

Audit and Governance Committee Agenda



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Date: 14 January 2015

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A meeting of the

Audit and Governance Committee

will be held on Thursday, 22 January 2015 at 6.30 pm

The Lockinge, The Beacon (formerly Wantage Civic Hall), Portway, Wantage,
OX12 9BY

Members of the Committee:

Councillors

Simon Howell (Chairman)
Mohinder Kainth (Vice-Chairman)
St John Dickson
Dudley Hoddinott
Angela Lawrence

Pat Lonergan
Sandy Lovatt
Julia Reynolds
Judy Roberts
Andrew Skinner

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A handwritten signature in black ink, appearing to read 'M Reed'.

Margaret Reed
Head of Legal and Democratic Services

Agenda

Open to the Public including the Press

Council's vision

The council's vision is to take care of your interests across the Vale with enterprise, energy and efficiency.

1. Notification of substitutes and apologies for absence

To record the attendance of substitute councillors, if any, who have been authorised to attend in accordance with the provisions of standing order 17(1), with notification having been given to the proper officer before the start of the meeting and to receive apologies for absence.

2. Minutes

(Pages 4 - 8)

To adopt and sign as a correct record the minutes of the meeting of the committee held on 24 September 2014 (attached).

3. Actions arising

(Pages 9 - 10)

To review the actions arising from previous committee meetings and receive an update on progress.

4. Declarations of interest

To receive any declarations of disclosable pecuniary interests in respect of items on the agenda for this meeting.

5. Urgent business and chairman's announcements

To receive notification of any matters, which the chairman determines, should be considered as urgent business and the special circumstances, which have made the matters urgent, and to receive any announcements from the chairman.

6. Statements, petitions, and questions from the public relating to matters affecting the Audit and Governance Committee

Any statements, petitions and questions from the public under standing order 32 will be made or presented at the meeting.

7. Internal audit activity report

(Pages 11 - 44)

To consider the audit manager's report.

8. Internal audit management report quarter three 2014/2015

(Pages 45 - 53)

To consider the audit manager's report.

9. Treasury management mid-year monitoring 2014/15

(Pages 54 - 64)

To consider the head of finance's report.

10. Treasury management strategy 2015/16

(Pages 65 - 93)

To consider the head of finance's report.

11. Annual audit letter

(Pages 94 - 102)

To consider the annual audit letter from the external auditor's, Ernst & Young .

12. Audit and governance work programme

(Pages 103 - 105)

To review the audit and governance work programme (to follow).

Exempt information under Section 100A(4) of the Local Government Act 1972

None

Minutes

of a meeting of the

Audit and Governance Committee



held on **Wednesday, 24 September 2014 at 6.30 pm**
at The Lockinge, The Beacon, Portway, Wantage, OX12 9BY

Open to the public, including the press

Present:

Members: Councillors Simon Howell (Chairman), Mohinder Kainth (Vice-Chairman), St John Dickson, Dudley Hoddinott, Angela Lawrence, Pat Lonergan, Sandy Lovatt, Judy Roberts and Andrew Skinner

Officers: David Buckle, Steve Culliford, William Jacobs, Fiona Kaluza, Adrianna Partridge and Bob Watson

Also present: Adam Swain (Ernst & Young)

Number of members of the public: Nil

AG.12 Notification of substitutes and apologies for absence

Councillor Julia Reynolds had sent her apologies for absence.

AG.13 Minutes

RESOLVED: to adopt as a correct record the minutes of the committee meeting held on 3 July 2014 and agree that the chairman signs them.

AG.14 Actions arising

The committee considered the actions arising report.

RESOLVED: to

- (a) retain the following actions in the actions arising report:
- The strategic director to consider consulting on the public's comprehension of council financial information
 - To change the process for monitoring systemic control weaknesses to put the onus on the heads of service to address outstanding issues and for the audit manager to update the committee on progress with the committee

concentrating on high level issues. The committee retained this to test effectiveness of the new system

- Building Control 2011/12 due to outstanding actions. The committee asked for a reconciliations update on Building Control at its next meeting.

(b) remove the following action from the actions arising report as it is now complete:

- the elections review 2014, as this will now be conducted by the Scrutiny Committee and not by the audit team or the Audit and Governance Committee

AG.15 Declarations of interest

None

AG.16 Urgent business and chairman's announcements

None

AG.17 Statements, petitions, and questions from the public relating to matters affecting the Audit and Governance Committee

None

AG.18 Comments and complaints 2013/14

The committee considered the chief executive's report on comments on complaints received during 2013/14 and proposed changes to the corporate complaints system.

The level of complaints received during the year had reduced slightly from the previous year but there had been a slight increase in complaints to the ombudsman. Most complaints had been about planning decisions.

The chief executive had reviewed the current system and recommended a change to speed up stage 2 and remove stage 3. The ombudsman had supported this change. The committee agreed also, believing that it would speed up the system and make it easier to follow for complainants. Ward members would be informed of ward specific issues as part of this system, and of the outcome. The committee also asked that training on this system was included in the councillor induction programme following the May 2015 elections.

RESOLVED: to

- (a) approve the revised corporate complaints procedure attached as appendix one to the report of the chief executive to the Audit and Governance Committee meeting on 24 September 2014;
- (b) carry out a short review of the complaints procedure every twelve months and a thorough evaluation every three years; and
- (c) include training on the corporate complaints procedure as part of the councillors' induction programme following the May 2015 elections.

