



Members of the Audit Committee:  
(Councillors S Y Goss (Chairman), E May (Vice Chairman),  
M J Chilcott, M O A Dewdney, R P Lillis, D D Ross, D Sanders)

Our Ref Corporate Support  
Contact Emma Hill e.hill@tauntondeane.gov.uk

Date 21 November 2014

**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 2 December 2014**  
**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

<b>Likelihood</b>	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
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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 Officers.

**The Council's Vision:**

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

**AUDIT COMMITTEE - AGENDA**

**2 December 2014 at 2.30 pm**

**Council Chamber, Williton**

**1. Apologies for Absence**

**2. Minutes**

Minutes of the Meeting of the Committee held on 22 September 2014 – **SEE ATTACHED** – to be confirmed.

**3. Declarations of Interest**

To receive and record any declarations of interest in respect of any matters included on 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 by the Chair is not open to discussion. If a response is needed it will be given either orally 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 Annual Audit Letter**

To consider Report No. WSC 173/14 to be presented by Peter Barber, Appointed Auditor and Ashley Allen, 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 2013/14 financial year and details the actual audit fees charged.

**8. Grant Thornton External Audit Update**

To consider Report No. WSC 174/14 to be presented by Peter Barber, Appointed Auditor and Ashley Allen, 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. Internal Audit Plan Progress Report**

To consider Report No. WSC 175/14, 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 2014-15 progress and bring to their attention any significant findings identified through our work.

**10. Risk Management Update**

To consider Report No. WSC 176/14, to be presented by Paul Harding, Corporate Strategy and Performance Manager – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on the corporate risks which are being managed by the Joint Management Team (JMT).

**11. Six-Month Review of Treasury Management Activity**

To consider Report No. WSC 172/14, to be presented by James Howells, Principal Accountant – **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 2014 and to provide an update for the 2014-15 Treasury Management Strategy Statement.

**12. Debt Analysis Report – As at 30 September 2014**

To consider Report No. WSC 177/14, to be presented by Steve Plenty, Finance Manager – **SEE ATTACHED.**

## **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**

### **Minutes of the Meeting held on 22 September 2014 at 2.30 pm in the Council Chamber, Williton**

#### **Present**

Councillor S Goss .....Chairman  
Councillor E May .....Vice Chairman

Councillor M O A Dewdney

#### **Members In Attendance**

Councillor K V Kravis

Councillor D Sanders

#### **Officers In Attendance**

Section 151 Officer (S Adam)  
Assistant Director Corporate Services (R Sealy)  
Assistant Director of Resources (P Fitzgerald)  
Principal Accountant/Deputy Section 151 Officer (S Plenty)  
Performance & Efficiencies Manager (K Batchelor)  
Corporate Support Officer (E Hill)

#### **Also In Attendance**

Ashley Allen, Audit Manager, Grant Thornton  
Peter Barber, Associate Director, Grant Thornton  
Alastair Woodland, Audit Manager of South West Audit Partnership (SWAP)

#### **A.16 Apologies for Absence**

Apologies for absence were received from Councillors M Chilcott, R Lillis and D Ross.

#### **A.17 Minutes**

(Minutes of the Meeting of Audit Committee held on 1 July 2014, circulated with the Agenda).

**RESOLVED** that the Minutes of the Meeting of the Audit Committee held on 1 July 2014 were confirmed as a correct record subject to Councillor K V Kravis being recorded under Members in Attendance.

#### **A.18 Declarations of Interest**

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

<b>Name</b>	<b>Minute No</b>	<b>Description of Interest</b>	<b>Personal or Prejudicial</b>	<b>Action Taken</b>
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Cllr S Y Goss	All	Stogursey	Personal	Spoke and voted
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### **A.19 Public Participation**

No members of the public had requested to speak on any item on the Agenda.

### **A.20 Audit Committee Action Plan**

(Audit Committee Action Plan, circulated with the Agenda).

Noted that the resolution made at the meeting on 1 July 2014 relating to the South West Audit Partnership (SWAP) Governance Arrangements had been approved by Full Council on 23 July 2014.

**RESOLVED** that the Audit Committee Action Plan, be noted.

### **A.21 Audit Committee Forward Plan**

(Audit Committee Forward Plan, circulated with the Agenda).

Noted that the External Audit Fee Letter 2015/2016 from Grant Thornton on the Forward Plan for 2 December 2014 be removed until further notice.

**RESOLVED** that the Audit Committee Forward Plan be noted.

### **A.22 Internal Audit Plan 2014-15 Progress Update**

(Report No. WSC 129/14, circulated with the Agenda).

The purpose of the report was to provide an update on the Internal Audit Plan 2014-2015 progress and bring to the Committee's attention any significant findings identified through SWAP's work.

The Audit Manager from SWAP reported that steady progress had been made on the Audit Plan. Additional resource would be diverted back to WSC to pick up the two deferred audits later in the year. It was reported that the work undertaken to date, which included audits at the review stage, had not identified any significant corporate risks.

**RESOLVED** that the progress update for the Internal Audit Plan 2014/2015 be noted.

### **A.23 Debt Analysis – As at 30 June 2014**

(Report No. WSC 133/14, circulated with the Agenda).

The purpose of the report was to provide an update on the level of debts outstanding to the Authority as at 30 June 2014.

The Finance Manager detailed the different streams of debt owed as follows:-

- Corporate Debts - £326,734. The figure reflected a 37% increase on the newest debts.

- Housing Benefit Debts - £535,019. Even in the current economic climate this income stream had shown continued improvement.
- Council Tax Debts - £1,132,689. The overall level of debts had increased and this was reflected in the balances 'subject to court action' during comparable quarters.
- Business Rates Debts - £347,685. The Overall levels of overall debt had dropped slightly. However, balances 'subject to court action' had increased from £94,000 to £135,000.

**RESOLVED** that the information contained within the report be noted and be reported to both the Scrutiny Committee and Cabinet in the future.

#### **A.24 External Audit 2013/2014 – Audit Findings Report**

(Report No. WSC 134/14, circulated with the Agenda).

The purpose of the covering report was to introduce the annual report of the external auditor Grant Thornton outlining their findings from their audit of the Council's Statement of Accounts, and the arrangements to secure Value for Money. The report also incorporated a review of WSC's resilience as a Council.

The Associate Director for Grant Thornton outlined its findings and stated that they were satisfied that, in all significant respects, the Council had put in place the proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended March 2014.

**RESOLVED (1)** that the information regarding the External Audit Findings and the Council's arrangements to secure Value for Money contained within the report be noted.

**RESOLVED (2)** that the action plan contained within the report be supported.

#### **A.25 Audited Statement of Accounts 2013/2014**

(Report No. WSC 135/14, circulated with the Agenda).

The purpose of the report was to ask the Committee to review and approve the audited Statement of Accounts prior to its signature by the Chairman of the Committee and the Section 151 Officer.

The Finance Manager presented the report and gave a brief overview of the four main statements contained within the Statement of Accounts under the following headings:-:

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

These statements reflected the Council's position on 31 March 2014. The Finance Manager also thanked the Finance Team for their work towards the preparation of the Statement of Accounts.



During the discussion of this item the following point was made:-

- Referring to paragraph 6.10 in the report relating to the decrease in net cost of services in comparison to previous years, what were the previous year's net costs and why had there been a decrease?  
*The previous year's figure was £6,540,000 (net revenue spent). The difference could be due to the re-valuation exercise the Council had completed. The Council was also reducing its costs in line with the set budgets.*

Members noted the Letter of Representation which was required to be signed by the Section 151 Officer and Chairman of the Audit Committee.

**RESOLVED (1)** that the Audited Statement of Accounts be noted;

**RESOLVED (2)** that the Chairman of the Audit Committee signed and dated the balance sheet;

**RESOLVED (3)** that the Council's Section 151 Officer re-signed and dated the balance sheet;

**RESOLVED (4)** that the Letter of Representation be approved and signed by the Chairman of the Audit Committee and the Council's Section 151 Officer.

#### **A.26 External Audit 2013/2014 - Certification Plan.**

(Report No. WSC 130/14, circulated with the Agenda).

The purpose of the report was to set out the process that Grant Thornton would follow in respect of the grant certification work that needed to be undertaken at WSC.

The only claim, which required certification at WSC for 2013/2014 was the Housing Benefit Subsidy Claim.

**RESOLVED** that the Grant Thornton External Audit 2013/2014 Certification Plan be noted.

#### **A.27 Annual Governance Statement – Actions Update**

(Report No. WSC 131/14, circulated with the Agenda).

The purpose of the update was to provide an update on progress against the actions identified within the Annual Governance Statement 2013/2014.

The Corporate Strategy and Performance Manager updated the Committee on the recommendations and actions for improvements, which the Council had received from both Internal and External Auditors. Each recommendation/action would be rated regarding its urgency and level of risk.

Currently, there were 12 actions emerging from audits. Two of these were complete, four were underway and six had not been started.

The Members were presented with a full copy of the Annual Governance Statement with this covering report.

During the discussion of this item the following point was made:-

- When would the Council's new media policy be presented to Members?  
*This should be available to Members in December 2014.*

**RESOLVED** that the Annual Governance Statement Action Update be noted.

#### **A.28 South West Audit Partnership Limited (SWAP) – Pensions Guarantee**

(Report No. WSC 132/14, circulated with the Agenda).

The purpose of the update was to inform the Audit Committee of the potential employer's pension liability in the future as a result of being a member of the SWAP.

The Audit Manager of SWAP summarised the contents of the report. It was stated that there was a theoretical risk that the SWAP could dissolve and in the event of this happening, WSC would be responsible for 2.31% or £68,399 of the calculated figure in the actuaries report (£2,961,000).

**RESOLVED (1)** that the guarantee required on pension costs in the very unlikely circumstances they would occur as referred to in the report be noted.

**RESOLVED (2)** that Full Council be recommended to provide a guarantee in relation to a possible financial liability in respect of possible employers' pension liabilities in the future.

#### **A.29 Corporate Anti-Fraud**

(Report No. WSC 136/14, circulated with the Agenda).

The purpose of the update was to advise Members on our progress in developing our approach to Corporate Fraud. It gave information of joint working with other Local Authorities and the SWAP.

The report also informed Members of potential funding opportunities provided by the Department for Communities and Local Government (DCLG) through a bidding process announced in July 2014.

The Assistant Director for Resources summarised the details of the update report regarding the development of a counter-fraud function. The development of this function had been affected by a number of factors including Government announcements, the JMASS project and the creation of the Department of Work and Pension's Single Fraud Investigation Service (SFIs).

SWAP had been approached by a number of District Councils to ascertain if it could develop a joint cross-partner initiative on counter-fraud.

Reported that WSC, TDBC and South Somerset District Council had been working together and had submitted a joint bid for funding from the DCLG.

The bid had suggested that match funding of £40,000 could be made available by partner authorities in 2015/2016.

The outcome of the bid was anticipated at the end of October 2014.

