



Members of the Audit Committee:
(Councillors R P Lillis (Chairman), T Venner (Vice Chairman),
D Archer, N Thwaites, R Thomas, R Woods, H J W Davies)

Our Ref Democratic Services
Contact Emma Hill e.hill@tauntondeane.gov.uk

Date 23 November 2015

**THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THE MEETING
THIS DOCUMENT CAN BE MADE AVAILABLE IN LARGE PRINT, BRAILLE, TAPE FORMAT
OR IN OTHER LANGUAGES ON REQUEST**

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Tuesday 1 December 2015
Time: 2.30 pm
Venue: Council Chamber, Council Offices, Williton

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during the recording will be retained in accordance with the Council's policy.

Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01643 703704.

Yours sincerely

BRUCE LANG
Proper Officer

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;
- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officer.

The Council's Vision:

To enable people to live, work and prosper in West Somerset

AUDIT COMMITTEE - AGENDA

1 December 2015 at 2.30 pm

Council Chamber, Williton

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 28 September 2015 – **TO FOLLOW** – to be confirmed.

3. **Declarations of Interest**

To receive and record any declarations of interest in respect of any matters included the Agenda for consideration at this Meeting.

4. **Public Participation**

The Chairman to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public wishing to speak at this meeting there are a few points you might like to note.

A three-minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue. There will be no further opportunity for comment at a later stage. Your comments should be addressed to the Chairman and any ruling made the Chair is not open to discussion. If a response is needed it will be given either oral at the meeting or a written reply made within five working days of the meeting.

5. **Audit Committee Action Plan**

To update the Audit Committee on the progress of resolutions and recommendations from previous meetings – **SEE ATTACHED.**

6. **Audit Committee Forward Plan**

To review the Audit Committee Forward Plan 2015 – **SEE ATTACHED.**

7. **Grant Thornton External Audit – Annual Audit Letter 2014/15**

To consider Report No WSC 177/15 to be presented by Peter Barber, Appointed Auditor and Kevin Henderson, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with a summary of the key findings from the external audit work carried out in respect of the 2014/15 financial year and details the actual audit fees charged. The Annual Audit Letter for 2014/15 confirms that:

1. The auditors have issued an unqualified opinion in respect of the accounts for 2014/15;
2. A qualified opinion in respect of the Value for Money (VFM) conclusion in view of the financial challenges facing the Council; and
3. The fees charged for 2014/15 were as planned (£56,700).

8. Grant Thornton External Audit – Audit Update

To consider Report No WSC 178/15 to be presented by Peter Barber, Appointed Auditor and Kevin Henderson, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging national issues which may be relevant to the Council.

9. SWAP Internal Audit – Progress Update 2015/16

To consider Report No WSC 179/15 to be presented by Alastair Woodland, Audit Manager, SWAP – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

10. SWAP Committee Report Re-Design – Discussion Item

To consider Report No WSC 180/15 to be presented by Alastair Woodland, Audit Manager – **SEE ATTACHED**

The purpose of the report is to allow the Audit Committee to provide their input into the internal audit committee report re-design process.

11. Six Month Review of Treasury Management Activity

To consider Report No WSC 181/15 to be presented by Steve Plenty, Finance Manager – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on the Treasury Management position as at 30th September 2015.

12. Treasury Management Strategy Report

To consider Report No WSC 182/15 to be presented by Steve Plenty, Finance Manager – **TO FOLLOW.**

The purpose of the report is to obtain approval by the Audit Committee of the proposed Treasury Management Strategy Statement, Annual Investment Strategy, and Minimum Revenue Provision Policy for 2016/17 in line with the statutory and regulatory guidance.

13. Corporate Counter-Fraud Update Report

To receive a **Verbal Update** from Heather Tiso, Revenue and Benefits Manager

The purpose of the Verbal report is to update the Audit Committee on the current progress of Corporate Counter-Fraud.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

The Council's Vision:

To enable people to live, work and prosper in West Somerset

The Council's Corporate Priorities:

- Local Democracy:
Securing local democracy and accountability in West Somerset, based in West Somerset, elected by the people of West Somerset and responsible to the people of West Somerset.
- New Nuclear Development at Hinkley Point
Maximising opportunities for West Somerset communities and businesses to benefit from the development whilst protecting local communities and the environment.

The Council's Core Values:

- Integrity
- Respect
- Fairness
- Trust

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
28 September 2015	No Actions	
<p>6 July 2015</p> <p>A11 – Draft Annual Governance Statement 2014/15</p>	<p>RESOLVED that the contents of the Draft Annual Governance Statement be noted and that the Leader of the Council and the Chief Executive be recommended to adopt the document</p>	<p>Following the meeting of the Audit Committee, the Leader of the Council and Chief Executive signed off the contents of the Draft Annual Governance Statement to adopt the document.</p> <p>This was not completed at any formal Committee Meeting.</p>

West Somerset Council - Audit Committee – Forward Plan 2015

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
2 Dec 2014	Grant Thornton - Annual Audit Letter Grant Thornton – External Audit Update Internal Audit Plan – Progress Report Risk Management Update 6-Month Review of Treasury Management Activity Debt Analysis Report – As At 30 September 2014 Forward Plan	Peter Barber (GT) Ashley Allen (GT) Peter Barber (GT) Ashley Allen (GT) Alastair Woodland Paul Harding James Howells Steve Plenty Richard Sealy
23 March 2015	Grant Thornton – Certification of Grant Claims Grant Thornton – Audit Update Internal Audit – Progress Report 2014/15 Internal Audit Plan 2015/16 Corporate Risk Management Update Hinkley Project Update Debt Analysis Report – as at 31 December 2014 Forward Plan	Peter Barber (GT) Ashley Allen (GT) Peter Barber (GT) Ashley Allen (GT) Alastair Woodland Alastair Woodland Paul Harding Steve Plenty Steve Perkins Richard Sealy
29 June 2015	Grant Thornton – External Audit Plan 2014/15 Grant Thornton - External Audit Fee Letter Grant Thornton – External Audit Update SWAP Internal Audit – Annual Report SWAP Internal Audit – Review of Effectiveness	Peter Barber (GT) Ashley Allen (GT) Peter Barber (GT) Ashley Allen (GT) Peter Barber (GT) Ashley Allen (GT) Alastair Woodland Shirlene Adam