AG.19 Internal Audit activity report - second quarter 2014/15

The committee considered the audit manager's report on internal audit activity during the second quarter 2014/15. This summarised the outcomes of recent audit activity. Five audits had been completed during the quarter, together with four follow-up audits.

Anti-fraud and corruption arrangements 2014/15

The committee noted that this audit had received limited assurance from internal audit. However, the service manager had agreed to each recommendation made by the internal auditor. In answer to questions from councillors, officers kept up to date with legislative changes through the professional institute, networking groups, and legal updates. Also, councillors would next receive training in anti-fraud and corruption arrangements as part of the councillors' induction programme following the May 2015 elections. The committee recalled that as part of the whistleblowing policy, any staff or councillor could approach internal audit in confidence with any concerns.

Temporary accommodation follow-up audit 2014/15

The service manager had agreed to each of the internal auditor's recommendations in the follow-up audit but some actions were ongoing. In answer to questions from councillors, it was reported that Cabinet was reviewing the council's homelessness strategy and the temporary accommodation housing stock. The chairman advised that this was better reviewed by the Scrutiny Committee. The audit manager reported that there would be a further follow-up report.

Outstanding recommendations from past audit reports

The committee recalled that at its last meeting it had asked the interim audit manager to produce for each committee meeting a report showing outstanding recommendations from previous audits. However, the audit manager reported that the spreadsheet method previously used to produce this report was labour-intensive. The audit manager proposed using a more efficient web-based report for all councillors that would allow them to investigate individual recommendations through a database. This was being designed by in-house IT staff and would be available for the next committee meeting.

In response, one councillor expressed disappointment that the report was not available for this meeting, as requested. However, the committee agreed to review the report in its new format once it became available. The chairman asked for a test version of the report to be made available to councillors as soon as possible. Councillor Pat Lonergan offered to test the system.

RESOLVED: to

- (a) note the internal audit activity report for the second quarter 2014/15; and
- (b) circulate the new outstanding recommendations report to committee members as soon as possible and ensure that it is operational before the next committee meeting.

AG.20 Internal Audit management report - second quarter 2014/15

The committee considered the audit manager's management report on internal audit for the second quarter 2014/15. The committee noted that a vacancy existed for an auditor and Mr Pullen had been appointed as interim cover. The committee expressed some concern at the turnover of staff in internal audit, noting that the high cost of living in Oxfordshire was a contributory factor, resulting in some staff commuting long distances.

RESOLVED: to note the internal audit management report for the second quarter 2014/15.

AG.21 Treasury management outturn 2013/14

The committee considered the head of finance's report which monitored the treasury management activities for the financial year 2013/14. This showed that investment income was £122,000 over the estimated income for the year. The committee welcomed this news.

One councillor asked how much was re-invested in maintenance of council-owned property. The ability to monitor net returns was important. The accountant agreed to provide an answer outside the meeting. However, it was noted that the council's insurers were content with the council's property maintenance plan.

RESOLVED: to

- (a) note the treasury management outturn report 2013/14; and
- (b) advise Cabinet that the Committee is satisfied that the treasury activities in 2013/14 have been carried out in accordance with the treasury management strategy and policy.

AG.22 External auditor's annual governance report 2013/14

The committee considered the audit results report for 2013/14 from the external auditor, Ernst & Young. Adam Swain, who had conducted the audit, reported that he had found no indications of fraud, was satisfied with the level of provision set aside for appeals by non-domestic ratepayers, and was satisfied that the figures in the asset register were accurate. Overall, the auditor gave the council an unqualified opinion on the council's financial statements.

Officers welcomed feedback from the auditor on potential weaknesses in the asset register and would use this to make improvements.

RESOLVED: to note the audit results report from the external auditor.

AG.23 Statement of accounts 2013/14

The committee considered the statement of accounts 2013/14. This set out the financial statements required to meet the international financial reporting standards, guidance from the external auditor, and guidance from the Chartered Institute of Public Finance and Accountancy.

Councillors noted that the external auditor, Ernst & Young, had given an unqualified opinion on the accounts; the committee welcomed this.

RESOLVED: to approve the statement of accounts 2013/14.

AG.24 Annual governance statement 2013/14

The committee considered the annual governance statement for 2013/14. This set out how the council had met the requirements of good governance over the year, and suggested areas for improvement in 2014/15.

RESOLVED: to approve the annual governance statement 2013/14.

AG.25 Letter of representation to the council's external auditor

The committee noted that the chairman and the section 151 officer had signed a 'letter of representation' to the external auditor, as part of the process in completing the statement of accounts. Copies of the letter were available for committee members.

AG.26 Audit and governance work programme

The committee reviewed its work programme, noting the business it was due to consider at its next meetings.

Exempt information under section 100A(4) of the Local Government Act 1972

None

The meeting closed at 8.15 pm

Audit and Governance Committee Report



22 January 2015

Report of: **Head of Finance**

Author: **Steve Culliford**

Telephone: **01235 540307**

E-mail: steve.culliford@southandvale.gov.uk

To: **Audit and Governance Committee**

Date: **24 September 2014**

Actions arising

Recommendation

That members note the content of the report and remove the completed actions where recommended.

Purpose of report

1. The purpose of this report is to respond on actions arising from previous committee meetings.

Strategic objectives

2. To assist the council to manage its business effectively by providing an assurance framework to monitor the overall adequacy and effectiveness of the internal control environment.