During the discussion of this item the following points were made:-

- Had officers approached SCC to provide assistance and support?  
*SCC was not able to provide financial support but in principal their position was that WSC had majority responsibility for Tax Collection.*
- Did only having three named applicants preclude other partners from being involved in the future?  
*The three named applicants did not preclude or exclude more partners from joining or coming on board in the future.*

**RESOLVED (1)** that the update report on Corporate Anti-Fraud be noted.

**RESOLVED (2)** that the Cabinet and Full Council be recommended to approve the necessary match funding of up to £10,000 to develop a cost-effective Corporate Anti-Fraud function.

The meeting closed at 3.40 pm.

**AUDIT COMMITTEE ACTION PLAN**

Date/Minute Number	Action Required	Action Taken
<b>22 September 2014</b>  A.13 South West Audit Partnership LTD – Pension Guarantee.	<b><u>RESOLVED</u></b> that Full Council be recommended to provide a guarantee in relation to a possible financial liability in respect of possible employers' pension liabilities in the future.	At the Council meeting on 22 October 2014, this recommendation was agreed.

**West Somerset Council - Audit Committee – Forward Plan 2015**

<b>MEETING</b>	<b>DRAFT AGENDA ITEMS</b>	<b>LEAD OFFICER</b>
23 March 2015	Grant Thornton – Certification of Grant Claims	Peter Barber (Grant Thornton)
	Grant Thornton – Audit Update	Peter Barber (Grant Thornton)
	Grant Thornton - External Audit Fee Letter	Peter Barber (Grant Thornton)
	Internal Audit – Progress Report 2014/15	Alastair Woodland (SWAP)
	Internal Audit Plan 2015/16	Alastair Woodland (SWAP)
	Debt Analysis Report – as at 20 February	Steve Plenty
	Forward Plan	Richard Sealy

*Report Number:* WSC 173/14  
*Presented by:* Cllr Kate Kravis, 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:* 2 December 2014

# ANNUAL AUDIT LETTER

## 1. PURPOSE OF REPORT

- 1.1 The attached report summarises the key findings from the external audit work carried out in respect of the 2013/14 financial year and details the actual audit fees charged.
- 1.2 The Annual Audit Letter for 2013/14 confirms that:
- i) The auditors have issued an unqualified opinion in respect of the accounts for 2013/14;
  - ii) The Auditors have issued an unqualified Value for Money (VFM) conclusion; and
  - iii) The actual audit fees were slightly under the anticipated fees.

## 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 measurers 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 2013/14, which means that no material errors were found and the accounts were produced to a good standard.

## **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 2013/14 and confirms that there were no material issues.

## **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

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**Year ended 31 March 2014**

3 October 2014

**Peter A Barber**

Director

T 0117 305 7897

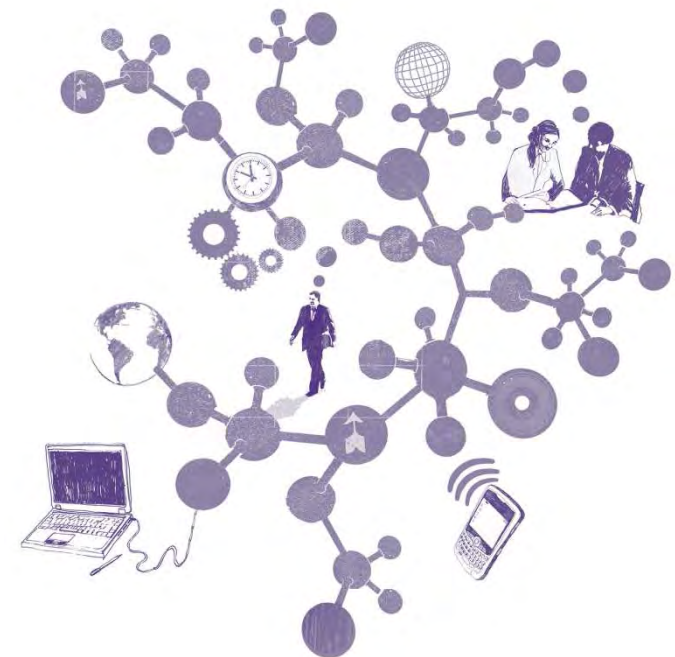
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# Key messages

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 2014.

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 24 March 2014 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.

<b>Financial statements audit (including audit opinion)</b>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 22 September 2014 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"><li>• no material errors were found during the course of our audit in the draft accounts presented for audit;</li><li>• the accounts were produced to a good standard;</li><li>• the audit has been facilitated by good supporting working papers and excellent assistance from the finance team; and</li><li>• all requests for additional information were dealt with promptly by the finance team.</li></ul> <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 26 September 2014, 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.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified VfM conclusion for 2013/14 on 26 September 2014.</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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

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## Key messages

<b>Whole of Government Accounts</b>	The Council was below the £350 million audit threshold set by the National Audit Office (NAO) for Whole of Government Accounts and therefore a full review of the consolidation pack was not required. We confirmed the disclosure of excluded items to the NAO by the 3 October deadline.
<b>Certification of grant claims and returns</b>	We are required to certify one grant claim. 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.
<b>Audit fee</b>	Our fee for 2013/14 for the main audit was £56,700, excluding VAT, which was an increase of £900 over the fee reported in our audit plan. This increase was in respect of work on material business rates balances. This work was previously carried out as part of the certification work for the national non domestic rates return and the fee was included within the certification fee in prior years. Further detail is included within Appendix A.

# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	55,800	*56,700
Grant certification fee	10,600	**9,328
<b>Total fees</b>	<b>66,400</b>	<b>66,028</b>

\*There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district councils and has been approved by the Audit Commission.

\*\*The indicative fee published by the Audit Commission for grant certification work required in 2013/14 for the Council is £9,328. As the work has not yet been completed on the grant certifications, we therefore cannot confirm the final fee.

## Fees for other services

Service	Fees £
None	Nil

## Reports issued

Report	Date issued
Audit Plan	24 March 2014
Audit Findings Report	12 September 2014
Certification report	Planned for November 2014
Annual Audit Letter	3 October 2014



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*Report Number:* WSC 174/14  
*Presented by:* Cllr Kate Kravis, Deputy Leader & Resources  
*Author of the Report:* Richard Sealy, Assistant Director – Corporate Services  
*Contact Details:*  
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*Email:* r.sealy@tauntondeane.gov.uk  
  
*Report to a Meeting of:* Audit Committee  
*To be Held on:* 2 December 2014

# 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 District Council

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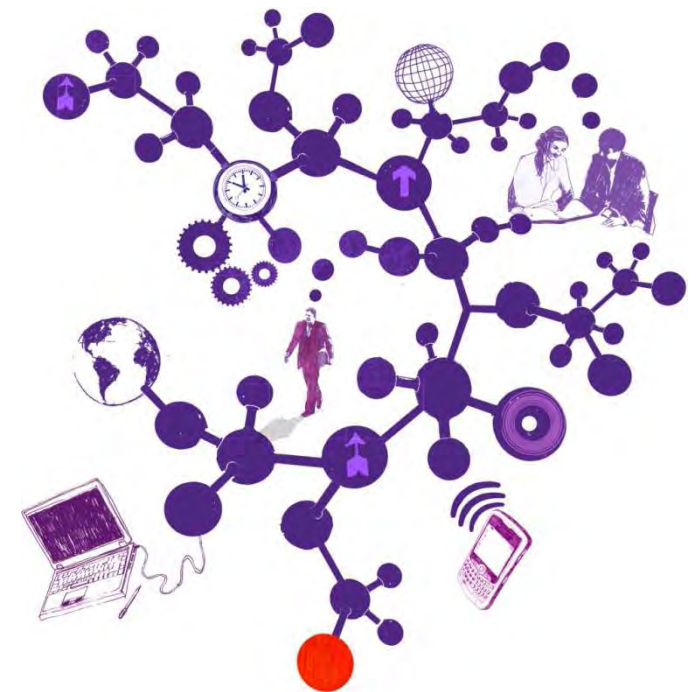
**Year ended 31 March 2014**

14 November 2014

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

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# Introduction

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

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

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

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

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

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## Progress at 14 November 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 Accounts Audit Plan</b> 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 2013-14 financial statements.</p>	March 2014	Yes	The audit plan was a separate item on the Audit Committee agenda on 24 March 2014.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment;</li> <li>• updating our understanding of financial systems;</li> <li>• review of Internal Audit reports on core financial systems;</li> <li>• early work on emerging accounting issues;</li> <li>• early substantive testing; and</li> <li>• initial risk assessment to support the Value for Money conclusion.</li> </ul>	March 2014	Yes	Our interim audit work has been completed and we summarised the findings in the audit plan referred to above.
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements;</li> <li>• proposed opinion on the Council's accounts; and</li> <li>• proposed Value for Money conclusion.</li> </ul>	July – September 2014	Yes	We completed the audit of the accounts and gave unqualified opinion on the Council's accounts as well as Value for Money conclusion. We discussed our audit findings report as a separate item at the Audit Committee meeting on 22 September 2014.

## Progress at 14 November 2014 (continued)

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b>            The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• a review of securing financial resilience;</li> <li>• a review of arrangements for securing economy, efficiency and effectiveness; and</li> <li>• a follow up of recommendations made last year.</li> </ul>	July – September 2014	Yes	Unqualified opinion was provided to the Council and our audit findings report discussed above included details about our conclusion.
<p><b>2013-14 Certification work</b>            The claims and returns we are certifying this year are:</p> <ul style="list-style-type: none"> <li>• housing benefits scheme claim.</li> </ul>	October – November 2014	Ongoing	Work is underway regarding the housing benefits scheme claim.

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# Code changes

## Accounting and audit issues

At the end of July, CIPFA/LASAAC released the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation which closed on Friday 10 October 2014. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties;
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions;
- IFRIC 21 Levies (ie levies imposed by governments);
- changes to UK GAAP particularly relating to Heritage Assets; and
- other minor and drafting amendments.

CIPFA/LASAAC also launched a second stage consultation on simplifying and streamlining the presentation of local authority financial statements which closed on Friday 19 September 2014.

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# CIPFA LAAP updates

## Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.



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# New routes to housing development

## Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available from your engagement lead.

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# Anti - fraud and corruption update

## Grant Thornton

Key current issues include:

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

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

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

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

# Managing council property assets

## Local government guidance

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

In the paper the Audit Commission:

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

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

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

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# The National Fraud Initiative

## Local government guidance

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

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

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



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*Report to a Meeting of:* Audit Committee  
*To be Held on:* 2 December 2014  
*Date Entered on Executive Forward Plan* N/A  
*Or Agreement for Urgency Granted:*

## **INTERNAL AUDIT PLAN 2014-15 PROGRESS UPDATE**

### **1. PURPOSE OF REPORT**

- 1.1 To update members on the Internal Audit Plan 2014-15 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 2014/15 internal audit plan and note the significant findings since the last update.

### **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 2014.

- 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 I am satisfied that steady progress is being made in the delivery of the audit plan for 2014/15 and regular meetings are held with SWAP to monitor progress.