	<p>Annual Governance Statement 2014/15</p> <p>6-Month Review of Treasury Management Activity</p> <p>Debt Analysis Report – As At 31 March 2015</p> <p>Forward Plan</p>	<p>Paul Harding</p> <p>James Howells</p> <p>Steve Perkins</p> <p>Richard Sealy</p>
28 Sept 2015	<p>Grant Thornton – External Audit Findings</p> <p>Grant Thornton External Audit – Certification Plan</p> <p>Approval of the Statement of Accounts</p> <p>SWAP Internal Audit – Progress Update 2015/16</p> <p>Corporate Governance Action Plan Update</p> <p>Corporate Risk Management Update</p> <p>Debt Analysis Report – As At 30 June 2015</p> <p>Forward Plan</p>	<p>Peter Barber (GT) Ashley Allen (GT)</p> <p>Peter Barber (GT) Ashley Allen (GT)</p> <p>Paul Fitzgerald</p> <p>Alastair Woodland</p> <p>Paul Harding</p> <p>Paul Harding</p> <p>Steve Perkins</p> <p>Richard Sealy</p>
1 Dec 2015	<p>Grant Thornton External Audit – Annual Audit Letter 2014/15</p> <p>Grant Thornton External Audit Update</p> <p>SWAP Internal Audit – Progress Report 2014/15</p> <p>SWAP Committee Report Redesign – discussion item</p> <p>6-Month Review of Treasury Management Activity</p> <p>Treasury Management Strategy Statement 2016/17</p> <p>Corporate Counter-Fraud Update</p> <p>Forward Plan</p>	<p>Peter Barber (GT) Kevin Henderson (GT)</p> <p>Peter Barber (GT) Kevin Henderson (GT)</p> <p>Alastair Woodland</p> <p>Alastair Woodland</p> <p>James Howells</p> <p>Steve Plenty</p> <p>Paul Fitzgerald</p> <p>Richard Sealy</p>
28 Mar 2016	To Be Confirmed	

Report Number: WSC 177/15
Presented by: Cllr Mandy Chilcott, Deputy Leader & Resources
Author of the Report: Richard Sealy, Assistant Director – Corporate Services
Contact Details:
Tel. No. Direct Line 01823 358690
Email: r.sealy@tauntondeane.gov.uk

Report to a Meeting of: Audit Committee
To be Held on: 1 December 2015

ANNUAL AUDIT LETTER 2014/15

1. PURPOSE OF REPORT

1.1 The attached report summarises the key findings from the external audit work carried out in respect of the 2014/15 financial year and details the actual audit fees charged. The Annual Audit Letter for 2014/15 confirms that:

- i) The auditors have issued an unqualified opinion in respect of the accounts for 2014/15;
- ii) A qualified opinion in respect of the Value for Money (VFM) conclusion in view of the financial challenges facing the Council; and
- iii) The fees charged for 2014/15 were as planned (£56,700).

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 There is no direct contribution to the Corporate Priorities.

3. RECOMMENDATIONS

3.1 Members are requested to note the update report.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks identified will be contained in the attached report.			

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

5. BACKGROUND INFORMATION

- 5.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide an Annual Audit Letter, which summarises their findings and updates regarding the actual audit fees. The Annual Audit Letter is attached to this report.

6. FINANCIAL/RESOURCE IMPLICATIONS

- 6.1 The Annual Audit Letter confirms that the external auditors have issued an unqualified opinion in respect of the Council's accounts for 2014/15, which means that no material errors were found and the accounts were produced to a good standard.
- 6.2 However, the external auditors have only issued a qualified opinion in relation to the VFM conclusion, which reflects the significant financial challenges facing the Council in future years.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

- 7.1 The external auditors perform a key role in relation to ensuring the accuracy of the Council's accounts, our compliance with legislation and in helping us to meet our value for money obligations. The Annual Audit Letter summarises the findings of the external auditors in relation to the audit of our accounts for 2014/15 and confirms that there were no material issues. However, the qualified opinion in relation to the VFM conclusion is of concern.

8. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

- 8.1 There are no implications in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 There are no implications in respect of this report.

10. CONSULTATION IMPLICATIONS

- 10.1 There are no implications in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

- 11.1 There are no implications in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

- 12.1 There are no implications in respect of this report.

13. HEALTH & WELLBEING

Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and
- Somerset people are able to live independently.

13.1 There are no implications in respect of this report.

14. LEGAL IMPLICATIONS

14.1 The majority of the functions undertaken by external audit are required by statute.

The Annual Audit Letter for West Somerset District Council

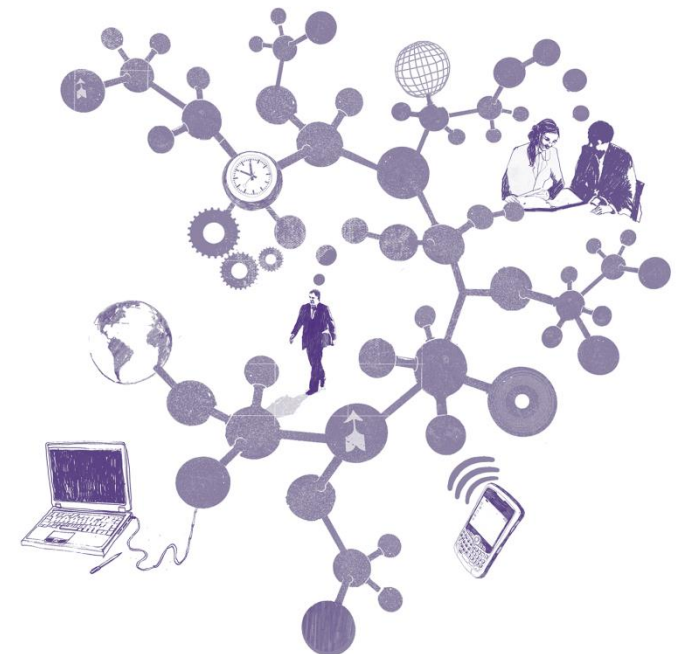
Year ended 31 March 2015

27 October 2015

Peter Barber
Associate Director
T +44 (0)117 305 7897
E peter.a.barber@uk.gt.com

Ashley J Allen
Manager
T +44 (0)117 305 7629
E ashley.j.allen@uk.gt.com

Sarah Crouch
Executive
T +44 (0)117 305 7881
E sarah.crouch@uk.gt.com



Contents

Section	Page
1. Key messages	3
Appendices	
A Key issues and recommendations	5
B Summary of reports and audit fees	6

