The Council's Vision:
To enable people to live, work and prosper in West Somerset

AUDIT COMMITTEE

AGENDA

3 December 2013 at 4.30 pm

Council Chamber, Williton

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the Meeting of the Committee held on 23 September 2013 – **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 2013/14 – **SEE ATTACHED.**

7. **Draft Annual Audit Letter**

   To consider the draft Annual Audit Letter 2012/13 dated October 2013, to be presented by the Audit Commission – **SEE ATTACHED.**

The Council's Vision:
To enable people to live, work and prosper in West Somerset

8. Audit Committee Update

To receive an update from the Audit Commission, Grant Thornton - **SEE ATTACHED.**

9. Actuarial Review

To receive a verbal update on the latest review from the Funds and Investment Manager, Somerset County Council.

10. Treasury Management Update - 30 September 2013

To consider Report No. WSC 163/13, to be presented by Steve Plenty, Deputy Section 151 Officer – **SEE ATTACHED.**

The purpose of the report is to update the Audit Committee on the Treasury Management position as at 30 September 2013.

11. Debt Analysis - As at 30 September 2013

To consider Report No. WSC 162/13, to be presented by Steve Plenty, Deputy Section 151 Officer – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 30 September 2013.

12. Quarterly Review of Internal Audit Activity

The purpose of the report is to provide a review of Internal Audit activity for quarter 3, and to identify any level 4 and 5 control weaknesses – **SEE ATTACHED.**

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

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

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

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

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

- Mitigating actions for high (‘High’ or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;

- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officers.

AUDIT COMMITTEE

Minutes of the Meeting held on 23 September 2013 at 4.30 pm in the Council Chamber, Williton

Present

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

Councillor M J Chilcott
Councillor D D Ross
Councillor M O A Dewdney
Councillor D J Sanders

Members In Attendance

Councillor K V Kravis

Officers In Attendance

Section 151 Officer (S Campbell)
Principal Accountant/Deputy Section 151 Officer (S Plenty)
Principal Recovery Officer (S Perkins)
Meeting Administrator (H Dobson)

Also In Attendance

Alun Williams, Director, Grant Thornton
Peter Lappin, Senior Manager, Grant Thornton
Claire Hodgson, Audit Manager of South West Audit Partnership (SWAP)
Anton Sweet, Funds and Investment Manager, Somerset County Council

A18 Apologies for Absence

No apology for absence was received.

A19 Minutes

(Minutes of the Meeting of Audit Committee held on 16 July 2013, circulated with the Agenda).

RESOLVED that the Minutes of the Meeting of Audit Committee held on 16 July 2013 be confirmed as a correct record.

A20 Declarations of Interests

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

Name	Minute No	Description of Interest	Personal or Prejudicial	Action Taken
Cllr S Y Goss	All	Stogursey	Personal	Spoke and voted

A21 Public Participation

No members of the public had requested to speak.

A22 Audit Committee Action Plan

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

There were no resolutions/recommendations from the meeting held on 16 July 2013 that required monitoring.

A23 Audit Committee Forward Plan

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

RESOLVED (1) that the Annual Report – Hinkley Point be moved to 3 December 2013.

RESOLVED (2) that the Actuarial Review of the Pension Fund be scheduled for the meeting of the Audit Committee to be held on 3 December 2013;

RESOLVED (3) that the Audit Committee Forward Plan be noted.

A24 Debt Analysis as at 30 June 2013

(Report No. 125/13, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the level of debts outstanding to the authority as at 30 June 2013.

In response to concerns that the amount of Business Rates Debts outstanding for this year when compared to the same time last year appeared to have increased the Principal Recovery Officer advised that it could be the result of a single figure and that he was confident that the figure would reduce.

The Deputy Section 151 Officer advised that he would provide more information relating to the Corporate Debts for the next meeting of the Audit Committee.

RESOLVED that the Debt Analysis as at 30 June 2013, be noted.

A25 Pensions Update

The Funds and Investment Manager for Somerset County Council provided an update on the pensions fund and presented the highlights of the Somerset County Council Annual Report and Financial Statements 2012/13.

During the course of the update the Funds and Investment Manager addressed the following issues raised:

- If the council was required to continue to put more and more money aside year on year into the pension fund there could come a point when all the council's money would go into the fund.
- If more staff left the authority would a larger provision have to be made?

The Section 151 Officer confirmed that the council had factored an increase into its budget over the next three years to cover the likely increase in payments to the pensions fund.

The Funds and Investment Manager advised:

- The changes to the tiers and the increases in contributions that would affect the higher paid staff.
- How different fund managers operated which reflected in different fees.
- That there would be a number of changes affecting the fund including a revised benefits package for employees the following year.
- There was a governance consultation on future governance structures that would apply to all the schemes; the outcomes were currently still unknown.
- There has also been a call for evidence on the structure of the Local Government Pension Scheme and responses had to be submitted by the end of the current week. At this stage it was possible that the Somerset fund might not exist in its current geographical area in 2017. The results will be made known in perhaps one year's time or less and any changes would take effect from April 2017.

The Members of the Committee thanked the Manager for the useful information and plain writing contained in the Annual Report.

The Funds and Investment Manager asked that any additional questions from the Committee could be emailed to him or the Section 151 Officer.

RESOLVED that the pension fund update be noted.

A26 Annual Governance

(The Audit Findings for West Somerset Council and Arrangements for Review of the Council's Arrangements for Securing Financial Resilience for West Somerset Council, distributed after the Agenda).