**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, December Update, 2014/15**



# Contents

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Summary

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Overview of Internal Audit Activity Page 1

Internal Audit Work Plan 2013-14

Audit Plan progress Page 2

Report on Significant Findings Page 3 – 4

Future Planned Work & Conclusions Page 5

Appendices

Appendix A - Audit Plan Progress 2014-15

Appendix B - High Priority Findings and Recommendations (since last Committee)

Appendix C - Audit Definitions



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.

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 Audit Committee and last reviewed at its meeting on 24th March 2014.

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 2014.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Update 2014-15

## 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 2014/15. 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 C](#)

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

#### **Governance, Fraud and Corruption:**

- Final – 2 Reviews
- Draft – 1 Review
- In progress - 1 Review

#### **ICT Reviews:**

- In progress – 1 Review

#### **Key Control:**

- In progress – 6 Reviews

#### **Follow-up Reviews:**

- Drafting, 1 review

## 2014-15 Audit Plan

### Report on Significant Findings

As agreed with 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. I attach as **Appendix B**, a summary of the agreed actions relating to those reviews completed for 2014/15 that have not been previously reported where the Auditor assessed the priority to be a level 4 (Medium/High) or 5 (High).

Since my last update there is one review concluded and assessed as 'Partial' and include the Auditor's Opinion as follows:

#### Data Transparency – Partial Assurance

There are growing expectations that new technologies and publication of data should support transparency and accountability. It is vital that public bodies recognise the value to the public of the data they hold, understand what they hold, what their communities want and then release it in a way that allows the public, developers and the media to use it. Provision of public data should become integral to local authority engagement with local people so that it drives accountability to them. Its availability should be promoted and publicised so that residents know how to access it and how it can be used.

The code contains both *required* and *recommended* information for the authority to comply with. It was explained by the Corporate Strategy and Performance Manager that it is likely that the Council would struggle to publish recommended details due to growing requirements of transparency and the limitations on available resources. There are no particular risks associated with the non-publication of recommended information, however publishing this data would be of reputational benefit to the authority by showing that they are transparent with the information they hold and fully engage with the requirements of the Code.

Testing of documentation available on the Council's website against the requirements of the Local Government Transparency Code 2014 identified that for the twelve categories where data must be published:

- Five currently meet the requirements of the Code;

## 2014-15 Audit Plan

- Three partially fulfil the requirements of the Code;
- Four do not meet the requirements of the code.

The areas below are currently meeting or exceeding requirements:

- Expenditure over £500;
- Organisational chart;
- Controlled parking spaces;
- Constitution;
- Pay multiple.

The areas that currently partially meet the requirements of the code;

- Parking revenues;
- Senior salaries;
- Grants to voluntary, community and social enterprise organisations

The areas that do not meet the requirements of the code are;

- Procurement;
- Procurement Card transactions;
- Local Authority land and building assets;
- Trade Union facility time.

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

## Future Planned Work/Plan Changes

The audit plan for 2014/15 is detailed in [Appendix A](#). Members will note that there were necessary changes to the plan throughout the year; any changes made have been subject to agreement with the appropriate service manager and the Section 151 Officer. As previously reported two audits have been deferred to accommodate operational needs of the service area in question. The two deferred are the Fraud Theme and Private Water Supplies.

Additionally, at the request of the Assistant Director for Housing we are utilising some of the time allocated to Shared Management to examine the Housing Application validation controls.

## Conclusions

Steady progress against the 2014/15 plan has been made. It is recognised that significant changes have occurred over the last few months at WSC with regard to officer responsibilities.

The bulk of work is planned for quarter 3 and I am pleased to say that a number of quarter 3 audits are well underway. The level of work to date does not allow for an indicative opinion on the status of internal controls, governance and risk management. However, I am pleased to report that to date of the reviews completed to final and draft we have not identified any corporate risks to bring to your attention.

# Audit Plan 2014-15

## Audit Plan Progress 2014-15

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No of Rec	1 = Minor ← 5 = Major				
							Recommendation				
							1	2	3	4	5
<b>Final Report</b>											
Governance, Fraud & Corruption	Safeguarding	Qtr 1	Final	Reasonable	89%	3	0	0	3	0	0
Governance, Fraud & Corruption	Data Transparency	Qtr 2	Final	Partial		5	0	2	2	1	0
<b>Draft Report</b>											
Governance, Fraud & Corruption	Absence Management - theme	Qtr 2	Draft	Reasonable		10	0	4	6	0	0
ICT	Protective Marking	Qtr 2	Drafting								
<b>In Progress</b>											
Key control	Main Accounting	Qtr 2	Review								
Governance, Fraud & Corruption	Fraud / ethics	Qtr 3	In Progress								
Key control	Creditors	Qtr 3	In Progress								
Key control	Debtors	Qtr 3	In Progress								



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 2014-15

## Audit Plan Progress 2014-15

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No of Rec	1 = Minor ← 5 = Major				
							Recommendation				
							1	2	3	4	5
Key control	Payroll	Qtr 3	In Progress								
Follow up	Social Media	Qtr 3	In Progress								
Key control	Council Tax and NDR	Qtr 3	In Progress								
Key control	Housing Benefits	Qtr 3	In Progress								
Governance, Fraud & Corruption	Housing Application Validation	Qtr 3	In Progress								
<b>Not Started</b>											
ICT	ICT General Controls - Access	Qtr 3	Not started								
Governance, Fraud & Corruption	Private Water supply - theme	Qtr 4	Deferred from qtr 2								
Governance, Fraud & Corruption	Asset Management	Qtr 4	Not started								
Follow up	Public safety follow up	Qtr 4	Not started								
Operational	Safer Somerset Partnership	Qtr 4	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 Plan 2014-15

## Audit Plan Progress 2014-15

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No of Rec	1 = Minor ← 5 = Major				
							Recommendation				
							1	2	3	4	5
Operational	Choice Based Lettings - theme	Qtr 4	Not started								
Governance, Fraud & Corruption	Partnership risk / shared management	All	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.

# Internal Audit Plan 2013-14 - Outturn

## High Priority Findings and Recommendations

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
<b>Data Transparency</b>					
1.1a Some of the <i>required</i> information contained within the Local Transparency Code 2014 is not published.	Unless the required information is published the Council is in breach of the requirements of the Local Data Transparency Code.	I recommend that the Corporate Strategy and Performance Manager ensures that all information listed as mandatory within the Local Government Transparency Code 2014 is published within the required timeframe.	Accepted. We will endeavour to gather and publish the required information within the required timeframe.	During course of 2015/16	Corporate Strategy and Performance Manager

# Audit Framework Definitions

## Control Assurance Definitions

## Appendix C

<b>Substantial</b>	▲★★★	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.
<b>Reasonable</b>	▲★★★	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.
<b>Partial</b>	▲★☆☆	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.
<b>None</b>	▲☆☆☆	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 176/14  
Presented by: PAUL HARDING, CORPORATE STRATEGY AND PERFORMANCE  
Author of the Report: MANAGER  
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Report to a Meeting of: Audit Committee  
To be Held on: 2 December 2014  
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: [Click here and type Date]

## CORPORATE RISK MANAGEMENT UPDATE

### 1. PURPOSE OF REPORT

This report provides an update on the corporate risks which are being managed by the Joint Management Team (JMT).

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 Effective risk management underpins every element of the Council's business.

### 3. RECOMMENDATIONS

3.1 That the committee:

- Review the report and note its contents;

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
There is the general risk that if the Council fails to make good use of the management of risk processes it is likely to lead to uncontrolled exposure to many high level strategic and operational risks.	Feasible (3)	Major (4)	Medium (12)
<i>The mitigation for this will be the identification and management of risk at all levels of the organisation and oversight of the key strategic risks facing the Council by Members and JMT.</i>	Unlikely (2)	Significant (3)	Low (6)

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 West Somerset Council recognises the importance of effective identification, evaluation and management of all key strategic and operational risks. This is endorsed by the increased focus on the importance of Corporate Governance to public sector bodies. The Council also has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts & Audit Regulations 2003:

*“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes the arrangements for the management of risk.”*

- 5.2 Risk management is a key element of the Council's overarching Governance arrangements and covers the whole spectrum of risks and not just those associated with finance, health & safety, business continuity and insurance. It also includes risks associated with: service provision, effectiveness and continuity; public image (reputation); compliance with legislation; and environment.
- 5.4 Risk management is not about being ‘risk averse’ – it is about being ‘risk aware’. Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives. Risk Management is about making the most of opportunities and about achieving objectives once those decisions are made. By being ‘risk aware’ the Council is in a better position to avoid threats and take advantage of opportunities.

## **6. THE CORPORATE RISK REGISTER**

- 6.1 West Somerset Council has a joint corporate risk register with Taunton Deane Borough Council.
- 6.2 The corporate risk register is a ‘live’ document which highlights the key strategic risks facing the Councils and is formally reviewed by the joint management team (JMT) on a quarterly basis as part of the corporate performance review day. The last formal review of the register took place on 3<sup>rd</sup> November 2014.
- 6.3 There are 16 risks currently included within the corporate risk register 12 of which are applicable to both Councils. Four risks are TDBC specific.
- 6.4 The strategic risks affecting WSC, which are being tracked by JMT, and the mitigation in place are shown at **Appendix A**.

### **6.5 Are we managing the right risks?**

- 6.6 As part of the assurance process for our joint risk register a review of the corporate strategic risks which other local authorities were focusing on was undertaken.
- 6.7 As part of this exercise, and through attendance at a recent ALARM (Association of local Authority Risk Managers) meeting, attention was drawn to a very helpful document

which had been created by Zurich Municipal (West Somerset Council's insurers) in association with IPSOS MORI entitled 'New world of Risk-Change for Good'.

6.8 Their report identified and ranked the top 10 risks identified by Local Government Leaders in 2014 and is shown below.

Changes in local government senior management team perceptions of risks	Risk Ranking	
	2014 Local Govt leaders (n=70)	2010 all public sector leaders (n=100)
Budget pressures*	1	1
Changes in government policy, legislation and regulation	2	2
Workforce (attracting and retaining the right skills, performance, reward package)	3	5
Business and organisational transformation (statement added in 2014 study - no comparison available)	4	-
Working with other organisations (for example supply chains, outsourcing and partnership working)	5	6
Reputation management	6	3
Social risk e.g. population changes, crime, antisocial behaviour	7	7
Data protection or security†	8	8
Operational risk management including health & safety	9	4
Environmental challenges, e.g. extreme weather events, climate change‡	10	9


In 2010 the following statements were worded as follows: \*Budget uncertainty; †Data protection or security risks; ‡climate change


The respondents in 2010 were leaders from a cross section of public sector organisations. The 2014 study gave a more focused view on those working solely in local government.

Respondents rated each major risk on a scale of 1-10 where high is a score of 8-10, medium is 5-7 and low is 1-4. Risk ranking is based on the percentage of respondents rating each statement of high importance (8-10).

