Public Document Pack

Agenda



Mr Paul Harrison

Listening Learning Leading

Contact Officer: Kathy Fiander, Democratic Services Officer

Tel: 01491 823649

Fax: 01491 823605

E-mail: kathy.fiander@southandvale.gov.uk

Date: 21 January 2013

Website: http://www.southoxon.gov.uk

A MEETING OF THE

Audit and Corporate Governance Committee

WILL BE HELD ON TUESDAY 29 JANUARY 2013 AT 6.00 PM

COUNCIL CHAMBER, COUNCIL OFFICES, CROWMARSH GIFFORD

Members of the Committee:

Mr Michael Welply (Chairman)

Mr Philip Cross (Vice-

Chairman)

Ms Kristina Crabbe Mrs Margaret Davies

Mr David Bretherton

Mr Mark Gray

Mr John Cotton

Substitutes

Mr Roger BellMrs Eleanor HardsMs Anne PurseMrs Celia Collett, MBEMr Stephen HarrodMr Robert SimisterMr Bernard CooperMr Marc HilesMr David Turner

Mrs Pat Dawe Dr Christopher Hood Mr Leo Docherty Mrs Ann Midwinter

If you would like a copy of these papers in large print, Braille or audio cassette or have any other special requirements (such as access facilities) please contact the officer named on this agenda. Please give as much notice as possible before the meeting

- 1 Apologies
- 2 Declaration of disclosable pecuniary interest
- 3 Minutes of the previous meeting

Minutes of the meeting on 27 September 2012 (previously distributed).

4 Internal audit activity report 2012/13 quarter 3 (Pages 5 - 28)

Purpose: to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary **(report attached)**

5 Internal audit management report 2012/13 quarter 3 (Pages 29 - 46)

Purpose: to report on management issues, summarise the progress of the internal audit team against the 2012/13 audit plan up to 17 January 2013 and to summarise the priorities and planned audit work for the remainder of quarter four 2012/13 (report attached)

Treasury management mid year monitoring report 2012/13 (Pages 47 - 58)

Purpose: to scrutinise the report to ensure that the treasury activities are carried out in accordance with the treasury management strategy and policy (report and appendix attached)

7 Treasury management strategy 2013/14 (Pages 59 - 96)

Purpose: to scrutinise the treasury management strategy and policy and if required make recommendations for amendment to cabinet **(to follow)**

8 Ernst & Young: Audit fee letter (Pages 97 - 100)

Purpose: to confirm the work that Ernst & Young propose to undertake for the 2012/13 financial year and the fees it will incur (letter attached)

9 Ernst & Young: annual certification report (Pages 101 - 108)

Purpose: to consider the report that summarises the results of certification work, undertaken by both Ernst & Young and Audit Commission staff on 2011/12 claims and returns (report attached)

10 Dispensations and the councillors' code of conduct (Pages 109 - 116)

Purpose: to consider the arrangements for dealing with requests for dispensations from councillors, consistent with both the councillors' code of conduct and the Localism Act 2011 (and associated regulations) **(report attached)**

MARGARET REED

Head of Legal and Democratic Services



Audit and Corporate Governance Committee



Report of Audit Manager

Author: Adrianna Partridge

Telephone: 01491 823544 (SODC); 01235 547615 (VWHDC)

Textphone: 18001 01491 823326 (SODC); 18001 01235 540455 (VWHDC)

E-mail: adrianna.partridge@southandvale.gov.uk

Cabinet member responsible: Councillor David Dodds

Tel: 01844 216794

E-mail: david.dodds@southoxon.gov.uk

To: Audit and Corporate Governance Committee

DATE: 29 January 2013

AGENDA ITEM 4

Internal audit activity report quarter three 2012/2013

Recommendation

(a) That members note the content of the report.

Purpose of report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary.

Background

- 2. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the councils' objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.
- 3 After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for

considering audit reports and taking the appropriate action to address control weaknesses.

4. Assurance ratings given by internal audit indicate the following:

Full Assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil Assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

5. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

Internal Audit Activity

6. Since the last audit and corporate governance committee meeting, the following audits have been completed:

Planned Audits

Full Assurance: 2

Satisfactory Assurance: 6 Limited Assurance: 1 Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Seasonal Leisure 12/13	Full	2	0	0	0	0	2	2
Discretionary Grants 12/13	Satisfactory	5	0	0	0	0	5	4
Housing Allocations 12/13	Full	0	0	0	0	0	0	0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Carbon Management 12/13	Satisfactory	7	0	0	2	2	5	5
Creditor Payments 12/13	Satisfactory	6	0	0	1	1	5	5
1. Payroll 12/13	Limited	16	0	0	10	10	6	6
Information Governance 12/13	Satisfactory	6	0	0	1	0	5	3
Data Protection 12/13	Satisfactory	6	0	0	1	1	5	4
Cornerstone 12/13	Satisfactory	6	0	0	0	0	6	6
Sundry Debtors 12/13	Satisfactory	4	0	0	1	1	3	3

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Verification of PIs 11/12	Satisfactory	5	4	0	1	0
Election Payments 11/12	Satisfactory	6	1	0	2	3
Benefit Fraud 12/13	Full	3	2	0	0	1
Emergency Planning 12/13	Satisfactory	4	2	0	2	0

- 7. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
- 8. A copy of each report has been sent to the appropriate head of service, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.

9. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Systemic Control Weaknesses

10. Appendix 1 of this report sets out weaknesses which have been identified within planned audits which internal audit consider to be systemic within the council. Every recommendation made by internal audit since April 2010 has been logged within a recommendation register according to an Institute of Internal Auditors control type definition, and a point system has been used - 1 point for a low risk recommendation, 2 points for a medium risk recommendation and 3 points for a high risk recommendation. The points have been totalled against each control type, and the top 10% control weaknesses which occur across a number of operational areas have been listed as a systemic control weakness. The table will be reviewed and updated by the audit manager, head of finance and the strategic director (section 151 officer) on an ongoing basis, and will be used to inform the annual audit plan and the scope of individual reviews

Financial Implications

11. There are no financial implications attached to this report.

Legal Implications

12. None.

Risks

13. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE AUDIT MANAGER

1. PAYROLL 2012/2013

1. INTRODUCTION

- 1.1 The fieldwork for this audit was undertaken in June to August 2012 and the final report was issued on 11 December 2012.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
 - Roles and responsibilities for SODC's and VWHDC's payroll have been appropriately assigned and adequately resourced.
 - There are appropriate policies and procedures over pay which is adequately communicated to council staff.
 - The administration of payroll is appropriate (i.e. transfer and security of records), supported by internal procedures and prompt.
 - Amendments to standing data are appropriately authorised, documented and actioned punctually, including:
 - starters and leavers
 - overtime
 - addition/deductions or variations to pay (e.g. pay rises)
 - personal data.
 - To ensure system parameters are up to date and appropriate.
 - Payroll communication/data is transferred between payroll, HR and finance in an accurate and timely manner and is secure.
 - All payroll reconciliations are administered promptly and subject to independent review.
 - To ensure that adequate system back-up arrangements are in place to ensure business continuity.

2. BACKGROUND

- 2.1 Payroll is the second largest expense to the council, with the council currently employing 244 staff members as of the end of November 2012. From reviewing the general ledger, pay costs were £9.52 million in 2011/2012.
- 2.2 In February 2012, the payroll processing duties were transferred from a council in-house team to Capita (based in Carlisle). Internal audit made a site visit to the Carlisle office in June 2012. Payroll is paid monthly via BACS, and payroll is processed through a system called Ingenuity at Work (IAW).

3. PREVIOUS AUDIT REPORTS

- Payroll was last subject to an internal audit review in August 2011, and 14 recommendations were raised with 13 being agreed. A limited assurance opinion was issued.
- On review, three recommendations have been implemented, five are no longer applicable due to the service moving to Capita and the remaining

five have not been implemented. Recommendations not implemented have been carried forward into the current year review.

4. 2012/2013 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Sixteen recommendations have been raised in this review. Ten medium risk and six low risk recommendations.

5. MAIN FINDINGS

5.1 Roles and responsibilities

5.1.1 Capita has established an organisational chart outlining the team responsible for the processing of payroll for the council, however this needs updating. The team is led by the team leader payroll clients and consists of two payroll administrators. The roles and responsibilities of Capita and council responsibilities are listed within the service level agreement. However, internal audit could not evidence an end to end payroll cycle by which all tasks are allocated and documented. It has also been identified that the responsibility to check the identity of authorised signatories (e.g. for timesheets) has not been established. One recommendation has been made as a result of our work in this area (Rec 1).

5.2 Policies and procedures

5.2.1 The policies and procedures currently used by Capita are those provided by the previous payroll in-house team - which are specific to the council. The Capita payroll team leader client has stated there is a need to review and refresh policies and procedures. One recommendation has been raised as a result of our work in this area (Rec 2).

5.3 Payroll administration

- 5.3.1 Capita (business manager at Capita) and the council (shared head of finance) oversaw the secure handover of payroll information, but a record of what information is held, where and the responsible officer is not in place. There is a record of information physically sent to and from the Capita council offices however the equivalent information for the Capita Carlisle office was not provided. Internal audit reviewed the access levels given to the payroll team to the payroll database IAW and found no issues of concern. Internal audit also reviewed the payroll database password parameter controls and it was noted the minimum password field length is 1.
- 5.3.2 Internal audit reviewed a sample of 20 starters and 20 leavers to ascertain timely pay, and in each case payment was administered on a timely basis. However, it was noted that a payslip distribution list used by Capita is not refreshed monthly to ensure payslips go to the correct

location. Four recommendations were made as a result of our work in this area (Recs 3, 4, 5 & 6).

5.4 Amendments

- 5.4.1 For any amendments, human resources (HR) e-mails changes to Capita payroll via a controlled spreadsheet. One payroll officer inputs and another checks the data has been entered correctly onto the payroll database IAW. Internal audit checked a sample of 20 new starters, 20 leavers, 30 variations to pay (e.g. maternity pay) and 20 amendments to personal data.
- 5.4.2 For new starters, original documented authorisation of the request to recruit form could not be found in 12 of the 20 cases. For one starter, a starter form could not be found and for a further four starters sufficient authorisation of the starter form could not be identified. Also, payroll did not evidence the amendment control spreadsheet to verify data had been input and reviewed for three starters. For six leavers, sufficient authorisation of the leaver form could not be found. For one leaver, the amount calculated and paid as holiday pay was incorrect. For overtime claims, the overtime claim form could not be found for 12 cases.
- 5.4.3 Regarding variations to pay, internal audit noted the incorrect calculation of hours for one timesheet which led to an overpayment. On reviewing childcare payments, internal audit noted six cases where the authorisation for the original creation of the childcare account could not be found. From the sample of personal data changes, the initial request could not be found for eight cases. Capita do not check the identity of the authorisation signatory (i.e. by line managers) for overtime timesheets and stated this is a council responsibility. Four recommendations have been made as a result of our work in this area (Recs 7, 8, 9 & 10).

5.5 **System parameters**

5.5.1 The team leader payroll clients (Capita) is responsible for the system parameters being up to date on the IAW database. Pay rises and increments are administered in accordance with the amendments process. Internal audit requested the parameters to evidence prompt adjustment for tax changes, and it was noted that this process is not subject to review and sign off. One recommendation has been made as a result of our work in this area (Rec 11).

5.6 Communication of data

- The main areas where there is an exchange of data is between human resources and Capita regarding amendments to staff details and pay, and human resources and finance regarding authorisation for release of BACS payment and reconciliation data. Capita payroll use a secure email approach which involves the use of encryption to reduce risk of unauthorised level of access. From the review conducted, there are no concerns raised over the timeliness or security of exchange of data.
- 5.6.2 Capita have a complaints and queries process. Complaints go through a four stage process and are recorded on a spreadsheet (complaints log),

however no complaints have been made up until the audit date. Queries are also recorded on a spreadsheet (query log) and are assigned to a responsible officer to resolve. Internal audit identified two queries from the council which have remained unanswered for over a month. Three queries were not recorded on the query log held by Capita and a set turnaround time for all queries is not in place. One recommendation has been made as a result of our work in this area (Rec 12).

5.7 Payroll reconciliations

5.7.1 The council's shared accountant reconciles the payment run to the general ledger on a monthly basis. Internal audit reviewed a monthly reconciliation and has no concerns. The payroll team reconcile the establishment listing to payroll records on an annual basis, however there is no formal tax reconciliation from the payroll database to the general ledger. On a monthly basis, various reports regarding starters and leavers and top 10 earners are e-mailed to the head of finance to review. Any queries arising from this review are discussed either by e-mail or phone. Once matters are satisfactorily resolved, the overall BACS authorisation is sent. One recommendation has been made as a result of our work in this area (Rec 13).

5.8 Business continuity and back-up plans

5.8.1 Capita policies and procedures include an emergency response plan and business continuity plan, and on review no areas of concern were identified. Internal audit reviewed an extract of the log of back ups and queried the testing of the back up plans which, the systems and network manager, confirmed last took place in March 2012. There have been no instances of data loss reported in the period of scrutiny (2012/2013). The arrangements reviewed are adequate. No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

ROLES AND RESPONSIBILITIES

1. Payroll cycle (Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice A payroll cycle is used to identify tasks for officers at the council and at Capita – which is made available to all officers to ensure transparency and accountability.	Document and allocate tasks end to end across the payroll cycle and ensure this information is available to council officers and the Capita payroll team.	Payroll manager (Capita) , payroll team leader client (Capita) and shared business support manager (council)
Findings The 'Payroll processes reference' outlines roles and responsibilities (of both the council and Capita) however,		

there is no evidence of a payroll cycle analysis used to allocate tasks. It has further been established that the responsibility to check the identity of authorised signatories has not been established. Risk Duties are not allocated and are not undertaken.		
Management Response		Implementation Date
Recommendation is Agreed We will work with the council to e completed.	nsure this is	31 January 2013
Management response: Payroll to (Capita)	eam leader client	

POLICIES AND PROCEDURES

2. Policies and procedures

(Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice	(a) Ensure there are	Payroll team leader
Policies and procedures covering all payroll processes	up to date policies and procedures	client (Capita)
should be in place and	covering payroll	
circulated to all relevant	processes.	
officers.	p. occoods	
Findings (a) The policies and procedures currently used by Capita are copies used by the previous payroll in-house team - which are specific to SODC and VWHDC. The payroll team	(b) Ensure the monthly checklist used by Capita is updated to reflect current tasks.(c) Document the list of authorised officers to	
leader client has stated there is a need to review and refresh policies and procedures.	authorise BACS releases on an agreed document and incorporate into	
(b) The Capita payroll team has a monthly checklist, which lists all their tasks and duties. The payroll team leader client stated this needs updating as not all the tasks listed are performed.	policies and procedures.	
(c) The 'Payroll Processes Reference' states the council		

representative will authorise BACS payments – however the representatives are not documented. Please note during the fieldwork process, it has been established this is the head of finance or one of the two shared accountancy managers.	
Risk Without up to date policies, there may be inconsistencies in practice or the incorrect administration of duties.	
Management Response	Implementation Date
Recommendation is Agreed (b) has been completed. However, (a) and (c) are currently being formulated.	31 January 2013
Management response: Payroll team leader client (Capita)	

PAYROLL ADMINISTRATION

3. Itinerary (Low Risk)

Rationale	Recommendation	Responsibility
Best Practice There is a record of all physical information transported where and when. Findings It has been stated that Capita (Carlisle) has a register of all information sent and received from the Capita team at the council – however this was not presented to internal audit during the fieldwork process. Risk	Ensure there is an adequate itinerary of documents physically sent to/from the Capita Carlisle office.	Payroll team leader client (Capita)
The location of information may not be known – which may lead to the loss of personal information.		
Management Response		Implementation
	Date	
Recommendation is Agreed	31 January 2013	
This can be achieved with co-ope		
the council logs information sent	to the payroll team, the Page 14	

payroll team will sign, scan and send to confirm receipt of documents. (Note: the interim HR manager has stated human resources are happy to help).	
Management response: Payroll team leader client (Capita)	

4. Catalogue of information

(Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice There is a record of where all payroll information is held and who is the responsible officer. Findings As part of the transfer of the payroll service from the inhouse team to Capita, a number of archive boxes with historical payroll data was sent to Capita Carlisle. A decision was made to store expenses receipts in the Capita council office. There is currently no record of payroll information held, its location and who is responsible for such information. From speaking to the payroll team leader client (Capita), there was a lack of knowledge of where information is currently held (e.g. timesheets prior to February for the financial year 2011/2012). Risk The location of information may not be known – which may lead to the loss of information and data protection infringements.	Ensure there is a catalogue of all payroll information held, its location and the responsible officer.	Payroll team leader client (Capita)
Management Response		Implementation Date
Recommendation is Agreed All information 2011/12 and curre Capita. Information prior to this is Vale councils. Management response: Payroll to (Capita)	31 January 2013	

5. Payslips (Low Risk)

Rationale	Recommendation	Responsibility
Best Practice Payslips are sent to the place of work of the recipient based on the most recent information. Findings A report is currently generated from HR Pro documenting the staff member's main place of work, and used by Capita to formulate a distribution list — however this list was not refreshed every month. Risk Payslips are not received by employees in a timely manner leading to dissatisfaction and	Ensure payslips are sent to staff locations based on the live data available from HR Pro.	Customer service manager (Capita)
possible loss of payslip. Management Response		Implementation
manayement Neoponoe		Date
Recommendation is Agreed A solution is currently being deversible place soon. An up to date distribution provided to the customer service monthly basis. Management response: Payroll to (Capita)	31 December 2012	