Actions arising

(a) External auditor's report	Committee Date – 24 June 2013
The committee asked the strategic director to consider consulting on the public's comprehension of council financial information.	
Comment The strategic director will consider using the citizens' panel to assess comprehension of financial information.	Action Retain on this actions arising list.

(b) Internal audit activity report		Committee Date – 17 March 2014	
To change the process for monitoring systemic control weaknesses to put the onus on to heads of service to address outstanding issues and for the audit manager to update the committee on progress with the committee concentrating on high level issues.			
Comment Amended procedure introduced. The committee retained this to test effectiveness of the new web-based system.		Action Recommend removal from actions arising list.	

(c) Internal audit activity report		Committee Date – 3 July 2014	
To call the head of service to the next committee meeting to answer questions on outstanding actions from the following audits: <ul style="list-style-type: none">• Building Control 2011/12			
Comment The committee asked for a reconciliations update on Building Control at its next meeting. The Senior Building Control Surveyor acknowledges that there may be some gaps in processes which are currently being reviewed so that they can be addressed. Revised implementation date 31 March 2015		Action Retain on the actions arising list.	

(d) Comments and complaints 2013/14		Committee Date – 24 September 2014	
To include training on the corporate complaints procedure as part of the councillors' induction programme following the May 2015 elections.			
Comment This has been added to the councillors' induction training programme.		Action Retain on this actions arising list.	

Audit and Governance Committee Report

22 January 2015

Report of **Audit Manager**

Author: **Adrianna Partridge**

Telephone: **01235 547615**

Telephone: **01491 823544**

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

Cabinet member responsible: **Councillor Matthew Barber**

Telephone: **07816 481452**

E-mail: **matthew.barber@whitehorsedc.gov.uk**

To: Audit and Governance Committee

DATE: 22 January 2015

Internal audit activity report quarter three 2014/2015

Recommendations

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

Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

Strategic Objectives

3. Managing our business effectively.

Background

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

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

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

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

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

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

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

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

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

2014/2015 Audit Reports

7. Since the last Audit and Governance Committee meeting, the following audits and follow up reviews have been completed:

Completed Audits

Full Assurance: 2

Satisfactory Assurance: 1

Limited Assurance: 2

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Travel and Subsistence 1415	Full	2	0	0	0	0	2	2
Petty Cash 1415	Satisfactory	8	0	0	3	3	6	6
Bank Contract 1415	Full	1	0	0	0	0	1	1
1. Payroll 1415	Limited	8	1	1	4	4	3	3
2. S106 1314 - 1415	Limited	9	3	3	4	4	2	2

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Cash Office 1314	Satisfactory	5	5	0	0	0
3. Temporary Accommodation (2) 1415	Limited	4	1	2	1	0

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.
9. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
10. A copy of each report has been sent to the appropriate service manager, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
11. Internal audit continues to carry out a six month follow up on all non-financial and non-key financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Overdue Recommendations

12. **Appendix 2** of this report summarises all overdue recommendations within each service area. The report has been circulated to the relevant service manager, heads of service, the strategic management board and the portfolio holder, and internal audit will continue to monitor progress against the recommendations.

Financial Implications

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

Legal Implications

14. None.

Risks

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

ADRIANNA PARTRIDGE
AUDIT MANAGER

1. PAYROLL 2014/2015

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to payroll. The audit has been undertaken in accordance with the 2014/2015 audit plan agreed with the audit and governance committee of Vale of White Horse District Council (VWHDC). The audit has a priority score of 22.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- appropriate policies and procedures are in place regarding pay which are available to relevant council staff.
 - payroll system parameters are up-to-date and appropriate.
 - amendments to standing data are appropriately authorised, documented and actioned promptly, including:
 - starters and leavers;
 - overtime;
 - additions/deductions or variations to pay, i.e. pay rises;
 - personal data.
 - data and information is held and transferred between payroll, HR and finance, securely, accurately and in a timely manner.
 - payroll reconciliations are accurate, timely and independently reviewed.
 - payroll records are regularly reconciled with HR's establishment listing and appropriate actions are taken to address any discrepancies.

2. BACKGROUND

- 2.1 Since 1 February 2012, Capita have provided the council's payroll service from their offices based in Carlisle. Payments are made through BACS and Capita process payroll data through the 'Ingenuity At Work' system.
- 2.2 In July 2014, VWHDC paid £346,450.54 to 218 employees including councillors (VWHDC councillors' payments amounted to £23,562.18).

3. PREVIOUS AUDIT REPORTS

- 3.1 Payroll was last subject to an internal audit review in November 2013 and 6 recommendations were raised. All were agreed. A satisfactory assurance opinion was issued.
- 3.2 Following the 2013/14 audit review, five recommendations had been fully implemented and one was partly implemented. It should be noted that the partly implemented recommendation (Rec 6) from the 2013/14 audit has been revised and incorporated into this report. (Rec 3)

4. 2014/2015 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Eight recommendations have been raised in this review. One high risk, four medium risk and three low risk (Five recommendations for human resources team and three recommendations for Capita).

5. MAIN FINDINGS

5.1 Policies and Procedures

- 5.1.1 Internal audit identified that the council has relevant policies and procedures covering all aspects of pay. These are readily available for all staff on the council's intranet website. The hr/pay policies reviewed by internal audit were up to date and showed evidence of being updated on a regular basis. Capita have adopted a comprehensive payroll handbook which is available to all Capita staff dealing with payroll issues and is reviewed on a regular basis. Internal audit identified that there has been a change in the calculation of holiday pay in July 2014 that had been agreed by the council's hr team and the Capita payroll team. The last amendments documented in the current payroll handbook are dated as January 2014.
- 5.1.2 Area assurance: Satisfactory
One recommendation has been made as a result of our work in this area (Rec 1).