6.9 Zurich Municipal also provided their view of the top strategic risks currently facing local government. These are shown below;

6.10

Zurich Municipal's view of top local government risks			
Risk	Description	Key challenges	Trend Indicator
1	<b>Financial sustainability</b> – effective management of finances through ongoing austerity (the new 'normal') and increasing demand on services.	<ul style="list-style-type: none"> <li>Limited ability to make savings and service key projects and ongoing maintenance</li> <li>Unplanned spikes in demand</li> <li>Further falls in income and inability to identify alternatives</li> <li>Pressures to minimise council tax increases</li> <li>Potential compromise on commissioning standards</li> <li>Inadequate reserving to release funds for other projects</li> <li>Employee morale</li> </ul>	
2	<b>Transformation</b> – the business processes of transforming from the existing model to the desired outcome, looking at innovative ways of meeting business objectives and service delivery.	<ul style="list-style-type: none"> <li>Managing lack of resources/skills</li> <li>Workforce and change management issues</li> <li>Possibly complex platforms involving a range of political organisations</li> <li>Failure to plan and/or delivery failure</li> </ul>	

3	<b>Commissioning</b> – including partnership working, supply chain and contract management.	<ul style="list-style-type: none"> <li>• Need for procurement skills (e.g. ensuring no inappropriate indemnity clauses, suppliers have appropriate liability insurance and the tender bidding process is fair)</li> <li>• Ensuring service quality and continuity</li> <li>• Monitoring compliance with statutory and other requirements</li> <li>• Potential cost versus savings imbalance</li> <li>• Potentially new business models with no proven track record</li> <li>• Reliance on outsourced high turn-around staff instead of experienced employees</li> </ul>	
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4	<b>Welfare reform</b> – delivery of services through ongoing welfare reform (e.g. the Care Bill and child benefit changes) and potential demand pressures as changes come to fruition.	<ul style="list-style-type: none"> <li>• Effects of capped payments, payment in arrears, payments direct and claiming online</li> <li>• New IT system implementation</li> <li>• Council tax benefit reduction</li> <li>• Greater incentive for fraud</li> <li>• "Revolving door" risks and service demands</li> <li>• Responding to the potential cumulative economic and social impact on vulnerable service users</li> </ul>	
5	<b>Public health and social care</b> – public health integration and managing new responsibilities.	<ul style="list-style-type: none"> <li>• Demographic change – demand outstripping supply</li> <li>• Underfunded services</li> <li>• Skills and capacity gaps</li> <li>• Invocation of the Human Rights Act imposing greater duty for protection</li> <li>• Ensuring 'care at home' initiatives do not increase risk exposure</li> <li>• Public health directors' vacancies lead to service breakdown</li> </ul>	
6	<b>Environmental</b> – risks (some regional) including climate change, extreme weather events, escape of water, flooding, coastal erosion, fracking, sinkholes and waste management, with increased frequency and severity of loss.	<ul style="list-style-type: none"> <li>• Comprehensive risk analysis</li> <li>• Changing growing seasons</li> <li>• Road maintenance</li> <li>• Meeting CO<sub>2</sub> targets</li> <li>• Continuity of services</li> <li>• Management of water/resources</li> </ul>	

7	<b>Statutory responsibilities</b> – compliance with statutory responsibilities, including health and safety, safeguarding infrastructural issues, maintenance, regulatory framework, information governance and transactions.	<ul style="list-style-type: none"> <li>• Impact of employee cuts on roles and responsibilities</li> <li>• Sharing sensitive data with third party service providers</li> <li>• Ensuring and monitoring compliance by partners/suppliers</li> <li>• Checking and amending 'standard' contracts and wordings</li> <li>• Reduced standards of inspections</li> <li>• Reputational implications of incidents</li> </ul>	
8	<b>Technology</b> – using new technology/ systems to reduce costs and fulfil today's communications, accessibility and transaction requirements.	<ul style="list-style-type: none"> <li>• Robustness, resilience, protection and security of systems</li> <li>• Managing and sharing sensitive data</li> <li>• Availability of expertise and user training</li> <li>• Maintaining multi channel communications for non-computer literate</li> <li>• Health and safety considerations for employees working from home</li> </ul>	
9	<b>Pandemic</b> – a rapid and widespread infection/disease, affecting the health and wellbeing of a significant number of people over a large area.	<ul style="list-style-type: none"> <li>• Service continuity planning</li> <li>• Fast and effective communication systems</li> <li>• Ensuring seamless response with emergency organisations</li> <li>• Impact of disruption/loss of major local employer</li> <li>• High claims if resources diverted to support front line critical services, impacting future insurance costs</li> </ul>	
10	<b>Fraud</b> – deliberate actions by criminals to seek financial gain at the taxpayer's expense.	<ul style="list-style-type: none"> <li>• Creation/inflation of claims</li> <li>• Possible increase in employee dishonesty/misappropriation of funds.</li> <li>• Increased occurrence of hard to diagnose injuries (e.g. physiological injury and chronic pain)</li> <li>• Robust and effective prevention and detection procedures</li> <li>• Reputation management</li> </ul>	
11	<b>Political</b> – risks driven by political agenda.	<ul style="list-style-type: none"> <li>• National and local stability</li> <li>• Instituting successful long-term planning against a background of uncertainties (e.g. Scottish devolution, change of government)</li> </ul>	

6.11 By comparing those strategic risks identified elsewhere within local government and those identified by Zurich Municipal JMT were assured that the vast majority of these risks had already been identified within the corporate risk register. However there were two risks that stood out as possible areas for inclusion within our corporate risk register.

These were:

- **Workforce:** attracting and retaining the right skills, performance, reward package. Given the long term outlook for local government in terms of stagnating salaries, job insecurity etc. at a time when there are signs within the private sector of jobs growth and economic upturn.
- **Pandemic:** given the threat posed by Ebola.

6.12 These were considered by JMT and it was decided they were risks which posed a significant threat to the Councils operation which warranted ownership and focus at a corporate level.

6.13 These risks are referenced within risk numbers 15 and 16 on the register.

6.14 Each risk identified within the corporate risk register is allocated a risk owner at JMT level. The owner is responsible for monitoring the risk and ensuring suitable mitigation is put in place to reduce the likelihood and/or impact of the risk occurring.

## **7. FINANCIAL/RESOURCE IMPLICATIONS**

7.1 None flowing directly from this report.

## **8. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

8.1 Risk will be managed throughout the organisation, with significant strategic risks being escalated to the Corporate Risk register for the review and attention of JMT and visibility or Members.

## **9. 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.

9.1 Equalities impact has been considered in relation to this report. It has been concluded that since this is an update report only and there are no obvious equalities issues raised an Equalities Impact Assessment is not required.



**10. CRIME AND DISORDER IMPLICATIONS**

None directly within this report.

**11. CONSULTATION IMPLICATIONS**

None directly within this report.

**12. ASSET MANAGEMENT IMPLICATIONS**

12.1 None directly within this report.

**13. ENVIRONMENTAL IMPACT IMPLICATIONS**

13.1 None directly within this report.

**14. 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.

**15. LEGAL IMPLICATIONS**

15.1 None directly with this report.

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk or Issue	TDBC, WSC, or BOTH	Risk Owner	Existing Control Measures
1	Dec-13	Transformation	<p><b>Joint-management &amp; shared services ('JMASS')</b>                      TDBC &amp; WSC have entered into a new joint-management &amp; shared services arrangement from 2014 - if the management resource &amp; capacity to run the new structure effectively is insufficient:  <b>RISK - failure to deliver the ambitions and financial savings as stated in the 'JMASS' business case.</b>                      Effects: Member's expectations not met / loss of political support, breakdown in relationships between Leaders &amp; CEO, savings projections / timeline not delivered, existing projects &amp; priorities negatively impacted</p>	Risk	BOTH	<b>Shirlene Adam</b>	~ Effective governance arrangements in place ~ Programme plan in place ~ Business plan financial updates shared at JPB and JPAG ~ Robust HR timetable in place and shared with all staff and UNISON. ~ Transformation Programme Manager in post as part of tier 4/5 restructure. ~ Dedicated Finance resource in place to monitor savings delivery and to reprofile service budgets to ensure savings are made and appropriately accounted for.
2	Dec-13	Transformation	<p><b>The wider transformation programme</b>                      The Corporate Business Plan includes objectives to transform services and 'the way we work' - some projects have already been or are to be initiated (ie Customer Access &amp; Council Accommodation). If a robust and effective approach to Programme and Change management is not implemented, or the existing contractual relationships in place for the supply of ICT services restricts the ability to deliver the new capability requirements -  <b>Risk of failure to deliver an effective programme of change to achieve the desired outcomes and benefits for the council(s).</b>                      Key effects: programme benefits not realised, financial loss, loss of political appetite for change, services do not embrace &amp; adopt new ways of working, decline in staff morale &amp; performance, detrimental impact on the quality of service &amp; project delivery, failure to maximise service efficiency</p>	Risk	BOTH	<b>Richard Sealy</b>	~ Working with the ICT service to understand & minimise the costing for transformation ICT work & to identify possible alternative delivery options ~ Recruitment of full-time Corporate Transformation Programme Manager as part of Tier 4/5 restructure to coordinate transformation projects, has taken place. ~ Clarity provided by TDBC Members regarding preferred future accommodation option.
3	Dec-13	Transformation	<p><b>Shared Services across Somerset and wider Public Sector</b>                      Government policy is pushing wider transformation of public sector. No clear ambition has emerged for Somerset.  <b>RISK - wider transformation opportunities may be missed - or - if identified could slow down the pace of the TDBC / WSC transformation programme.</b>                      Effects: (as per Risk no. 1 above)</p>	Risk	BOTH	<b>Penny James</b>	~ Somerset Public Sector CEO meetings ~ contact with DCLG re central govt expected outcomes ~ Somerset Task & Finish review ~ LGA Shared CEO Special Interest Group ~ Support from LGA to Somerset to facilitate wider discussions
4	Jan-14	Political	<p><b>National changes to Law/Policy drivers</b>                      Changes advocated or made maybe missed or not evaluated in a timely manner.  <b>The risk is the Councils are non-compliant and/or changes undermine the delivery of key priorities.</b>                      Key effects: financial impact, failure to achieve the desired outcomes and benefits of the HRA Business Plan for the community and councils</p>	Risk	BOTH	<b>Penny James</b>	~ JMT professional networks ~ Political Group networks ~ Director and AD responsibility to 'scan the policy horizon' and act as key policy advisors ~ TDBC Hub Reports ~ E-alerts from LGA/SOLACE/Government Departments