6. Minimum password length

(Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice Establish a minimum field	Increase the minimum password field length	Payroll team leader client (Capita)
length of eight or more (as	for access to Ingenuity	Cliefft (Capita)
stated in Microsoft: Safety &	At Work (IAW).	
Security Centre).		
Findings		
Internal audit reviewed the		
password parameters for the		
payroll database IAW and		
identified the minimum		
password field length was one.		
Risk		
Inappropriate access to the	Page 16	

Page 16

payroll database IAW which may lead to inappropriate changes to payroll data and pay.		
Management Response		Implementation Date
Recommendation is Agreed This has now been adjusted to 8.		Implemented
Management response: Payroll team leader client (Capita)		

PAYROLL AMENDMENTS

7. Recording (Medium Risk)

7. Necolania		(Mcalalli Risk)
Rationale	Recommendation	Responsibility
Best Practice All amendment control spreadsheets (e.g. appointments) are signed by the inputter and reviewer as evidence of review. Findings Internal audit selected 20 starters and established that in 3 cases, amendment control spreadsheets were not signed off as reviewed. From the sample of 20 amendments to personal data, in two cases there was an incorrect amendment. Risk There is a lack of audit trail and	(a) Ensure all amendment control spreadsheets are signed by the inputter and reviewer.(b) Ensure all amendments are correctly administered.	Payroll team leader client (Capita)
management Response		Implementation Date
Recommendation is Agreed This was human error and has been addressed. Management response: Payroll team leader client (Capita)		Immediately

8. Holiday Pay Calculation

(Low Risk)

Rationale	Recommendation	Responsibility
Best Practice	Review the holiday	Payroll team leader
All holiday pay calculations are	pay discrepancy	client (Capita)
correct.	identified by audit, and	
	if this resulted from a	

Findings From the sample of 20 leavers, internal audit identified there was an incorrect overpayment of holiday pay for one leaver – however this only amounted to £2.33. Risk Incorrect holiday pay payment results in financial loss to the council.	process or staff failure ensure that the necessary control action is taken.	
Management Response		Implementation Date
Recommendation is Agreed This was human error and has been addressed.		Immediately
Management response: Payroll team leader client (Capita)		

9. Overtime claims

(Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice All timesheets are readily available and all records of time keeping are accurate. Findings Internal audit established that: • For 12 cases out of 20 - the overtime claim form (or timesheet) could not be found. • In a further case, there was a payment for 8.83 hrs given, instead of 8.5 hrs. Risk There is incorrect payment and financial loss to the council.	(a) Overtime claim forms should be maintained in accordance with the records management policy to provide an adequate audit trail. (b) Investigate the case highlighted in this audit (Reed, L), and correct and review control processes where necessary.	Payroll team leader client (Capita)
Management Response		Implementation Date
Recommendation is Agreed (a) We are happy with the arrangements now in place. (b) This has been investigated and payment adjusted accordingly. Management response: Payroll team leader client (Capita)		Immediately

10. Childcare voucher payments

(Low Risk)

Rationale	Recommendation	Responsibility
Best Practice	Ensure there is an	Business support
There is a record for all	adequate audit trail	manager (council)
requests to set up childcare	authorising the	
vouchers.	creation of childcare voucher accounts.	
<u>Findings</u>		
From a sample of 30 variations		
to pay, in six cases internal		
audit were unable to obtain a		
record of the officer requesting		
the set up of childcare vouchers with the council.		
with the council.		
Risk		
There is incorrect		
administration of childcare		
voucher payments.		
Management Response		Implementation
		Date
Recommendation is Agreed		Immediately
We save emails requesting this o		
Management response: Interim shared HR manager		
(council)		

SYSTEM PARAMETERS

11. System parameters

(Low Risk)

Rationale	Recommendation	Responsibility
Best Practice All tax changes should be signed off as reviewed and appropriate.	Ensure there is a sign off to approve the tax changes made on the payroll database.	Payroll team leader client (Capita)
Findings Tax code changes are sent from HMRC via electronic data interface and uploaded manually. The tax changes are administered by the senior systems analyst (at Capita). However, there is no formal review and sign off of this process.		
Risk Incorrect tax changes are administered and officers are		

incorrectly paid.	
Management Response	Implementation Date
Recommendation is Agreed	30 May 2013
Management response: Payroll team leader client (Capita)	

COMMUNICATION

12. Response times

(Medium Risk)

-		
Rationale	Recommendation	Responsibility
Best Practice (a) All queries received by Capita are recorded to allow for effective response and monitoring.	(a) Ensure there is the correct capture of queries on the query log.	Payroll team leader client (Capita) and shared finance & systems manager (council)
(b) There is an established turnaround time for queries which is adhered to.	(b) Ensure there is a set turnaround time for queries.(c) The council should	
(c) Payroll team is adequately resourced which is reflected in prompt response times to queries.	monitor response times to queries.	
Findings (a) The Capita payroll team uses a queries log spreadsheet to manage and respond to "South & Vale District Councils" queries. Internal audit obtained 3 specific queries which had been sent from accountancy to Capita and was unable to track them on the query log.		
(b) Two of the queries remain unanswered at the time of the review dating back to July. It was noted that an agreed turnaround time to respond to queries has not been established between Capita and the council.		
(c) Two queries from the query log were randomly selected to check progress against, but evidence could not be obtained from Capita that progress was		

being made.		
Risk Queries are not answered promptly or properly and payroll problems are not resolved promptly leading to the exacerbation of errors.		
Management Response		Implementation Date
Recommendation is Agreed (a) and (b) All queries are now logged in Jira to ensure accuracy of statistics for turnaround times. (c) will be picked up during the monthly conference calls that take place between Finance, HR and Capita Payroll.		31 January 2013
Management response: Payroll team leader client (Capita) and shared finance & systems manager (council)		

RECONCILIATION

13. Tax reconciliation

(Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice There is a tax reconciliation conducted between the payroll database and general ledger to ensure tax submission to HMRC is correct.	Ensure a tax reconciliation is conducted between the payroll database and general ledger at year end.	Shared accountancy manager (revenue) (council)
Findings There is no tax reconciliation conducted at year end between the payroll database and general ledger.		
Risk The tax submission is incorrectly submitted leading to incorrect financial reporting to HMRC.		
Management Response		Implementation Date
Recommendation is Agreed		30 July 2013
Management response: Shared accountancy manager (revenue) (council)		

2011/2012 PREVIOUS AUDIT RECOMMENDATIONS

14. Authorisation check

(Low Risk)

Rationale	Recommendation	Responsibility
Best Practice An approved signatory list is in place to which approval of all amendments is agreed. Findings (2010/2011) & (2011/2012) Members do not have the facility at present to submit expenses electronically and return paper forms which contain an 'authorised signature'. During testing it was highlighted that there is currently no authorised signatory list in place against which payroll can verify the 'authorised signature' to ensure that the expenses have been appropriately approved. Findings (2012/2013) Due to the changes in the payroll process internal audit recommends a review of the authorisation check for members and overtime claim forms. Risk Amendments to pay may be processed without the required authorisation.	Human resources, finance and democratic services to discuss process of authorisation check for members and overtime claim forms.	Head of finance (council)
2010/2011 Management Response		Implementation Date
Recommendation is Agreed All members/councillors claims are authorised for payment by one individual (or their substitute) from democratic services and a list of specimen authorised signatories from democratic services will be obtained and held within payroll. Work has been completed to provide members/councillors with access to submit claims electronically, only a few members are unable to use this format. Access and authorisation rules are built in to the electronic process. Management Response: Payroll project lead		31 December 2010
2011/2012 Follow Up Observation		Implementation Date
Recommendation is Agreed An authorised signatory list has been drawn up for staff who		30 November 2011

have been authorised by their heads of service to sign off any payroll input forms.	
Management Response: Payroll supervisor	
2012/2013 Follow Up Observation	Implementation Date
Recommendation is Agreed	31 January 2013
Management response: Head of finance (council)	

15. Leaver forms (Medium Risk)

15. Leaver forms (Wedium Risk)						
Rationale	Recommendation	Responsibility				
Best Practice A leaver form has been completed for all officers leaving the council. Findings (2011/2012) During sample testing of leavers, for one of the five tested, internal audit established that a leaver form was not completed. Findings (2012/2013) Through the sample testing conducted by internal audit. On review of the sample for VWHDC, there was one instance when a casual worker did not have a leaver form. As the same control is used for SODC, as it is for VWHDC – this still presents a risk to the council	HR should ensure that a completed leaver form is retained for all employees leaving the council, even if they are on a temporary contract.	HR business support team and HR business partners (council)				
Risk If a leaver form is not completed for all employees leaving the council, there is a risk that the leavers might not get deleted off the system and get paid for an extra month.						
2011/2012 Management Respon	Implementation Date					
Recommendation is Agreed	Immediate					
Management Response: Shared I	HR manager					
2012/2013 Follow Up Observation	Implementation Date					
Recommendation is Agreed We do this as a matter of course a	and there should not	Immediate				

have been one missing.	
Management response: Interim shared HR manager (council)	

16. Emails attached to appointment/leaver/amendment (Medium Risk) forms

Internal audit selected 20 starters and 20 leavers from October 2011 to June 2012 and established that: In 12 out of 20 cases there was no documented record of authorisation of the request to recruit form. In 4 cases, internal audit could not obtain sufficient evidence of authorisation as the e-mail with the starter form attached could not be located. In an additional case, the starter form could not be located. In six cases audit could not trace leaver form authorisation In eight cases amendment source requests could not be found. Risk If there is no audit trail to confirm that appointment forms, leaver forms and amendment forms are approved by the line manager, there is a risk of the forms being fraudulently sent to HR and payroll.		
2011/2012 Management Respon	ise	Implementation
		Date
Recommendation is Agreed		Immediate
Management Response: Shared I	HR manager	
2012/2013 Follow Up Observation	j	Implementation Date
Recommendation is Agreed We have tightened up on making documentation is saved. Management response: Interim sh (council)		Immediate

This page is intentionally left blank

Background

The table below lists systemic control weaknesses which have been identified at either or both councils (SODC and VWHDC), from the internal audit reports issued in final since 1 April 2010. The table will be reviewed and updated by the audit manager, head of finance and the strategic director (section 151 officer) on an ongoing basis, and will be used to inform the annual audit plan and the scope of individual reviews.

Definition

A systemic control weakness is defined for the purpose of this table, as a significant control weakness which has been identified across a number of operational areas.

Methodology

Every recommendation made by internal audit has been logged within a recommendation register according to an Institute of Internal Auditors control type definition, and a point system has been used - 1 point for a low risk recommendation, 2 points for a medium risk recommendation and 3 points for a high risk recommendation. The points have been totalled against each control type, and the top 10% control weaknesses have been listed as a systemic control weakness according to their recommendation

Systemic control weaknesses as at 13 September 2012

No	Systemic control weakness	Council	Rec point total		Movement Since Last Committee
	Policies, procedures and guidance notes are not comprehensive, up to date and are not owned by a responsible officer.	Joint	171	01/08/11	Increase (1)
2	There should be regular reconciliation of information/data/items.	Joint	45	01/08/11	Decrease (12)
	All officers/members should be trained in their role and corporate responsibilities.	Joint	44	30/08/12	New entry
4 5	Comprehensive and accurate management information should be available. Documents should be filed appopriately.	Joint Joint	43 43	04/01/12 21/06/12	Decrease (3) Increase (7)

This page is intentionally left blank

Audit and Corporate Governance Committee



Report of Audit Manager

Author: Adrianna Partridge

Telephone: 01491 823544 (SODC); 01235 547615 (VWHDC)

Textphone: 18001 01491 823326 (SODC); 18001 01235 540455 (VWHDC)

E-mail: adrianna.partridge@southandvale.gov.uk

Cabinet member responsible: Councillor David Dodds

Tel: 01844 216794

E-mail: david.dodds@southoxon.gov.uk

To: Audit and Corporate Governance Committee

DATE: 29 January 2013

AGENDA ITEM 5

Internal audit management report quarter three 2012/2013

Recommendation(s)

(a) That members note the content of the report

Purpose of report

- 1. The purpose of this report is:
 - to report on management issues within internal audit;
 - to summarise the progress against the 2012/2013 audit plan up to 17 January 2013; and
 - to summarise the priorities for quarter four 2012/2013.
- 2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

Strategic objectives

3. Managing our business effectively.

Background

- 4. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the head of internal audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.
- 5. The CIPFA Code also states that the audit committee should approve the annual internal audit plan and monitor progress against the plan. This Committee approved the annual internal audit plan on 21 March 2012.

Management issues

- 6. Following the town and parish council forums in November, internal audit have had strong interest from three town and parish councils to provide their internal audit services from April 2013. Town and parish councillors will decide who will provide their internal audit services at their January finance committee meetings.
- 7. In accordance with best practice, the audit manager has completed the Audit Commission's fighting fraud self-assessment checklist which is attached in **appendix 1** for information. The assessment has been reviewed by the head of finance, section 151 officer and external audit, and identifies 5 actions which will be implemented by the audit manager.

Progress against the 2012/2013 audit plan

- 8. Progress against the approved audit plan has been calculated for the quarter and year to date and is summarised in **appendix 2** attached.
- 9. Performance figures are as follows:

	Target	YTD	Q1	Q2	Q3	Q4
			12/13	12/13	12/13	12/13
Chargeable (identifiable client and/or specific IA deliverable)	70%	71%	71.5%	71%	68.5%	77%
Non-Chargeable (corporate, not IA deliverable)	8%	4.5%	5%	4.5%	4.5%	4.5%
Lost (i.e. leave, study, sickness)	22%	24.5%	23.5	24.5%	27%	18.5%

10. As at 17 January 2013 the status of audit work against the 2012/2013 audit plan is as follows:

Planned

Strategic, operational and financial assurance work known and approved by the Audit and Governance Committee.

2012/2013	Planned	Complete	Draft	In progress	To
PLANNED	29	16	2	3	8
Joint	26	14	1	3	8
SODC	2	2	0	0	0
VWHDC	1	0	1	0	0

Adhoc

Unplanned project work based on agreed terms of reference with the audit manager (i.e. implementation of new systems) and responsive work issued and agreed by the section 151 officer, members or senior management team (i.e. investigations).

2012/2013	Requested	Complete	Draft	In progress	To
ADHOC	3	3	0	0	0
Joint	1	1	0	0	0
SODC	1	1	0	0	0
VWHDC	1	1	0	0	0

Follow up

Work undertaken to ensure that agreed recommendations have been implemented. The number of follow-up audits is a rolling number, all internal audit reports are followed up after six months.

2012/2013	Requested	Complete	Draft	In progress	To
FOLLOW-UP	36	28	0	0	8
SODC	16	12	0	0	4
VWHDC	20	16	0	0	4

Priorities for 2012/2013 quarter three (October 2012 – December 2012)

- 11. The priority for quarter three is to:
 - review the money laundering control environment; and
 - to prepare the audit plan 2013/2014.
- 12. Remaining 2012/2013 planned audit work can be reviewed in appendix 3.

Financial implications

13. There are no financial implications attached to this report.

Legal implications

14. None.

Risk implications

15. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE AUDIT MANAGER

AUDIT COMMISSION - FIGHTING FRAUD SELF ASSESSMENT 2012/2013

REF	AUDIT COMMISSION CHECKLIST	YES	PARTIAL	NO	EVIDENCE/COMMENT	ACTION PLAN	HoF/S.151 COMMENT
Α	General						
1	Do we have a zero-tolerance policy towards fraud?	~			The councils have various policies in place to create a culture of zero-tolerance towards fraud: - Anti-fraud, bribery and corruption policy (Nov 2011) - Anti-fraud, bribery and corruption response plan (Nov 2011) - Anti-money laundering policy (Nov 2011) - Prosecution policy (benefit fraud) (no date) - Gifts and hospitality policy (Oct 2008) - Whistleblowing policy (March 2010) There are dedicated resources for corporate fraud within the internal audit team and benefit fraud within the revenues and benefits team.	Action 1 - Add a review date to the prosecution policy.	Agreed
Page 33	Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?	V			The councils have a reasonable approach to counter fraud, based on an assessment of their size, resources available and level of exposure to fraud risk. Alignment with FFL is constantly under review, for example within the revenues and benefits current review into the future council tax reduction scheme counter fraud activity pending the introduction of the Single Fraud Investigation Service (SFIS) from 1 April 2013.		Agreed
3	Do we have dedicated counter-fraud staff?	√			There are dedicated resources for corporate fraud within the internal audit team and benefit fraud within the revenues and benefits team.		Agreed
4	Do counter-fraud staff review all the work of our organisation?	√			Internal audit's remit covers all activities within the council, and the schedule of auditable activities ensures that fraud risks are examined each year by the audit manager, head of finance, section 151 officer and audit and corporate governance committees. High risk areas are subject to annual planned audits and all other areas are subject to audit on a cyclical basis. An annual pro-active anti-fraud review is undertaken every year to check controls within high risk fraud areas are operating as intended.		Agreed

5	Do we receive regular reports on how well we are tackling	✓		I	Each planned audit results in an		Agreed
3	fraud risks, carrying out plans and delivering outcomes?				internal audit report which is		Agreed
	liadu fisks, carrying out pians and delivering outcomes?				·		
					presented to the audit and		
					(corporate) governance committees		
					for review, and this includes the		
					annual pro-active anti-fraud review		
					and an independent review of the		
					benefit fraud function on a cyclical		
					basis.		
					The audit manager also presents a		
					management report on a quartely		
					basis, which includes any fraud		
					issues. On an annual basis the audit		
					manager provides the committees		
					with an annual audit opinion on the		
					councils' control environment and a		
					statement on any fraud and		
					corruption identified and investigated		
					during the year. The audit manager		
					must also declare that she has no		
					concerns with the gifts and hospitality		
					received by officers and councillors		
					during the year. On an annual basis		
					the committees also receive and		
					approve an annual governance		
					statement which incorporates a		
					statement on anti-fraud, bribery,		
					money laundering and whistleblowing		
					activity within the year.		
Ū					activity within the year.		
ac							
Page	Have we assessed our management of counter-fraud work	√			Through the planned audit		Agreed
ိယ	against good practice?	ľ					Agreed
4	against good practice?				programme, completion of this self-		
					assessment, review of IIA guidance,		
					internal audit networking groups and		
					the benefit fraud benchmarking		
					group.		
7	Do we raise awareness of fraud risks with:		✓		Awareness of fraud risk is good	'	Agreed
	a) new staff (including agency staff);				within the audit and (corporate)	awareness of the council's	
	b) existing staff;				governance committees, finance	anti-fraud and corruption	
	c) elected members; and				service area, Capita (finance	policies and procedures in	
	d) our contractors?				contractors) and procurement. The	the councillors guide and	
	['				council's finance procedure rules and	-	
					contract procedure rules contain	, , , , , , , , , , , , , , , , ,	
					adequate reference to the council's	Action 3 - Audit manager to	
					zero-tolerance towards fraud and	devise anti-fraud and	
					corruption. However, there is limited	corruption training	
					awareness and visibility of fraud risks		
					and the policies across the rest of the		
					organisation and members outside of	and staff.	
					the audit and (corporate) governance		
					committees. The relevant policies		
					and procedures are available to all		
					councillors, staff and members of the		
					public via the council's intranet and		
					internet.		
1							
					interrior.		

Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	~		Members of the finance service area receive NAFN and Trading Standards bulletins. The audit manager has a communication network with West Oxfordshire District Council, West Berkshire District Council, Wokingham Borough Council and Reading Borough Council and access to the IIA network to share information and working templates. The benefit fraud team are a member of an Oxfordshire benchmarking group.	Agreed
Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	√		Please see comments in section 8 above. The benefit fraud team also attend an Oxfordshire DWP/LA liaison meeting.	Agreed
Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	*		Areas are audited on a cyclical basis, based on a risk rating within the schedule of auditable activity determined by the audit manager, head of finance and section 151 officer. The risk rating incorporates financial, fraud, reputational, legal and corporate risk, as well as a score for the last assurance rating and date of last review. The audit and (corporate) governance committees and managers can also identify areas through the year that it would like the internal audit team to review. Where a significant internal control failure occurs, the section 151 officer commissions an investigation which is completed by the internal audit team as a high priority and reported to the audit and (corporate) governance committees.	Agreed
Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	√		The council generally only look at high risk referrals as agreed with external auditors. The revenues and benefits manager receives reports on matches unopened.	Agreed
Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?		√	The relevant policies and procedures are available to all staff via the council's intranet and internet to encourage staff to raise any concerns and how to do it. As mentioned in section 7, awareness of the policies could be improved.	Agreed

				T		
	Do we have effective arrangements for:	· ·		A comprehensive anti-fraud and		Agreed
	a) reporting fraud;			corruption policy, anti-fraud and		
	b) recording fraud; and			corruption response plan and		
	c) whistleblowing?			whistleblowing policy is in place.		
				Members of staff are advised to		
i				report any suspicions to the audit		
				manager, monitoring officer, section		
				151 officer, a strategic director or the		
				chief executive. Once the internal		
				audit team are notified all the details		
				are recorded in a notifications		
				register, and any formal investigation		
				is approved and signed off by the		
				section 151 officer. All investigations		
				are carried out in accordance with		
				internal audit's working practices and		
in the second				subject to quality assurance. The		'
ı				audit manager also maintains a		
				discrepancy register to record minor		
				discrepancies (such as variances in		
				banking or large cash payments), to		
				monitor any trends.		
				monitor any trends.		
14	Do we have effective fidelity insurance arrangements?	✓		Yes both councils have effective		Agreed
				fidelity insurance arrangements with		
				l - · ·		
				Zurich.		
В	Fighting fraud with reduced resources			Zurich.		
B	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the	√		Zurich. The councils are constantly		Agreed
Β 15	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	√				Agreed
в 15 Ра	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	√		The councils are constantly		Agreed
в Pag€	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	*		The councils are constantly reassessing their fraud risks, but formally on an annual basis when		Agreed
B Page 3		√		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan		Agreed
в Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	✓		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual		Agreed
в Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	√		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service		Agreed
¹⁵ Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	~		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are		Agreed
B Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	V		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area		Agreed
B 15 Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	√		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management		Agreed
15 Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	√		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now		Agreed
15 Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	~		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on		Agreed
15 Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	V		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud		Agreed
Page 36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate?	V		The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on		Agreed
36			✓	The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud	Action 4 - Implement all the	
36	Fighting fraud with reduced resources Have we reassessed our fraud risks since the change in the financial climate? Have we amended our counter-fraud action plan as a result?		·	The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review.	Action 4 - Implement all the	
36			<u> </u>	The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have	actions arising from this	
36			~	The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as		
36			✓	The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken	actions arising from this	
36 16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager.	actions arising from this review.	Agreed
16			·	The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager,	actions arising from this review. Action 5 - The head of	
16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of	actions arising from this review. Action 5 - The head of finance to review the	Agreed
16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of finance will be reviewing the	actions arising from this review. Action 5 - The head of	Agreed
16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of finance will be reviewing the	actions arising from this review. Action 5 - The head of finance to review the	Agreed
16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of finance will be reviewing the resources and structure of the staff	actions arising from this review. Action 5 - The head of finance to review the resources and structure of	Agreed
36 16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of finance will be reviewing the resources and structure of the staff allocated to corporate fraud and	actions arising from this review. Action 5 - The head of finance to review the resources and structure of staff allocated to corporate fraud and benefit fraud	Agreed
16	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of finance will be reviewing the resources and structure of the staff allocated to corporate fraud and benefit fraud work due to the pending	actions arising from this review. Action 5 - The head of finance to review the resources and structure of staff allocated to corporate fraud and benefit fraud	Agreed
36	Have we amended our counter-fraud action plan as a result?			The councils are constantly reassessing their fraud risks, but formally on an annual basis when setting the internal audit annual plan and approving the annual governance statement. Service managers on a quarterly basis are asked to review all risks in their area as part of the risk management process. Benefit fraud have now placed more emphasis on prosecutions as a deterrent to fraud based on their review. This is the first counter-fraud self-assessment the councils have completed. The actions agreed as part of this review will be taken forward by the audit manager. The revenues and benefits manager, internal audit manager and head of finance will be reviewing the resources and structure of the staff allocated to corporate fraud and	actions arising from this review. Action 5 - The head of finance to review the resources and structure of staff allocated to corporate fraud and benefit fraud	Agreed

С	Housing tenancy						
	Do we take proper action to ensure that we only allocate social housing to those who are eligible?	·			A comprehensive application form must be completed by all those seeking social housing. This application asks for a variety of information and documentary evidence before the councils allocate and carry out home visits.		Agreed
	Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	N/A	N/A	N/A	The councils do not act as landlords, and therefore the RSL's take on this responsibility.	N/A	Agreed
D	Procurement						
Pa Pa	Are we satisfied our procurement controls are working as intended?	√			The councils have not had any non compliant procurements or legal challenges for many years, and there has been negligible adverse feedback from unsuccessful suppliers. The contracts procedure rules are reviewed by full council annually, and all procurement guidance and templates are updated in line with government best practice. Procurement champions are based in service area teams, and they are trained/updated twice yearly. A dedicated procurement officer is in place to oversee the process and provide any relevant training.		Agreed
21 ge (Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	√			Contract procedure rules are reviewed by full council annually, and all procurement guidance and templates are updated in line with government best practice.		Agreed
E	Recruitment				government soot practice.		
	Are we satisfied our recruitment procedures: a) prevent us employing people working under false identities; b) confirm employment references effectively; c) ensure applicants are eligible to work in the UK; and d) require agencies supplying us with staff to undertake the checks that we require?	√			The councils check every potential employee for proof of right to work in the UK. This is normally provided through a passport, but a birth certificate and photo ID (normally a driving licence) are also accepted. Each appointment is subject to two satisfactory employment references and our central agency agreement with Champion ensures that all agency workers are also checked to the same standard.		Agreed
F	Personal budgets						
	Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	N/A	N/A	N/A	N/A	N/A	N/A
24	Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	N/A	N/A	N/A	N/A	N/A	N/A

G	Council tax					
25	Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	~		An application process verifies awards and there are annual reviews through a Capita (county council) project, NFI data matching and internal matching between revenues and benefits databases. Council tax controls are subject to annual internal audit reviews, and in 2011/2012 this area was awarded full assurance at both councils.		Agreed
Н	Housing and council tax benefits					
26	When we tackle housing and council tax benefit fraud do we make full use of the following: a) national fraud initiative; b) department for work and pensions; c) housing benefit matching service; d) internal data matching; and e) private sector data matching?		√	The benefit fraud team use a) to d) but (e) does tend to be covered by using (a) to (d).	N/A Approach considered strong by external audit.	Agreed
I	Emerging fraud risks					
27	Do we have appropriate and proportionate defences against emerging fraud risks: a) business rates; b) right to buy; c) social fund and local welfare assistance; d) local council tax support; e) schools; and f) grants?	~		Please see comments in sections 2, 4, 5, 6, 8, 10 and 15 above.		Agreed

REFT	CIPFA STANDARD REQUIREMENT	YES	PARTIAL	NO	ACTIONS REQUIRED	S151 COMMENT
age 38	General	12	2	0	Action 1 - Add a review date to the prosecution policy. Action 2 - Incorporate awareness of the council's anti-fraud and corruption policies and procedures in the councillors guide and staff induction process. Action 3 - Audit manager to devise anti-fraud and corruption training programme and make available to all members and staff.	Agreed
В	Fighting fraud with reduced resources	1	0	2	Action 4 - Implement all the actions arising from this review. Action 5 - The head of finance to review the resources and structure of staff allocated to corporate fraud and benefit fraud work.	Agreed
С	Housing tenancy	1	0	0		Agreed
D	Procurement	2	0	0		Agreed
Е	Recruitment	1	0	0		Agreed
F	Personal budgets	N/A	N/A	N/A	N/A	N/A
G	Council tax	1	0	0		Agreed
Н	Housing and council tax benefits	0	1	0	N/A Sufficient approach currently in place.	Agreed
l	Emerging fraud risks	1	0	0		Agreed
	TOTALS	19	3	2		

Audit Manager - 13/12/12 Head of Finance - 07/01/13 Section 151 Officer - 07/01/13 External Audit - 08/01/13 PLANNED AUDIT 2012/2013 APPENDIX 2

0 (N	101.1			l=	A 114								
System Name	Status	Audit Allocation	Total Days Used	Exception Issues	Audit Opinion	of Recs		No. Agreed	돌	No. Agreed		No. Agreed	Total Not Agreed
As at 17 January 2013		Audit	Total Used			No. o	High	No. A	Medium	No. A	Low	No. A	Total Agre
JOINT													
Payroll (23 priority score)	Final Issued	32											
SODC			22.5		Limited	16	0	0	10	10	6	6	0
VWHDC			22.5		Limited	15	0	0	9	9	6	6	0
Insurance (22)	Final Issued	20											
SODC			10.5		Full	2	0	0	0	0	2	2	0
VWHDC			10.5		Satisfactory	6	1	1	3	3	2	2	0
Seasonal Leisure Activities (21)	Final Issued	12											
SODC			6.5		Full	2	0	0	0	0	2	2	0
VWHDC			6.5		Full	2	0	0	0	0	2	2	0
Housing & Council Tax Benefits (20)	Commence Q4	30											
SODC			0.0										
VWHDC			0.0										
NNDR (20)	In progress	24											
SODC			7.5										
WHDC NNDR (20) SODC WHDC			7.5										
Benefit Fraud (20)	Final Issued	20											
SODC			7.5		Full	3	0	0	1	1	2	2	0
VWHDC			7.5		Full	3	0	0	1	1	2	2	0
Council Tax (19)	TOR sent	24											
SODC			0.5										
VWHDC			0.5										
Creditor Payments (19)	Final Issued	20											
SODC			10.5		Satisfactory	6	0	0	1	1	5	5	0
VWHDC			10.5		Satisfactory	6	0	0	1	1	5	5	0
General Ledger (19)	In progress	20											
SODC			3.5										
VWHDC			3.5										
Budgetary Control (18)	Commence Q4	16											
SODC			0.0										
VWHDC			0.0										
Sundry Debtors (18)	Final Issued	20											
SODC			10.5		Satisfactory	4	0	0	1	1	3	3	0
VWHDC			10.0		Satisfactory	4	0	0	1	1	3	3	0

Data Protection (18)	Final Issued	10											1
SODC			7.5	Satisfactory	6	0	0		1	1	5	4	1
VWHDC			7.5	Satisfactory	6	0	0			1	5	4	1
Pro-Active Anti-Fraud Review (17)	TOR sent	16	7.0	Guilolabioly	-		Ū			•	-		•
SODC	TOTA COIN		0.0										
VWHDC			0.0										
Receipt of Income Arrangements (17)	TOR sent	20	0.0					-					
SODC			0.0										
VWHDC			0.0										
Risk Management (17)	Final Issued	14						1					
SODC			7.0	Satisfactory	8	0	0		5	3	3	1	4
VWHDC			7.0	Satisfactory	9	0	0		5	3	4	2	4
Mobile Home Parks (16)	Draft out	24		,									
SODC			9.5										
VWHDC			8.5										
Emergency Planning (16)	Final Issued	10											
SODC			5.5	Satisfactory	4	0	0		1	1	3	3	0
VWHDC			5.5	Satisfactory	4	0	0		1	1	3	3	0
Treasury Management (16)	In progress	14		-									
SODC			1.0										
VWHDC			1.0										
Capital Management and Accounting (15)	TOR sent	14											
SODC			0.5										
S VWHDC			0.5										
Housing Allocations (15)	Final Issued	20											
SODC			7.0	Full	0	0	0)	0	0	0	0
VWHDC			7.0	Full	0	0	0)	0	0	0	0
Temporary Accommodation (VWHDC rent accounting) (15)	Commence Q4	24											
SODC			0.0										
VWHDC			0.0										
Planning Control (14)	TOR sent	20											
SODC			0.0										
VWHDC			0.0										
Discretionary Grants (13)	Final Issued	16											
SODC			11.0	Satisfactory	5	0	0	()	0	5	4	1
VWHDC			11.0	Limited	8	3	2	:	2	2	3	3	1
Information Governance (12)	Final Issued	20											
SODC			4.5	Satisfactory	6	0	0		1	0	5	3	3
VWHDC			4.0	Satisfactory	6	0	0		1	0	5	3	3

Page 40

Freedom of Information (11)	Final Issued	16											
SODC			8.0		Satisfactory	7	0	0	2	2	5	4	1
VWHDC			8.0		Satisfactory	7	0	0	2	2	5	4	1
Carbon Management Programme (None)	Final Issued	20											
SODC			13.0		Satisfactory	7	0	0	2	2	5	5	0
VWHDC			13.5		Satisfactory	7	0	0	2	2	5	5	0
SODC													
Cornerstone (15)	Final Issued	10	9.0		Satisfactory	6	0	0	0	0	6	6	0
Leader Project Grant Verification (9)	Final Issued	4	1.5		Full	0	0	0	0	0	0	0	0
VWHDC													
Wantage Civic Hall (17)	Draft out	10	15.0										
TOTALS	-	510	323.0			159	4	3	54	48	101	88	20
				Full	8								
				Satisfactory	19								
				Limited	3								
				Nil	0								

FOLLOW UP AUDITS 2011/2012

System Name	Total Days Used	Original Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC							
Planning Fees	0.5	Full	3	1	0	2	0
Licencing	0.5	Satisfactory	9	2	0	0	7
Waste Management and Recycling	0.5	Limited	13	6	3	4	0
Establishment Listing	0.5	Limited	3	3	0	0	0
Brown Bins	0.5	Satisfactory	7	4	0	3	0
Building Control	0.5	Satisfactory	3	0	1	2	0
Equalities and Diversity	0.5	Satisfactory	8	2	2	0	4
Travel and Subsistence	0.5	Satisfactory	13	7	2	4	0
HR Pro and Annual Leave Entitlement	0.5	Limited	6	5	0	1	0
Verification of Performance Indicators	0.5	Satisfactory	6	4	0	2	0
Election Payments	0.5	Satisfactory	6	1	0	2	3
VWHDC							
Cash Office	0.5	Limited	13	12	1	0	0
Planning Fees	0.5	Full	2	1	0	1	0
ICT	0.5	Limited	6	2	1	3	0
Licencing	0.5	Satisfactory	8	2	0	0	6
Waste Management and Recycling	0.5	Limited	14	5	3	6	0
Establishment Listing	0.5	Limited	3	3	0	0	0
Brown Bins	0.5	Satisfactory	5	2	0	3	0
Building Control	0.5	Satisfactory	3	0	1	2	0
Equalities and Diversity	0.5	Satisfactory	9	3	2	0	4
Travel and Subsistence	0.5	Satisfactory	14	9	2	3	0
HR Pro and Annual Leave Entitlement	0.5	Limited	5	4	0	1	0
Verification of Performance Indicators	0.5	Satisfactory	7	5	0	2	0
Election Payments	0.5	Satisfactory	6	1	0	2	3
TOTALS							