5.2 Payroll system parameters

- 5.2.1 The nominated officer responsible for maintaining payroll system (Ingenuity At Work - IAW) parameters is the Capita payroll team leader. Internal audit reviewed a sample of the budget codes and tax coded on the system and no issues were identified. Any changes made in the system parameters are authorised by the Capita payroll team leader prior to instructing the IAW IT support team to implement the changes.
- 5.2.2 Internal audit reviewed the IAW user access policy and identified that there is sufficient security in regards to allocating access to the payroll system. All requests are made through the Capita payroll team leader who then instructs the IT support team to set up the necessary access levels. Additional security has been implemented into the system as a user requires more than one password to gain access into the payroll records in the IAW system. Internal audit identified 2 user access names that were scheduled to be deleted in 2013/14 on the current profile list. A member of staff who left the council in August 2014 was still appearing on the user profile list.
- 5.2.3 Area assurance: Satisfactory
One recommendation has been made as a result of our work in this area (Rec 2).

5.3 Management of changes to data

- 5.3.1 The council's human resources department provide information to Capita in

regards to any amendments to data for all employees. This is done through the human resources input spreadsheets detailing the employees' current information and the action that is required from payroll. All changes sent through to Capita are checked and authorised by the business support manager or the human resources manager in her absence. Capita's payroll handbook includes detail of the procedure their staff should follow, including that all changes and/or inputs to the payroll records need to be checked by a separate payroll officer to ensure accuracy.

5.3.2 Internal audit reviewed the procedure between Capita and the council for starters (16)* and leavers (19)*; overtime (20); additions/deductions or variations to pay, i.e. pay rises (20); maternity/paternity (4)* and personal data changes (10). Five related recommendations have been made. Internal audit's observations noted that changes in the remuneration of pay is authorised through the correct channels in the human resources although this is not communicated to the head of finance as documented in the council's constitution.

5.3.3 Area assurance: Limited
Six recommendations have been made as a result of our work in this area (Recs 3-8).
*100% of sample in audit period selected

5.4 **Transfer of payroll and human resources data**

5.4.1 Vale of White Horse District Council and Capita have put in place sufficient measures to ensure that all data transfers are held and transferred securely. All information used by both parties is retrieved from password controlled systems accessible to relevant officers. A monthly payroll checklist is used in Capita to ensure that they receive and process all data received from human resources and the finance team prior to payments being made in the relevant accounts. These completed checklists are checked by a senior staff member confirming that all data processed for the respective month has taken place accurately and in a timely manner.

5.4.2 Complaints and queries raised by the council to Capita are recorded in a spreadsheet and are monitored by the Capita business leadership team on a quarterly basis.

5.4.3 Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.5 **Payroll reconciliations**

5.5.1 The council's accountancy team perform monthly reconciliations which include checks to payroll postings made in the general ledger, budget codes, cost centre codes and tax codes used in the payroll process. The head of finance authorises the reconciliations with any issues identified being investigated through the hr and payroll teams.

5.5.2 Area assurance: Full
No recommendation have been made as a result of our work in this area.

5.6 Establishment lists and payroll reconciliations

5.6.1 An establishment list which records the authorised posts within the council including information of the contracted hours, grade for each post and vacant posts is retained in the council's human resources department. The previous audit recommended that this list be reconciled to the Capita payroll system on a quarterly basis through the Capita payroll team. Internal audit identified that one reconciliation took place just after the period where the majority of the pay changes take place for council employees (April 2014). As this is a labour intensive process, internal audit recommend that the number of reconciliations taking place be reduced as most irregularities can be picked up in the monthly payroll reconciliations. No other recommendations have been made as a result of our work in this area.

5.6.2 Area assurance: Satisfactory
No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

POLICIES AND PROCEDURES

1. Capita payroll handbook

(Medium Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> All policies and procedures need to be kept up to date. <u>Findings</u> Internal audit identified two changes in the calculation of a day's pay from the date of last audit completed in 2013/14. The first agreed change to the holiday pay calculation for leavers was 1 January 2014 and next was 1 July 2014. There is no evidence of these changes recorded in the current Capita handbook manual. It was also noted that the last review of the Capita manual took place on 22 January 2014. <u>Risk</u> There is a risk of error in calculations of final pay leading to under or over payments being processed by the payroll staff.	The Capita payroll handbook should be updated as soon as possible when agreed changes have been made.	Payroll Team Leader (Capita)
Management Response		Implementation Date
Recommendation is Agreed Handbook will be updated to show the change in calculations. Management response: Payroll Team Leader (Capita)		31 January 2015

PAYROLL SYSTEM PARAMETERS

2. User access of payroll system

(Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Regular reviews should be implemented for all systems' user	Capita need to ensure that all user lists for the payroll systems are reviewed on a	Payroll Team Leader (Capita)