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk or Issue	TDBC, WSC, or BOTH	Risk Owner	Existing Control Measures
5	Jan-14	Financial	<p><b>Asset Management</b>  A new TDBC Corporate Asset Management Strategy has been approved, however there is a need to refresh the strategy for West Somerset Council. There is a need to ensure adequate capacity, resource/funding, and expertise for effective asset management, as well as the appetite to take decisions to maximise opportunities. Poor data management may also lead to poor decisions.  <b>RISK - failure to deliver Asset Management strategies and failure to manage existing assets appropriately.</b>  Key effects:  ~ financial (asset base that is unaffordable to maintain, inability to maximise income opportunities)  ~ failure to comply with community requests relating to assets  ~ increased risk &amp; liabilities in relation to disrepair &amp; compliance matters  ~ Energy performance  ~ Environmental sustainability  ~ Adaptations and accessibility.  ~ Lack of synergy in the integration of the asset management for the two councils.  ~ Limiting the ability of the asset management function to be proactive and nimble in the provision of solutions.</p>	Risk	BOTH	James Barrah	~ TDBC approved Asset Strategy & 2 year funding secured to deliver the new plan ~ Direct control of former SW1 Estates team to prioritise workload (following decision to bring the service back to TD from SW1) ~ Recruitment of new Property & Development Assistant Director post
6	Dec-13	Financial	<p><b>Medium Term Financial Planning (MTFP)</b>  The key financial risk factors are: continuing budgetary pressures &amp; adverse economic conditions, an environment of major financial risk &amp; uncertainty (such as: Business Rates retention, Revenue Support Grant, Council Tax &amp; Council Tax Support, Income from Fees &amp; Charges, Capital investment), uncertainty as to the long-term sustainability / affordability of the existing contract with Somerset Waste Partnership, the shrinking of the General Fund (impact on the HRA).  <b>Risk of failure to agree and deliver a sustainable MTFP for the next 5 years</b>  Key effects may include:  ~ short-term or 'knee jerk' decisions with detrimental long-term implications  ~ Government intervention  ~ Adverse impact on the council's limited reserves &amp; financial standing  ~ Potential service closure / reduced service quality &amp; therefore inability to deliver customer expectations  ~ Insufficient capital resources to fund Corporate Strategy objectives  ~ Inability to continue funding partnerships (eg Tone Leisure, SWP)  ~ Unable to maximise investment returns</p>	Risk	BOTH	Shirlene Adam	~ on-going raising of profile and awareness of financial challenges with Members ~ regular reviews, updates (latest forecasts) & reporting of MTFP position ~ budget-setting / approval process ~ WSC members priorities workshop ~ JMASS programme

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk or Issue	TDBC, WSC, or BOTH	Risk Owner	Existing Control Measures
10	Dec-13	Corporate Aim (WSC)	<p><b>Hinkley Point</b> The development of a the new Hinkley C power station (a 10 year construction period) may cause a variety of threats and opportunities to the achievement of our strategic objectives. <b>There is a risk that the development will have an adverse impact on local accommodation, skills &amp; employment and highways, and/or Economic &amp; Social opportunities may not be realised (eg benefits to local businesses &amp; the local economy of permanent inward migration, receipt of significant Community Fund grant monies).</b> Key effects may include: ~ homelessness increases and the council is unable to discharge its homelessness obligations; ~ increase in housing demand &amp; lack of affordable housing; ~ increased congestion (impacting on Growth &amp; Regeneration goals / inward investment) ~ Local businesses are not able to win contracts to participate in the project ~ Local people aren't trained and are unable to gain employment on the project</p>	Risk	BOTH	<b>Brendan Cleere / Andrew Goodchild</b> (new Nuclear Programme Manager)	<ul style="list-style-type: none"> <li>~ Section 106 agreements with staff resources and contributions in place to mitigate effects</li> <li>~ Very good working relationship with EDF Energy</li> <li>~ Good understanding of local issues</li> <li>~ Good working relationship with local businesses and local training providers including West Somerset College</li> <li>~ Team established and objectives and key tasks set out in WSC Corporate and Services plans for 2014/15 directed towards mitigating this corporate risk</li> <li>~ Robust programme management and routes to resolve issues in place</li> <li>~ Remobilisation Action Plan in place and being delivered - monitored by the Hinkley PAG</li> </ul>
11	Dec-13	Communities	<p><b>Welfare Reforms</b> There is an on-going requirement to reduce benefit payments (CTRS, Business Rates, Universal Credit) - the Welfare Reforms will mean that people in the welfare system will receive less Council Tax support. It will also mean that Universal Credit will be paid directly to tenants rather than the HRA housing landlord. <b>a) Risk of the Council failing to adequately support our community and services for the impact of the Government's Welfare Reform Agenda.</b> <b>b) Risk of the Housing Service having substantially reduced collection rates on introduction of Universal Credit</b> Key effects include: ~ taxes and rents harder to collect ~ reduced rent collection could affect ambitions of HRA business plan ~ more vulnerable people - individuals &amp; families may be unable to manage ~ increased pressure and demand on services</p>	Risk	BOTH	<b>Paul Fitzgerald / Simon Lewis</b>	<ul style="list-style-type: none"> <li>~ Structure for Housing &amp; Community Development includes greater resource on money management and benefit advise.</li> <li>~ Project team in place to identify best means of mitigating impact of UC on rent income</li> <li>~ Preparatory discussions taken place between the two lead Assistant Directors</li> </ul>

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk or Issue	TDBC, WSC, or BOTH	Risk Owner	Existing Control Measures
12	Dec-13	Communities	<p><b>Addressing deprivation</b> Deprivation is worsening and deepening in North Taunton and Taunton East, with other key community issues being rural isolation and an ageing population, and in West Somerset, the key issues are rural deprivation, fuel poverty &amp; 'access to services'. Initiatives such as Taunton Deane Partnership's 'Priority Areas Strategy' (PAS) programme and the Health &amp; Wellbeing Strategy are being developed &amp; delivered to address the issue, however, if the work is not supported, or not adequately resourced: <b>There is a risk that the programmes &amp; activities may be unsuccessful and we fail to reduce levels of deprivation in our most deprived communities.</b> Key effects may include: ~ areas of deprivation remain or worsen; ~ other areas slip into deprivation; ~ community expectations are not managed or delivered ~ further burden on TDBC resources (eg increase in 'Troubled Families' interventions, Housing demand etc) ~ lost opportunities for additional funding, reduced service costs, reduced work duplication, improved experience for the customer ~ negative impacts on individuals, families &amp; communities, plus the financial cost to public sector agencies increases</p>	Risk	BOTH	<b>Simon Lewis</b>	<ul style="list-style-type: none"> <li>~ Housing &amp; Community Development structure proposal to place greater emphasis on priority areas</li> <li>~ PAS actively monitored and reviewed by TDP</li> <li>~ Family Focus project supporting complex troubled families</li> <li>~ TDBC engaging in 'early help' discussions and work with SCC to bring additional resources and focus into areas</li> <li>~ Halcon One Team being supported in halcon and delivering tangible improvements and projects (eg Link Power)</li> <li>~ Community Development projects</li> <li>~ Voluntary &amp; Community Sector grants allocated to provide support (eg CAB debt advice)</li> <li>~ Somerset West Private Sector Housing Partnership continues to work on fuel poverty issues</li> <li>~ communities in West Somerset supported to access grants and support</li> </ul>
14	Dec-13	Corporate Governance	<p><b>Corporate Governance arrangements on running the business</b> There is a need for robust arrangements, and on-going monitoring and focus on embedding effective corporate governance arrangements (ie budget monitoring, risk management, debt management, performance management, Treasury management, compliance with audit recommendations, asset management, Equalities duties, Business Continuity Planning, Information Governance &amp; Security, Health &amp; Safety management). <b>Risk of failure to comply with key internal controls &amp; corporate governance arrangements.</b> Key effects include: ~ inaccurate budget forecasting &amp; financial loss ~ failure to adhere to HRA ringfence ~ project or service failure or under-performance ~ reputational damage ~ Government intervention ~ Failure to comply with statutory duties &amp; regulations (eg Health &amp; Safety, Equalities, Data Security / Data Protection) causing harm or injury ~ lack of resilience to unexpected events / failure of IT systems / data loss</p>	Risk	BOTH	<b>Shirlene Adam</b>	<ul style="list-style-type: none"> <li>~ Audit programme</li> <li>~ Corporate Governance Action Plan / monitoring of progress &amp; status of audit recommendations</li> <li>~ Quarterly JMT review on Corporate Performance &amp; Finances, Risk Management and other key management issues</li> <li>~ Corporate Equalities Action Plan</li> <li>~ New H &amp; S strategy, KPIs &amp; operational plan for 2014</li> <li>~ Member reports on all of the above to relevant committees</li> <li>~ redefined roles and responsibilities re Joint Management structure from Jan 2014</li> </ul>

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk or Issue	TDBC, WSC, or BOTH	Risk Owner	Existing Control Measures
15	Dec-13	Communities	<p><b><u>Civil Contingency and Service Continuity</u></b></p> <p>There is a need for adequate planning and effective Civil Contingency arrangements to be in place and tested. The new joint management &amp; shared services arrangements between TDBC &amp; WSC have also extended the geography &amp; facilities and widened the scope of our responsibilities.</p> <p><b>There is a risk that the council may be unprepared for and unable to provide an adequate response to a major emergency incident (including pandemic and widescale evacuation).</b></p> <p>Key effects may include:</p> <ul style="list-style-type: none"> <li>~ loss of life;</li> <li>~ major disruption to services;</li> <li>~ unplanned costs;</li> <li>~ Reputational damage;</li> </ul>	Risk	BOTH	<b>Chris Hall</b>	<ul style="list-style-type: none"> <li>~ County-wide Civil Contingencies Plan</li> <li>~ JMT rota and out-of-hours arrangements in place (also in JMT job descriptions)</li> <li>~ 24 hours DLO operation</li> <li>~ both councils have service level out-of-hours arrangements</li> <li>~ experience in Civil Contingencies incidents and operation of Rest Centres</li> <li>~ Business Continuity Plans</li> </ul>
16	Oct-14	Leadership & People	<p><b><u>Retention and Recruitment of staff</u></b></p> <p>There is a risk that due to increased opportunities in the private sector, as the economy improves, and austerity continues within the public sector that the organisation finds it difficult to attract and retain the right skills - leads to use of expensive agency workers or disruption to service provision.</p>	Risk	BOTH	<b>Richard Sealy</b>	<ul style="list-style-type: none"> <li>~ The ability to offer Market Supplements in appropriate cases.</li> <li>~ attractive overall package (flexi, pension, salary etc)</li> </ul>

*Report Number:* WSC 172/14  
*Presented by:* Cllr K V Kravis, Lead Member for Resources and Central Support  
*Author of the Report:* Sue Williamson, Principal Accountant - Corporate  
*Contact Details:*  
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*Report to a Meeting of:* Audit Committee  
*To be Held on:* 2nd December 2014  
*Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:* N/A

## TREASURY MANAGEMENT UPDATE – 30<sup>TH</sup> SEPTEMBER 2014

### 1. PURPOSE OF REPORT

- 1.1 To update the Audit Committee on the Treasury Management position as at 30<sup>th</sup> September 2014 and to provide an update for the 2014-15 Treasury Management Strategy Statement.