FOLLOW UP AUDITS 2012/2013

	Total Days Used	Original Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC							
Benefit Fraud	0.5	Full	3	2	0	0	1
Emergency Planning	0.5	Satisfactory	4	2	0	2	0
VWHDC							
ICT	0.5	Limited	4	3	1	0	0
Grounds Maintenance	0.5	Satisfactory	8	4	0	4	0
Benefit Fraud	0.5	Full	3	2	0	0	1
Emergency Planning	0.5	Satisfactory	4	2	0	2	0

UNPLANNED WORK 2012/2013

CONSULTANCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
Spot check of internet usage	Completed	2 days	0.5 days	Section 151 Officer
SODC				
VWHDC				
HR Pro	Completed	2 days	3 days	ACGC Chairman

CONTINGENCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
asodc				
Planning policy	Completed	15 days	17.5 days	Strategic Director - Anna Robinson
†VWHDC				

SYSTEM DEVELOPMENT

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
SODC				
VWHDC				

PLANNED AUDITS

	PRIORITY	Apr	ril		Ma	у			Ju	ne		J	uly			Α	ugus	st		Se	epter	mber			tobe						Dec								Feb	ruar	у	Mar			_
JOINT		1	2	3 4	1	2	3 4	4 5	1	2	3	4	1	2	3	4	1 2	3	4	5 1	2	3 4	4	1	2	3 4	4 5	1	2	3 4	1	2 :	3 4	4 1	2	3	4	5	1	2 :	3 4	1	2	3	
Payroll	23	3																																											
Insurance	22	2																																										7 [
Seasonal Leisure Activities	2	1																																										7 [
Housing & Council Tax Benefits	20	0																																										7 [
NNDR	20	0																																										7 [
Benefit Fraud	20	0																																										7 7	
Council Tax	19	9																																										7 7	
Creditor Payments	19	9																																										7 7	
General Ledger	19	9																																										7 1	
Budgetary Control	18	8																																											
Sundry Debtors	18	8											7			T							7																					7 /	
Data Protection	18	8											7			T							7									Т	1											7 1	
Pro-Active Anti-Fraud Review	17	7											7	Ħ		T					П		7															Ħ							Ī
Receipt of Income Arrangements	17	7											7	Ħ		T							7																					7.	
Risk Management	17	7			П											T							T <mark>l</mark>															П						T.	
Mobile Home Parks	16	6											9			T																					<u>0</u>							9	
Emergency Planning	16	6			П								AC			T							AC														AC							AC AC	
Treasury Management	16	_			m											T							1															Ħ						1	
Capital Management and Accounting					Ħ							T								1			7											1				H						1	
	15	5																																											
Housing Allocations	15	5																																										7 [
Temporary Accommodation (VWHDC																																													l
rent accounting)	15	5																																											
Planning Control	14	4																																										7 [
Discretionary Grants	13	3																																										7 [
Information Governance	12	2													ĺ																														
Freedom of Information	11	1													ĺ									П																					
Carbon Management Programme	None																																												
SODC	PRIORITY																																												•
Cornerstone	15	5																																											
Leader Project Grant Verification		9														I																													
VWHDC	PRIORITY											I				I							1			I							I				1								-
Wantage Civic Hall	17	7														⊥																													

FOLLOW UP AUDITS

	PRIORITY	Apr	il		Ма	у			Ju	ne		Jι	ıly			Au	gust	t	Sep	otem	ıber		Oct	obe	r		Nov	embe	er	Dec	emb	er	Ja	nuar	у		Feb	rua	ry	Ма	rch		
JOINT		1		3 4	1	2	3	4 5	1	2	3 4	4 1	1	2	3 4	1 1	2	3			3 4		1	2	3 4	5	1	2 3	4	1	2 ;	3 4	4 1	2	3	4			3 4	1	2	3	4
Brown Bins													7 [
Equalities & Diversity																																										7	
Establishment Listing													7 [
Licensing																																										7	
Planning Fees																																										7	
Travel & Subsistence																																											
Waste Management & Recycling													7 [
Building Control													7 [
ICT													7 [
Verification of PI's													ပ									ပ														ပ						ပ	, <u> </u>
Elections Payments													ဗ္ဗ									ဗ္ဗ														ဗ္ဗ						၂	
Benefit Fraud													Ă									Ă														Ă						Ă	
Grounds Maintenance													7 [
Hr Pro and Annual Leave																																										7	
Emergency Planning													7 [
Risk Management													7 [
Insurance																																										7	
Freedom of Information													7 [
SODC													7 [
None																																											
VWHDC																																											
Cash Office																																											

UNPLANNED AUDITS

	PRIORITY	Аp	ril		Ma	ay			J	June			Jul	у			Αu	gust	t		Sep	pten	nber		Ос	tobe	r		No	vem	ber	De	cem	ber	r J	lanu	ary			F	ebr	uary		Mar	ch		
JOINT		1	2	3	4 1	2	3	4	5	1 2	2 3	4	1		2 3	4	1	2	3	4 5	1	2	3 4	4	1	2	3	4 5	1	2	3 4	1 1	2	3	4	1 :	2 3	4		5	1	2 3	4	1	2	3	4
Spotcheck of intranet usage														[Τ.,																						٦.,	F
SODC														8										9															ဗ္ဗ							_6	Ē
Planning Policy														AC.										AC C															4C								/T
VWHDC														`										7																						7	<u> </u>
HR Pro																																														7	Г

Key

In Progress
Draft Issued

Page 45

Report to:



Listening Learning Leading

Cabinet

Council

Audit and Corporate Governance Committee

Report of Head of Finance

Author: Nikki Thomas Tel: 01491 823551

E-mail: nikki.thomas@southandvale.gov.uk Cabinet Member responsible: David Dodds

Tel: 01844 297714

E-mail: david.dodds@southoxon.gov.uk

To: Audit and Corporate Governance Committee on: 29 January

2013

To: Cabinet on: 14 February 2013 To: Council on: 21 February 2013

AGENDA ITEM NO 6

Treasury management mid year monitoring report 2012/13

Recommendations

That Audit and Corporate Governance committee:

- 1. notes the treasury management mid year monitoring report 2012/13, and
- 2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

2. Considers any comments from Audit and Corporate Governance committee and recommends council to approve the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that the council's prudential indicators are reported to council mid year. The report provides details of the treasury activities for the first six months of 2012/13 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

2. An effective treasury management strategy is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's other strategic objectives.

Background

- 3. The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice requires a monitoring report to be provided mid year to council. The report covers the treasury activity for the period 1 April to 30 September,
- 4. The 2012/13 treasury management strategy was approved by council on 22 February 2012. This report provides details on the treasury activity and performance for the first six months of 2012/13 against prudential indicators and benchmarks set for the year. It is also an opportunity to review and revise the limits if required. Full council is required to approve this report.

The economy and interest rates

5. An update on the economic conditions and interest rate forecasts is in appendix A.

Icelandic banks - Kaupthing Singer & Friedlander

- 6. The council has now received £1,999,767 in respect of the claim for £2.6 million (£2.5 million investment plus interest) from the investment made with the failed Icelandic bank Kaupthing Singer & Friedlander (KSF).
- 7. The administrators intend to make further payments at regular intervals. The latest information states that it is the administrators' current intention to pay the tenth dividend in approximately six months' time. The estimated total amount to be recovered is forecast to be in the range of 81p to 86p in the pound. This equates to between £2,130,975 and £2,262,517

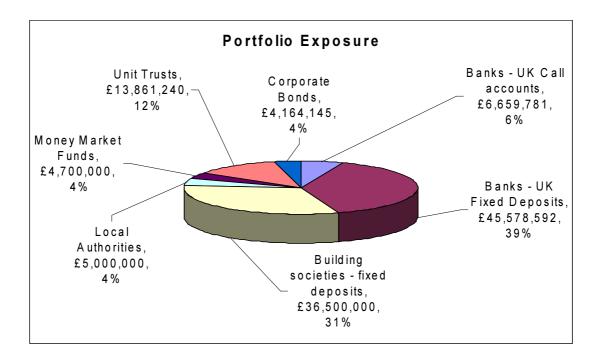
Investments

8. In accordance with the Code the council's investment position as at 30 September 2012 is shown in table 1 below.

Table 1: maturity structure of investments at		% holding
30 September 2012:	Total £000's	
Cash deposits:		
Call accounts	5,172	4%
Notice account	1,487	1%
Up to 1 month	7,000	6%
2 Month	9,000	8%
3 Month	1,000	1%
4 Month	2,000	2%
5-6 Month	19,500	17%
7-12 Month	25,500	22%
1 -2 Year	17,500	15%
2-5Year	5,000	4%
Kaupthing Singer & Friedlander	579	1%
Total cash deposits	93,738	81%
Equities	13,861	12%
Corporate bonds	4,164	3%
Money market funds	4,700	4%
Total investments	116,465	100%

Note: £116.465 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and Thames Valley Police, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.

- 9. The council currently holds a significant proportion of its investments in the form of cash deposits, the majority of which have been placed for fixed terms with a fixed investment return. Six per cent of the entire investment portfolio is held on call or in notice accounts, with 81 per cent of the total investment portfolio held in cash deposits.
- 10. The chart below shows in percentage terms how the portfolio is spread across the types of investments.



11. Total investment income is forecast to be around £2.6 million in 2012/13 against a budget of £2.5 million. Table 2 shows the interest earned for the first six months.

Table 2: Investment interes	t earned by	/ investme	nt type	
	Inte	erest Earned	Apr - Sep 20)12
	Annual	Actual	Profiled	Variation
Investment type	Budget	To date	Budget	
	£000's	£000's	£000's	£000's
Call accounts	43	44	21.5	23
cash deposits < 1 yr	1,057	254	528.5	(275)
Cash deposits > 1 yr	705	643	352.5	291
MMF	30	20	15	5
Corporate bonds	411	198	205.5	(8)
Transferred Debt	10	0	5	(5)
Equities	250	212	125	87
Total Interest	2,506	1,371	1,253	118

Treasury activity

12. It has been difficult to place investments during the first six months of the year because of the continued financial uncertainty. At the start of the year some good rates were achieved which have contributed to the increase in investment income for the first half of the year. During May through to July deposits were placed mainly at rates which ranged between 1.50 per cent and 1.82 per cent. Since the end of August rates have dropped considerably.

- 13. Re-investment opportunities are not nearly as attractive as six months ago, one year rates have dropped by over 1.25 per cent. There is currently little incentive to reinvest longer term periods. Cash deposits are being held short term with a view to re-investing for longer periods as the medium term rates improve. The governments Funding to Lending Scheme has lowered bank funding costs and has been extended to building societies. This access to cheaper borrowing is a key factor in the fall in market rates now available.
- 14. The weighted average maturity period has decreased to 231 days. As a result of the many banking downgrades there are now fewer financial institutions meeting the council's investment criteria. When it is possible investments will be placed with highly rated institutions with a view to increase the weighted average maturity of the portfolio.
- 15. The value of the unit trusts has moved from £13.4 million at the start of April up to £13.9 million at the end of September. This movement is expected in the current volatile markets where investors are moving between safer havens such as gilts and moving back into equities when the markets look calmer.

Performance measurement

16. A list of investments as at 30 September is shown in appendix B. All investments were with approved counterparties. The average level of investments held was £113 million and the average return on these investments is shown below in table 3. This shows in summary the performance of the council's investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council's investment performance for each type of investment.

Table 3: investment retui	ns achieved a	against be	enchmark	
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Bank & building society deposits - non-managed	0.73%	2.27%	1.54%	3 Month LIBID
Equities	0.75%	1.43%	0.68%	FTSE all shares index
Corporate bonds	0.50%	5.68%	5.18%	BoE base rate

Note: the benchmark return for equities reflects the movement in capital value. All other benchmarks reflect earnings of investment income.

Treasury management limits on activity

17. The council is required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if

these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are shown in appendix C.

Debt activity during 2012/13

18. During the first six months of 2012/13 there has been no need for the council to borrow. The council will continue to take a prudent approach to its debt strategy. The prudential indicators and limits set out in appendix C provide the scope and flexibility for the council to borrow in the short-term up to the maximum limits, if such a need arose within the cash flow management activities of the authority, for the achievement of its service objectives.

Recommended changes to the treasury management strategy

19. Council approved the 2012/13 treasury management strategy on 24 February 2012. There are no proposed changes to the strategy for 2012/13 at this time.

Financial implications

- 20. This time last year forecasts were that inflationary pressures would mean that interest rates would have to start rising towards the end of 2012. This hasn't happened and the current outlook for growth for the UK economy means interest rates are very low and likely to remain so. Investments made early in 2012 should ensure that the interest earned on investments for 2012-13 is around £2.6 million. However from 2013 income may reduce for a year or so until market rates rise. This will be reflected in the council's medium term financial plan.
- 21. Investments including working capital, are projected to fall to approximately £90 million by 2015/16. Should investment rates recover to three percent then annual returns will be around £3 million.

Legal implications

22. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

Conclusion

- 23. This report provides details of the treasury management activities for the period 1 April 2012 to 30 September 2012 and the mid year prudential indicators to council.
- 24. These details confirm that treasury activities have operated within the agreed parameters set out in the approved treasury management strategy, and provides the monitoring information for audit and corporate governance committee to fulfil the role of scrutinising treasury management activity.

Background papers

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes
- CIPFA Prudential Code for Capital Finance in Local Authorities
- Various committee reports, principally:-
 - I. Treasury Management Policy Statement, Treasury Management Practices (cabinet 7 March 2002)
 - II. Recommendation of amendment to delegated authority (council 28 October 2004)
 - III. Treasury Management Investment Strategy 2012/13(cabinet 14 February 2012, council 24 February 2012)

Appendices

- A Economic update and interest rates
- B List of investments as at 30.9.12
- C Prudential Indicators

¹ Chartered Institute of Public Finance and Accounting (CIPFA)

Economic Update and interest rates

- A1. The Bank of England lowered its expectations for the speed of recovery and rate of growth in August. The growth in the UK economy remains weak and forecasts for growth have been reduced for the next two years. Forty percent of the UK output depends on overseas trade. The euro zone (EZ) economies remain weak and concerns persist that some EZ countries are falling into negative growth.
- A2. Higher unemployment, job fears, high inflation eroding disposable incomes, small or no pay increases are all factors contributing to consumers ability to spend and overall living standards have fallen in real terms due to the sharp price rises relative to wages. Average real wages have fallen every month since June 2008. The squeeze on households' income will remain a critical factor in the economy over the next few years. Inflation is the main cause and will continue to have the greatest impact on living standards as real income will continue to decline. The weak recovery has meant that social security payments remain high and tax income is low.
- A3. Looking ahead the EZ crisis is far from resolved as Greece has failed to achieve the deficit reduction targets so a third bail out may be required. Northern EU countries may not agree to support this. Economic growth is forecast to remain low for the next 24 months and the base rate will not be increased whilst growth is low. This means that investment returns will also remain low.
- A4. The government Funding for Lending Scheme has been introduced to improve access to mortgages at lower rates. This has affected lenders need to borrow and money market rates have fallen considerably as a result. There will be a need to increase interest rates and reverse the government bond purchases at some stage, but it is unlikely to happen in the next 12 to 24 months.
- A5. Investor demand in UK gilts as a 'safe haven' continues to keep yield increases down. Long term rates will eventually rise, mainly due to the fact that high volumes of gilts have been issued already in the UK and also in other major western countries.
- A6. The interest rate forecast is based on the assumption that growth starts to recover in the next three years. If the EZ crisis worsens or low growth in the UK continues the base rate is likely to remain low for longer than this forecast.
- A7. Concerns over investment counterparty risk remain because of the volatile economic conditions. However the council's current treasury management policy manages this risk down to a low level.

- A8. The Bank of England changed its forecast significantly in the August Inflation report and reduced growth to 1% in 2013 and 2% in 2014.
- A9. **Bank rate** remained unchanged at 0.5% throughout the first half of 2012/13. The earlier forecast of a rate rise in September 2013 has been postponed until Q4 in 2014.

