Management Budget
- e) Managing long and short term cashflow

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- f) Overseeing and authorising execution of transactions
- g) Submitting management information reports to the responsible officer

Chief Executive Officer

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Assistant Director – Finance & Corporate Services reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the Assistant Director – Finance & Corporate Services with the treasury management policy statement and treasury management practices and that they comply with the law
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- c) Giving advice to the Assistant Director – Finance & Corporate Services when advice is sought.

Internal Audit (SWAP)

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures
- b) Reviewing division of duties and operational practice
- c) Assessing value for money from treasury activities
- d) Undertaking probity audit of treasury function.

Absence cover arrangements

- In the absence of the Assistant Director – Finance & Corporate Services, the Finance Manager shall take on board the responsibilities and duties of the Assistant Director – Finance & Corporate Services.
- Under the supervision of the Principal Accountant – Exchequer, the general day to day activities shall be undertaken by the Insurance and Accounting Technician. However this may be from time to time passed onto the Benefits & Control Officer or the Management Accountant
- In the absence of the Principal Accountant - Exchequer her responsibilities and duties will be undertaken by the Finance Manager or the Assistant Director – Finance & Corporate Services (or officers authorised by her to act as temporary cover) supported by the rest of the Treasury Management team.

Dealing limits

- Currently there is a £5m upper limit in the total value of out-going CHAPS transactions in any one day without reference to the National Westminster Bank plc. Transactions that will exceed the £5m limit will be referred back to the Treasury team for explanation.

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List of approved brokers

- Martins Brokers (UK) plc, 25 Dowgate Hill, London, EC4R 2BB
- London Currency Brokers, LCB House, 3 Scrutton Street, London, EC2A 4HF
- Prebon Yamane (UK) Ltd, 155 Bishopsgate, London, EC2N 3DA
- Tradition (UK) Ltd, Beaufort House, 15 St Botolph Street, London, EC3 7QA

Policy on brokers' services

- It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker. Any changes to the list of approved brokers will not be made without prior consultation to with the Assistant Director – Finance & Corporate Services.

Policy on taping of conversations

- In line with good practice, all conversations relating to deals with either brokers or direct dealing institutions are recorded. The cassette tapes are to be kept for a period of one year from the last recording.

Direct dealing practices

- Direct dealing is carried out with institutions identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.

Settlement transmission procedures

- The preferred method of transmitting information relating to all deals is by email. Alternative methods are Royal Mail and fax.

Documentation requirements

- Copy of CHAPS form confirming transmission of funds to counterparty
- Broker/direct dealer documentation confirming counterparty, deal amount, maturity date and rate.

Arrangements concerning the management of third-party funds.

- The following funds are managed by South Somerset District Council:
 - Joint Burial Committee
 - Dorcas House Trust
 - ACI Chard Regeneration Scheme

However, there are still small amounts of money held on behalf of third parties that have been held for many years. These sums are immaterial and absorbed into the cash balances of the Council. There being no further interest payable, the principal will be repaid to the third party on the production of appropriate documentation.

TMP 6: Reporting Requirements and Management information arrangements

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, Full Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

Schedule:

Frequency of executive reporting requirements

- The responsible officer will annually submit budgets and will report on budget variations as appropriate.
- The responsible officer will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to Full Council before the start of the year.
- The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.
- A Mid-Year Treasury Report will be prepared by the responsible officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Full Council during the year.
- All of the above reports will also be submitted to Audit Committee, who will be responsible for the scrutiny of treasury management policies and practices.

Content of Reporting: 1. Prudential Indicators

- The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:
 - Financing costs as a proportion of net revenue stream (estimate; actual)
 - Capital expenditure (estimate; actual)
 - Incremental impact of capital financing decisions (estimate)
 - Capital Financing Requirement (estimates; actual)

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- Authorised limit for external debt
 - Operational boundary for external debt
 - Actual external debt
 - Upper limits on fixed and variable rate interest exposures
 - Upper and lower limits to maturity structure of fixed rate borrowing
 - Upper limit to total of principal sums invested longer than 364 days.
- The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.
 - The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 2. Treasury Strategy Statement including the Annual Investment Strategy

- The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:
 - Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years
 - Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
 - the extent to which surplus funds are earmarked for short term requirements
 - the investment strategy for the forthcoming year(s)
 - the minimum to be held in short term/specified investments during the coming year
 - the interest rate outlook against which the treasury activities are likely to be undertaken.
- Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out
 - the objectives, policies and strategy for managing its investments;
 - the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
 - the limits for the use of Non-Specified Investments.
- The AIS will be integrated into the Treasury Strategy Statement.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 3. Annual Treasury Report