The Director for Grant Thornton presented the Audit Findings for West Somerset District Council. The findings set out the results of the audit on the Council's Statement of Accounts. There were no issues of concern and no significant adjustments to the accounts, therefore an unqualified opinion had been issued. The key messages arising from the audit were that the accounts were prepared to a good standard and there were good working arrangements between the finance team and audit staff.

Last year Grant Thornton issued a qualified position on the Value for Money conclusion because of the council's financial position. Since then changes have been made. On consideration of whether the Council could meet its budget for the following year and focussing on the current financial position the external auditor has issued an unqualified opinion. He congratulated members for their high degree of knowledge regarding the Council's financial position. He concluded that Grant Thornton were satisfied that the accounts were mostly correct.

The Senior Manager for Grant Thornton highlighted the action plan where medium priority improvements had been identified.

The Section 151 Officer was pleased with the unqualified opinion and thanked the Deputy Section 151 Officer and finance team for all of their hard work.

In response to a question regarding the Council's Remote Access Policy the Deputy Section 151 Officer advised that he would confirm who the policy referred to: its own employees or indirectly via external agencies and who those external agencies were.

The Senior Manager presented the Review of the Council's Arrangements for Securing Financial Resilience advising that he was satisfied with the assessment of financial resilience. He highlighted that the Medium Term Financial Plan (MTFP) had been risk assessed as amber (an improvement on the previous year when it was assessed as red) which reflected the work the Council had undertaken to try to recognise the issues. He also advised of the next steps and the Council's liquidity issues as raised under key indicators of performance.

With regard to strategic financial planning being assessed as red, Members were very aware of a plan being in place and of the Council's position with regard to the need to sell its assets which could affect tenders submitted by potential buyers.

During the discussion of the Council's MTFP the Senior Manager commented that one of its strengths was that it was updated regularly. The Section 151 Officer confirmed that the most recent MTFP would be made available to members.

The Chairman of the Committee thanked the Director and Senior Manager of Grant Thornton for attending the meeting.

RESOLVED that the Audit Findings for West Somerset Council and Arrangements for Review of the Council's Arrangements for Securing Financial Resilience for West Somerset Council, be noted.

Note: With the agreement of the Chairman this item was brought forward on the Agenda.

A27 Quarterly Review of Internal Audit Activity

(Report of Internal Audit Activity, circulated with the Agenda).

The purpose of the update was to provide a review of Internal Audit activity plus identify any level 4 and 5 control weaknesses.

The Audit Manager of SWAP presented the report and referred to the quarter 2 progress made so far.

She confirmed that a definition of 'non opinion' would be included in the audit framework definitions.

RESOLVED that the Report of Internal Audit Activity for Quarter 2 2013/14, be noted.

A28 Governance Code

(Fees Letter 2013/14, circulated with the Agenda).

The Lead Member for Finance and Central Support presented the report and advised that the Governance Code had last been updated in 2009 and that all the changes were shown in the appendix to the report.

In response to a question the Section 151 Officer advised that the document was based on a template provided by the Chartered Institute of Public Finance and Accountancy and adjusted to fit the Council.

The Section 151 Officer noted the suggested minor amendments:
- That the Area Panels be added to Principle 2.3.
- That the website be added to Principle 1.1
- She noted the concern regarding Principle 5.1 and that financially the Council were not in a position to fulfil that commitment and advised that she would look at how to re-word the principle appropriately.

RESOLVED that the revised Governance Code with amendments, as listed above, be approved.

A29 Audited Statement of Accounts

(Internal Audit Charter, circulated with the Agenda).

The purpose of the report was to request that the Audit Committee review the Audited Statement of Accounts prior to its signature by the Chair of the Committee and the Section 151 Officer.

The Lead Member for Resources and Central Support presented the report and thanked the finance team for their work.

Great concern was raised regarding the annual cost of 12.4 staff dedicated to work relating to Hinkley Point and that related funding was yet to be received. In response the Section 151 Officer advised that the Chief Executive was working on these costs and would request that the Chief Executive contact the member concerned.

Further, the Lead Member understood the concerns raised and associated issues and would ensure the necessary work was completed and that members would be informed appropriately.

Members noted the Letter of Representation to be signed and approved at this meeting 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 signs and dates the balance sheet;

<u>RESOLVED</u> (3) that the Council's Section 151 Officer re-signs and dates the balance sheet;

<u>RESOLVED</u> (4) that the accounts and relevant certificates are published on the Council's website;

<u>RESOLVED</u> (5) that the Letter of Representation be approved and signed by the Chairman of the Audit Committee and the Council's Section 151 Officer.

The meeting closed at 6.04 pm.

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
A29 Audited Statement of Accounts	Great concern was raised regarding the annual cost of 12.4 staff dedicated to work relating to Hinkley Point and that related funding was yet to be received. In response the Section 151 Officer advised that the Chief Executive was working on these costs and would request that the Chief Executive contact the member concerned. Further, the Lead Member understood the concerns raised and associated issues and would ensure the necessary work was completed and that members would be informed appropriately.	The Interim Executive Director is planning to present a report to the Scrutiny Committee scheduled for 16 December 2013, as requested by them.