Bank rate		
	Now	Previously
Q1 2013	0.50%	0.50%
Q1 2014	0.50%	0.50%
Q1 2015	0.75%	1.00%

- A10. **Deposits rates** have fluctuated in a very narrow range during the first six months of the financial year. Investment rates have remained flat with a range between 0.5 per cent to around 1.5 per cent for up to a year's maturity. This has dropped significantly as banks and building societies were offered further cheap cash supply. The short term rates from one month to six months offer very little differential with six month rates ranging between 0.37 percent and 0.63 percent.
- A11. Sector's forecast of the expected movement in medium term interest rates:

	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank base rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
3m LIBID	0.50%	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%
6m LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%
12m LIBID	0.70%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%
5 yr PWLB rate	1.60%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%
10 yr PWLB rate	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%
25 yr PWLB rate	3.80%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%
50yr PWLB rate	3.90%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%

Investments as at 30 September 2012

Counterparty	Deposit Type	Principal	Rate
Furness Building Society	Fixed	1,000,000	1.60%
Furness Building Society	Fixed	2,000,000	1.60%
Nottingham Building Society	Fixed	3,000,000	1.50%
Furness Building Society	Fixed	1,000,000	1.50%
Barclays Bank plc	Fixed	5,000,000	1.75%
Nottingham Building Society	Fixed	2,000,000	1.85%
Hinkley & Rugby Building Society	Fixed	2,000,000	1.50%
Market Harborough	Fixed	1,000,000	1.70%
Furness Building Society	Fixed	2,000,000	1.40%
National Counties Building Society	Fixed	1,500,000	1.70%
Nationwide	Fixed	3,000,000	1.52%
Nottingham Building Society	Fixed	1,000,000	1.74%
Nottingham Building Society	Fixed	2,000,000	1.70%
Bank of Scotland	Fixed	2,000,000	3.10%
National Counties Building Society	Fixed	2,500,000	1.55%
Barclays Bank plc	Fixed	1,500,000	1.56%
National Counties Building Society	Fixed	2,000,000	1.80%
Nottingham Building Society	Fixed	2,000,000	1.82%
Newcastle Building Society	Fixed	2,000,000	1.75%
National Counties Building Society	Fixed	1,000,000	1.40%
Bank of Scotland	Fixed	1,000,000	2.55%
Brentwood Borough Council	Fixed	2,000,000	2.16%
National Counties Building Society	Fixed	1,500,000	1.80%
Nottingham Building Society	Fixed	2,000,000	1.75%
Saffron Building Society	Fixed	2,000,000	1.65%
Lloyds TSB	Fixed		2.80%
Lloyds TSB		5,000,000	2.85%
Doncaster MBC	Fixed	4,000,000 2,000,000	1.05%
Lloyds TSB	Fixed		
*	Fixed	5,000,000	2.80%
Barclays Bank plc	Fixed	2,000,000	2.60% 2.80%
Bank of Scotland	Fixed	3,000,000	
Barclays Bank plc	Fixed	3,000,000	2.75%
Royal Bank of Scotland	Fixed	5,000,000	2.82%
Royal Bank of Scotland	Fixed	1,500,000	3.25%
Royal Bank of Scotland	Fixed	1,500,000	3.10%
Barclays Bank plc	Fixed	1,500,000	2.60%
Barclays Bank plc	Fixed	2,000,000	3.75%
Kingston upon Hull City Council	Fixed	1,000,000	1.90%
HSBC	Fixed	2,000,000	1.90%
Santander	Call	5,170,000	0.90%
Alliance & Leicester 30 Day Notice A/c	Call	1,487,493	0.90%
Royal Bank of Scotland	Call	2,288	0.85%
Goldman Sachs	MMF	1,210,000	Variable
Deutsche Bank	MMF	3,000,000	Variable
Blackrock	MMF	490,000	Variable
L&G Equities	Unit Trust	13,861,240	Variable
Royal Bank of Scotland	Corporate Bond	1,666,800.00	9.63%
Halifax	Corporate Bond	2,183,200.00	11.50%
Santander	Corporate Bond	314,145.00	11.50%
GRAND TOTAL		116,463,758	

Prudential indicators as at 30th September 2012

	2012/13 Original Estimate	Actual as at 30-Sep
Debt	£m	£m
Authorised limit for external debt	2111	2111
Borrowing	5	0
Other long term liabilities	5	0
• • • • • • • • • • • • • • • • • • •	10	0
Operational boundary for external debt	-	
Borrowing	2	0
Other long term liabilities	3	0
	5	0
Interest rate exposures		
Maximum fixed rate borrowing	10	0
Maximum variable rate borrowing	10	0
Investments		
Interest rate exposures		
Limits on fixed interest rates	100	89
Limits on variable interest rates	30	5
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	70	23
Limit to be placed on investments to maturity:		
1 - 2 years	70	18
2-5 years	50	5
5 years+	50	0
Investment portfolio spread		
Supranational bonds	15	0
Gilts	15	0
Equities*	10	14
Corporate bonds	10	4
Money market funds	20	5
Pooled bond fund	5	0
Property - direct investments	30	16
Property related pooled funds	10	0
External fund manager	20	0
Cash and certificates of deposit	85%	81%
Debt management account deposit facility	100%	0%
, ,		

^{*}Limit at time of purchase - Equities include accumulated dividends

Page 57 11

This page is intentionally left blank

Report to:

Audit and corporate governance committee

Cabinet

Council

Report of Head of Finance

Author: Nikki Thomas

Tel: 01235 540429 / 01491 823551

E-mail: nikki.thomas@southandvale.gov.uk Cabinet Member responsible: David Dodds

Tel: 01844 297714

E-mail: david.dodds@southoxon.gov.uk

To: Audit & Corporate Governance Committee
To: Cabinet
To: Council

29 January 2013 14 February 2013 21 February 2013



Listening Learning Leading

AGENDA ITEM NO 7

Treasury management strategy 2013/14 to 2015/16

Recommendations:

That audit and corporate governance committee:

1. Scrutinise the treasury management strategy and policy and if required make recommendations for amendment to cabinet.

That cabinet recommends council to approve:

- 2. the treasury management strategy 2013/14 to 2015/16, incorporating the annual investment strategy, which is contained within appendix A of the report of the head of finance to cabinet on 14 February 2013,
- 3. The prudential indicators and limits for 2013/14 to 2015/16, which are contained within appendix A of the report of the head of finance to cabinet on 14 February 2013.

Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2013/14 to 2015/16 and sets out the expected treasury operations for this period. It comprises of four elements required by legislation as follows:

Page 59 7-1

- The <u>prudential indicators</u> required by the CIPFA Prudential Code for Capital Finance in Local Authorities (paragraph 8, table 2);
- The <u>treasury management strategy</u> in accordance with the CIPFA Code of Practice on Treasury Management. This sets out how the council's treasury service will support capital investment decisions, and how the treasury management operates day to day. Its sets out the limitations on treasury management activity through prudential indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report (paragraphs 1-49);
- The <u>annual investment strategy</u>. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments. This strategy is in accordance with the DCLG investment guidance and forms part of the treasury management strategy. (appendix A, paragraphs 20 49);
- A statutory duty to approve a minimum revenue provision policy for 2013/14 (paragraphs 44-45).

It is a requirement of the CIPFA 2011 Treasury Management Code that this report is approved by Full Council on an annual basis.

Strategic objectives

2. Effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's other strategic objectives.

Background

- 3. Treasury management is the management of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and the long term cash flow plans to ensure that the council can meet its capital spending obligations.
- 5. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.
- 6. The council could choose to adopt a totally risk adverse strategy and place all its investments in the government's debt management account. Although this would all but eliminate the possibility of repayment default, it would also result in a poor return on investment. Should the council have adopted such a strategy over the past 10 years it would have earnt £60m less in interest than its adopted strategy delivered. The council therefore sets a strategy that takes marginal risk in return for greater reward.

Page 60 7-2

7. The council's treasury management strategy 2013/14 to 2015/16 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, by its very nature and the need for compliance with associated guidance the report is technical in parts. A glossary of terms in annexe 6 should aid members understanding of some technical terms used in the report.

Recommended changes to the treasury management strategy

- 8. The biggest operation challenge for officers is to find suitable counter-parties to lend to. As credit rating fall across the board so the options available to officers reduce. The larger, higher rates institutions will not deal in the (relatively) small sums our lending limits impose and so we must look to amending our lending criteria to allow us to place amounts with a larger range of institutions. These recommendations address this reality.
- 9. Council approved the 2012/13 treasury management strategy on 22 February 2012. The proposed strategy for 2013/14 includes the changes detailed below, which cabinet is asked to recommend to council:
 - a. Building societies more detailed criteria for investment amounts and maturity periods have been set out linked to the asset base of building societies:
 - 1) Current:
 - Assets over £1bn with a F1 credit rating we can lend £15m for up to one year
 - Assets over £1bn but unrated we can lend £15m for up to nine months
 - Assets over £500m but unrated we can lend £10m for up to six months

2) Proposed:

- Assets over £5bn but unrated we can lend up to £15m for up to one year
- Assets over £1bn but unrated we can lend up to £10m for up to ten months
- Assets over £500m but unrated we can lend up to £6m for up to nine months
- Assets over £0.25bn but unrated we can lend up to £4m for up to six months

The building society sector has been largely unaffected by the credit issues that have affected the banking sector. Societies' business model is relatively simple and transparent in comparison with banks, with a culture focused on their customers. They are strictly regulated by the building societies Act 1986 within which funding and lending limits control how much of the business is secured in residential property and shares held by individuals. The changes proposed above will add a further 11 building societies to the counterparty list.

- b. Housing Associations a new category has been set for investments to be made in this sector up to £15 million. Officers are currently exploring the options of this type of investment which would be either through the purchase of corporate bonds and linked to a credit rating of the institution or an investment which would be appropriately secured on the assets.
- c. Institutions individual and support ratings criteria removed. Rated institutions are given individual and support ratings and our previously approved limits set

Page 61 7-3

out criteria for these ratings. The ratings agencies have in the main downgraded most financial institutions and the support ratings do not reflect any government support provided. This distorts the criteria if used, as it is clear that the UK government has provided a guarantee scheme and financial support to the financial sector. Additional data is now used to support the assessment of counterparties further details are provided in paragraphs 33 to 39 of appendix A.

Financial implications and risk assessment

- 10. This report and all associated policies and strategies set out the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to protect the council's finances by managing its risk exposure.
- 11. In the last few years investment income has fallen due to falling interest rates. In the medium term interest rates are expected to rise. The table below gives an estimate of the amounts available for investment, and the investment income achievable for the next four years.

Table 1: Medium term investment incor	ne forecast.				
	2012/13	2013/14	2014/15	2015/16	2016/17
	£000's	£000's	£000's	£000's	£000's
Estimate of average investments	115,500	97,337	92,904	89,380	85,303
Forecast average interest rate	2.26%	2.00%	2.25%	2.50%	3.00%
December 2012 forecast investment income	2,605	1,947	2,090	2,235	2,559

The 2013/14 budget setting report takes into account the latest projections of anticipated investment income.

Legal implications

- 12. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.
- 13. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the ODPM Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

14. This report provides details of the proposed changes to the treasury management strategy and the annual investment strategy for 2013/14 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which officers will operate the council's treasury management function.

Page 62 **7-4**

Background papers

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (revised 2011)
- ODPM Local Government Investment Guidance under Section 15(1)(a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.
- Treasury Management Investment Strategy 2012/13 (cabinet 10 February 2012, council 22 February 2012)
- Amendments to the Treasury Management Strategy (Audit and Governance committee 11 July 2012)
 - I. Treasury Management Policy Statement, Treasury Management Practices (cabinet 7 March 2002)
 - II. Recommendation of amendment to delegated authority (council 28 October 2004)
 - III. Treasury Management Investment Strategy (cabinet 13 February 2012, council 22 February 2012)

Appendices

Appendix A	Treasury Management Strategy 2013/14 – 2015/16
Annex 1	Economic conditions and prospects for interest rates
Annex 2	Risk and performance benchmarking
Annex 3	Property investment policy
Annex 4	Explanation of prudential indicators
Annex 5	TMP1
Annex 6	Glossary of terms

Page 63 **7-5**

Treasury Management Strategy 2013/14 to 2015/16

Introduction

- 1. The Local Government Act 2003 and supporting regulations require the council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable.
- 2. The Act requires the council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3. The strategy in respect of the following aspects of the treasury management function is based on treasury officers' views on interest rates, supplemented with market forecasts provided by the council's treasury advisor, Sector Treasury Services. The strategy covers:
 - Prudential and treasury indicators in force that will limit the treasury risk and activities of the council;
 - Current treasury position
 - Borrowing strategy
 - Policy on borrowing in advance of need;
 - Investment strategy;
 - Counterparty selection and limits;
 - Policy on use of external service providers;
 - Minimum revenue Provision (MRP) statement;
 - Treasury management scheme of delegation and Section 151 role.
- 4. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level where any increases in charges to revenue from:
 - Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
 - Any increases in running costs from new capital projects

are identified and limited to a level which is affordable.

A key requirement of the strategy is to explain the risks, and the management of those risks, associated with providing the treasury service. Legislation requires that as a minimum two further treasury reports are provided: a mid-year monitoring report and an outturn report after the year-end that reports on actual activity for the year.

7-6

Appendix A

Treasury Limits for 2013/14 to 2015/16

- 5. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the "Affordable Borrowing Limit". The Authorised Limit is the legislative limit specified in the Act.
- 6. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and in particular, that the impact upon its future council tax is 'acceptable'.
- 7. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.

Cabinet is asked to recommend council to approve the limits set out in table 2:

7-7

		Appellaix A			
Table 2: Prudential indicators					
	2012/13	2013/14	2014/15	2015/16	
	Estimate	Estimate	Estimate	Estimate	
Debt	£m	£m	£m	£m	
Authorised limit for external debt					
Borrowing	5	5	5	5	
Other long term liabilities	5	5	5	5	
	10	10	10	10	
Operational boundary for external debt					
Borrowing	2	2	2	2	
Other long term liabilities	3	3	3	3	
	5	5	5	5	
Interest rate exposures					
Maximum fixed rate borrowing	nil	100%	100%	100%	
Maximum variable rate borrowing	nil	100%	100%	100%	
Investments					
Interest rate exposures					
Limits on fixed interest rates	100	100	100	100	
Limits on variable interest rates	30	30	30	30	
Principal sums invested > 364 days					
Upper limit for principal sums invested >364 days	70	70	70	70	
Limit to be placed on investments to maturity:					
1 - 2 years	70	70	70	70	
2-5 years	50	50	50	50	
5 years+	50	50	50	50	
Investment portfolio spread - (upper limits)					
Supranational bonds	15	15	15	15	
Gilts	15	15	15	15	
Equities*	10	10	10	10	
Corporate bonds	10	10	10	10	
Money market funds	20	20	20	20	
Pooled bond fund	5	5	5	5	
Property - direct investments	30	30	30	30	
Property related pooled funds	10	10	10	10	
External fund manager	20	20	20	20	
Cash and certificates of deposit	85%	85%	85%	85%	
Debt management account deposit facility	100%	100%	100%	100%	
*Limit at time of purchase - Equities include accumulate	d dividends				

8. The indicators set the parameters within which we manage the overall capital investment and treasury management functions. The specific treasury activity limits aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. Explanations for the indicators can be found in Annex 4 of the report.

Current position

9. The council's investments at 31 December 2012 were as follows:

Page 66 **7-8**

Table 3: maturity structure of investments at	% holding	
31 December 2012:	Total £000's	
Cash deposits:		
Call accounts	23,022	18%
Notice account	1	0%
Up to 1 month	2,000	2%
2 Month	12,000	10%
3 Month	7,500	6%
4 Month	4,000	3%
5-6 Month	11,500	9%
7-12 Month	37,000	30%
1 -2 Year	3,500	3%
2-5Year	3,000	2%
Kaupthing Singer & Friedlander	500	1%
Total cash deposits	104,023	84%
Equities	12,481	10%
Corporate bonds	4,174	3%
Money market funds	3,990	3%
Total investments	124,669	100%

10. The council currently holds 84 per cent of its investments in the form of cash deposits, 60 per cent is invested for fixed terms with a fixed investment return and 18 per cent is currently held on call accounts, with the remainder held in non cash deposits. Typically the council restricts lending activity to UK institutions and the highest rated counterparties.

Icelandic banks - Kaupthing Singer & Friedlander

- 11. The council has now received £1,999,767 in respect of the claim for £2.6 million (£2.5 million investment plus interest) from the investment made with the failed Icelandic bank Kaupthing Singer & Friedlander (KSF).
- 12. The administrators intend to make further payments at regular intervals. The latest information states that it is the administrators' current intention to pay the tenth dividend in approximately six months' time. The estimated total amount to be recovered is forecast to be in the range of 81p to 86p in the pound. This equates to between £2,130,975 and £2,262,517

Investment performance for the year to 31 December 2012.

13. The council's budgeted investment return for 2012/13 is £2.5 million, and the actual interest earned to date is shown as follows:

Page 67 7-9

Table 4: Investment interest earned by investment type							
	Interest Earned 2012/13						
	Annual	Actual	Annual	Variation			
Investment type	Budget	To date	Forecast				
	£000's	£000's	£000's	£000's			
Call accounts	43	75	90	47			
Cash deposits < 1 yr	1057	426	545	(512)			
Cash deposits > 1 yr	705	918	1171	466			
MMF	30	26	32	2			
Corporate bonds	411	298	395	(16)			
Transferred debt	10	0	10	(10)			
Equities	250	453	362	112			
Total interest	2,506	2,196	2,605	89			

Borrowing Strategy 2013/14 – 2015/16

- 14. The council has to provide details of its borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council has no external debt and does not expect to borrow long term to finance the current capital programme. The council will continue to take a prudent approach to its debt strategy. In general, the council will borrow for one of two purposes:
 - To finance cash flow in the short-term:
 - To fund capital investment over the medium to long term.
- 15. The prudential indicators and limits for debt are set out in table 2 and provide the scope and flexibility for the council to borrow in the short-term up to a maximum of £10 million, if such a need arose within the cash flow management activities of the authority, for the achievement of its service objectives. The council's capital investment plans do not currently demonstrate a need to borrow, as all projects are fully funded.
- 16. The bank rate is expected to remain at a historically low level for another year. This does provide a window of opportunity to review the strategy of undertaking external borrowing for new projects.
- 17. The treasury management strategy for the forthcoming year aims to efficiently manage the investment portfolio by reducing the amount of funds held extremely short-term for cash flow purposes and operating with an adequate but not excessive level of working capital. This optimum level is dictated by the accuracy of cash flow forecasts and, although unlikely, it is prudent to set a minimum level for the use of short-term borrowing arrangements or overdraft facilities if the cash flow forecasts prove inaccurate at any point in the year.
- 18. The head of finance, would in such instances take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

Page 68 **7-10**

Policy on borrowing in advance of need

- 19. The council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the council can ensure the security of such funds. In determining if any borrowing will be undertaken in advance of need, the council will:
 - Consider the impact of borrowing in advance on investment cash balances and the exposure to counterparty risk. Any risk associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid year or annual reporting process.