<p>access lists.</p> <p><u>Findings</u> Internal audit identified users on the Payroll system who did not require/use the system. These included a user who had left Capita in August 2014 and two generic read only 'audit' users which were inherited when the function moved to Capita. These generic users were scheduled to be deleted in 2013/14 audit. They were still active when the 2014/15 audit was completed.</p> <p><u>Risk</u> There is a risk of unauthorised use and access of the payroll system leading to potential fraudulent activities.</p>	<p>regular basis.</p> <p>Capita needs to ensure that the user access list is up to date i.e. leavers are deactivated as soon as possible and unused generic users must to be removed.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed User access list has been amended and leavers have been deleted.</p> <p>Management response: Payroll Team Leader (Capita)</p>		With immediate effect

MANAGEMENT OF CHANGES TO DATA

3. Starters

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A full audit trail needs to be available for all amendments made to standing data.</p> <p><u>Findings</u> Internal audit identified that the administration of the starters' process was not being completed in accordance to the agreed procedures. A random selection of 20 starters were tested and it was identified that:</p> <ul style="list-style-type: none"> There was no evidence for proof of identification being obtained in five out of 20 starters. Two out of 20 did not produce photographic identification. Five out of 20 starters received only one reference which is not in line with the agreed recruitment procedures. <p><u>Risk</u> Insufficient audit trails detailing that the starters process has been completed accurately may lead to a risk of ineligible or inappropriate personnel being employed by the council.</p>	<p>All starter processes should comply with the council's agreed policies and procedures i.e.</p> <ol style="list-style-type: none"> Evidence of proof of identification being obtained prior to start of employment. At least one of the proof of identification produced should be photographic e.g. passport or driving licence. Two references must be received for all starters and filed within the personnel records. 	Human Resources Manager
Management Response		Implementation Date
<p>Recommendation is Agreed a) Agreed. I have noted in our recruitment policy that references should be received prior to the prospective employee commencing their role except when there is a particularly short lead time from offering the</p>		With immediate effect

<p>position to start date, when they may be received after employment begins.</p> <p>b) Agreed in principle. A driving licence is not considered an acceptable document by the home office to prove someone can work in the UK. Our offers of employment are in line with home office advice and requests:</p> <ul style="list-style-type: none"> • proof of your right to work in the UK on or before your first day, by providing: <ul style="list-style-type: none"> • an original British / EEA passport. If you do not hold a British / EEA passport you will need to provide original work permit / visa documentation. or • a full birth or adoption certificate issued in the UK which includes the name(s) of at least one of the holder's parents or adoptive parents, together with an official document giving your permanent National Insurance number and your name issued by a government agency or a previous employer. <p>c) Agreed. I have amended our recruitment policy to allow for exceptional circumstances when we will accept one reference instead of two (for example if the prospective employee has been with their employer for many years, thereby nullifying the benefit of a reference prior to this).</p> <p>Management response: Human Resources Manager</p>	
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4. Payroll Checks - Overtime

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Effective separation of duties should be in place for all procedures and processes.</p> <p><u>Findings</u> Internal audit identified that there is insufficient evidence to show that checks are always performed to ensure data is input accurately onto the payroll system for payment. Seven out of 20 overtime forms did not show evidence that checks had been made to ensure data had been input accurately into the payroll system by Capita.</p> <p><u>Risk</u> There is a risk of information being entered onto the payroll system in error leading to over or under payments to employees. Misuse of the payroll system which could lead to fraudulent activities.</p>	Capita need to ensure that all amendments or new entries made in the payroll system show adequate separation of duties.	Payroll Team Leader (Capita)
Management Response		Implementation Date
<p>Recommendation is Agreed All input will be signed and dated by the administrator once input has been completed and signed and dated by the administrator checking the input</p> <p>Management response: Payroll Team Leader (Capita)</p>		With immediate effect

5. Changes in remuneration policies**(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The council's constitution must be adhered to at all times.</p> <p><u>Findings</u> Internal audit identified that changes to policies affecting the remuneration of pay are being made in the human resources department with the head of human resources being informed. There is no evidence of this information being relayed to the head of finance as stated in the council's constitution.</p> <p><u>Risk</u> If the head of finance is not aware of the amendments to remuneration of pay then budget variations may not be identified promptly, resulting in unexpected overs and unders.</p>	The head of human resources needs to inform the head of finance of any changes made that affect the remuneration of pay as stated in the council's constitution.	Human Resources Manager
Management Response		Implementation Date
Recommendation is Agreed		With immediate effect
Management response: Human Resources Manager		

6. Standard Overtime Form**(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Overtime calculations should be consistently applied in accordance with the councils agreed methods and any variances investigated.</p> <p><u>Findings</u> Internal audit testing identified that three of the six authorised standby/call-out/out of hours overtime claims sent by the council employees to Capita were not completed using the council's standard standby/call-out/out of hours overtime forms.</p> <p><u>Risk</u> If overtime calculations are not made in a consistent manner then the council may be making under or over payments to employees.</p>	<p>a) Line managers should always adequately check and authorise overtime claims that have been submitted on the appropriate overtime form prior to being sent to Capita for processing, to ensure that claim totals are valid and completed correctly.</p> <p>b) Human resources team should engage with line managers to ensure they understand the correct process of authorising forms and the appropriate overtime form to be used.</p>	Human Resources Manager
Management Response		Implementation Date
Recommendation is Agreed		31 January 2015
a) Agreed We will re-send the correct overtime form to the Operational Management Group (after amending it as in recommendation 7).		
b) Agreed See management response a) above.		
Management response: Human Resources Manager		