AUDIT COMMITTEE FORWARD PLAN 2013/14

3 December 2013	**24 March 2014**	**1 July 2014**	**22 September 2014**
Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Internal Audit Charter	Quarterly Review of Internal Audit Activity
Annual Audit Letter	Internal Audit Plan 2014/15	Internal Audit Annual Report and Opinion	Statement of Accounts 2012/13
Risk Management Update	Internal Audit Charter 2014-15	Annual Review of Internal Audit	Annual Governance Report
6-month review of Treasury Management Update	Opinion Audit Plan 2013/14	Unaudited Statement of Accounts 2012/13	Annual Report - Hinkley Point
External Audit Fee Letter	Accounting Policies – 2013/14 Statement of Accounts	Annual Governance Report 2012/13	Debt Analysis Report
Debt Analysis Report	Certification of Claims and Returns	Debt Analysis Report	Pension Fund
Statement of the current Hinkley Section 106 Funding Position	Risk Management Strategy 2014 update	External Audit Plan	
	Debt Analysis Report	External Audit Certification Plan	
	Consideration of an Independent Member	External Audit Update Report	
		Fees Letter	

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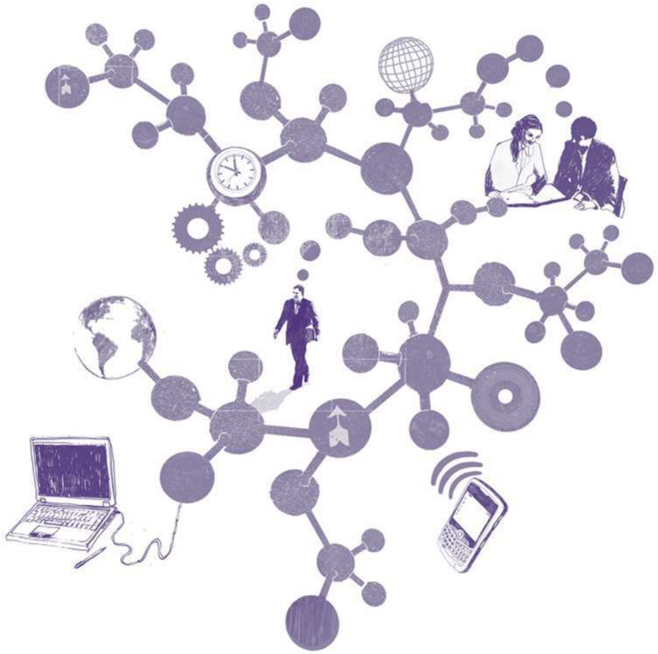
AGENDA ITEM 6

Grant Thornton

The Annual Audit Letter for West Somerset District Council

Year ended 31 March 2013

October 2013



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AGENDA ITEM 7

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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at West Somerset District Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to the Audit Committee in the Audit Findings Report on 23 September 2013.

Responsibilities of the external auditors and the Council

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

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee on 19 July and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts confirming they give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- no issues arising from the Council's Whole of Government Accounts submission

Our certification of the Council's grant claims and returns is still on-going. Our findings in respect of our certification work will be reported to you in a separate report.

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Executive Summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The draft financial statements were produced in accordance with the national deadline of the 30 June. During our audit, the PWLB loan of £3.5m was reclassified from long term borrowing to short term borrowing because it is repayable in February 2014. The Council will have to actively manage its cash flow over the next 12 months to meet loan and NNDR repayments.

Although we issued an unqualified Value for Money (VfM) conclusion we did identify areas which the Council should consider. Further details in respect of these can be found in Section 3.

The Council faces significant financial pressures over the next three years. It is well advanced on finding savings for 2014/15 but in the medium term it is relying on savings from joint management and shared services with Taunton Deane Borough Council.

Acknowledgements

This Letter has been agreed with the Section 151 Officer and Chief Executive and will be presented to the Audit Committee on 3 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

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Section 2: Audit of the accounts

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below.

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 8 July 2013.

The key messages arising from our audit of the Council's financial statements are:

- The accounts were produced to a good standard
- The audit has been facilitated by good supporting working papers and excellent assistance by the finance team
- All requests for additional information were dealt with promptly by the finance team.

Issues arising from the audit of the accounts

During our audit, the PWLB loan of £3.5m was reclassified from long term borrowing to short term borrowing because it is repayable in February 2014. We recommended that the Council should review the adequacy of its bad debt provision – particularly for council tax.

Annual governance statement

The Council's Annual Governance Statement (AGS) complied with requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC) and contained the elements as prescribed in *Delivering Good Governance in Local Government: Framework*.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 23 September and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 25 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

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Section 3: Value for Money

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Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

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

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

The Council has proper arrangements in place for securing financial resilience. We consider whether the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. We consider whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

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

- financial governance
- financial planning
- financial control.

The Council achieved an underspend of £558,000 in 2012/13 which reduced the need to use balances to support revenue expenditure. However, the Council is facing significant financial challenges. The Medium Term Financial Plan update to Scrutiny in August forecasts that with £627,959 of savings to March 2016 its balances will be £851,333, compared with the minimum balance of £500,000.

The Council is relying on significant savings in the medium term from the sharing of services with Taunton Deane Borough Council but in 2013/14 and 2014/15 the Council has firm plans to achieve the savings needed to maintain balances above minimum levels.

Overall our work highlighted that the working capital ratio is very low. £2.8million of current assets are assets held for sale and not readily convertible into cash. Following the audit of the financial statements the loan which is repayable in February 2014 is reclassified as a short term liability. There have been significant fluctuations over the past four years in the Council's reserves and balances.