Annual investment strategy

- 20. The main aim of the council's investment strategy is to maintain the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity. The council will ensure:
 - It has sufficient liquidity in its investments to cover cash flow. For this purpose it has set out parameters for determining the maximum periods for which funds may prudently be committed.
 - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- 21. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods as and when institutional security and market confidence returns. This aim is to provide a more even and predictable investment return in the medium term.
- 22. The head of finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 6) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

Investment types

23. The types of investment that the council can use are summarised below. These are split under the headings of specified and non-specified in accordance with the statutory guidance.

Specified investment instruments (maximum period 1 year)

- Deposits with banks and building societies
- Deposits with UK local authorities
- UK Government treasury stock (Gilts) with less than one year to maturity
- Debt Management Agency Deposit Facility (DMADF)
- Money Market Funds (MMF) (AAA rated)
- Pooled Bond funds (AAAf rated)
- Certificates of deposits issued by banks and building societies

Page 69 **7-11**

Non-specified investment instruments (maturities over one year)

- Bank and building society cash deposits up to 5 years
- Deposits with UK local authorities up to 5 years
- Corporate bonds
- Pooled property, bond funds and UK pooled equity funds
- UK treasury stock (Gilts) up to 10 years
- Supranational bonds up to 10 years
- Direct property investment

Other Non-specified investment instruments

- Fixed term deposits with variable rate and variable maturities
- Investment in Housing Associations

Approach to investing

- 24. The council currently holds approximately £85 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is carried out. In addition the council has funds which are available on a temporary basis to invest. These are held pending payment over to another body such as precept payments and council tax. The amount can vary between £15 million and £30 million throughout the year and can only be invested short term (under one year). Investments will be made primarily with reference to known cash flow requirements.
- 25. Whilst the economic and market uncertainties remain, the council will keep investments relatively short term, but where possible will continue to look for opportunities to fix lending in the medium term with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk, and provide certainty of return and smoothing of the investment profile.
- 26. Conditions in the financial sector have begun to show signs of improvement, with substantial intervention by the government. Officers will continue to implement an operational strategy which provides tight controls on the investments placed. As a result of a sharp decline in the number of acceptable counterparties, the limits incorporate changes to the councils exposure for both types of investment and time limits. These changes aim to give greater flexibility to improve the spread the investment risk over different types of instruments and sectors, subject to a full assessment of risk and security.
- 27. The revised limits are shown in detail in table 5. The changes to the previously approved limits are:
 - a. Institutions individual and support ratings criteria removed. The previously approved limits set out criteria for individual and support ratings. The ratings agencies have in the main downgraded most financial institutions and the support ratings do not reflect any government support provided. This distorts the criteria if used, as it is clear that the UK government has provided a guarantee scheme and financial support to the financial sector.

Page 70 **7-12**

Appendix A

- b. Housing Associations a new category has been set for investments to be made in this sector up to £15 million. Officers are currently exploring the options of this type of investment which would be either through the purchase of corporate bonds and linked to a credit rating of the institution or an investment which would be appropriately secured on the assets of the institution.
- c. Building societies more detailed criteria for investment amounts and maturity periods have been set out linked to the asset base of building societies:
 - 3) Current:
 - Assets over £1bn with a F1 credit rating we can lend £15m for up to one
 - Assets over £1bn but unrated we can lend £15m for up to nine months
 - Assets over £500m but unrated we can lend £10m for up to six months
 - 4) Proposed:
 - Assets over £5bn but unrated we can lend up to £15m for up to one year
 - Assets over £1bn but unrated we can lend up to £10m for up to 10 months
 - Assets over £500m but unrated we can lend up to £6m for up to nine
 - Assets over £0.25bn but unrated we can lend up to £4m for up to six months

The building society sector has been largely unaffected by the credit issues that have affected the banking sector. Societies' business model is relatively simple and transparent in comparison with banks, with a culture focused on their customers. They are strictly regulated by the building societies Act 1986 within which funding and lending limits control how much of the business is secured in residential property and shares held by individuals. The changes proposed above will add a further 11 building societies to the counterparty list.

- 28. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).
- 29. The property investment holdings will also be looked at in more detail for consideration. Further details on the property investment policy are contained in annex 3.
- 30. There will be no further investment using a fund manager at this time. However, this will be kept under review.
- 31. Bond funds can be used to diversify the portfolio, whilst maintaining liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.

Counterparty selection

32. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Sector provides the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.

> 7-13 Page 71

Appendix A

- 33. The council is also required to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.
- 34. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine the creditworthy counterparties. This is because Moodys have become far more aggressive in allocating low ratings than the other two agencies. If followed, this approach would leave the council with so few institutions on its approved lending list it would be unworkable. The information provided by Sector uses a wider array of information than just primary ratings and does not give undue weight to any one agency's ratings. Credit information is updated and monitored weekly, supplemented by daily emails, which are consulted prior to making an investment decision. The council is alerted to any changes from all three agencies through the use of data provided by Sector. If a downgrade results in the counterparty no longer meeting the council's minimum criteria, it will not be used for future investments. Movements in CDS and other market data is also reviewed on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.
- 35. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with and the agreement of the cabinet member responsible for finance.

Country and sector considerations

36. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AAA from Fitch Ratings.

Counterparty limits

37. In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used for the control of liquidity as both categories allow for short term investments. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will be used where the council's liquidity requirements are safeguarded. The council will lend to institutions that meet the following criteria:

Page 72 **7-14**

Table 5: Counterparty limits

	FITCH or	equivalent	Govt guarantee	Max limit per	Max. Maturity	Max %
Counterparty	S/term	L/term		counterparty £m	period	of total investments
Specified instrument:						
Institutions with a minimum rating	F1	A-		£15m	1 year	50%
Bank / BS cash deposits(2)			UK Sovereign	£15m	Term of guarantee	Term of guarantee
Bank - part nationalised UK			UK Sovereign	£20m	l year	l year
Money Market Fund	А	AA		£5m	liquid	100%
UK Govt & DMADF	r	ı/a	UK Sovereign	no limit	n/a	100%
Non-specified instrument:						
Building societies - assets > £5,000m	r	ı/a		£15m	12 months	20%
Building societies - assets > £1,000m				£10m	10 months	20%
Building societies - assets > £500m	r	ı/a		£6m	9 months	10%
Building societies - assets > £250m				£4m	6 months	10%
Bond fund		AAA		£15m	variable	40%
Institutions with a minimum rating	F1+	AA-		£15m	4 years	25%
Institutions with a minimum rating	F1+	A+		£15m	3 years	25%
Institutions with a minimum rating	F1	Α		£15m	2 years	30%
	uncon	ditional				
Bank subsidiary	guar	antee		£15m		as parent
Bank - part nationalised UK			UK Sovereign	£20m	4 years	80%
Pooled property fund				£10m	variable	15%
Housing associations	F1+	A+		£15m	variable	15%
UK equities				£10m	variable	20%
Corporate bonds	F1+	A+		£5m	variable	10%
Property related investments				£30m	variable	80%
Local Authorities / parish councils				£15m	5 years	50%
Supranationals		AAA		£10m	10 years	40%
UK government - gilts			UK Sovereign	£15m	15 years	10%

^{*} Bank subsidiary limits will depend on the relationship between themselves and their parent bank. A subsidiary will only be included on the counterparty list if some form of guarantee exists between it and the parent entity.

38. The criteria for choosing counterparties provides a sound approach to investment in "normal" market circumstances. The head of finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions.

Fund managers

39. The treasury management strategy allows for a total of up to £15 million portfolio to be invested with a fund manager. Fund managers can invest in a variety of investment types such as cash deposits, gilts and certificates of deposits. These types of funds can extend the spread of investment portfolio, access highly rated institutions and capitalise upon opportunities to improve returns, whilst maintaining liquidity. This is reviewed regularly, and at present it is not evident that the council can currently benefit from the service of a fund manager due to the market conditions. However, the situation will continue to be reviewed.

Page 73 **7-15**

Risk and performance benchmarks

- 40. A requirement of the code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in annexe 2.
- 41. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:

Table 6: investment bencl	Table 6: investment benchmarks					
Investment category	Benchmark					
investment dategory	Benomian					
Bank & building society deposits - non-managed	3 Month LIBID					
Equities	FTSE all shares index					
Property related investments	IPD balanced Property Unit Trust Index					
Corporate bonds	BoE base rate					

Performance against these indicators will be reported in both the annual mid-year and year-end treasury reports.

Policy on the use of treasury management advisers

- 42. The council has a joint contract for treasury management advisors with Vale of White Horse District Council. A three year contract was awarded to Sector Treasury Services Limited, a subsidiary of the Capita Group Plc in October 2011. The company provides a range of services which include:
 - technical support on treasury matters, capital finance issues member reports;
 - economic forecasts and interest rate analysis;
 - credit ratings / market information service involving the three main credit rating agencies;
 - provision of credit rating information, strategic advice including a review of the investment and borrowing strategies and policy documents.

Page 74 **7-16**

Appendix A

43. Following the collapse of the Icelandic banks, and the subsequent local authority exposure to these defaults, the revised CLG investment guidance notes and the CIPFA Treasury Code of Practice requires the council to recognise that responsibility for treasury management decisions remains with the council at all times and to ensure that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

Minimum revenue provision (MRP) statement 2013/14

- 44. The council is required to assess its MRP requirement for the year in accordance with the guidance of section 21 of the Act. MRP is a charge made to the revenue account as a proportion of outstanding capital liabilities. The council has no outstanding capital liability and therefore the MRP for 2013/14 is nil.
- 45. This will remain the case unless new capital expenditure is financed by borrowing.

Member and officer training

46. The requirement for increased member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. In compliance with the revised code, the council has provided treasury management training to members in January 2012.

Treasury management scheme of delegation and the role of the section 151 officer

The treasury management scheme of delegation and the role of the section 151 officer is as follows:

I. Council

- Receiving and approval of reports on treasury management policies, practices and activities:
- Approval of annual treasury management strategy and annual investment

II. Audit and governance Committee / Cabinet

- Approval of /amendments to the organisations adopted clauses, treasury management policy statements and treasury management practices;
- Receiving and reviewing monitoring reports and acting on recommendations;

III. Section 151 Officer / Head of Finance

- Recommending clauses, treasury management policies/practices for approval, review and monitoring compliance;
- Submitting regular treasury management information reports;
- Submitting budgets and budget variations;
- Reviewing the performance of the treasury management function;
- Ensuring adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function:
- Ensuring the adequacy of internal audit and liaising with external audit;
- Approving the selection of external service providers and agreeing terms of appointment.

7-17 Page 75

Appendix A

Summary

47. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can invest the council's surplus fund.

48. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

7-18

Economic conditions and interest rate forecasts

In order to put the investment strategy into context it is necessary to consider the external factors in the financial markets and their impact on interest rate forecasts.

Global economy – the outlook for the Eurozone (EZ) economy dominates the financial markets and this will remain so until fundamental issues over the structure of the currency in the EZ are resolved. Weak or negative growth will also continue to be a key factor as this determines how much income will be generated in relation to each counties debt repayments. This has affected the UK economy and is likely to affect growth in 2013. The recession is now the worst and slowest recovery of any of the five recessions since 1930.

UK economy – In August 2012 the Bank of England lowered its expectations for the speed of recovery and rate of growth. The growth in the UK economy remains weak and forecasts for growth have been reduced for the next two years. The governments austerity measures aimed at getting the public sector deficit under control in the next four years, now look as if they may not meet the original timeframe. Currently the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world, as the UK is seen as safe haven from Euro zone debt.

Economic growth – Economic growth has basically, flat lined since the election in 2010, and the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2102. Quantitative Easing (QE) was increased again by £50bn in July 2102 to a total of £375bn.

Unemployment – The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years (August 2012) and the number of unemployment benefit claimants has also been falling slightly.

Inflation and Bank rate – Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. Inflation is expected to fall further to the 2% target level within the two year horizon.

AAA rating – the UK's sovereign rating was recently reaffirmed, but warnings to review the position have been made if the government were to change the deficit reduction programme, or if the desired outcome was not being achieved. The status has provided a safe haven for investors.

Sector's forward view

Economic forecasting remains difficult with so many influences affecting the UK. There does appear to be consensus among analysts that the economy remains fragile. Key areas of uncertainty include:

 The second Greek bailout package could cause greater problems in EZ debt and a higher risk of breakdown of the EZ or even the currency itself;

Page 77 7-19

- The impact of the UK governments austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- The economic performance of the UK's trading partners in particular the EU and US as some analysts suggest that recession may return to both;

The overall balance of risks remains weighted to the downside. Many consumers, corporates and banks are still focused on reducing their borrowings rather than spending so will continue to act as a major headwind to a return to robust growth.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to high volumes of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before the end of 2014 as very limited. There is potential for the start of the Bank Rate increases to be delayed further if growth disappoints.

The uncertain economic outlook has several key implications for treasury management:

- The sovereign debt issues provide a clear indication of higher counterparty risk.
- Investment returns are likely to remain low for 2013/14.
- Borrowing rates are historically very low and may remain low for some time.

Prospects for interest rates

The bank base rate is forecast to remain unchanged at 0.5%, rising in Q4 in 2014. Sector's central view for bank rate forecasts is shown below:

	Bank of Englan d base rate	PWLB borrowing rates (adjusted for certainty rate)				
		5 yr	25 yr	50 yr		
Dec 2012	0.50%	1.50%	3.70%	3.90%		
Dec 2013	0.50%	1.60%	3.80%	4.00%		
Dec 2014	0.75%	2.00%	4.10%	4.30%		

There are downside risks to these forecasts for example if economic growth remains weaker for longer than expected. However, there is also an upside risk that the pace of growth in interest rates could pick up more quickly than expected if inflation exceeds the Bank of England's target rate of two per cent.

Forecast of long term PWLB rates to March 2016 as provided by Sector Treasury Services Ltd at 20 November 2012 are:

Page 78 **7-20**

Sector's interest rate forecast

	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank base rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
3m LIBID	0.50%	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%
6m LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%
12m LIBID	0.70%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%
5 yr PWLB rate	1.60%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%
10 yr PWLB rate	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%
25 yr PWLB rate	3.80%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%
50yr PWLB rate	3.90%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%

Page 79 **7-21**

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.

These benchmarks are targets and so could be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

Yield. Benchmarks are used to assess the performance of investments. The local measures of yield are:

Table 6: investment bench	Table 6: investment benchmarks					
Investment category	Benchmark					
Bank & building society deposits - non-managed	3 Month LIBID					
Equities	FTSE all shares index					
Property related investments	IPD balanced Property Unit Trust Index					
Corporate bonds	BoE base rate					

Security and liquidity benchmarks are intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators.

Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts 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" (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft there is an agreed overdraft facility of up to £700,000.
- Liquid short term deposits of at least £10,000,000 available within a weeks' notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the weighted average life (WAL) of the portfolio – a shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

• WAL benchmark is expected to be 0.5 years, with a maximum of 3 years.

<u>Security of the investments</u>. In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2011.

Page 80 **7-22**

Average defaults for differing periods of investment

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.02%	0.06%	0.09%	0.13%
AA	0.02%	0.04%	0.14%	0.28%	0.36%
Α	0.09%	0.25%	0.43%	0.60%	0.79%
BBB	0.23%	0.65%	1.13%	1.70%	2.22%
BB	0.93%	2.47%	4.21%	5.81%	7.05%
В	3.31%	7.89%	12.14%	15.50%	17.73%
CCC	23.15%	32.88%	39.50%	42.58%	45.48%

The council's minimum long term rating criteria is currently "A" meaning the average expectation of default for a one year investment in a counterparty with an "A" long term rating would be 0.09% of the total investment (e.g. for a £1m investment the average loss would be £900). This is only an average - any specific counterparty loss could potentially be higher or lower. These figures act as a proxy benchmark for risk across the portfolio.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.20%	0.30%	0.45%	0.60%	0.75%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to members in the both the Investment Mid-Year report and the Investment Annual report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

Page 81 7-23

Property Investment Policy

1.0 Direct investment in property

- 1.1 The council is restricted in the different investment vehicles it is legally allowed to invest in notwithstanding the over-riding need for prudence mentioned earlier. Of the options open one is property and the returns from investing in property can be greater than the opportunities in the money markets.
- 1.2 In broad terms the returns can be higher because the risks are greater. Factors to be taken into account when deciding the principle of investing in property include:
 - investment will be for the long term since it may not be possible, or wise, to sell quickly,
 - the costs of acquisition and disposal are higher,
 - there are management costs, risk of rent default and failure to honour maintenance agreements,
 - different types of property and different areas carry different risks,
 - generally property tends to appreciate in value, although this will vary by type and area; however, in some cases the value may go down,
 - property can become functionally obsolete necessitating major refurbishment,
 - without regular repair and maintenance the condition will deteriorate and the responsibility for repairs/maintenance may not always rest with the tenant,
 - certain types of property may become less desirable as time goes by; this can make re-letting difficult or attract a lower calibre of tenant.