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at West Somerset District Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 19 May 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 28 September 2015 to the Audit Committee. The key messages reported were:

- the draft accounts were produced to a good standard but material errors were found
- the audit has been facilitated by good supporting working papers and excellent assistance from finance team
- all requests for additional information were dealt with promptly by the finance team
- an action plan has been agreed with the Council based on our findings from our audit work and is attached at appendix A

The draft financial statements presented for audit on 30 June 2015 recorded net expenditure of £0.313 million. Management then informed us of the need to revise the draft statements to reflect the impact of the Hinkley business rates appeal. A revised version of the statements were received in July 2015 recording net expenditure of £0.649 million and other non-material changes to the balance sheet and movement in reserves statement.

In addition, our audit identified a material error that has now been corrected which was a £6.0 million misclassification of investments incorrectly treated as cash equivalents when they should have been short term investments. Our work also identified a number of adjustments to improve the presentation of the financial statements.

We issued a unqualified opinion on the Council's 2014/15 financial statements on 29 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued a qualified VfM conclusion for 2014/15 on 29 September 2015.</p> <p>The Council overspent against its budget for 2014/15 by £0.228 million which reduced the general fund reserves to just over £0.5 million, the minimum level set by the Council. The Council was initially reporting an underspend however this was adversely affected due to the results of the Hinkley business rates appeal which was out of the control of the Council. The Council has set a balanced budget for 2015/16 without the use of general fund reserves and with a council tax increase of 1.99%.</p> <p>Beyond 2015/16 the position becomes far more challenging and the Council continues to face challenges to ensure services remain financially sustainable. A further £1.5 million of savings will need to be identified and delivered in the period 2016/17 to 2020/21 to allow the Council to reduce budget gaps and set balanced budgets.</p> <p>The Council made savings with its shared team with Taunton Deane Borough Council but these savings have been eliminated by the Valuation Office Agency ruling on the Hinkley business rates appeal which will have a significant detrimental impact on the future viability of the Council.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015, except for its strategic financial planning. The decrease in the general fund balance during 2014/15, low general fund reserve balance at 31 March 2015 and future budget gaps are evidence of weaknesses in arrangements in respect of the Authority's strategic financial planning.</p>
Certification of housing benefit grant claim	<p>Our work on the certification of the Housing Benefits claim is ongoing and the key messages from our certification work will be reported in our certification report due to be issued on completion of work on this claim.</p>
Audit fee	<p>Our fee for 2014/15 was £56,700, excluding VAT which was in line with our planned fee for the year and the fee charged in the previous year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>We have identified opportunities to improve the control environment for information technology , as deficiencies around ICT security policies, lack of review and agreement and lack of review of system users or security logs.</p> <p>Recommendation: We recommend that management:</p> <ul style="list-style-type: none"> • review their ICT security policies and ensure they continue to meet the requirements of PSN connection • implement a process to ensure that all staff (including temporary, Agency staff, Contractors etc) are provided with up to date policies • ensure that all users acknowledge that they have read, understood and agree to abide by the policies • should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to the Council systems and the levels of access granted is appropriate for their roles and responsibilities • management should identify critical security logs within all systems and monitor user activity to ensure data integrity. 	Medium	<p>The WSC ICT security policy is being reviewed along with the equivalent TDBC policy to create a single ICT security policy for both organisations. This work is in progress and will be complete by April 2016.</p> <p>Responsible office: ICT and Information Manager Due date: April 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Audit fee	56,700	56,700
Housing benefit grant certification fee	11,950	*11,950
Total audit fees	68,650	68,650

* The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £11,950. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	19 May 2015
Audit Findings Report	18 September 2015
Certification Report (expected)	December 2015
Annual Audit Letter	20 October 2015



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Report Number: WSC 178/15
Presented by: Cllr Mandy Chilcott, Deputy Leader & Resources
Author of the Report: Richard Sealy, Assistant Director – Corporate Services
Contact Details:
Tel. No. Direct Line 01823 358690
Email: r.sealy@tauntondeane.gov.uk

Report to a Meeting of: Audit Committee
To be Held on: 1 December 2015

EXTERNAL AUDIT (GRANT THORNTON) UPDATE REPORT

1. PURPOSE OF REPORT

- 1.1 The attached report provides the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging national issues which may be relevant to the Council.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 There is no direct contribution to the Corporate Priorities.

3. RECOMMENDATIONS

- 3.1 Members are requested to note the update report.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks identified will be contained in the attached report.			

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

5. BACKGROUND INFORMATION

- 5.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide regular progress updates to Members via the Audit Committee together with updates in relation to emerging national issues, which may be of relevance to the Council. These are detailed in the attached report.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 This is an update report only and there are no specific financial implications from this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 The external auditors perform a key role in relation to ensuring the accuracy of the Council's accounts, our compliance with legislation and in helping us to meet our value for money obligations. It is important therefore that Members receive regular progress updates from the external auditors.

8. EQUALITY & DIVERSITY IMPLICATIONS

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 There are no implications in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no implications in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 There are no implications in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 There are no implications in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 There are no implications in respect of this report.

13. HEALTH & WELLBEING

Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and
- Somerset people are able to live independently.