- The Principal Accountant - Exchequer will produce an annual report for Full Council on all activities of the treasury management function as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.
- The main contents of the report will comprise:

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- confirmation that the Council calculated its budget requirements and set a balanced budget for the forward year;
 - the prevailing economic environment
 - a commentary on treasury operations for the year, including their revenue effects;
 - commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council
 - compliance with agreed policies/practices and statutory/regulatory requirements
 - compliance with Prudential Indicators;
 - performance measures.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 4. Mid-Year Treasury Report

- The Principal Accountant - Exchequer will produce a mid-year report for Full Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.
- The main contents of the report will comprise:
 - Economic background
 - Economic forecast (including interest rates forecast)
 - Treasury Management Strategy Statement update
 - Performance versus benchmarks
 - Borrowing information (including premature repayment, new loans information)
 - Information on investments, including current lending list
 - Prudential indicators relating to treasury management
 - Governance framework and scrutiny arrangements
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content and frequency of management information reports

- Management information reports will be prepared every month by the Principal Accountant – Exchequer and will be presented to the Assistant Director – Finance & Corporate Services
- These reports will contain the following information: -
 - Information on investment in Bonds, Certificates of Deposits and Treasury Bills.
 - Details of in-house investments, including interest to date, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
 - Details of fees payable.
 - Forecast of surplus/deficit for the financial year against budget.
 - Narrative highlighting any areas of concern or areas of note.

TMP 7: Budgeting, accounting and audit arrangements

Principle: The Responsible Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which

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will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which the Council's budget will take is set out in the schedule below.

The Responsible Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

Statutory/regulatory requirements

- The framework for accounting in local government in the UK comes from the Code of Practice on Local Authority Accounting in Great Britain, A Statement of Recommended Practice (SORP), and guidance issued by CIPFA.

Proper accounting practice

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

Financial Statements

- The financial statements are produced annually. The current form of the Council's accounts is available within the Finance department.

Treasury-related information requirements of external auditors

- The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.
- Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

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- Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
- Prudential Indicators.
- Treasury Management Strategy including Annual Investment Strategy.
- Investments:
 - Investment transactions during the year including any transaction-related costs
 - cash and bank balances at year end
 - Short-term investments at year end
 - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
 - calculation of (i) interest received (ii) accrued interest
 - actual interest received
 - External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
 - Basis of valuation of investments
 - Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
 - Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.
- Cash Flow:
 - Reconciliation of the movement in cash to the movement in net debt
 - Cash inflows and outflows (in respect of long-term financing)
 - Cash inflows and outflows (in respect of purchase/sale of long-term investments)
 - Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

Internal Audit

- Internal Audit generally conducts an annual review of the treasury management function and probity testing.
- The internal auditors will be given access to treasury management information/documentation as required by them.

Compliance with CIPFA Treasury Management and Prudential Codes

- Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.
- Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.

TMP 8: Cash and cash flow management

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [2] liquidity risk

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management. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule:

Arrangements for preparing /submitting cash flow statements

- The Principal Accountant – Exchequer oversees the Insurance and Accounting Technician who prepares the monthly cash flow statement and the daily cash flow statement. Information from both statements is then used to plan investments. The forecasts should be maintained for a minimum of six months ahead.
- The Principal Accountant – Exchequer also prepares a long-term cash flow forecast covering the current financial year and the next **two** financial years.
- **The cash flow forecasts and statements are held at operational level.**
- **The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.**

Content and frequency of cash flow projections

- The detailed annual cash flow model includes the following:
 - revenue income and expenditure based on the budget.
 - profiled capital income and expenditure as per the capital programme

Monitoring, frequency of cash flow updates

- The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:
 - net RSG and NNDR payments as notified;
 - precept payments
 - actual salaries and other employee costs paid from account bank statements;
 - actual payments to Inland Revenue from general account bank statements;
 - actual council tax received
 - actual rent allowances paid
 - actual housing benefit;
 - actual capital programme expenditure and receipts.

Bank statements procedures

- The Council receives bank statements on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a monthly basis.

Payment scheduling

- Major payments to creditors are pre-arranged and usually bypass the normal creditors cheque processing, ie they are paid via the CHAPS system. Of the remaining creditors, statute requires that invoices are paid within 30 days of receipt. Current agreed practice is that invoices will be paid within 10 working days or in accordance with the creditors supplier terms, this is in line with the prompt payment code we have signed up to.

Monitoring debtor/ creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.
- The level of Creditor invoices being processed is monitored on a monthly basis by the Exchequer Services Team.

Banking of funds

- Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the incomes team are banked daily.
- All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.