### 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 30<sup>th</sup> September 2014 (Appendix A).  
 3.2 To recommend the amendments to the 2014-15 Treasury Management Strategy Statement (Appendix B).

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	Unlikely (1)	Major (3)	Medium (1)
<i>The Council has in place suitable arrangements</i>			

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 26<sup>th</sup> March 2014 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2014/15 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 As set out in the report.

## **7. SECTION 151 OFFICER COMMENTS**

- 7.1 Performance to date is at 0.45% and investment income is predicted to be £1,000 above the budget of £15,000 for the financial year 2014/15.

## **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 None in respect of this report.



# Treasury Management Update

Six Months Ended 30th September 2014

## 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 2014/15 was approved by full Council on 26 March 2014.

The Authority has borrowed and invested 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

**Growth and Inflation:** The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014 and at 0.9% in Q2. The services sector once again grew strongly. On the back of strong consumption growth, business investment appeared to be recovering quickly, albeit from a low base. The annual CPI inflation rate fell to 1.5% year-on-year in August.

Revisions to the GDP methodology, now compliant with the European System of Accounting 2010, mean that growth is now estimated to be 2.7% above its pre-recession peak in Q1 2008 rather than just 0.2% higher, the general theme being that the recession was not as deep and the recovery was earlier than initially estimated. In anticipation of these revisions, the MPC has forecast growth at 3.4% in 2014.

**Unemployment:** The labour market continued to improve, with strong employment gains and the headline unemployment rate falling to 6.2%. However, earnings growth remained very weak, rising just 0.6% for the three months May-July 2014 when compared to the same period a year earlier. The growth in employment was masked by a large number of zero-hour contracts and involuntary part-time working.

**UK Monetary Policy:** The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. Following some mixed messages from Governor Carney later in the summer, the minutes of the August and September MPC meetings revealed a split vote with regards to the Bank Rate. Ian McCafferty and Martin Weale voted to increase Bank Rate by

0.25%, arguing economic circumstances were sufficient to justify an immediate rise. The MPC emphasised that when Bank Rate did begin to rise, it was expected to do so only gradually and would likely remain below average historical levels for some time to come.

In the Bank of England's August Inflation Report the Bank forecast growth to be around 3½% in 2014, easing back thereafter to around its pre-crisis historical average rate. Inflation was forecast to remain at, or slightly below, 2% before reaching the target at the end of the 2-year forecast period.

The Bank's Financial Policy Committee also announced a range of measures to cool the UK's housing market to avert the potential of spiralling house prices derailing a sustainable economic recovery. Key recommendations included lenders stress-testing mortgage applicants can cope with a 3% rise in interest rates; putting a 15% cap on the number of mortgages at more than 4.5 times the borrower's income; and a separate Treasury pledge banning anyone applying for a loan through the Help to Buy scheme borrowing more than 4.5 times their income. The Prudential Regulation Authority also announced that it intends to consult on capital requirements for mortgages.

The result of the Scottish referendum in the end was close, but not as close as many believed it might be. However, the political upheaval set in motion (the Prime Minister's linking of a more devolved Scotland to giving greater powers to English MPs over English-only legislation, the prospect of Scotland's potential freedom to raise taxes not being replicated elsewhere in the UK) is arguably likely to be just as problematic in the run-up to and beyond next year's general election.

Eurozone inflation continued to fall towards zero (HICP inflation registered just 0.3% in September), and there was mounting evidence that the already feeble recovery was losing pace. The unemployment rate remained stubbornly high at 11.5%. The European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05%. The rate it pays on commercial bank balances held with it was also cut further into negative territory from -0.1% to -0.2% and the Marginal Lending Facility rate cut further to 0.3%. The ECB also announced a programme of acquiring Asset Backed Securities (ABS) from banks in an effort to encourage lending which was viewed as being one step away from full blown Quantitative Easing (QE) adopted by the US, UK and Japanese central banks. The minutes of the Bank of England's MPC meeting in September noted that "weakness in the euro area had been the most significant development during the month" and that, if it led once again to uncertainty about the sustainability of euro-area public and external debt, it could damage confidence and disrupt financial markets

There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by \$10 billion per month. Asset purchases are expected to end by October 2014, expectations therefore turned towards the timing of rate increases. The US economy rebounded strongly in Q2 with annualised growth of 4.6%.

**Market reaction:** Gilt yields have continued to decline and hit a financial year low at the end of August, before ticking upwards in the run up to the Scottish referendum. What has driven yields lower is a combination of factors but the primary drivers have been the escalation of geo-political risk within the Middle East and Ukraine alongside the slide towards deflation within the Eurozone (EZ).

### 3. Local Context

At 31/03/2014 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £7.633m, while usable reserves and working capital which are the underlying resources available for investment were £9.003m.

At 31/03/2014, the Authority had £3.5m of borrowing and £2.153m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

The Authority has a decreasing CFR over the next 3 years due to the proposed repayment of £3.5m of borrowing.

### 4. Borrowing Strategy

At 30/09/2014 the Authority held £3.5m of loans, this position remains unchanged from 31/03/2014, and is part of the authority's strategy for funding previous years' capital programmes.

While the intention of the Authority was to repay the loan on maturity in August 2014 it became necessary to refinance the loan as the expected capital receipts from the sale of surplus assets have not yet been realised.

At the present time it is the intention to set aside £1.8m of capital receipts in 2014/15, with a further £1.7m set aside in 2015/16. Therefore the Authority would be looking to replace its current loan of £3.5m when it is repaid in February 2015 with a £1.7m loan. This is based upon current predictions and receipt of capital monies from planned asset disposals. The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this 'cost of carry' and breakeven analysis.

### Borrowing Activity in 2014/15

	Balance on 01/04/2014 £'000	Maturing Debt £'000	New Borrowing £'000	Balance on 30/09/2014 £'000	Average Rate %
CFR	7,633			7,433	
Short Term Borrowing	(3,500)	3,500	(3,500)	(3,500)	0.45
Long Term Borrowing	0	0	0	0	0
<b>TOTAL BORROWING</b>	<b>(3,500)</b>	<b>3,500</b>	<b>(3,500)</b>	<b>(3,500)</b>	<b>0.45</b>
Other Long Term Liabilities	0	0	0	0	0
<b>TOTAL EXTERNAL DEBT</b>	<b>(3,500)</b>	<b>3,500</b>	<b>(3,500)</b>	<b>(3,500)</b>	<b>0.45</b>
Increase/(Decrease) in Borrowing				3,933	

## 5. Investment Activity

The Authority holds invested funds on its own behalf with a separate fund for the section 106 contribution from EDF for the building of Hinkley C nuclear power station representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2014/15 the Authority's investment balances would range between £2m and £14m million, more than in previous years due to the Hinkley section 106 investments.

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 2014/15

Investments	Balance on 01/04/2014 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 30/09/2014 £'000	Average Rate (Yield) %
Short term investments (call accounts, deposits) Banks and Building Societies with ratings of BBB+ or higher	2,749	30,200	(20,796)	12,153	0.46
Long term investments Banks and Building Societies with ratings of BBB+ or higher	0	0	0	0	0
Money Market Funds	0	9,650	(6,815)	2,835	0.43
<b>TOTAL INVESTMENTS</b>	<b>2,749</b>	<b>39,850</b>	<b>(27,611)</b>	<b>14,988</b>	
Increase/(Decrease) in Investments				12,239	

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 2014/15.

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
31/03/2014	6.45	A	6.67	A-
30/06/2014	5.18	A+	5.03	A+
30/09/2014	5.41	A+	4.81	A+

Investments made by West Somerset Council for the first six months of the year have all been short term with no investments made for longer than a three month period. Money Market funds and call accounts have also been utilised to manage the Council's surplus internal cashflow.

Expenditure on Hinkley C is due to commence from December 2014 and therefore Hinkley investments have also been short term, but for slightly longer periods of up to 364 days.

## 6. Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish within its two-year rating horizon for investment-grade entities, in April Standard and Poor's (S&P) revised the Outlook of Barclays, Deutsche Bank, Credit Suisse and ING Bank from Stable to Negative (note, this is not the same as a rating review negative). In May, Moody's also changed the outlook from stable to negative for 82 European banks and from positive to stable for two European banks. The institutions affected on the Authority's lending list are Nationwide Building Society, Pohjola Bank, Svenska Handelsbanken, Landesbank Hessen-Thuringen, Bank Nederlandse Gemeenten and Nordea Bank.

In August Moody's changed its outlook for the UK banking system from stable to negative, citing the reduction of government support for systemic banks as the reason. Although the agency believes that the stand-alone financial strength of UK institutions is improving they believed that this is more than offset by the potential bail-in risk now faced by investors. Similarly, in August S&P revised the outlooks for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

There was strong likelihood that the UK, alongside Germany and Austria, would accelerate the adoption of the BRRD and that the implementation of bail-in resolutions would be fast-tracked in these countries to 1st January 2015, a full year ahead of other EU nations.

Banks in the UK and EU banks face stress tests this autumn, which may result in some institutions having to additionally bolster their capital buffers. The extent to which this might be required and the form they will have to take casts uncertainty over capital requirements in the system.

## 7. Budgeted Income and Outturn

The average cash balances were £14m 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 0.46%. Investments in Money Market Funds generated an average rate of 0.43%.

The Authority's budgeted investment income for the year is estimated at £15k. The Authority anticipates an investment outturn of £16k for the whole year.

## 8. Compliance with Treasury Management Indicators

The Authority confirms compliance with its Prudential Indicators for 2014/15, which were set in March 2014 as part of the Authority's Treasury Management Strategy Statement.

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 borrowed will be:

### Borrowing

	2014/15 %	2015/16 %	2016/17 %
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

	2014/15 %	2015/16 %	2016/17 %
Upper limit on fixed interest rate exposure	100	100	100
Actual	80		
Upper limit on variable interest rate exposure	100	100	100
Actual	20		

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:

	2014/15 £m	2015/16 £m	2016/17 £m
Limit on principal invested beyond year end	6	6	6
Actual	3	0	0

## 9. Outlook for Q3 and Q4 2014/15

The stronger economic growth seen in the UK over the past six months is likely to use up spare capacity more quickly than previously assumed. Arlingclose has brought forward the timing for the first rise in Bank Rate to Q3 2015.

In addition to two MPC members having voted for a rate rise in August and September, the rhetoric from Committee members has in general become more hawkish. However, the lack of inflationary pressure is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. The near-term risk is that the Bank Rate could rise sooner than anticipated, which is captured in the 'upside risk' range of our forecast table below.