13.1 There are no implications in respect of this report.

14. LEGAL IMPLICATIONS

14.1 The majority of the functions undertaken by external audit are required by statute.

Audit Committee Update for West Somerset Council

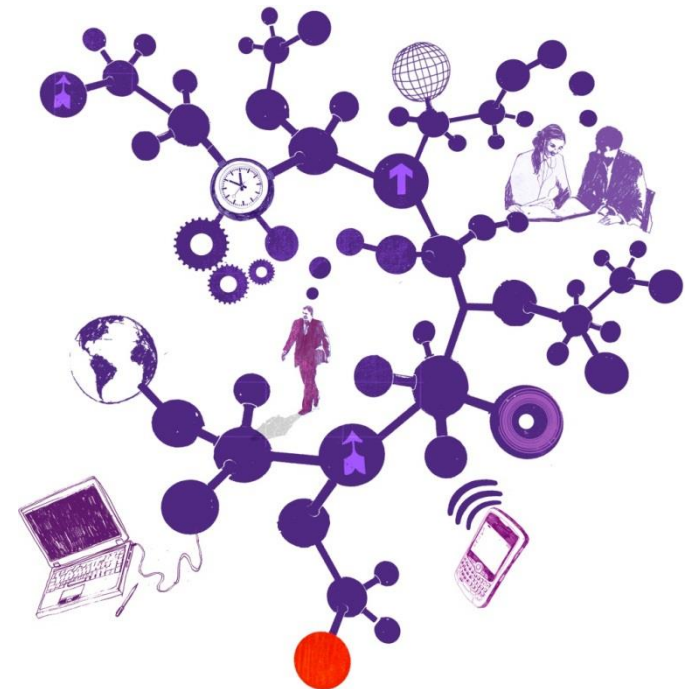
Year ended 31 March 2016

December 2015

Peter Barber
Associate Director
T +44 (0) 117 305 7897
E peter.a.barber@uk.gt.com

Kevin Henderson
Manager
T +44 (0) 117 305 7873
E kevin.j.henderson@uk.gt.com

Stephen Clarke
Executive
T +44 (0) 117 305 7884
E stephen.t.clarke@uk.gt.com



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

Contents

Section	Page
Introduction	4
Progress at December 2015	5
Emerging issues and developments	
Grant Thornton	8
Local government issues	12
Accounting and audit issues	15

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

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

- Knowing the ropes: Audit Committee effectiveness review 2015
- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden: The impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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

Peter Barber Engagement Lead **T** 0117 305 7897 **M** 07880 456122 **E** peter.a.barber@uk.gt.com

Kevin Henderson Audit Manager **T** 0117 305 7873 **M** 07880 456132 **E** kevin.j.henderson@uk.gt.com

Progress at December 2015

Work	Planned date	Complete?	Comments
<p>2015-16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p>	April 2016	Not yet due	We will issue our audit plan following the initial phase of our audit where we will consider the key audit risks and the implication for our audit strategy.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January – April 2016	Not yet due	Our audit plan will include commentary on any issues we identify during the initial phase of our audit.
<p>2015-16 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July – September 2016	Not yet due	<p>We will complete the accounts audit in line with the statutory deadline. We will support the efficient production of the accounts with our series of accounts workshops and we will specify our working paper requirements in advance of the audit.</p> <p>The actual timing of our audit will be agreed with the Director – Operations & Deputy Chief Executive and the finance team.</p>

Progress at December 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work is subject to consultation on proposals outlined by the National Audit Office. If the proposals are approved we expect our work to cover the following areas: <ul style="list-style-type: none">• Informed decision making• Sustainable resource deployment• Working with partners and other third parties	January – September 2016	Not yet due	We expect to undertake the majority of our work by the end of the financial year, but won't be able to finalise our work until shortly before issuing our value for money conclusion.
Housing benefit certification (2014/15)	30 November 2015	Yes	Our detailed work has been completed. The certified return will be submitted to the Department for Work and Pensions shortly.

Emerging issues and developments

This section of our update provides a summary of emerging national issues and developments that may be relevant to you.

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

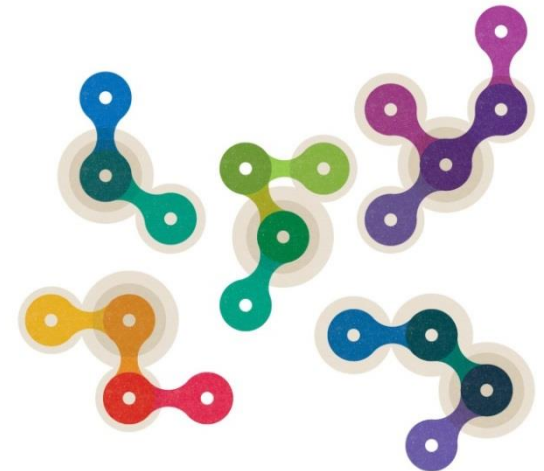
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

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



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

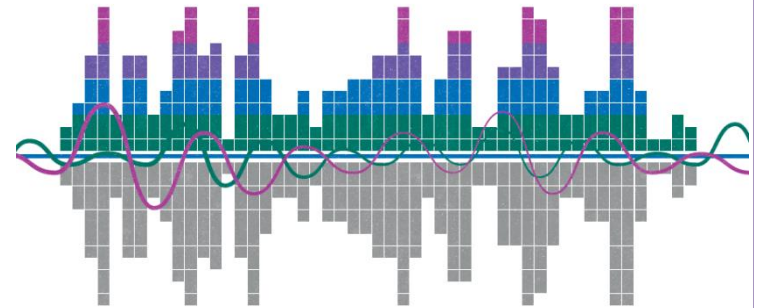
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

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



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

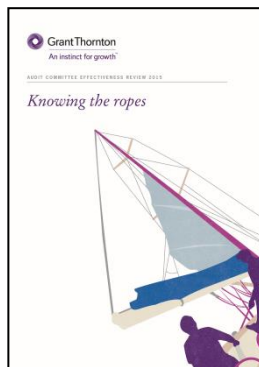
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEAs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Report Number: WSC 179/15
Presented by: Alastair Woodland, Audit Manager
Author of the Report: Alastair Woodland, Audit Manager
Contact Details:
Tel. No. Direct Line 01823 356160
Email: Alastair.woodland@southwestaudit.co.uk

Report to a Meeting of: Audit Committee
To be Held on: 1 December 2015
*Date Entered on Executive Forward Plan
Or Agreement for Urgency Granted:*

INTERNAL AUDIT PLAN 2015-16 PROGRESS UPDATE

1. PURPOSE OF REPORT

- 1.1 To update members on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

3. RECOMMENDATIONS

- 3.1 Members are asked to note progress made in delivery of the 2015/16 internal audit plan and note the significant findings.