7. Payment for Breaks and Overtime forms**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Pay calculations for employees should be consistent and in accordance with working time directives or an alternative formally agreed formula which is advised to officers.</p> <p><u>Findings</u> Testing conducted on overtime showed that claim forms are being authorised by management without a clear identification of breaks being taken off from the time claimed as stated in the <i>European Working Time Regulations</i>.</p> <p>It was also identified that overtime is being authorised without the standard breaks being removed from the hours claimed, as specified in the European Working Time regulations. From the sample of 20 selected, a total of 25hours 30mins was paid in overtime claims that should have been deducted as a break.</p> <p>The overtime form does not allow for staff to record the start time and end time of the shift to ensure that breaks are indicated and calculated properly prior to the authorisation being given.</p> <p><u>Risk</u> If the council does not calculate pay for employees in accordance with the working time directive then, in the absence of an alternative agreement, it may be incorrectly paying employees and subject to challenge.</p>	<p>The formulas for calculating pay for employees should be reviewed and a consistent approach considered which should be suitably agreed and documented in accordance with European Working Time Regulations. Otherwise the working time directive formula should be used and applied consistently.</p> <p>All council's standard overtime forms and timesheets must allow for employees to record any breaks taken to ensure that they are correctly indicated prior to the authorisation being given to Capita for payment processing.</p>	Human Resources Manager
Management Response		Implementation Date
<p>Recommendation is Agreed We will amend the overtime form to emphasise that breaks are not paid.</p> <p>Management response: Human Resources Manager</p>		31 January 2015

8. Maternity Pay

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Clear maternity pay policies and procedures in place in the council.</p> <p><u>Findings</u> Testing on maternity pay identified that the keeping in touch (kit) days were not being paid in accordance to the council's maternity leave, paternity leave and adoption policy. One out of four sample tested (100% tested for the audit period) was paid using the hours worked which is not in line with policy. The policy states that payment will be made and considered as a full day regardless of the hours worked in</p>	<p>Consideration should be given as to whether payment (over/under payments) should be recovered/paid to staff affected by the policy in place at the time of their maternity.</p> <p>The maternity/paternity pay policy should be reviewed to ensure that the policy is documented clearly to avoid misinterpretations.</p>	Human Resources Manager

the day by the staff employee using the kit days.		
<u>Risk</u> There is a risk of over and under payments in cases where the policy is not clearly outlined to staff.		
Management Response		Implementation Date
Recommendation is Agreed in Principle The policy states that employees using a KIT day will be paid for the hours worked (less any maternity/paternity/adoption pay the individual receives that week). Distinct from this, any hours worked will be considered as a full KIT day in terms of KIT days used. For example, if someone normally works 6 hours a day and works 3 hours on a KIT day they will be paid for 3 hours (less any maternity/paternity/adoption pay the individual receives that week), although they will have 9 KIT days remaining, not 9 ½. I have reworded the policy to make this clearer.		With immediate effect
Management response: Human Resources Manager		

2. S106, COMMUTED SUMS AND CIL 2013/2014 - 2014/2015

1. INTRODUCTION

- 1.1 This report details the follow up of the 2013/2014 internal audit investigation of S106 calculations along with a wider review of procedures, controls and the management of risk in relation to S106, commuted sums and Community Infrastructure Levy (CIL). The audit has been undertaken in accordance with the 2013/2014 audit plan agreed with the audit and governance committee of Vale of White Horse District Council (VWHDC), but extended to cover 2014/2015 as well due to changes in the planning service area. The audit has a priority score of 21. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that in respect of S106 and commuted sum agreements:
- The council has agreed, and is using, standard policies and appropriate methods for correctly calculating contributions and securing agreements with clearly identified responsibilities.
 - To ensure the council has a robust process for monitoring arrangements to ensure contributions are collected and recorded in accordance with agreed timescales.
 - To ensure that expenditure is appropriately monitored and recorded, and appropriate decision-making processes are in place for the use of contributions.
 - To ensure that there is clear documentation evidencing income and expenditure of funds, and that financial records are reconciled to their respective agreements on a regular basis.
 - To ensure that adequate reporting arrangements are in place, including details of schemes which have made contributions, that have had funds used or have funds still to be received.
- and
- There are appropriate preparations underway for the implementation of the Community Infrastructure Levy (CIL).

2. BACKGROUND

- 2.1 Section 106 of the Town and Country Planning Act 1990 provides the legislation covering the planning obligations necessary to provide the required infrastructure supporting a planned development and make the development acceptable in planning terms. The planning obligations set out within a S106 can be financial and/or 'in kind' commitments. A commuted sum is an amount paid by a developer for the council to provide the service or facility specified in a section 106 agreement rather than the developer providing it directly.
- 2.2 The Community Infrastructure Levy (CIL) is a new levy that councils can choose to charge on new developments to contribute towards infrastructure. This is not intended to replace the S106 obligations, which would still be sought for site specific measures and for affordable housing, but will be a set charge that can replace some elements of infrastructure currently negotiated within S106 agreements. As at the end of July 2014, Planning Resource listed on their website 49 authorities that had adopted CIL schedules and 130 that were in progress at various stages from preliminary draft charging schedules

to publishing an examiners report.

- 2.3 As at 11 September 2014, a total of 827 S106 agreements were recorded within the Ocella S106 module. Not all of these will have financial obligations and the agreements may include, or be with, third parties such as Oxfordshire County Council.