2.0 How much is invested?

2.1 £16 million is currently held in property and £124 million is invested in treasury investments. The investment in property represents 11% of the overall total.

3.0 What type of property?

3.1 There are different types of property investment with assessment of prospects as follows:

i)	shops and offices	good - although may be subject to changing fashions and working practices
ii)	industrial	good but condition can be variable
iii)	leisure	good but may be best avoided since too close to our "core" business
iv)	agricultural	moderate but too risky now
v)	woodland	poor – some is owned for environmental/leisure purposes

Page 82 **7-24**

3.2 Average Yield Levels (%). In general, property can be categorised as prime, secondary or tertiary in terms of its desirability. 'Rack-rented' means that the maximum market rental achievable is being received. Yield derives from both capital and rent. Lower yields can indicate that the investment attracts a lower degree of risk due to the ratio of rent to capital and other factors such as location, security and regularity of income.

4.0 Where should it be located?

4.1 There are compelling legal, cultural and financial reasons for not investing in the European mainland at the moment. Within the UK the location will influence the return and the type of property and may make management more or less difficult depending on distance from the Council offices.

Only property located in the UK will be considered.

5.0 What level of financial return?

5.1 As mentioned above, generally the greater the return, the greater the risk inherent in the investment. There are so many variables involving area, management, condition, leases and the varying return on other investments that it is difficult to draw up hard and fast rules about them and their relationship with the rate of return. Each proposal will be considered on its merits

6.0 **Review**

6.1 The policy is to be reviewed annually (along with the Treasury Management Strategy).

> 7-25 Page 83

Explanation of Prudential Indicators

Central government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Capital expenditure – shows last year's spending, this year's projected spending and the approved programme until 2014/15.

Ratio of financing costs to net revenue stream – because the council has no net debt investment interest on reserves and balances makes a positive contribution to the council's finances.

Net borrowing requirement – this demonstrates that no borrowing is planned to fund the capital programme.

In year capital financing requirement – this shows the council has no borrowing.

Capital financing requirement (CFR) as at 31 March – the CFR shows the underlying need of the council to borrow for capital purposes as determined from the balance sheet. The overall CFR is nil, there is no need to borrow.

Incremental impact of capital investment decisions – increase in Council Tax (band D) per annum – this indicator shows the affect of the latest capital programme report on annual council tax. This indicator is based on the estimated decrease or increase in interest payable to the General Fund each year due to the changed funding of the capital programme in the latest capital report to December 2011 cabinet.

Incremental impact of capital investment decisions – This indicator shows the affect of the latest capital programme report on revenue. This indicator is based on the estimated decrease or increase in interest payable to the funding of the capital programme. As the council has no debt this indicator is not relevant.

Authorised limit for external debt – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cash flow. This has an amount included to allow for cash flow borrowing associated with the canal project.

Upper limit for fixed and variable interest rate exposure – these limits allow the council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can be prudently invested for periods in excess of a year.

Page 84 **7-26**

Adoption of the CIFPA Code of Practice for Treasury Management

The council adopted this code on 25 April 2002 and the strategic director for finance confirms that the authority continues to comply with this.

This indicator in respect of treasury management confirms that the council has adopted the CIPFA code of practice for treasury management in public services. This is to provide assurance that treasury management activities are being carried out in line with best practice.

Page 85 7-27

Treasury Management Practice (TMP) 1 – credit and counterparty risk management

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below.

The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This council adopted the code on 25 March 2002 and will apply its principles to all investment activity. In accordance with the code, the head of finance has produced its treasury management practices (TMPs). This part, TMP1(5), covering investment counterparty policy requires approval each year.

The key requirements of both the code and the guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of:

- the strategy guidelines for decision making on investments, particularly non-specified investments.
- the principles to be used to determine the maximum periods for which funds can be committed.

In compliance with the above guidance the Annual investment Strategy is now incorporated within the council's treasury management strategy and includes the following:

- specified investments: these are high security, i.e. having a high credit rating, (although this is defined by the council, and no guidelines are given), and high liquidity investments, in sterling with a maturity of no more than one year.
- non-specified investments: covers all other investments, which may have a maturity of greater than one year or lower security rating or both.

The Annual Investment Strategy within the treasury management strategy is approved by full council.

All limits in the investment strategy apply to both in-house and externally managed funds.

Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. These investments are categorised as:

- a) UK Government (such as the Debt Management Office, UK Treasury Bills or gilts with less than one year to maturity)
- b) Supranational bonds of less than one year's duration
- c) A local authority, parish council or community council

Page 86 7-28

- d) An investment scheme that has been awarded a high credit rating by a credit rating agency
- e) A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society)

Non-specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified). These investments are categorized as:

- f) Supranational bonds greater than 1 year to maturity.
- g) Gilt edged securities.
- h) Building societies not meeting the basic security requirements under the specified investments.
- i) Any bank or building society that has a minimum long term credit rating as shown in table 5, for deposits with a maturity of greater than one year.
- j) Any non-rated subsidiary of a credit rated institution included in the specified investment category.
- k) Share capital in a body corporate.
- I) Corporate bonds
- m) Housing Association investment
- n) Property direct property investment
- o) Pooled property fund investment

These categories of investment will vary in their levels of risk, and the return that may be expected from them. The identification and rationale supporting the selection investments and the maximum limits to be applied are set out in table 5.

Local Authority Mortgage Scheme (LAMS). This type of investment is classified as a service investment rather than a treasury management investment, it therefore fall outside of the scope of the investment categories above.

Cash deposits

- 1. The majority of the council's investments are held in cash deposits. These can be made with banks or building societies that meet the credit rating criteria detailed in annexe 1. Any non-rated subsidiary of a credit rated institution can be included as an investment category subject to individual assessment of the relationship between themselves and the parent bank. Where institutions are part of a banking group then the maximum lending criteria will be shared between the group companies. Limits on amounts for each counterparty are determined by credit rating and maturity period.
- 2. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies that are credit rated. The council may use such building societies which have a minimum asset size of £250 million, but will restrict these types of investments to six months.
- 3. Cash deposits can be made with UK local authorities up to a period of five years and a maximum of £15 million per authority. Local authorities do not require a credit rating, and are classed as a low risk counterparty due to their funding and income streams.

Page 87 7-29

Gilts

4. Gilts (or 'gilt-edged stocks') are bonds issued by the UK government which pay a fixed rate of interest usually twice a year. They are considered safe investments as the government is unlikely to default on the interest payments. If held to maturity they will return their issue value; if sold before their redemption date the price realised will fluctuate with market conditions. Gilts are bought and sold on the stock market where their price can go up or down. The strategy permits investments of up to £15 million in gilts. The council does not currently hold any gilts, as market conditions have not presented an opportune time to enter the gilt market. This is reviewed frequently.

Government's debt management account deposit facility (DMADF)

5. The DMADF is a deposit account with the Government. The rates are very low, however this is offset by the increased security and facility to improve the portfolio's spread of investments. A maximum limit of 100 per cent of the portfolio is set in the strategy for this facility. The account is only used when it is not possible, or it is outside the council's risk tolerance to place monies elsewhere.

Money market funds (MMFs)

- 6. MMFs are commercially run, pooled investments. They work rather like unit trusts, but whereas the latter are based upon shares in companies, MMFs rely on loans to companies. As their pooled funds have a high total value better rates of returns can be obtained. Legislation allows authorities to access only those MMFs with the highest possible credit rating (AAA).
- 7. The maximum limit to be invested in this type of instrument is £20 million. Access and liquidity of these instruments are extremely flexible, as they operate on a similar basis to call deposit accounts in that the funds can be placed or withdrawn with a minimum amount of notice, but tend to achieve better rates than short-term cash deposits placed in the market over similar periods, particularly in a declining or flat interest rate environment.

Certificates of deposit

8. Certificates of deposit are a type of bonds issued by banks. They are classified as non-specified investments. Certificates of deposit are bought and sold on the stock market where their price can go up or down. If held to maturity they will return their issue value; if sold before their redemption date the price realised will fluctuate with market conditions. The council would only consider purchase of these investments to be held until maturity.

Corporate bonds

- 9. Corporate bonds are issued by companies as a way of raising money to invest in their business. They have 'par' or nominal value' (usually £100), which is the amount that will be returned to the investor on a stated future date (the 'redemption date'). They also pay a stated interest rate each year, usually fixed. Corporate bonds are bought and sold on the stock market and their price can go up or down.
- 10. The council continues to maintain holdings of corporate bonds previously acquired, on the basis that returns on these securities over their remaining lives should out perform the current bond markets and returns from fund management, given the view that

Page 88 **7-30**

interest rates and yields are forecast to remain low in the near term. The strategy permits investments of up to £10 million in corporate bonds (measured at the time of purchase). The current value of corporate bonds held is £4.2 million as at 31 December 2012.

11. The remaining bonds are providing an excellent rate of return. As bond prices tend toward par as they approach maturity, there will be an optimum point at which each bond provides the best return versus the deterioration in capital value. Sector has reviewed the council's current holdings and the analysis shows that in the current interest rate environment they should be held until maturity. The review also explores the possibility of lengthening the maturity profile to maintain the higher rates of return. Given the current uncertainty and higher risk, it is not a recommended option at this time.

Property – direct investment

- 12. The council is able to purchase property as an investment, however this is a specialist area and it is necessary to seek external advice on how the council could best diversify its investments by the inclusion of property.
- 13. The council is reviewing further investment in property in conjunction with the council's property advisors, a report will be brought forward in the year ahead. The treasury management strategy allows for a further investment of up to £20 million in either direct property holdings (as measured at the time of purchase) or indirect property investments.
- 14. The council currently retain properties for investment purposes. As at the end of March 2012, the latest period for which audited figures are available, these had an aggregate book value of £16.3 million.

Property – indirect investment

15. The council is able to invest in pooled property investment funds. These are pooled investments where units are purchased. The fund invests in a cross section of property ie: commercial, industrial, retail and residential. This type of investment is highly liquid as units can be sold quickly if required. They are also exempt from capital accounting as disposal income does not have to be treated as a capital receipt. This can give greater flexibility in the use of future income. The disadvantage of this type of fund is that they have a high entry fee and annual management charges. The council is reviewing the investment in this type of product with the assistance of the council's treasury advisors (Sector) to assess which products may be suitable. The strategy provides for investment up to £10 million in a property related investment fund.

Bond funds

16. These are pooled investment funds which have been developed to provide investors with access to the bond market, spreading the risk of direct bond holdings by giving access to a portfolio of mixed bonds ranging from UK Gilts, supranational bonds, other government guaranteed issues and corporate bonds of both banks and corporate organisations. Very much like MMFs they are strictly regulated and those that achieve AAAf credit rating must maintain liquidity. Funds can be accessed quickly if required. The maximum limit to be invested in this type of instrument is £5 million.

Page 89 7-31

Equities

- 17. 'Equity' is an investment in the share capital of a publicly quoted company. Equity is the risk-bearing part of the company's capital and contrasts with debt capital which is usually secured in some way, and which has priority over shareholders if the company becomes insolvent and its assets are distributed.
- 18. For most companies there are two types of equity: ordinary shares, which have voting rights, and preference shares, which do not. Owners of preference shares rank ahead of ordinary shareholders in a liquidation.
- 19. The council's investments in equities are liquid investments, which mean they could be sold at any time, from which an investment gain (or loss) could accrue to the council.
- 20. The council continues to maintain its current equity holdings, on the basis that that although the returns have fluctuated these are intended to be held long-term and they also provide diversity to the portfolio. The strategy permits investments of up to £10 million in equities (measured at the time of purchase).
- 21. As these investments fluctuate significantly over short periods of time, they are kept under constant review. When the current holdings reach £14 million, a further £2 million will be disposed of.

Supranational bonds

22. Supranational bonds fall into two main categories – multilateral development bank bonds, or those offered by a financial institution that is guaranteed by the UK Government. The security of interest and principal on maturity is on a par with UK Government bonds and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. The treasury management strategy permits investment of up to £15 million in supranational bonds (measured at the time of purchase). The council currently does not hold these investments, although they offer excellent security and liquidity. This is reviewed periodically. Given the current low yields it would not be the best time to purchase these to hold for the long term.

Credit and counterparty risk management

The council regards the prime objective of its treasury management activities to secure the principle sums invested, whilst maximising of investment returns, within a level of risk that is acceptable to the council. It will ensure that its counterparties and limits, reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments listed below. 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.

The following counterparties and limits will apply in aggregate to both internally and externally managed funds, as measured at the time of investment:

Page 90 **7-32**

Banks and building society deposits – cash and certificates of deposits.
 A maximum sum of £15 million can be lent to any one individual bank or building society providing it meets the minimum credit rating criteria set out in the investment strategy.

• Banks – part nationalised

A maximum sum of £20 million can be lent to any one individual bank that is part nationalised.

UK government or local authorities

A maximum sum of £15 million could be lent to a local authority or UK Government.

Supranational bonds

The maximum sum that can be invested in supranational bonds is £15 million.

Gilt edged securities

The maximum investment, excluding investment returns, to be invested in Gilt Edged Securities is £15 million.

Corporate bonds

The maximum sum that can be invested in United Kingdom Corporate Bonds is £10 million.

Equities

The maximum sum, excluding investment returns that can be invested in United Kingdom equities is £10 million, but only through the purchase of units of Index Tracking Trusts. As approved by council, the investment returns from the equities are re-invested in this investment instrument.

Money Market Funds (MMF)

The maximum sum to be invested in MMFs is £20 million. Government legislation restricts authority's access only to those MMFs with the highest possible credit rating (AAA).

Bond Funds

The maximum to be invested in a pooled bond fund is £5m and only those that have a AAAf rating should be considered.

• The government's debt management account deposit facility (DMCDF)

The maximum sum to be invested in the government's DMA Deposit Facility is 100 per cent of the total investment portfolio.

Pooled Property funds

The maximum amount to be invested in property related funds is £10 million. This would be subject to receipt of specialist advice from the council's strategic property advisors and treasury advisors and would be the subject of a separate report to cabinet/council.

• Property- direct investment

The maximum amount to be invested directly in property is £30 million. This would be subject to receipt of specialist advice from the council's strategic property advisors and would be the subject of a separate report to cabinet/council.

Page 91 **7-33**

Investment spread

As a guideline, it is recommended that the council's investment in any one of the council's approved investment instruments should not exceed the maximum percentage / monetary limits listed below:

Cash and certificates of deposit	85%
Local authorities	50%
Debt management account deposit facility	100%
Supranational bonds	£10m
Gilts	£15m
Equities	£10m
Corporate bonds	£10m
Money market funds	£20m
Pooled Bond Fund	£ 5m
Property - direct investments	£30m
Housing association	£15m
Property pooled fund	£10m
External fund manager	£15m

Page 92 **7-34**

GLOSSARY OF TERMS

GLOSSARY OF TE	
Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.

Page 93 **7-35**

Derivative	A contract whose value is based on the performance of an
	underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered british government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Page 94 **7-36**

Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

7-37

This page is intentionally left blank

Agenda Item 8



Ernst & Young LLP Apex Plaza Forbury Road Reading RG1 1YE

Tel: 0118 928 1100 Fax: 0118 928 1101 www.ev.com/uk

David Buckle
Chief Executive
South Oxfordshire District Council
Benson Lane
Crowmarsh Gifford
Wallingford
Oxfordshire OX10 8ED

14 December 2012

Ref: SODC/MG/1

Tel: 07769 932604

Email: mgrindley@uk.ey.com

Dear David

Annual Audit Fee 2012/13

We are writing to confirm the audit work that we propose to undertake for the 2012/13 financial year at South Oxfordshire District Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2012/13. The audit fee covers the:

- Audit of the financial statements:
- Value for money conclusion; and
- Whole of Government accounts.

Our fee has been set by the Audit Commission as part of the recent 5 year procurement exercise and consequently is not liable to increase in that period without a change in scope.

Indicative audit fee

For 2012/13 the Audit Commission has set the scale fee for each audited body. The 2012/13 scale fee is based on certain assumptions, including:

- ► The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.





The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.

	Indicative fee 2012/13 £	Planned fee 2011/12 £	Actual fee 2010/11 £
Total Code audit fee	63,348	107,680	**144,913
Certification of claims and returns*	15,560	25,170	26,048

^{*}The indicative fee for 2012/13 and the planned fee for 2011/12 relate to the certification of grant claims and returns for the years ended 31 March 2013 and 31 March 2012 respectively. The certification fees for 2010/11 are the actual fees for the year ended 31 March 2011.

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Our audit plan for the audit of the financial statements will be issued in February 2013 and presented at the Audit and Corporate Governance Committee on 19th March 2013. This will detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the Value for Money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance and the Strategic Director and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Corporate Governance Committee.

Billing

The indicative audit fee will be billed in quarterly instalments of £15,837.