4. RISK ASSESSMENT (IF APPLICABLE)

- 4.1 Any organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. WSC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement. The most significant findings are reported to this committee in terms of significant corporate risks or in terms of high priority findings at an individual service level.

5. BACKGROUND INFORMATION

This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September.

- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these (Appendix A).

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 There are no specific finance issues relating to this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 No specific comments.

8. EQUALITY & DIVERSITY IMPLICATIONS

8.1 There are no direct implications from this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no direct implications from this report.

10. CONSULTATION IMPLICATIONS

10.1 There are no direct implications from this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 There are no direct implications from this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 There are no direct implications from this report.

13. HEALTH & WELLBEING

13.1 There are no direct implications from this report.

14. LEGAL IMPLICATIONS

14.1 There are no specific legal issues relating to this report.



West Somerset Council

Report of Internal Audit Activity, November Update, 2015/16

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 462371

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@southwestaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 01823 356160

Alastair.woodland@southwestaudit.co.uk

Summary

Role of Internal Audit Page 1

Overview of Internal Audit Activity Page 1

Internal Audit Work Plan 2015-16

Audit Plan progress Page 2 - 3

Report on Significant Findings Page 3

Future Planned Work & Conclusions Page 4

Appendices

Appendix A - Audit Plan Progress 2015-16

Appendix B - Audit Definitions

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by South West Audit Partnership (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee and last reviewed at its meeting on 9th March 2015.

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

- Operational Audit Reviews
- Key Financial Control Reviews
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee at its meeting in March 2015.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk. Key Control Audits are undertaken in quarter three of each year and these are planned in conjunction with the Council's External Auditor to assist in their assessment of the Council's financial control environment. This reduces the overall cost of audit to the Council.



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Update 2015-16

Completed Audit Assignment in the Period

Audit Plan Progress

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed. Each completed assignment includes its respective “control assurance” opinions together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in [Appendix B](#)

As can be seen from [Appendix A](#) the following audits have been progressed to date:

Operational:

- Drafting, 1 review
- Not Started, 2 reviews

Governance, Fraud and Corruption:

- Complete, 1 review
- Drafting, 1 review
- Not started, 2 reviews

Follow-up Reviews:

- Complete, 1 review

ICT Reviews

- In Progress, 1 review

Non Opinion reviews:

- Not started, 1 review

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Audit Plan Progress Continued

Key Control reviews:

- In Progress, 4 reviews
- Not started, 2 reviews

Audit Plan Progress – Outstanding 2014-15 Audits

I have provided an update since the last progress report in June 2015. There are 3 reviews at draft that need to be finalised. These should be wrapped up in the next couple of weeks. Details of these eight reviews are provided at the end of [Appendix A](#).

Report on Significant Findings

Appendix A is a summary of the Annual Plan for 2015/16 and shows the current status of each audit.

As requested by this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. In addition a summary of the agreed actions where the Auditor assessed the priority to be a level 4 (Medium/High) or 5 (High) will also be included as part of each progress report.

Since my last update there are no reviews rated as ‘Partial’ that I need to bring to your attention at this time.

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

Future Planned Work/Plan Changes

The audit plan for 2015/16 is detailed in [Appendix A](#). Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to West Somerset Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

Members will note from [Appendix A](#) that the Transformation Programme review has been removed and the days allocated to a Land Charges review, which will run alongside the TDBC Land Charges review scheduled for quarter 4. Assurance for the Transformational Programme aspect is being provided by external consultant's iESE and it is to avoid any duplication that we have swapped out this review.

Conclusions

Steady progress has been made on the WSC Audit Plan with only one review, Declaration of Interests, Gifts & Hospitality not currently in progress from the original planned start date.

Business Continuity has been finalised recently and returned a 'Reasonable' assurance opinion. In addition to the report for WSC, an overarching report was also circulated to all the Somerset Authorities that were included within the themed review where areas of best practice were highlighted and shared.

Audit Plan Progress 2015-16

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Final											
Follow Up	Data Transparency	Q1	Final	Non Opinion	3	0	2	1	0	0	
Governance, Fraud & Corruption	Business Continuity	Q1	Final	Reasonable	4	0	0	4	0	0	Additional Cross Partnership Report also produced as part of this work to share best practice.
Draft											
Operational	Food Safety	Q2	Drafting/Review								Closeout meeting 26 November.
Governance, Fraud & Corruption	Cash & Banking	Q2	Review								
In Progress											
ICT	Data Migration from Northgate to Civica Open Revenues	Q1	In Progress								Key pre migration actions reported to client. Audit work running alongside the project – completion expected December 2015.



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Audit Plan Progress 2015-16

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Debtors	Q3	In Progress								
Key Control	Council Tax & NDR	Q3	In Progress								
Key Control	Main Accounting	Q3	In Progress								
Key Control	Creditors	Q3	In Progress								
Not Started											
Governance, Fraud & Corruption	Declaration of Interests, gift & Hospitality	Q2	Not started								Due to start December 2015.
Key Control	Treasury Management	Q3	Not started								
Key Control	Housing & CTax Benefits	Q4	Not started								
Operational	Land Charges (New)	Q4	Not started								Replaced Transformation Programme.
Operational	Homelessness	Q4	Not started								
Governance, Fraud & Corruption	Hinkley	Q4	Not started								



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Non Opinion	Waterways/Beach Safety	Q4	Not started								
Removed											
Non Opinion	Transformation Programme	Q3	Removed								Replaced by Land Charges.
Outstanding from 2014-15 Audit Plan as of July 2015											
Governance, Fraud & Corruption	Private Water supply - theme	Q4	Discussion Document								
Operational	Choice Based Lettings – Somerset Wide Review	Q4	Draft								
Governance, Fraud & Corruption	Asset Management	Q4	Draft								