3. PREVIOUS AUDIT REPORTS

- 3.1 S106, commuted sums was last subject to an internal audit review in 2009/2010 and 12 recommendations were raised. All of the 12 recommendations were agreed. A limited assurance opinion was issued. In addition, an investigation into s106 calculations undertaken in June 2013 resulted in a further five recommendations. These five recommendations were also agreed.
- 3.2 The 2009/2010 audit follow up in September 2011 identified that one of the twelve recommendations had been implemented. From findings of the current review, a further six have been implemented and one is considered no longer to be relevant. One recommendation has been partly implemented and is restated together with the remaining three outstanding recommendations. (Recs 4 – 7)
- 3.2 An investigation into the calculation process in June 2013 raised a further five recommendations. Two of these have been implemented and one is no longer relevant as consultants now calculate leisure contributions. One recommendation has been partly implemented, so is restated together with the one which has not been implemented. (Recs 8 – 9)

4. 2013/2014 – 2014/2015 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Nine recommendations have been raised in this review. Three are high risk, four medium risk and two low risk. However, before finalising this report, six of the recommendations have been implemented. Two of the medium risk and one of the low risk recommendations remain with implementation dates agreed.

5. MAIN FINDINGS

5.1 Policies and procedures

- 5.1.1 The council is developing the new Local Plan 2031, which has been through the public consultation stage, and has also introduced a 'Delivering Infrastructure Strategy' which includes comparisons of CIL and S106. As part of the introduction of CIL, a S106 supplementary planning document will be developed setting out the council's approach to S106 following the introduction of CIL. In preparation for this, work is underway on a planning obligations position statement which will collate existing guidance.
- 5.1.2 Procedures are in place covering the recording and monitoring of agreements but not for the entire process from securing the agreements to expenditure of

funds.

5.1.2 Area assurance: Limited

No recommendations have been made as a result of our work in this area but three previous recommendations have been restated. (Recs 4, 5 and 8)

5.2 **Monitoring and income**

5.2.1 The S106/commuted sum agreements are recorded within the Ocella system which is used for planning purposes. The agreements themselves are legal documents that are recorded, held and managed by the legal team. The elements within the agreement are captured within Ocella and any contributions received are recorded through the council's Agresso financial system and then manually updated within Ocella. A listing of agreements is available on the council's intranet and also through the councils website.

5.2.2 Ten agreements were reviewed to ensure details had been correctly recorded within the Ocella system. Although significant improvements in recording agreement details was observed since 2009/10 audit, three of the ten were found to have a difference which was corrected during the review. Differences were noted in a further two cases within the intranet listing which were explained by a bug in the system that was fixed promptly. Two duplicate records were identified whilst reviewing a list of agreements. During the review arrangements for invoicing developers was reviewed and a revised process introduced.

5.2.3 Area assurance: Satisfactory

Two recommendations have been made as a result of our work in this area. (Recs 1 -2)

5.3 **Expenditure**

5.3.1 Council spending is recorded through the Agresso financial accounting system. There is currently no facility within the S106 module in Ocella to record expenditure details. A new module is being tested which is expected to include this functionality. Whilst evidence was seen during checks undertaken within this review that agreements are made when expenditure is passed to third parties, there is no protocol or procedure setting out how expenditure is managed.

5.3.2 Area assurance: Limited

No recommendations have been made as a result of our work in this area but a previous recommendation has been updated and restated. (Rec 6)

5.4 **Documentation and reconciliation**

5.4.1 The S106 officer recently undertook a reconciliation which matched income recorded in the Agresso financial system with that recorded on the Ocella system. Supporting evidence for the reconciliation was not available during the review and there does not appear to be a documented process for undertaking the reconciliations.

5.4.2 Area assurance: Limited

No recommendations have been made as a result of our work in this area but a previous recommendation has been restated. (Rec 7)

5.5 Reporting

5.5.1 Reporting on S106 agreements tends to be sporadic as opposed to a formal and regular process. Details of the individual agreements are recorded within an intranet listing which extracts key data from the Ocella system. This is also available through the council's internet site and agreements can be listed by the town or parish the agreement relates to, or by the relevant party for example, Oxfordshire County Council or the district council.

5.5.2 Area assurance: Satisfactory
One recommendation has been made as a result of our work in this area.
(Rec 3)

5.6 CIL

5.6.1 The implementation of CIL requires key plans and policies to be in place and approved beforehand. The council is required to evidence the infrastructure requirements and carry out a viability assessment before the CIL can be progressed. The council's infrastructure requirements are set out in an Infrastructure Delivery Plan and a viability assessment which have recently been produced. The council has appointed a Community Infrastructure Officer and at the time of review, consultation was underway on a Preliminary Draft Charging Schedule which sets out proposed charging rates. The next stage will be preparation of a Draft Charging Schedule prior to independent examination.