The focus is now on the rate of increase and the medium-term peak and, in this respect, expectations are that rates will rise slowly and to a lower level than in the past.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>Official Bank Rate</b>											
<b>Upside risk</b>	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
<b>Downside risk</b>				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00

## 10. Compliance with Prudential Indicators 2014/15

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	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Assets	347	126	0	0
Plant and Equipment	87	203	0	0
Disabled Facilities Grants	233	184	0	0
Information Technology	63	45	0	0
Transformation Costs(WSC/TDBC)	0	135	0	0
REFCUS (Capital Spend on Non WSC Assets)	371	70	0	0
<b>Total Capital Expenditure</b>	<b>1,101</b>	<b>763</b>	<b>0</b>	<b>0</b>
Capital Receipts	(615)	(454)	0	0
Revenue Reserves	0	(25)	0	0
Government Grants	(486)	(284)	0	0
<b>Total Capital Financing</b>	<b>(1,101)</b>	<b>(763)</b>	<b>0</b>	<b>0</b>



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

Capital Financing Requirement	31.03.14 Actual £'000	31.03.15 Estimate £'000	31.03.16 Estimate £'000	31.03.17 Estimate £'000
General Fund	7,633	5,633	2,906	2,906

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

**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	31.03.14 Actual £'000	30.09.14 Estimate £'000	31.03.15 Estimate £'000	31.03.16 Estimate £'000	31.03.17 Estimate £'000
Borrowing	3,500	3,500	1,700	0	0
Finance Leases	32	32	32	32	32
Total Debt	3,532	3,532	1,732	32	32

Total debt is expected to fall 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	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Borrowing	7,500	7,700	7,700	7,700

**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	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Borrowing	10,000	10,000	10,000	10,000

**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	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	0.88	2.91	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	2014/15 Estimate £	2015/16 Estimate £	2016/17 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.

**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
01/04/2014	0.5	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.5	0.36	0.4	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.5	0.35	0.4	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.5	0.36	0.4	0.43	0.5	0.71	0.94	1.33	1.7	2.17
31/07/2014	0.5	0.37	0.41	0.43	0.5	0.72	0.97	1.34	1.71	2.17
31/08/2014	0.5	0.36	0.42	0.43	0.5	0.77	0.98	1.22	1.53	1.93
30/09/2014	0.5	0.43	0.45	0.43	0.51	0.66	1	1.25	1.57	1.99
<b>Average</b>	<b>0.5</b>	<b>0.37</b>	<b>0.41</b>	<b>0.43</b>	<b>0.49</b>	<b>0.67</b>	<b>0.92</b>	<b>1.21</b>	<b>1.57</b>	<b>2.06</b>
<b>Maximum</b>	<b>0.5</b>	<b>0.43</b>	<b>0.5</b>	<b>0.43</b>	<b>0.51</b>	<b>0.81</b>	<b>1</b>	<b>1.38</b>	<b>1.77</b>	<b>2.26</b>
<b>Minimum</b>	<b>0.5</b>	<b>0.24</b>	<b>0.36</b>	<b>0.42</b>	<b>0.46</b>	<b>0.56</b>	<b>0.84</b>	<b>1</b>	<b>1.36</b>	<b>1.91</b>
<b>Spread</b>	<b>--</b>	<b>0.19</b>	<b>0.14</b>	<b>0.01</b>	<b>0.05</b>	<b>0.25</b>	<b>0.16</b>	<b>0.38</b>	<b>0.41</b>	<b>0.35</b>

**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
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.3	4.4	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.7	4.21	4.3	4.27	4.25
31/08/2014	334/14	1.55	2.7	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
	<b>Low</b>	1.4	2.68	3.36	3.87	3.96	3.94	3.92
	<b>Average</b>	1.55	2.86	3.67	4.22	4.32	4.29	4.27
	<b>High</b>	1.69	3.07	3.86	4.42	4.52	4.49	4.48

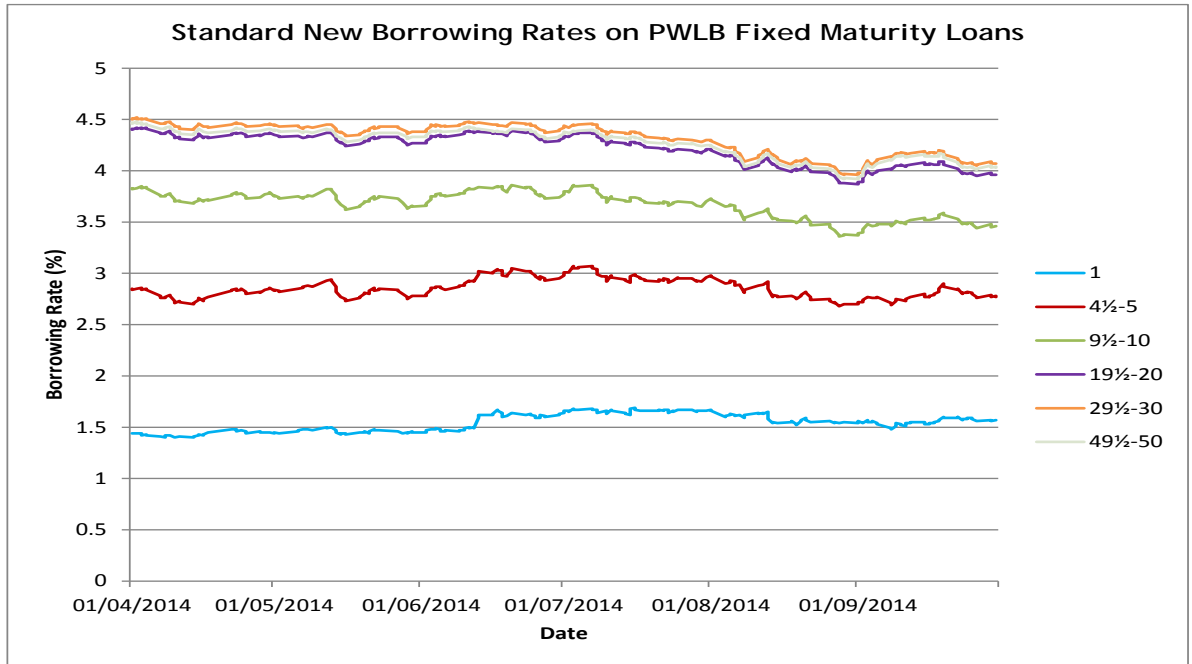


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

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	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.2	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.3	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.4	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
	<b>Low</b>	1.99	2.73	3.38	3.71	3.87	3.95
	<b>Average</b>	2.19	2.92	3.7	4.05	4.23	4.3
	<b>High</b>	2.39	3.13	3.89	4.26	4.43	4.5

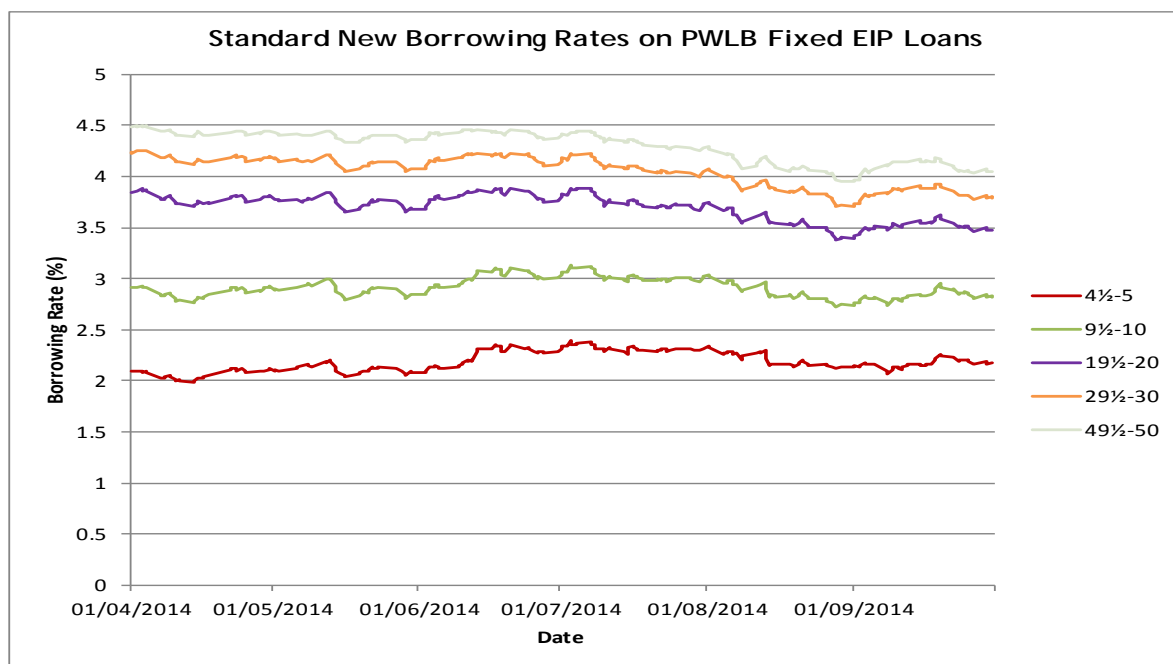


Table 4: PWLB Variable Rates

	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
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
<b>Low</b>	0.55	0.56	0.57	1.45	1.46	1.47
<b>Average</b>	0.58	0.6	0.65	1.48	1.5	1.55
<b>High</b>	0.64	0.68	0.76	1.54	1.58	1.66

# Treasury Management Strategy Statement – 2014-15 Mid-Year Update

## 1. Introduction

The UK is implementing the final bail-in provisions of the EU Bank Recovery and Resolution Directive to commence in January 2015, a year ahead of most other countries. Credit rating agencies have stated they plan to review EU banks' ratings in line with each country's implementation of the directive. Many UK banks have standalone ratings in the "BBB" category, with uplifts for potential government support taking them into the "A" category. There is therefore a realistic risk that some major UK banks' credit ratings will fall below A- this financial year if this uplift is removed.

## 2. Recommendations

In view of the above it is therefore recommended to make the following amendments to the 2014-15 Treasury Management Strategy Statement:

Table 2: Approved Investment Counterparties

Counterparty		Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	BBB+	£2m each	100 days

Table 3: Non-Specified Investment Limits

Category of non-specified investment	Current cash limit	Amended cash limit
Total investments without credit ratings or rated below A-	£4m	£8m
Total non-specified investments	£10m	£14m

Treasury Management Indicator:

	Target
Portfolio average credit rating	BBB+

Report Number: WSC 177/14

Presented by: Steve Plenty, Finance Manager

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Report to a Meeting of: Audit Committee

To be Held on: 2<sup>nd</sup> December 2014

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

## DEBT ANALYSIS – AS AT 30 SEPTEMBER 2014

### 1. PURPOSE OF REPORT

- 1.1 To provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 30<sup>th</sup> September 2014.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 The Council's debt position links to the Local Democracy priority of achieving financial sustainability.

### 3. RECOMMENDATIONS

- 3.1 That Audit Committee note the information contained within the report.

### 4. RISK ASSESSMENT

#### Risk Matrix

Description	Likelihood	Impact	Overall
That the Council does not put in place appropriate arrangements to recover monies that are owed to the Authority.	3	4	12
<i>Continued collection of debt following the procedures and arrangements the Authority has in place.</i>	2	3	6
That from 1 <sup>st</sup> April 2013 there is a detrimental financial impact on the Council due to unpaid Business Rates.	4	4	16
<i>Continued collection of debt following the procedures and arrangements the Authority has in place.</i>	2	3	6

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.