The Council reports the delivery of savings to the Policy Advisory Group and could report the overall delivery savings to Scrutiny Committee as part of the quarterly performance reporting.

Further details are provided in our Financial Resilience report issued in September 2013.

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Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed the detailed risk assessment against the Audit Commission value for money criteria.

The Council should use benchmarking in its assessment of delivery of services in terms of unit costs and performance. The work with Taunton Deane on sharing services should include this assessment.

The Council should assess the impact of efficiency savings on the performance of the affected services.

Overall VFM conclusion

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

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Appendices

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Appendix A: Reports issued and fees

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

Fees

	Per Audit plan £	Actual fees £
Audit Fee	55,800	55,800
Grant certification fee	14,300	14,300
Total fees	**70,100**	**70,100**

Fees for other services

Service	Fees £
None	Nil

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Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
Certification report (to be issued once work on housing benefits is completed)	December 2013 (expected)
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Audit Committee Update for West Somerset District Council

Year ended 31 March 2014

November 2013

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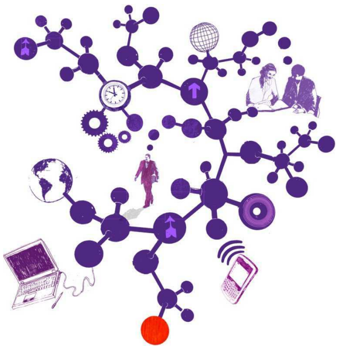

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Contents

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Introduction

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

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

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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 20 November 2013

Work	Planned date	Complete?	Comments
2012-13 certification work We audit those grants and returns that require certification in accordance with Audit Commission guidance and department deadlines.	By 30 November 2013	In progress	We have completed the NNDR return and we are concluding our work on the housing benefit claim. We will issue a certification report in January 2014
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	March 2014	Not yet due	None
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January to March 2014	Not yet due	None

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Progress at 20 November 2013

Work	Planned date	Complete?	Comments
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	July to September 2013	Not yet due	None
2013-14 Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises: • a detailed review of financial resilience • a review of arrangements for securing economy and efficiency • a follow up of recommendations made last year.	Spring Summer 2014	Not yet due	None
Other activities • Accounts workshop in the South West to help local authorities in the preparation of the financial statements for 2013/14.	February 2014	Not yet due	None

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Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published 'Income from charging: Using data from the VFM Profiles, September 2013'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

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Emerging issues and developments

Local government guidance

Local Government Pension Scheme

The Department for Communities and Local Government has launched a 'Call for Evidence' on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

The consultation closed on 27 September 2013 and the Audit Committee received a presentation on the subject in September 2013.

Issues for consideration:

- Did the Council respond to the consultation?

Local government claims and returns 2011/12

In June 2013, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

The Audit Commission concluded that:

- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

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Emerging issues and developments

Local government guidance
Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published 'Business rates: using data from the VFM profiles October 2013'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

DRAFT

Emerging issues and developments

Grant Thornton
Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

DRAFT

Emerging issues and developments

Grant Thornton

'Future Councillors – where next for local politics?'

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: *Future Councillors – where next for local politics?* Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

Issue for consideration:

- How are members taking a greater role in financial planning and how has the Council ensured that members are trained for the task?

DRAFT

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in Room 151, the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were are only half the length of those for 2011/12 and were much easier to follow.

DRAFT

Emerging issues and developments

Accounting and audit issues
Property plant and equipment revaluations The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring: • revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period • items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

DRAFT

Emerging issues and developments

Accounting and audit issues
Public briefing on the Local Audit and Accountability Bill In September, the Audit Commission published a briefing note on the Local Audit and Accountability Bill. The Bill is currently going through Parliament. The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are: • collective procurement arrangements • audit appointment arrangements • the National Fraud Initiative • small bodies • supporting accountability to Parliament and the public • reporting on arrangements to secure value for money • updating the legislative framework governing local public audit.

DRAFT

Emerging issues and developments

Accounting and audit issues
2014/15 Code of Practice on Local Authority Accounting At the end of July, CIPFA/LASAAC released the 2014-15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include: • IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period • introduction of the new group accounting standards • other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013-14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements* • local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies • options for the "dry run" for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code. CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements. Both consultations closed on Friday 11 October 2013.

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Report Number:	*WSC 163/13*
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Report to a Meeting of:	*Audit Committee*
To be Held on:	*3rd December 2013*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:	*N/A*

TREASURY MANAGEMENT UPDATE – 30TH SEPTEMBER 2013

1. PURPOSE OF REPORT

1.1 To update the Audit Committee on the Treasury Management position as at 30th September 2013.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None directly in relation to this report.

3. RECOMMENDATIONS

3.1 To note the Treasury Management position as at 30th September 2013.

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)
The Council has in place suitable arrangements			

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 On 27th March 2013 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2013/14 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 0.59%, compared to the benchmark of 0.36% and investment income is predicted to be £2,300 above the budget of £15,000 for the financial year 2013/14.