Audit Framework Definitions

Control Assurance Definitions

Appendix B

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

Categorisation Of Recommendations

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

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

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

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

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

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

Definitions of Risk

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

Report Number: WSC 180/15
Presented by: Alastair Woodland, Audit Manager
Author of the Report: Alastair Woodland, Audit Manager
Contact Details:
Tel. No. Direct Line 01823 356160
Email: Alastair.woodland@southwestaudit.co.uk

Report to a Meeting of: Audit Committee
To be Held on: 1 December 2015
*Date Entered on Executive Forward Plan
Or Agreement for Urgency Granted:*

INTERNAL AUDIT COMMITTEE REPORT RE-DESIGN

1. PURPOSE OF REPORT

- 1.1 To allow members of the audit committee to provide their input into the internal audit committee report re-design process.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 N/A

3. RECOMMENDATIONS

- 3.1 Members are asked to share their views on the top 5 priorities of how you would want your committee report to be laid out.

4. RISK ASSESSMENT (IF APPLICABLE)

- 4.1 N/A

5. BACKGROUND INFORMATION

- 5.1 We are currently undertaking a review of our existing committee reports and would welcome your input.

Why are we doing this?

When we first introduced our new committee reports the idea was to have one approach across all our partners that would;

1. Provide efficiencies and uniformity in production
2. Allow us to compare easily findings from audit reviews
3. Easily be recognised as a SWAP report.

This has fallen into some disrepair as we integrated some requests for different things at some sites and this has now resulted in different formats and inefficiency. We would like to

agree one common template that we can agree that can be run automatically through the use of our software.

We understand that you will all have slightly differing views and needs but we would like to reach a consensus so that we have one standard report.

We are hoping to introduce a new style report from 1st April 2016 and would very much welcome your input.

5.2 Officers representing WSC have provided their initial thoughts, summarised as:

1. The report should clearly indicate that it has 2 distinct purposes & be in 2 sections
 - a) To allow Members to scrutinise progress in delivering the audit plan for the year;
 - b) To provide a heads-up on any significant findings.
2. The reporting of progress against the delivery of the audit plan should be reported in a shorter and simpler way e.g. a pie chart to show performance against target & charts for overdue audits & the reasons for being overdue.
3. More detail should be provided in the standard text to explain the rationale for classifying audits as partial.
4. The significant findings element should indicate whether the risks identified are corporate or service risks. This will enable Members to view the individual risks in context.
5. Report be in portrait format.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 There are no specific finance issues relating to this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 No specific comments.

8. EQUALITY & DIVERSITY IMPLICATIONS

8.1 There are no direct implications from this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no direct implications from this report.

10. CONSULTATION IMPLICATIONS

10.1 There are no direct implications from this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 There are no direct implications from this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 There are no direct implications from this report.

13. HEALTH & WELLBEING

13.1 There are no direct implications from this report.

14. LEGAL IMPLICATIONS

14.1 There are no specific legal issues relating to this report.

Report Number: WSC 181/15

Presented by: Cllr M Chilcott, Lead Member for Resources

Author of the Report: Steve Plenty, Finance Manager

Contact Details:

Tel. No. Direct Line 01984 635217

Email: sjplenty@westsomerset.gov.uk

Report to a Meeting of: Audit Committee

To be Held on: 1st December 2015

Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: N/A

TREASURY MANAGEMENT UPDATE – 30TH SEPTEMBER 2015

1 PURPOSE OF REPORT

1.1 To update the Audit Committee on the Treasury Management position as at 30th September 2015.

2 CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None directly in relation to this report.

3 RECOMMENDATIONS

3.1 To note the Treasury Management position as at 30th September 2015 (Appendix A).

4 RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	Possible (2)	Major (3)	Medium (6)
<i>The Council has an agreed TMSS and effective management practices to ensure compliance</i>	(1)	(2)	(2)

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

5 Background Information

- 5.1 On 18th March 2015 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2015/16 in line with the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 5.2 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

6 Financial/resource Implications

- 6.1 Investment performance to date is at 0.51% and investment income is predicted to be £2,000 above the budget of £15,000 for the financial year 2015/16.
- 6.2 The Council currently has one external loan of £1m, which is due to mature in February 2016. The interest on this loan is fixed at 0.62% with a cost of £5,504 projected in respect of this loan within 2015/16.
- 6.3 Finance officers will review any need to re-finance this loan in the New Year, with any significant variances to budget assumptions reported through financial monitoring reports and the Treasury Management Outturn Report to the Audit Committee next summer.

7 Section 151 officer comments

- 7.1 Effective management of the Council's cash flow, investments and borrowing arrangements are an important part of the governance, risk management, and financial control arrangements. The Council manages significant cash flows on a daily basis, and uses appropriately skilled staff within the Finance 'One Team' to monitor and manage these within the parameters set by the Council through the Treasury Management Strategy. The Council is also supported in delivering its treasury management arrangements through advice from our advisor – Arlingclose.
- .

8 EQUALITY & DIVERSITY Implications

Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

- 8.1 None in respect of this report.

9 CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10 CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11 ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12 ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13 LEGAL IMPLICATIONS

13.1 The S151 Officer has a legal requirement to ensure appropriate arrangements are in place to adequately control the Council's resources.

Treasury Management Update

Six Months Ended 30th September 2015

1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

The Authority's Treasury Management Strategy for 2015/16 was approved by full Council on the 18 March 2015.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. External Context

As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centred on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minister of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported \$3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the Yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

UK Economy: The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

Market reaction: Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

3. Local Context

At 31/3/2015 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5.633m, while usable reserves and working capital which are the underlying resources available for investment were £16.442m.

At 31/03/2015, the Authority had £1m of borrowing and £11.651m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing. Members have previously agreed to apply £1.7m of expected capital receipts to further reduce the CFR but this is not currently reflected in the CFR calculations below, and is subject to surplus capital receipts being available through significant planned asset sales. The policy of reducing the underlying need to borrow using capital receipts is being reviewed in light of the council's budgetary challenges, and the outcome of this review will be reported to Members in the next 2-3 months through the budget process.