Listing of sources of information

- The treasury function receives cash flow information for the following:-
 - Government information eg NNDR/RSG payments and dates
 - Information from other outside bodies eg Somerset County Council precepts and dates
 - Debtor payments
 - Creditor payments
 - Housing Benefit payments
 - Direct Debit payments
 - Monthly salaries & wages
 - Capital Programme

Practices concerning prepayments to obtain benefits

- Payments received in advance by debtors are credited to their respective account. No interest or discount is given for early settlement.

TMP 9: Money Laundering

Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

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In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

Principle: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule:

Anti money laundering policy

- This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
- The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

Treasury documentation

- The Authority will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:
 - Awareness of what constitutes money laundering;
 - The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed;
 - Maintaining up-to-date direct dealing and SSI mandates with counterparties

Nomination of Responsible Officer

- The Council has nominated the Assistant Director – Finance & Corporate Services to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated.
- The responsible officer will be conversant with the requirement for the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.
- The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).

Procedures for establishing the Identity of Lenders and Borrowers

- In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.
- The Council will not accept loans from individuals.
- In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.
- The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website www.fsa.gov.uk.
- All receipts/disbursements of funds will be undertaken by CHAPS settlement.
- Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.
- All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.
- If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.

TMP 10: Training and qualifications

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Assistant Director – Finance & Corporate Services will recommend and implement the necessary arrangements.

The responsible officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Schedule:

Qualifications/ experience for treasury staff

- CCAB part or fully qualified
- Member of the Association of Accounting Technicians part or fully qualified

Details of approved training courses

The courses/events the Council would expect its treasury personnel to consider are

- Certificate in International Treasury Management – Public Finance (this is the new CIPFA TM qualification run by the Association of Corporate Treasurers)
- Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and IPF
- Any courses/seminars run by Treasury Management Consultants.
- Attending CIPFA Conference
- Training attended by those responsible for scrutiny of the treasury function

Records of training received by treasury staff

- The Council participates in the CIPFA/ACCA/CIMA Employer Accreditation Schemes for CPD purposes which is based on planning, recording and evaluating development. Employees are required to register with the scheme and declare participation in the CPD scheme annually.

TMP 11: Use of external service providers

Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule below.

Schedule:

Banking services

- Service provided by: National Westminster Bank plc
- Contract commenced 1/7/11 and runs for 3 years until 30/6/14.
- Payments due quarterly in arrears and monthly for the electronic banking service.
- Terms for early termination of the contract: The organisation may terminate the agreement at any time by 3 months' written notice to the Manager and the Manager may terminate the agreement on 3 months' written notice to the organisation.

Money-broking services

- Providers of service:-
 - Martin Brokers (UK) plc
 - Prebon Yamane
 - London Currency Brokers
 - Tradition UK

Cash/fund management services

- None

Consultants'/advisers' services

- Name of supplier of service – Arlingclose Ltd.
- Contract commenced 1 March 2010 and expires upon 28th February 2013, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- Payments due annually on 1 April
- Terms for early termination of the contract: The Council may terminate the agreement by giving three months notice after 28th February 2013.

Bribery Act

- The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers

TMP 12: Corporate governance

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

- *List of documents to be made available for public inspection.*
 - Annual Statement of Accounts
 - Budget Book
 - Treasury Management Policy
 - Treasury Management Strategy
 - Budget Monitoring Reports
 - Annual Treasury Report
 - Council Committee Agendas and Minutes

Council's website

- Financial information is additionally available on the Council's website

Procedures for consultation with stakeholders

- Members and senior officers of the Council are consulted via reports to Management Board and District Executive and officer/member briefing sessions

Audit Committee – 26 September 2013

12. Audit Committee Forward Plan

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

Purpose of the Report

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

Recommendation

Members are asked to:-

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

Audit Committee Forward Plan

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

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – 26 September 2013

Appendix A

Audit Committee Forward Plan

Meeting Date	Agenda Item	Lead Officer
24 Oct 13	Review of local code of Corporate Governance	Donna Parham
24 Oct 13	Annual Governance Statement Action plan	Donna Parham
24 Oct 13	Annual Audit Letter	Donna Parham
24 Oct 13	Update on Debt Management	Karen Gubbins
28 Nov 13	Mid – year review of Treasury Strategy	Karen Gubbins
28 Nov 13	Treasury Management – second quarter monitoring report	Karen Gubbins
28 Nov 13	Internal Audit – second quarter and half year update	Andrew Ellins
28 Nov 13	Annual Governance Statement Action Plan	Donna Parham
28 Nov 13	Risk Management Update	Gary Russ
19 Dec 13	TBA	
23 Jan 13 TBC	Health, Safety and Welfare (Annual Report)	Pam Harvey

Audit Committee – 26 September 2013

13. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday, 24 October at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.