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

Quarter Ended 30th September 2013

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

1. Economic Background

- The quarter ended 30 September saw:
  - Indicators suggested that the economic recovery accelerated;
  - Household spending growth remained robust;
  - Inflation fell back towards the 2% target;
  - The Bank of England introduced state-contingent forward guidance;
  - 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
  - The Federal Reserve decided to maintain the monthly rate of its asset purchases.
- After strong growth of 0.7% in Q2, it appears that UK GDP is likely to have grown at an even faster pace in Q3. On the basis of past form, the CIPS/Markit business surveys for July and August point to quarterly growth of potentially over 1.0% in the third quarter of 2013. Similarly, the official data have continued to improve. Admittedly, industrial production was flat in July. But even if it held steady in the rest of the quarter, it would still be 0.9% higher in Q3 than in Q2. In addition, the service sector expanded by 0.2% m/m and the construction sector grew by 2.2% m/m in July after growth of 1.8% q/q in Q2.
- Consumer spending also continued to rise and may beat the increase seen in Q2. While the 1.1% monthly rise in retail sales in July was almost entirely offset by a 0.9% fall in August, the unusually warm weather in August is likely to have had a part to play in this. The retail surveys also painted a positive picture for household spending growth, with the Bank of England's Agents' Scores, BRC and CBI retail sales indicators showing stronger growth in Q3. And while growth in non-high street spending may have slowed, it probably remained robust. For example, although annual growth in new car registrations eased from the 24% rate seen in Q2, it was still a strong 15% in August.
- The run of good news on the labour market continued, with the ILO unemployment rate falling to 7.7% in July from 7.8% in June. Employment rose by 80,000 in the three months to July, supported by an even bigger rise in full-time employment. This meant that the

ratio of full-time to part-time workers continued to rise after it troughed last summer. The timelier claimant count measure of the unemployment rate also fell. Indeed, the cumulative fall in unemployment of 68,900 in July and August – the biggest two month fall since May and June 1997 – brought the claimant count unemployment rate down from 4.4% at the end of Q2 to 4.2% in August. Despite this, the headline (3 month average of the annual) rate of pay growth fell from 2.2% in June to just 1.1% in July. Excluding bonuses, earnings growth ticked up slightly to 1.1% y/y, but this remained well below the rate of CPI inflation at 2.7% in August, meaning real wages continued to fall.

- Meanwhile, the cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year. The quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio was 3.34% in August, 7 basis points lower than in June and 77 basis points lower than when the FLS was introduced in July 2012.
- Demand in the housing market continued to grow at a fast pace, supported by the FLS and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers. The RICS housing market survey reported that new buyer enquiries hit their highest level on record in August. Mortgage approvals for new house purchase rose to their highest level since February 2008 in August. Consequently, house prices continued to rise, with the Halifax and Nationwide measures recording 6.2% and 3.5% y/y rises in August, respectively. ONS data, though, shows that in real terms only London experienced year-on-year price rises in July. All other regions saw modest falls.
- The economic recovery may finally be feeding through to the public finances. Although the government registered a surprise deficit in July (a month that normally delivers a surplus), in August net borrowing was 'just' £13.2bn, compared to £14.4bn in August 2012.
- The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee (MPC) pledged not to raise official interest rates, or reduce the size of the asset purchase facility, until the ILO unemployment rate falls to 7%. At this point, the MPC would discuss whether or not to alter official policy. This guidance was subject to three 'knockouts' which, if breached, would invalidate the guidance. These are that the MPC forecasts inflation at or above 2.5% in 18-24 months' time, inflation expectations are no longer sufficiently well anchored or financial stability is threatened by the stance of monetary policy. On the MPC's current forecasts, the unemployment rate is most likely to reach 7% in late 2016.
- However, financial markets continued to price in increases in Bank Rate by mid-2015, with overnight index swap rates and gilt yields rising after the announcement of forward guidance. Members of the MPC subsequently appeared at the Treasury Select Committee and three gave further speeches to clarify the guidance, but there was little market impact. However, the Bank of England's surveys suggest the message may have got through to the public as the balance of people expecting interest rates to rise over the next 12 months fell from 29% in May to 24% in August.

- Meanwhile, CPI inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation from 2.3% in June to 2% in August. CPI inflation looks likely to have edged down again in September, perhaps to about 2.5%, reflecting a further fading of both energy prices and core inflation.
- The big news in financial markets was that the Federal Reserve unexpectedly decided not to taper its asset purchases in September. In announcing its decision to maintain monthly purchases at $85bn, the Fed explained that it wanted to *"await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases."* This came despite previous hints of tapering from the Fed and the fall in the unemployment rate in both July and August. It currently stands at 7.3%.
- Across the quarter as a whole, advanced economy bond markets sold off, suggesting the rise in UK gilt yields was not solely down to markets' scepticism about domestic forward guidance. Gilt yields tracked US Treasury yields up, with ten-year gilts rising by around 60 basis points to reach 3% in early September for the first time since mid-2011. After the Fed's decision not to taper, gilt yields fell back, although not enough to offset the previous rise. Ten-year gilts finished the quarter at 2.7%. Equity markets stayed relatively flat over the quarter. While the FTSE 100 rose from 6470 to 6620 over the first few weeks of June, the index closed the quarter at 6462.
- Meanwhile, Eurozone business surveys suggested that the economy continued to expand in Q3, albeit at a moderate pace. There was also a general election in Germany in which the incumbent Chancellor, Angela Merkel, performed better than expected by winning 41.5% of the vote. She is now likely to form a coalition, but it remains to be seen what form this will take.

2. Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%
10yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%
25yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%
50yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%

Capita Asset Services undertook a review of its interest rate forecasts in late September as a result of an increase in confidence in economic recovery, chiefly in the US, but more recently, also in the UK and Eurozone. The latest forecast now includes a first increase in Bank Rate in quarter 3 of 2016 (previously quarter 4).