The Authority currently has a decreasing CFR over the next 3 years due to the proposed use of £1.7m of capital receipts and annual minimum revenue provision. This forecast will be updated following the review referred above. The Authority's capital expenditure plans do not currently imply any need to borrow over the forecast period but a decision regarding the repayment of the £1m external borrowing and whether there is a need to refinance will be considered in the new year.

4. Borrowing Strategy

At 30/9/2015 the Authority held £1m of loans, this position remains unchanged from the 31/03/2015 and is part of its strategy for funding previous years' capital programmes. The loan is due to be repaid in February 2016.

The Authority does not expect to need to borrow more than this £1m in 2015/16 but may review this in the new year upon maturity of the current loan in February.

Borrowing Activity in 2015/16

	Balance on 01/04/2015 £m	MRP £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 30/09/2015 £m	Average Rate %
CFR	5.633	(0.225)				5.408	
Short Term Borrowing ¹	(1.000)		0	0	0	(1.000)	0.62
Increase/ (Decrease) in Borrowing						4.408	

¹ Loans with maturities less than 1 year.

PWLB Certainty Rate and Project Rate Update: The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2014. In April the Authority submitted its application to the CLG along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2015.

5. Investment Activity

The Authority holds invested funds on its own behalf with a separate fund for the section 106 contribution from EDF related to the building of Hinkley C nuclear power station representing income received in advance of expenditure plus balances and reserves held. Cash flow forecasts indicate that during 2015/16 the Authority's investment balances would range between £12m and £16m combining General Funds and the S106 'Hinkley funds'.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2015 £m	Avg Rate (Yield) %
Short term Investments (call accounts, deposits)					
- Banks and Building Societies with ratings of A- or higher	7.656	17.258	(20.597)	4.317	0.56
- Local Authorities	0	6.000	0	6.000	0.47
Money Market Funds	4.510	11.300	(11.721)	4.089	0.46
TOTAL INVESTMENTS	12.166	34.558	(32.318)	14.406	
Increase/ (Decrease) in Investments				2.240	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	4.93	A+	4.25	AA-
30/06/2015	4.24	AA-	2.99	AA
30/09/2015	3.98	AA-	2.79	AA

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit
 -Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Investments made by the Authority for the first six months of the year have all been short term with no investments made for longer than 364 days. Money market funds and call accounts have also been utilised to manage the Council's surplus internal cash flow.

6. Counterparty Update

All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

At the end of July, the Council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

7. Budgeted Income and Outturn

The average cash balances were £15.187m during the period. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 1). New deposits were made at an average rate of 0.53%. Investments in Money Market Funds generated an average rate of 0.46%.

The Authority's budgeted General Fund investment income for the year is £15k. The Authority anticipates an investment outturn of £17k for the whole year. Investment income in respect of Hinkley S106 funds are ring-fenced and added to the S106 account.

8. Compliance with Treasury Management Indicators

The Authority confirms compliance with its Treasury Management Indicators for 2015/16, which were set in March 2015 as part of the Authority's Treasury Management Strategy Statement apart from a minor breach which is explained in more detail below.

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

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

Borrowing

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	100%		
Upper limit on variable interest rate exposure	100%	100%	100%
Actual	0%		

Investments

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	62.5%		
Upper limit on variable interest rate exposure	100%	100%	100%
Actual	37.5%		

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

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

	Upper	Lower	Actual
Under 12 months	100%	0%	100%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%

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

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

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£10m	£10m	£10m
Actual	£3m	£0m	£0m

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

	Target	Actual
Portfolio average credit rating	A-	AA-

The Authority would like to highlight a one-day non-compliance issue which occurred in November 2015, which is outside of the half-year monitoring period, but is disclosed for transparency. The Authority received a substantial capital receipt following the sale of land at Seaward Way, but the funds arrived too late in the day to enable a suitable investment to be arranged. Therefore, the amount held overnight in our account with National Westminster Bank exceeded the maximum amount permitted by our Treasury Management Strategy Statement. The Authority arranged an investment for these funds the following day and the authority's Deputy S151 Officer gave approval for this temporary breach of policy.

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

	Target	Actual
Total cash available within 3 months	£3.5m	£8.4m

9. Compliance with Prudential Indicators 2015/16

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

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Assets	0.068	0.452	0	0
Plant and Equipment	0.069	0.130	0	0
Disabled Facilities Grants	0.112	0.291	0	0
Information Technology	0.044	0.072	0	0
Transformation Costs (WSC/TDBC)	0.010	0.346	0	0
REFCUS (Capital Spend on Non WSC Assets)	0.551	2.354	0	0
Total Capital Expenditure	0.854	3.645	0	0
Capital Receipts	(0.141)	(0.892)	0	0
Revenue Reserves	0	(0.108)	0	0
Capital Grants / S106	(0.713)	(2.645)	0	0
Total Capital Financing	(0.854)	(3.645)	0	0

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for capital purposes.

Capital Financing Requirement	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	5.633	3.707	3.559	3.417

The CFR is forecast to fall over the next three years as capital expenditure financed by debt (currently forecast to be £nil) is outweighed by resources put aside for debt repayment.

As well as reviewing the policy in respect of planned set aside of £1.7m of capital receipts to repay debt, a review of the Minimum Revenue Provision (MRP) policy is currently underway. The figures in the table above may change if a decision to revise the budgeted MRP is agreed and if assumptions regarding debt repayment and refinancing are revised, and if the Council has significant and unavoidable unplanned capital costs that need to be financed through additional borrowing.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for capital purposes, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.15 Actual £m	30.09.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	1.000	1.000	0.000	0.000	0.000
Finance Leases	0.039	0.039	0.039	0.039	0.039
Total Debt	1.039	1.039	0.039	0.039	0.039

As the above and previous tables indicate, total debt is expected to remain below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	7.7	7.7	7.7	7.7

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	10	10	10	10

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	%	%	%	%
General Fund	3.19	3.63	0	0

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
General Fund - increase in annual Band D Council Tax	0	0	0

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

10. Outlook for Q3 and Q4 2015/16

Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Average
Official Bank Rate														
Upside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.08
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-0.70