- 4.1 As the table shows, the arrangements in place in respect of income collection has a positive impact on mitigating the identified risks.

## 5. **BACKGROUND INFORMATION**

- 5.1 Analysis of the Authority's current level of debt used to form part of the Corporate Performance Report presented to Members on a quarterly basis. During discussions it was suggested by the then current Section 151 Officer that scrutiny of these debts would be better undertaken by the Audit Committee separately. Therefore set out below are details of the different streams of debt owed to the Authority as at 30 September 2014, comparing this to what was outstanding at as 30 September 2013 (the previous year).

### **Corporate Debts**

<b>Age of debt</b>	<b>Amount Outstanding As At 30 September 2014 (£)</b>	<b>Amount Outstanding As At 30 September 2013 (£)</b>
Less than 3 months	274,833	61,061
3 to 6 months	23,351	8,470
6 months to 1 year	11,838	6,987
Over 1 year	123,117	143,242
<b>Total</b>	<b>433,139</b>	<b>219,760</b>

- 5.2 The above figures on the newest debts (less than three months) show a substantial increase which is due to an invoice issued to Taunton Deane Borough Council for £208K in connection with the shared services agreement. Please note that this invoice has now been paid and will not be shown in the 3<sup>rd</sup> quarter's report.
- 5.3 The older debts show either slight monetary increases or decreases compared to the previous year. The chasing of these old debts via both the teams who issue the invoices and the recovery team continues to work well. In extreme cases when payment is not made a County Court Judgement is obtained. This further course of action is at the discretion of the senior recovery officer after liaison with the service area and/or the legal department, unless the debt relates to Housing whereupon anything over £450 is pursued and anything below this level is written off.
- 5.4 In 2014/15 to date a total of £10K has been written off against corporate debts and it can be confirmed that 100% of this has been charged to the provision already included in the authority's Statement of Accounts.

### **Housing Benefit Debts**

	<b>Amount Outstanding As At 30 September 2014 (£)</b>	<b>Amount Outstanding As At 30 September 2013 (£)</b>
Debts being recovered from ongoing entitlement to housing benefit	228,332	185,451
Debts being recovered from former claimants	337,137	288,703
<b>Total outstanding</b>	<b>565,469</b>	<b>474,154</b>

- 5.4.1 As previously mentioned the previous year record breaking 47.07% collection rate is very unlikely to be matched or beaten. Currently the in-year collection rate has dropped from



28.94% from 34.38%, however, overall the in-year collection rate of 43% remains on target and should still be achieved. It should also be noted that previous years collection figures have topped the charts when compared to the eleven members of the South West Overpayments Liaison Group and only last week we were singled out for praise as one of the top performing Councils in the country in overpayment collection in 2013/14 by the Department of Works and Pensions.

5.5 Unfortunately overpayment creation continues to rise with the Benefits Department carrying out income reviews and the Inland Revenue now introducing Real Time Info (RTI) for pensions and earnings both of which can go back years and have led to an increase and some very large overpayments being identified. This is somewhat reflected in the overpayment creation in the last quarter being £161K and remains high as the previous quarter was £151K and this represents a £41K increase when compared to the same time last year. As a result of these increases the automatic recovery from claimants Housing Benefit has risen this quarter to £78K, an increase of £18K from the last high quarter and a similar rise compared to the same time last year. Regrettably manual officer collection (through invoices, reminders and further recovery action) has dipped from £59K to £35K this quarter. Officer resource has continually been directed at this income stream because the Council benefits greatly financially. It should be noted that we receive additional income through benefit subsidy on most overpayments, therefore, it is possible therefore to receive more money than the original overpayment if you aggregate the collected amount along with the amount received in government subsidy. Full recovery action is taken on these unpaid debts to include County Court action in appropriate cases. However, the number of costly and time consuming County Court cases is now dropping because the new 2013 Social Security Regulations now allow us to directly contact a person's employer for an attachment to their earnings.

5.5.1 As a result of the above action write off levels remain at a very low level with just £2K this year compared to £7K this time last year and this only equates to 0.43% when compared to the outstanding debt. A recent discussion at our user group highlighted one Authorities wrote off £250K last year and others report much higher write off levels of 4-7% per annum.

### Council Tax Debts

Year from 1 April	Amount Outstanding As At 30 September 2014 (£)	Amount Outstanding As At 30 September 2013 (£)
Pre 2008	136,205	144,491
2008	48,337	56,398
2009	39,057	53,318
2010	71,369	95,837
2011	100,579	149,048
2012	159,829	313,456
2013	442,991	N/A
<b>Total</b>	<b>998,367</b>	<b>812,548</b>

5.6 Debts have decreased on all old years but increased overall with new debts of 443k due for 2013. This is reflected in the with balances subject to court action during comparable quarters increasing from 817k to 969k. This is also reflected in the collection rate slightly decreasing from 58.01% in 2013/14 to 57.57% in 2014/15. It is now appropriate to compare collection rates with previous years with all the changes coming in on 1 April 2013. As a reminder detailed below are some of the factors that have increased the risk of both delays and the possibility of non-collection:

- 15% Council Tax now payable by 1,433 working age claimants (many of whom paid nothing prior to 1 April 2013)
- A full Council Tax charge for owners of empty properties after 1 month (they were previously entitled to a 6 months empty exemption)
- 150% premium for long term empty properties (an increase of 50%)

5.7 The small Recovery team only has a finite amount of resource and workloads in recent times have dramatically increased, with a peak of just over 1,500 cases beyond Liability Order stage with a current balance of 969k. This figure can be broken down approximately into ten specific recovery areas with the previous year's quarter given as a comparison: Enforcement Agent/Bailiff (or awaiting) 607k (522k), No Trace 137k(154k), Arrangement 97k (139k), Possible Committal 15k (53k), Write-Off 28k (22k), On Hold 34k (32k), Bankruptcy 9k (17k), Attachment of Earnings 7k (10k), Attachment of Benefits 6k (6k) and Small Balances 27k (Not applicable –new code).

The possible committal level has dipped due to a trial being given to another Enforcement Agent this level will increase when these cases are returned to the Council.

A few areas of concerns have been highlighted by the recovery team for review in an effort to enhance ongoing collection rates:

- The large number and monetary value of gone way/no trace cases - currently 240 cases with a value of £136K
- The increase and monitoring of on hold cases - currently 38 cases with a value of £34K
- The stricter monitoring of arrangement cases – currently 296 cases with a value of £97K
- The completing of Enforcement Agent return work – currently over 200 cases outstanding

Additional contact has been made with all of the small balance cases with limited success. This is a rolling project after every court hearing. With the added resource from the staff merger with Taunton Deane it is hoped that the projects to make additional contact with the small balance cases, the monthly monitoring of on hold cases, failed arrangements, enforcement agent returns along with the labour intensive work around the tracing of debts will all show a marked improvement come the next quarters report. The area of work surrounding traces has been earmarked for early December when due to a software release the system is down for 3 days.

5.8 Benchmarking continues to be carried out and all bar one of the five Somerset Authorities reflect a common theme in that they are experiencing a dip in their collection rates.

5.9 Write offs are usually only undertaken once or twice a year. During the quarter no write offs exist, however, £38K has been written off in the last 12 months and a further bulk amount has since been written off on 13 October 2014 and this will be reported in quarter 3.

## Business Rates Debts

Year from 1 April	Amount Outstanding As At 30 September 2014 (£)	Amount Outstanding As At 30 September 2013 (£)
Pre 2008	3,277	9,935
2008	4,540	5,619
2009	782	5,525
2010	13,335	14,601
2011	37,657	60,760
2012	96,313	164,724
2013	145,736	N/A
<b>Total</b>	<b>301,640</b>	<b>261,164</b>

- 5.10 The overall levels of overall debts have risen and balances subject to further court action (beyond Liability Order stage) have increased from £136K to £163K. The rise is somewhat reflected in the collection rate decreasing from 60.32% in 2013/14 to 55.20% in 2014/15.
- 5.11 The very large dip in year collection rate (5.12%) can be explained away because six of West Somerset's largest payers (Hinkley, Butlins, Morrisons, Tesco, Paper mill and Doniford Bay Holiday Park) have now taken up the legal option of paying over twelve months (instead of ten). This regulation came in on Business Rates on 1 April 2014 so it is unfair to compare monthly collection rates with last year. Further analysis has now taken place to confirm this and although only 4.8% (93 of our 1912 ratepayers) have opted for 12 monthly payments in Rateable Value terms it relates to over 16 million of the 31 million total. This equates to nearly 52% of the value opted for a longer payment term. In monetary terms it relates to £1.3 million (that would have been paid by January) now being collected over February and March instalments, therefore the collection rate should pick up dramatically during these two months.
- 5.12 The oldest debts pre 2008 have dropped dramatically. Due to retention (the possible financial losses to the Council mentioned below) and the fact that there are only 41 business rate recovery cases, when compared to the large number of Council Tax accounts, these cases are monitored to a much greater degree. The £164K can be broken down into five specific recovery areas with the previous year quarter given as a comparison: Enforcement Agent/Bailiff (or awaiting) £82K (£63K), Arrangement £55K (£80K), Possible Committal £23K (£5K), Write-Off £3K (£1K) and On Hold £1K (£4K). No cases are currently at bankruptcy/insolvency in the current financial year compared to last year when £19K was on this recovery code.
- 5.13 Write offs are usually only undertaken once or twice a year. During the quarter no write offs exist on Business Rates. Five write offs totalling approximately £3K were actioned on 21 October 2013 and 14 January 2014. Another handful of cases have since been written off on 13 October 2014 and this will be reported in quarter 3.

## **6. FINANCIAL/RESOURCE IMPLICATIONS**

- 6.1 Clearly the collection of income and debts due to the authority is important as the Net Budget for provision of services includes assumptions and targets for income. Where costs are not covered by general grant funding or council tax, the customer pays additional fees and charges as set by the Council. This income is therefore necessary for the provision of services. Failure to collect debts could eventually lead to losses which would be a cost to the General Fund, and therefore adversely affect reserve balances.

6.2 As the billing authority for council tax and business rates, we also collect taxation income that is due to be paid over to Central Government, the County Council, Police and Fire authorities. Failure to collect these monies will affect this Council's funding, but also that of these other organisations.

6.3 The risk of non-collection is assessed each year as part of the financial year end arrangements, with some provision made for potential losses, however the Council's takes all possible action to avoid non-collection. Debt write-off is very much a last resort.

## **7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 Levels of debt can adversely affect the Council's cash flow as well as the underlying funding position as described above. As such all debt is actively managed to keep outstanding amounts to a minimum.

7.2 The risk in respect of cash flow and non-collection is greater than previous years following the introduction of business rates retention, as the payments of Standard Shares in business rates to Government, County and Fire authorities is based on budget estimates. As from 1st April 2013 the Council also has to bear 40% of the costs of any debts written off in respect of Business Rates.

## **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 None in respect of this report.