SUMMARY OUTLOOK

UK economy

After the previous Inflation Report included a somewhat encouraging shift towards optimism in terms of a marginal upgrading of growth forecasts, the August Inflation Report occurred in the midst of a welter of economic statistics which have left economists and forecasters speechless in terms of finding suitable words to describe a major simultaneous shift up in gear of the economy in all of the three sectors of services, manufacturing / industrial AND construction! It is therefore not surprising that the Report upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being "escape velocity" to ensure we return to strong AND sustainable growth, after what has been the weakest recovery on record after a recession. So very encouraging - yes, but, still a long way to go! As for inflation, it was forecast to be little changed from the previous Report – falling back to 2% within two years and staying there during year three.

In addition to the stimulus provided by QE, the Funding for Lending Scheme (FLS), is aimed at encouraging banks to expand lending to small and medium size enterprises. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), and causing a significant increase in house prices – but only in London and the south east. FLS is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is now due to start in October.

Forward guidance caveats

The Bank of England also issued forward guidance with the Inflation Report which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.7 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The Capita Asset Services view is that the recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession. The latest Inflation Report noted that productivity has sunk to 2005 levels. We are, therefore, concerned that there has been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

In summary, our current views are centred around the following: -

UK

- Growth has been on an upward trend – 0.3% in Q1; 0.7% in Q2 and likely to be much stronger in Q3. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread feel good factor. However, this is still a long way away from the UK getting back to sustainable strong growth.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and EU GDP growth means that the UK economy is still vulnerable to what happens in overseas markets.
- Consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded.
- The coalition government is hampered in promoting growth by the need to tackle the budget deficit. However, the March Budget did contain measures to boost house building and the supply of mortgages, and brought forward, by one year to April 2014, the start of a £10,000 tax free allowance for incomes.
- There is little sign of a co-ordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- Government inspired measures to increase the supply of credit to small and medium enterprises (which are key to achieving stronger growth) by banks are not succeeding.
- Gilt yields remain vulnerable to pressures to rise, especially as they are powerfully influenced by US treasury yields and American investors have been spooked by Chairman Bernanke's comments on tapering QE. The Fed's reluctance to start tapering in September has, potentially, only delayed a trend for gilt yields to rise.

Eurozone

- Most Eurozone countries are now starting to see a return to growth after a prolonged recession. The prospects for growth, at least in the short term, have also improved. However, for some countries, austerity programmes could prove to be a self defeating spiral of falling demand, tax receipts, and GDP, leading to a rise, not fall, in debt to GDP ratios. Debt ratios in excess of 90% will cause market concern as beyond this level, the costs of servicing such debt becomes oppressive and growth inhibiting. This could, therefore, lead to an inevitable end game in the over the next few years of withdrawal from the Eurozone bloc in order to regain national control of a currency, government debt, monetary policy and, therefore, of setting national interest rates. The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about these countries is likely to be subdued in the near term. However, the poor economic fundamentals and outlook for some economies could well mean that an eventual storm in financial markets has only been delayed, not cancelled.
- The ECB maintained its central policy rate at 0.5% in this quarter.
- Greece: after the agreement to a further major financial support package amounting to nearly €50bn in December 2012, it now looks almost certain that the country will need another, smaller, bailout package as progress has not been quick enough in rectifying the national finances.

- Spain: there is also increasing concern over the Spanish economy; the social cost and pain of a very high level of unemployment of 27%, similar to the level in Greece, could mean that both countries are approaching the limit of operating austerity programmes within democratic systems. Spain has, to date, resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.
- Italy: the general election created a highly unstable political situation where the two dominant parties initially formed an unlikely coalition due to the blocking power of the new upstart Five Star anti-austerity party which has 25% of seats and has refused to enter a coalition agreement with ANY party. There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.
- Germany: the general election in September returned Angela Merkel's party to power, but not with an overall majority. It will have to form a coalition, but with a new makeup, as the previous junior party was wiped out.
- Cyprus: the fallout from the bail out in March 2013 has done huge damage to the Cypriot economy and many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.
- The Eurozone remains particularly vulnerable to investor fears of contagion if one country gets into major difficulty.

US

- There has been a marked improvement in consumer, investor and business confidence this year.
- Unemployment has continued on a steady, but unspectacular decline to 7.3%, but is still a long way from the target rate of 6.5% for an increase in the Fed policy rate.
- The housing market has turned a corner, both in terms of rising prices and in increases in the volume of house sales. More householders are, therefore, escaping from negative equity.
- US equities have reached all- time highs.
- The package of tax increases and cuts in Government expenditure starting in 2013 does not appear to be having a major impact on depressing growth.
- GDP in Q1 was disappointingly downgraded from +2.4% to a sub- par +1.8% before rising to 2.5% in Q2.
- The shale gas revolution is providing some solid underpinning to the US economy by enhancing its international competitiveness through cheap costs of fuel.
- There has been a start to the repatriation of manufacturing production from China to the USA as Chinese labour costs have continued their inexorable rise and new forms of high tech production have made home based production more viable and flexible.

China

- Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector.
- There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit,

which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan

- The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled.

Our forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

Near-term, there is some residual risk of further QE - if there is a dip in strong growth or if the MPC takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid-October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed could cause bond yields to rise.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts
- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.

- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth which could result in the ratio of total government debt to GDP to rise to levels that undermine investor confidence in the UK and UK debt.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on 27th March 2013. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in higher rates in periods up to 6 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita Asset Services.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th September 2013.

Investment rates available in the market have continued at historically low levels and have fallen further during the quarter as a result of the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was **£4.176m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds no core cash balances for investment purposes (i.e. funds available for more than one year). As at 30th September actual investments totalled £3.116m and can be seen in Appendix 2.

The internally managed funds earned an average rate of return of 0.59%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.36%.

As illustrated, the Council outperformed the benchmark by 0.23%. The Council's budgeted investment return for 2013/14 is £15,000, and performance for the year is predicted to be £2,300 above the budget.

4. New Borrowing

No borrowing was undertaken during the first six months of the 2013-2014 financial year.

This Council has also not borrowed in advance of need during the half year ended 30th September 2013 and has no intention to borrow in advance in 2013/14.

5. Debt Rescheduling

No debt rescheduling was undertaken during the half year.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

7. Other

Hinkley Point - The large planning obligation settlement will significantly increase the level of cash balances managed by this Authority in-house. A further report will be brought to Members, which will set out a revised Investment Strategy to deal with this arrangement as and when it takes place.

APPENDIX 1: Prudential and Treasury Indicators as at 30th September 2013

Treasury Indicators	2013/14 Budget £'000	Quarter 2 Actual £'000
Authorised limit for external debt	10,000	10,000
Operational boundary for external debt	7,500	7,500
Gross external debt	3,500	3,500
Investments	150	3,116
Net borrowing	(3,350)	(384)
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	3,500	3,500
Upper limit of fixed interest rates based on net debt	100%	100%
Upper limit of variable interest rates based on net debt	100%	100%
Upper limit for principal sums invested for over 364 days	NIL	NIL

Prudential Indicators	2013/14 Budget £'000	Quarter 2 Actual £'000
Capital expenditure	597	475
Capital Financing Requirement (CFR)	7,658	7,658
Annual change in CFR	NIL	NIL
In year borrowing requirement	NIL	NIL

Incremental impact of capital investment decisions:-		
a) Increase in council tax (band change) per annum.	NIL	NIL

APPENDIX 2: Investment Portfolio

Investments held as at 30th September 2013:

National Westminster Bank (SIBA)	£1,115,773	@	0.50%
Lloyds Bank (3 months fixed)	£1,000,000	@	0.70%
Lloyds Bank (6 months fixed)	£1,000,000	@	0.75%
Total	**£3,115,773**		

Report Number: *WSC 162/13*
Presented by: *Steve Plenty, Deputy S151 Officer*
Author of the Report: *Steve Plent, Deputy S151 Officer*
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Report to a Meeting of: *Audit Committee*
To be Held on: *3rd December 2013*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: *N/A*

DEBT ANALYSIS – AS AT 30 SEPTEMBER 2013

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 30th September 2013.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None.

3. RECOMMENDATIONS

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

4. RISK ASSESSMENT (IF APPLICABLE)

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
Continued collection of debt following the procedures and arrangements the Authority has in place.	2	3	6
That from 1st April 2013 there is a detrimental financial impact on the Council due to unpaid Business Rates.	4	4	16
Continued collection of debt following the procedures and arrangements the Authority has in place.	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.

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.

5.2 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.

5.3 Therefore set out below are details of the different streams of debt owed to the Authority as at 30th September 2013, comparing this to what was outstanding at as 30th September 2012 (the previous year).

Corporate Debts

Age of debt	Amount Outstanding As At 30 Sept 2013 (£)	Amount Outstanding As At 30 Sept 2012 (£)
Less than 3 months	61,061	63,758
3 to 6 months	8,470	19,322
6 months to 1 year	6,987	35,998
Over 1 year	143,242	121,152
Total	**219,760**	**240,230**

Housing Benefit Debts

	Amount Outstanding As At 30 Sept 2013 (£)	Amount Outstanding As At 30 Sept 2012 (£)
Debts being recovered from on-going entitlement to housing benefit	185,451	139,457
Debts being recovered from former claimants	288,703	333,389
Total outstanding	**474,154**	**472,846**

Council Tax Debts

Year from 1 April	Amount Outstanding As At 30 Sept 2013 (£)	Amount Outstanding As At 30 Sept 2012 (£)
Pre 2005	37,445	48,575
2005	20,268	24,793
2006	35,994	47,245
2007	50,784	63,835
2008	56,398	75,112
2009	53,318	72,943
2010	95,837	135,150
2011	149,048	314,046
2012	313,456	
Total	**812,548**	**781,699**

Business Rates Debts

Year from 1 April	**Amount Outstanding As At 30 Sept 2013 (£)**	**Amount Outstanding As At 30 Sept 2012 (£)**
Pre 2005	3,423	6,392
2005	1,282	1,955
2006	550	2,806
2007	4,680	6,909
2008	5,619	13,981
2009	5,525	46,522
2010	14,601	59,426
2011	60,760	134,994
2012	164,724	
Total	**261,164**	**272,985**

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 As set out in the report.

7. SECTION 151 OFFICER COMMENTS

7.1 Levels of debt can adversely affect the Council's cashflow. As such all debt is actively managed to keep outstanding amounts to a minimum.