Audit team

The key members of the audit team for 2012/13 are:

David Wilkinson Partner	DWilkinson@uk.ey.com	Tel: 0117 981 2318
Maria Grindley Director	MGrindley@uk.ey.com	Tel: 0118 928 1667
Manager	AOckleston@uk.ey.com	Tel: 0118 928 1579

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint

^{**} Includes additional work to respond to elector queries on car parking and taxi licensing £29,913





carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

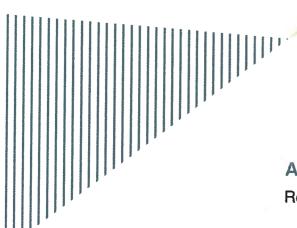
Yours sincerely

Maria Grindley Audit Director Ernst & Young LLP United Kingdom

cc. Steve Bishop, Strategic Director

Michael Welply, Chair of the Audit and Corporate Governance Committee

This page is intentionally left blank



Annual Certification Report (2011/12)

Report to those charged with governance

Date January 2013

Ernst & Young LLP



Ernst & Young LLP 1 More London Place London SE1 2AF

Tel: 020 7951 2000 Fax: 020 7951 1345 www.ey.com/uk

The Members of the Audit and Corporate Governance Committee
South Oxfordshire District Council
Crowmarsh Gifford
Oxfordshire
OX10 8ED

17 January 2013

Dear Member

Annual Certification Report (2011/12)

We are pleased to attach the annual certification report for the forthcoming meeting of the Audit and Corporate Governance Committee. This report summarises the results of certification work that has been undertaken by both Audit Commission and Ernst and Young staff on 2011/12 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. Often these grant-paying bodies required certification from an appropriately qualified auditor of the claims and returns submitted to them.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to the appointed auditors of the Council set out the work the auditor must undertake before issuing our certificate. The auditor certifies grants and claims as they arise throughout the year to meet the audited claim/return submission deadlines set by the grant-paying bodies.

Statement of Responsibilities of Auditors and Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the audit commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This Annual Certification Report is prepared in the context of the statement of responsibilities. It is addressed to the Audit and Corporate Governance Committee, and is prepared for the sole use of the audited body. Following the appointment of Ernst & Young as auditor for the year ended 31 March 2013

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.



we have been requested to prepare this Annual Certification in respect of the year 2011/12. The majority of the certification work reported on herein was performed by Audit Commission staff prior to 31 October and therefore not under the direction and supervision of Ernst & Young and accordingly we take no responsibility to the council nor to any third party for the work undertaken.

With regard to the housing benefit certification, work was not completed by 31 October, and was subject to handover arrangements agreed with the Audit Commission. The Housing Benefit certificate was issued by Ernst and Young on 28 November 2012.

Results of certification work

During the period April 2012 to October 2012 the Audit Commission's Audit Practice certified two claims and returns with a total value of £40,995,533. This work was completed prior to Ernst & Young being appointed auditor. Neither of these claims was qualified or amended.

During the period August 2012 to October 2012 the Audit Commission's Audit Practice undertook initial certification work on the Housing Benefit Subsidy claim. The Audit Commission arranged for this work to be completed by Ernst and Young under handover arrangements between 1 November 2012 and 30 November 2012. The claim was certified on 28 November 2012.

The Housing Benefit Subsidy claim was subject to both amendment and qualification. Details of these are included in section 2. The amendment affected the grant due to the Council, reducing it by £14,679.

All deadlines for submission of certified claims/returns were met.

I would like to draw your attention to the level of error within the non HRA rent rebates section of the Housing Benefit claim. This is an area where there are comparatively very few claims (total 46). These cases can be complicated and are based on mainly manually inputted data. The level of error in these claims and the time taken to audit and agree amendments to the claim is disproportionate to both the number and value of claims. Effective data cleansing of non HRA cases in advance of subsidy submission would significantly reduce audit time, as well as reducing the impact on Capita benefit staff in resolving queries.

Fees for certification work are summarised in appendix A.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Corporate Governance Committee meeting scheduled on 29 January 2012.

Yours faithfully

For and on behalf of Ernst & Young LLP

David Wilkinson

Partner

Ernst & Young LLP United Kingdom

Enc.

Contents

1.	Summary	of 2011/12 Certification Work	. 1
2.	Qualificat	ions in respect of 2011/12 certification work	. 2
Арр	endix A	Certification Fees	. 3

Summary of 2011/12 Certification Work

Summary of 2011/12 Certification Work

		775		
Claim or return	Certificate Instruction (CI) Reference	2011/12 Claim Value £	Qualification (Q) Amendment (A) Neither (-)	Reason for issue, and financial effect.
Completed by the Audit Commission	t Commission			
Pooling of housing capital receipts	CFB06	263,581	i	
National non-domestic rates return	LA01	40,731,952	•	

completion
<u>5</u>
Young 1
ď
Ernst
2
over
8
and
I

Housing and council tax	BEN01	34,771,114	Q,A	Adjustments had to b
benefit scheme				incorrect classification

Adjustments had to be made to non HRA rent rebates due to incorrect classification of benefit type. Loss of benefit £227 Adjustment for rent allowance cases calculated under registered landlord rules where the landlord was not registered. Loss of benefit £14,452.

Adjustment to council tax benefit for isolated case of missed award of single person discount. Increased local authority error but no loss of subsidy.

Qualification —some parameters had been grouped rather than input separately. Whilst unlikely to have any significant impact on benefit paid, DWP require this to be reported.

Two further qualifications were reported for RA cases, one for errors in entering tax credits and one for failing to update capital. Initial and 40+ testing found either underpayment of, or no impact on, benefit resulting from these errors. DWP require these to be reported to them. The potential for there to be overpayments as a result of these types of errors in the large RA caseload was also reported.

Qualifications in respect of 2011/12 certification work S

The certificate that we issue to the grant-paying body is qualified where there is disagreement or uncertainty over an item or items in the claim/return, or the Council has not complied with the scheme terms and conditions. Details of the qualifications made during 2011/12 are provided below.

Claim/Return	Issue and risk arising	Agreed action plan
Housing benefit subsidy	As noted in the previous year, some parameters had been grouped rather than input separately.	Capita, on behalf of the Council, have confirmed that individual parameters have been uploaded for 2012/13
	Testing identified 2 errors in recording tax credits leading to underpayments.	Corrections for these errors will be made in 2012/13.
	An increase in capital had not been applied without due cause being recorded. This had no impact on benefit for the case identified.	Capita, on behalf of the Council, will remind staff of the need to record clearly any reasons for not updating capital information.

Appendix A Certification Fees

Claim/Return	2010/11	2011/12
	Actual	Actual
	3	3
Pooling of housing capital receipts	414	300
National non domestic rates (1)	1359	3784
Housing Benefit Subsidy (2)	23,953	28,038
Total	*25,726	32,122

* this does not include the disabled facilities grant fee of £400 which is no longer subject to certification

- In line with Audit Commission requirements this claim was subject to full audit in 2011/12 rather than on a risk assessed basis. $\widehat{\Xi}$
- The increase in fee is largely due to the additional work required to quantify the adjustments to the claim for non HRA cases. (2)

Ernst & Young LLP

Assurance | Tax | Transaction | Advisory

www.ey.com/uk

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© Ernst & Young LLP 2013. Published in the UK. All rights reserved.

Audit and Corporate Governance Committee



Listening Learning Leading



AGENDA ITEM 10

Report of Monitoring Officer

Author: Kathy Fiander

Telephone: 01491 823649

Textphone: 18001 01491 823649

E-mail: kathy.fiander@southandvale.gov.uk

To: Audit and Governance Committee

DATE: 30 January 2013

To: Audit and Corporate Governance Committee

DATE: 29 January 2013

Dispensations and the councillors' code of conduct

Recommendation(s)

The committee is recommended to:

- a. appoint sub-committees (to be known as Dispensation Panels) comprising three members of the committee, or their appointed substitutes, and authorise the Dispensation Panel to determine dispensations referred by the Monitoring Officer;
- appoint each member or substitute of the Audit and Corporate Governance Committee (South), Audit and Governance Committee (Vale) to serve on any Dispensation Panel which is convened so as to include her or him in its membership;
- c. agree that wherever possible, a panel should comprise the chairman or vicechairman of the committee plus two other members of the committee, but that this should not affect the principle that any three members of the committee or their appointed substitutes will constitute a properly appointed panel;
- d. authorise the Monitoring Officer to convene panels having regard to councillors' availability and eligibility to take part;
- e. adopt the procedures for dealing with dispensations set out in appendix 1 to this report with effect from the date of this committee;
- f. authorise the Monitoring Officer to make minor amendments to the procedures including minor or consequential amendments required for clarification, consistency and compliance with the council's style guide;

Purpose of Report

- 1. At its meeting in July 2012, Council agreed to widen the terms of reference of the committee (Audit and Corporate Governance Committee (South) and Audit and Governance Committee (Vale)) to include certain responsibilities previously undertaken by the former Standards Committee. In doing this, Council agreed to amend the terms of reference of the committees "to include the power to grant dispensations to councillors under section 33 of the Localism Act 2011". Council also agreed to "designate the Monitoring Officer as the proper officer for receipt of requests for dispensations under section 33 of the Localism Act 2011".
- 2. This report proposes arrangements for dealing with requests for dispensations from councillors, consistent with both the councillors' code of conduct and the Localism Act 2011 (and associated regulations).

Corporate Objectives

3. High standards of conduct underpin all of the councils work and the achievement of all its objectives.

Background

4. The new code of conduct came into effect on 1 July. It requires that any councillor who has a disclosable pecuniary interest must register it within 28 days of coming into office. Councillors must also declare the interest at a meeting of the council where the interest relates to any matter under consideration. Paragraph 19 of the code states that:

"Unless dispensation has been granted, you may not participate in any discussion of, vote on, or discharge any function related to any matter in which you have a pecuniary interest as defined by regulations made by the Secretary of State. You must withdraw from the room or chamber when the meeting discusses and votes on the matter".

- 5. Section 31(4) of the Localism Act 2011 states that a dispensation may allow a councillor to:
 - a. participate, or participate further, in any discussion of the matter at the meeting(s) and/or
 - b. participate in any vote, or further vote, taken on the matter at the meeting(s).
- 6. As such the Localism Act 2011 significantly changes the provisions on dispensations. Whilst the former Standards Committee was responsible for granting dispensations to district and parish councillors, parish councils are now able to grant their own dispensations. This report therefore relates to the granting of dispensations to district councillors.

ARRANGEMENTS FOR DEALING WITH DISPENSATIONS

7. The following paragraphs summarise the new grounds for considering a dispensation and suggest how the committee could make decisions on such requests.

- 8. In accordance with Section 33 of the Localism Act 2011 the committee may grant a dispensation when any of the following five circumstances arise:
 - a. That so many members of the decision making body have disclosable pecuniary interests in a matter that it would "impede the transaction of the business"; or
 - b. That, without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the likely outcome of any vote on the matter; or
 - c. That the authority considers the dispensation is in the interests of persons living in the authority's area; or
 - d. That, without the dispensation, no member of the Cabinet would be able to participate in this matter; or
 - e. That the authority considers that it is otherwise appropriate to grant a dispensation.
- 9. The Localism Act gives discretion for the consideration of dispensations to be delegated to a committee or panel or to the Monitoring Officer. Council has agreed a general delegation this committee.
- 10. The committee is recommended to agree to appoint Dispensation Panels to consider applications for dispensations on its behalf. In essence the terms of reference could include the following and are more fully set out in appendix 1 to this report:
 - a. A Dispensation Panel will comprise three members of the committee, or their appointed substitutes, to determine dispensations referred by the Monitoring Officer;
 - b. Any member or substitute of the committee can serve on any Dispensation Panel;
 - c. Wherever possible, a panel should comprise the chairman or vice-chairman of the committee plus two other members of the committee, but that this should not affect the principle that any three members of the committee or their appointed substitutes can constitute a properly appointed panel;
 - d. The Monitoring Officer will convene panels having regard to councillors' availability and eligibility to take part;
- 11. Under the previous standards regime, there were few requests for dispensations and we do not expect this to change under the new arrangements. Nevertheless we should ensure that procedures are in place should any requests arise in future.

Financial Implications

12. The cost of implementing the new arrangements for dealing with dispensations will be met from existing budgets.

Legal Implications

13. The council should have in place arrangements for dealing with dispensations as required in the Localism Act 2011 and the Localism Act 2011 (Commencement No. 6 and Transitional, Savings and Transitory Provisions) Order 2012.

Risks

14. There are no immediately identifiable risks in adopting these procedures.

Other Implications

15. None

Conclusion

16. Council agreed that this committee should have responsibility for considering and agreeing councillors' requests for dispensations. This report proposes a procedure for dealing with dispensation requests that the committee is asked to agree.

Background Papers

None





South Oxfordshire and Vale of White Horse District Councils: procedure for dealing with dispensation requests

Introduction

1. S.33 of the Localism Act 2011, in force on 1 July 2012, permits a council to grant a dispensation to a councillor to allow him/her to participate in a discussion or vote on a matter in which he/she has a disclosable pecuniary interest.

Purpose and effect of a dispensation

- 2. A dispensation allows a councillor to take part in council business when they have a disclosable pecuniary interest.
- 3. Section 31(4) of the Localism Act 2011 states that a dispensation may allow a councillor to:
 - a. participate, or participate further, in any discussion of the matter at the meeting(s) and/or
 - b. participate in any vote, or further vote, taken on the matter at the meeting(s).
- 4. If a dispensation is granted, the councillor may remain in the room where the meeting considering the business is taking place and if the dispensation allows, they may also vote.

Who can grant a dispensation?

5. In July 2012 Council agreed to designate the Monitoring Officer as the proper officer for receipt of requests for dispensations and that the Audit and Corporate Governance Committee (South)/ Audit and Governance Committee (Vale) would take on responsibility for granting dispensations.

Circumstances in which the committee can grant a dispensation

- 6. The following are the circumstances in which the committee can grant a dispensation:
 - a. That so many members of the decision making body have disclosable pecuniary interests in a matter that it would "impede the transaction of the business".
 - b. That, without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the likely outcome of any vote on the matter;





Listening Learning Leading

- c. That the authority considers the dispensation is in the interests of persons living in the authority's area;
- d. That, without the dispensation, no member of the Cabinet would be able to participate on this matter; or
- e. That the authority considers that it is otherwise appropriate to grant a dispensation.

Process for applying for a dispensation

- 7. A councillor should submit a written request for a dispensation to the Monitoring Officer as soon as possible before the meeting at which they require the dispensation allowing time to convene a Dispensation Panel to meet to consider the request.
- 8. A councillor should explain their reasons for applying for a dispensation. The attached form is designed for this purpose.
- 9. Only the councillor can submit the request they should not ask somebody else to do it on their behalf.

Procedures for granting a dispensation

- 10. The Monitoring Officer will convene a panel of three members of the committee (a Dispensation Panel) to consider a request.
- 11. Whilst legislation does not prevent a councillor from taking part in considering their own request for a dispensation, the Monitoring Officer will aim to convene a panel so that a councillor does not consider their own request.
- 12. These procedures are subject to the Access to Information Procedure Rules in the council's Constitution.

Period of the dispensation

13. A dispensation, when granted, must specify the period for which it has effect, and the period specified may not exceed four years and may not extend beyond the councillor's term of office. It will often be appropriate for a dispensation to expire with the councillor's current term of office.

Issues to consider before deciding to grant a dispensation

- 14. In reaching a decision on whether to grant a dispensation the committee will take into account:
 - a. The nature of the councillor's pecuniary interest;
 - The need to maintain public confidence in the conduct of the council's business;
 - c. The possible outcome of the proposed vote;
 - d. The need for efficient and effective conduct of the council's business;





Listening Learning Leading

- e. Any other relevant circumstances.
- 15. The following are some examples that should be considered before deciding to grant a dispensation.

Is the nature of the councillor's interest such that allowing them to participate would damage public confidence in the conduct of the council's business?

- 16. For instance, it is unlikely that it would be appropriate to grant a dispensation to a councillor who has a disclosable pecuniary interest arising as a result of an effect on their personal financial position, for example through their employment.
- 17. The adverse public perception of the personal benefit to the councillor would probably outweigh any public interest in maintaining the political balance of the committee making the decision. This is especially true where a council has well-established processes for members on committees to be substituted by members from the same political party.

Is the participation of the councillor in the business that the interest relates to justified by the member's particular role or expertise?

- 18. For instance, a councillor might have a contract with the authority and have particular expertise that the council would benefit from in making its decision.
- 19. Therefore it may be appropriate for that councillor to address the decision-making body before leaving the room whilst the debate and voting take place. This would mean that the body would have the benefit of the member's expertise before making a decision which would benefit it financially.

After the decision has been made

20. The clerk to the Dispensation Panel will record the panel's decision in the minutes of the panel meeting. The Monitoring Officer will retain a copy of the decision with the councillor's register of interests.





Listening Learning Leading

Dispensation request form

You should give full details below in support of your application for a dispensation. If you need help completing the form please contact democratic services.

Your name		
The business for which you require a dispensation (refer to agenda item number if known)		
Details of your interest in that business (continue on a separate sheet if necessary)		
Date of meeting or time period (up to four years ¹) for which you are seeking a dispensation		
Tick one of the following		
I require a dispensation to participate the business, or	e, or participate further, in any discussion of	
I require a dispensation to participate in any vote, or further vote, taken on that business		
Reason(s) for requiring a dispensation		
Tick one or more of the following boxes rela	ting to paragraphs from S.33 of the Localism	
·	mber of persons unable to participate in the great as to impede the transaction of the	
33b) without the dispensation the representation of different political groups would be affected so as to alter the likely outcome of any vote;		
33c) the dispensation is in the interests of persons living in the authority's area;		
33d) that, without the dispensation, no member of the Cabinet would be able to participate on the matter;		
33e) that it is otherwise appropriate to grant a dispensation.		
Reason:		
Signed:	Date:	
A dispensation cannot extend beyond the your term of office		