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
Average	0.50	0.40	0.46	0.43	0.53	0.76	0.99	1.03	1.25	1.58
Maximum	0.50	0.48	0.58	0.56	0.65	0.86	1.02	1.17	1.44	1.82
Minimum	0.50	0.17	0.40	0.43	0.51	0.55	0.97	0.87	1.04	1.29
Spread	--	0.31	0.18	0.13	0.14	0.31	0.05	0.30	0.40	0.53

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	128/15	1.32	2.07	2.66	3.21	3.34	3.30	3.28
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
29/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
28/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
	Low	1.31	2.02	2.60	3.16	3.28	3.23	3.21
	Average	1.46	2.32	2.96	3.51	3.59	3.52	3.49
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

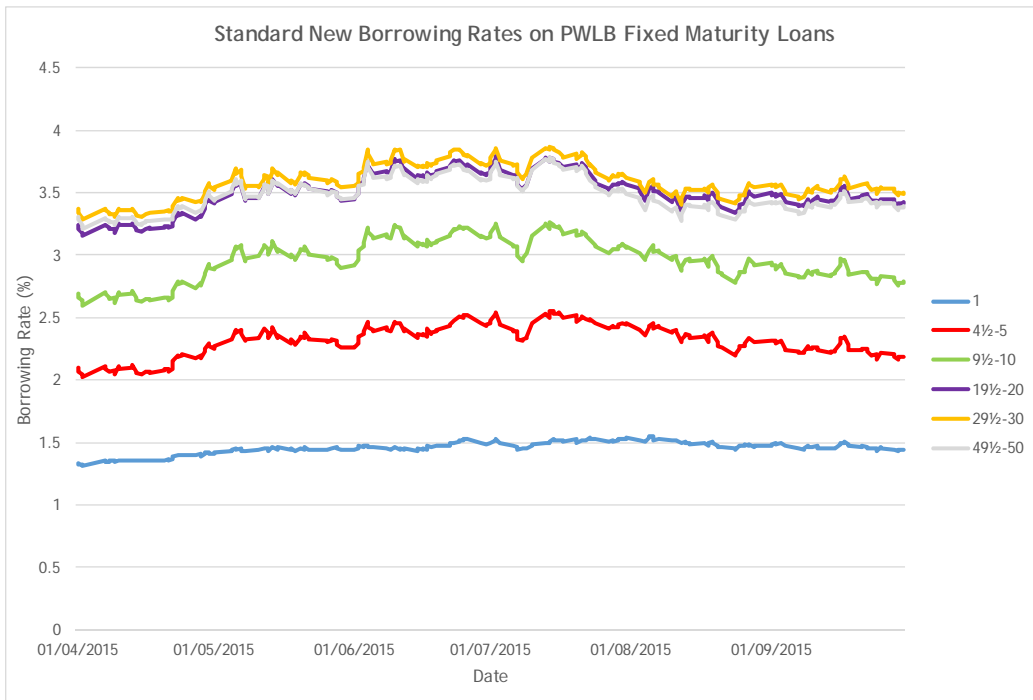


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/15	1.63	2.11	2.68	3.00	3.22	3.32
30/04/2014	166/15	1.79	2.31	2.92	3.24	3.45	3.54
29/05/2014	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2014	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2014	294/15	1.96	2.50	3.09	3.39	3.57	3.63
28/08/2014	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2014	379/15	1.76	2.23	2.82	3.19	3.43	3.51
	Low	1.60	2.06	2.62	2.94	3.16	3.26
	Average	1.84	2.37	2.99	3.31	3.51	3.59
	High	1.99	2.60	3.28	3.61	3.79	3.87

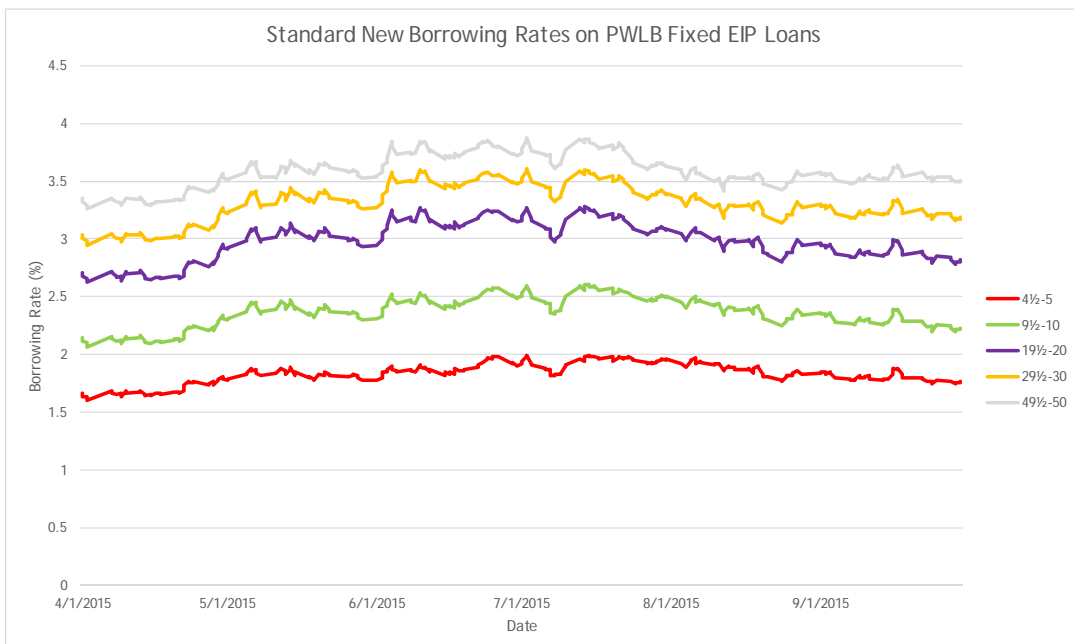


Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
29/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
28/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
Low	0.62	0.61	0.66	1.52	1.51	1.56
Average	0.63	0.65	0.70	1.53	1.55	1.60
High	0.66	0.69	0.78	1.56	1.59	1.68