7.2 As from 1st April 2013 the Council now has to bear some 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.

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

West Somerset Council

Report of Internal Audit Activity

Quarter 3, 2013/14

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

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AGENDA ITEM 12

Contents

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Our audit activity is split between:

- **Operational Audit**
- **Key Control Audit**
- **Governance, Fraud & Corruption**

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 19th July 2013. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

- Plan of Operational Reviews (including IS reviews)
- Annual Review of Key Financial System Controls (Key Control Audits)
- Cross cutting governance audits
- Annual review of key governance and fraud controls

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 2013.

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

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2013/14 Quarter 3 Update:

Completed audit assignments September to December 2013

Audit Plan Progress

The schedule provided at Appendix A contains a list of all audits as agreed in the Annual Audit Plan 2013/14. 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" opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as shown in Appendix B.

The following audits have progressed since the last update;

Operational:

- 1 themed review of Council Tax Support Scheme has started.

Governance, Fraud and Corruption:

- 1 review of Social Media has been completed and partial assurance was offered. (Please see Appendix C for details of the high priority actions.)
- 2 reviews are at discussion document stage.

Key Control:

- 2 reviews are in progress.

Follow Up Reviews:

- 1 follow up of Payroll has been completed which found that of four priority 3 recommendations two were complete and two were in progress.

Investigations:

- 1 investigation into complaints made regarding regulatory services has been completed.
- 1 investigation into banking has been undertaken.

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

Future Planned Work

The audit plan for 2013/14 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 section 151 officer.

Conclusion

For the audits completed to report stage each report contains an action plan with a number of recommendations which are given priority scores. Definitions of these priorities are contained in Appendix B. The plan is on track to be complete by the end of the financial year.

One opinion audit has been completed since the last update report. This review of Social Media identified a high corporate risk of 'Failure to identify and manage negative or defamatory comments made by the public, resulting in reputational damage.' West Somerset Council has three active social media accounts, however, there are no governance arrangements in place to regulate the operation of these accounts. It should be noted that a Social Media Policy was being drafted at the time of this review. No level 5 priority actions and two level 4 recommendations were made which are provided in Appendix C. Managers have committed to address these issues by the end of the financial year.

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WSC 2013/14 Plan Progress

APPENDIX A

3 = Medium ⟷ 5 = Major

Directorate/Service	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No. of recs	Recommendations		
							3	4	5
FINAL REPORT									
Governance, Fraud & Corruption	Delivering Good Governance	Qtr 1	Final August	Non Opinion	80%	4	4	0	0
Follow Up	Delivery of Major Projects - Risk Management	Qtr 2	Final June	Non Opinion					
Operational	Section 106	Qtr 2	Final September	Substantial	100%	0	0	0	0
Special Investigation	Use of Council Vehicles		Final July	Non Opinion		5	4	1	0
Governance, Fraud & Corruption	Social Media	Qtr 2	Final November	Partial	79%	9	7	2	0
Special Investigation	Whistleblowing complaints - regulatory services		Final September	Non Opinion					
Follow up	Payroll	Qtr 3	Final September	Non Opinion					
Special Investigation	Cash and Banking		Completed November	Non Opinion					
DRAFT REPORT									
Governance, Fraud & Corruption	Fighting Fraud Locally	Qtr 2	Discussion Document October						
Governance, Fraud & Corruption	Public Safety in Open Spaces	Qtr 2	Discussion Document November						
WORK IN PROGRESS									
Key Control	Main Accounting	Qtr 3	In progress						
Operational	Council Tax Support Scheme	Qtr 2	In progress						
Key Control	Housing & Council Tax Benefits	Qtr 3	In progress						
NOT STARTED									
Governance, Fraud & Corruption	Financial resilience / partnership risks with TDBC	Qtr 3	Not started						
Governance, Fraud & Corruption	Asset Management - Leasing and Rental	Qtr 4	Not started						
Operational	Hinkley DCO Section 106		Deferred to 14/15						
Key Control	Council Tax & NNDR	Qtr 3	Not started						
Key Control	Creditors (replaced by Fighting Fraud Locally)		Deferred						
Key Control	Debtors (replaced by investigations)		Deferred						
Key Control	Capital Accounting (use of days to be agreed)		Deferred						
Key Control	Treasury Management (use of days to be agreed)		Deferred						
Follow up	Contract Management	Qtr 4	Not started						

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APPENDIX B

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★☆	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★☆☆	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲☆☆☆	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Non Opinion		It is not always appropriate to offer an opinion as a result of audit work conducted. This could be for example where we are reviewing an area of new or changing legislation, following up previous findings, or undertaking a special investigation as a result of concerns identified.

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.

Social Media

Agreed Action Plan

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Objective: To maximise the use of social media platforms to engage with and inform the public of local issues; to improve customer focus and make savings where possible.					
Risk 3: Disclosure of information on social media on networking sites					
3.1a There is no social media policy at the authority. It is currently in draft stage.	I recommend the Corporate Information Officer ensures that the Social Media Policy is completed, approved and implemented as a working policy to include sections recommended within this review.	4	Draft policy to be developed in partnership with Taunton Deane Borough Council and approved by members.	CMT	1st April 2014
Risk 4: Damage to the organisations' reputation arising from a social media post, weaknesses in social networking privacy settings, or exploitation of a vulnerability in the social media site.					
4.4a Reputational damage through social media channels is not included in the corporate risk register.	I recommend the Monitoring Officer completes a risk review for the use of social media and includes the results in the corporate risk register.	4	Issues to be covered during next review of Corporate Risk Register. Scheduled for Quarter 3.	Monitoring Officer	31 December 2013

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