5.6.2 Area assurance: Full
No recommendations have been made as a result of our work in this area.

OBSERVATIONS AND RECOMMENDATIONS

MONITORING AND INCOME

1. Recording S106

High Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Details of S106 agreements recorded in Ocella should match the agreement details.</p> <p><u>Findings</u> From review of ten S106 agreements, three differences were noted. Whilst these were corrected during the review a quality check mechanism was not in place.</p> <p>Whilst reviewing a list of agreements, two were identified that appear to be duplicate records within Ocella:-</p> <ul style="list-style-type: none">• 98V14 does not have financial duplication but appears to be recorded twice.• 00V28 appears to be recorded twice with an obligation for £22,000.	<ul style="list-style-type: none">• The possible duplications identified should be reviewed and corrected.• A method of quality checking data input to ensure all relevant agreements are captured and not duplicated should be considered.	N/A

<u>Risk</u> If incorrect amounts are recorded then incorrect advice may be given resulting in under or over payments being received.		
Management Response		Implementation Date
Recommendation is Agreed a. The two duplicates have now been deleted. b. A quality control method for data entry has been identified as part of the S106 Partnership and Process Project. A quality check of a sample of data entered into Ocella is being carried out on a monthly basis. Management response: Planning Policy Manager		Implemented

2. Payment information

Medium Risk

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Details of how payments are to be made to the council for S106 agreements should be readily available. <u>Findings</u> Once officers are aware that a contribution is due an invoice can be raised. However, the council does not readily provide details to agreements holders on how payments should be made when developers are aware a trigger point has been reached. <u>Risk</u> If developers are aware that a payment is due and the council does not proactively provide details of the payment process then delays may occur in receipt of the amounts due.	Information should be made readily available to developers covering the process to follow for making payments to the council when trigger points have been reached.	N/A
Management Response		Implementation Date
Recommendation is Agreed This information has been drafted and will be made available on our website. This task is being put into the programme of the appropriate officer. Management response: Planning Policy Manager		Implemented

REPORTING

3. Internet and intranet register

Low Risk

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Information for section 106 agreements including amounts due, paid and spent should be readily available. <u>Findings</u> Whilst monies received are displayed in the register of agreements, details of expenditure are not yet recorded. It is understood that the facility to record expenditure is being discussed with the software provider. <u>Risk</u> If section 106 agreement information is not readily available then the council may	When expenditure is recorded within Ocella, this should also be made available within the intranet and internet listings.	S106 Monitoring Officer

not be seen to be open and transparent.		
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>An upgrade to Ocella is required to implement this recommendation as the system currently does not have capacity to store information on expenditure. The upgrade is due to take place in January 2015. Subject to satisfactory testing of the system this information can be made available on the intranet and internet by the end of March.</p> <p>In the interim we are storing all information on financial transactions in an Access database. This allows us to record details of all S106 funds spent, who by and on what. This data can be migrated by IT to the new Ocella system once it is upgraded. In the event that the upgraded Ocella system requires further development we will investigate the creation of internet / intranet reports from the Access database. We have therefore suggested an implementation date of May 2015 to allow for a period of testing and refinement of the upgrade.</p> <p>Management response: Planning Policy Manager</p>		31 May 2015.

PREVIOUS RECOMMENDATIONS RESTATED FROM 2009/10 AUDIT

4. Calculation Model

Low Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Details of calculation methods are available as stated.</p> <p><u>Findings</u> As in the 2009/10 audit, the council publishes a Supplementary Planning Document Open Space, Sport and Recreation Future Provision which refers to a calculation model spreadsheet being available on the website. This was not available at the time of review.</p> <p><u>Risk</u> If documents detailing the calculation of developers' contributions are not publicly available as stated then the council may not be seen to be consistent in its approach.</p>	The calculation model referred to within the Supplementary Planning Document should be made available as stated within the document itself.	N/A
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>The S106 Planning Obligations Interim Statement has superseded the calculation model spreadsheet referred to in the Open Space, Sport and Recreation Future Provision SPD and provides calculations. This statement provides guidance and formula for the calculation of open space contributions.</p> <p>Management response: Planning Policy Manager</p>		Implemented

5. Procedures, Roles and Responsibilities

Medium Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up to date procedures should be in place with clearly identified roles and responsibilities.</p> <p><u>Findings</u> Whilst standard operating procedures have been introduced covering the</p>	<p>a) Procedures should cover all stages of the s106 process including calculating, securing, and spending of monies.</p> <p>b) Roles and responsibilities should</p>	N/A

<p>recording, monitoring and invoicing of S106 agreements, procedures do not cover the entire process such as calculating and securing agreements or managing expenditure. Roles and responsibilities are not clearly defined and whilst a S106 officer has been appointed there does not appear to be a job description for the role.</p> <p><u>Risk</u> If staff are not aware of, or not using, up to date policies and procedures they may not be carrying out their duties effectively and appropriately.</p>	<p>be clearly stated.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>a. An Interim S106 Statements provide guidance to planning officers on the calculation and securing of S106 agreements. There is a SOP on expenditure protocols for the Monitoring Officer.</p> <p>b. Roles and responsibilities of officers responsible for s106 have been agreed as follows and reflected in up to date job descriptions and personal objectives.</p> <p>The Community Infrastructure Officers at South and Vale have responsibility for the management Section 106 processes including expenditure. The S106 Monitoring Officer is responsible for recording, monitoring, invoicing and making payments out in relation to S106 agreements. This clarification of roles has resulted in these members of staff driving forward and taking responsibility for improvements in the council's procedures and the information available to the public in relation to s106 and CIL.</p> <p>The case officer has responsibility for the calculation of S106 agreements in relation to specific planning applications, with other officers in Leisure, Development and Housing and County feeding in as required.</p> <p>Management response: Planning Policy Manager</p>		<p>Implemented</p>

6. Expenditure Protocol

High Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> When s106 monies are paid to third parties such as parish councils, appropriate documentation is retained supporting the expenditure and evidence sought that expenditure was appropriate and within agreed timescales.</p> <p><u>Findings</u> An expenditure protocol, as recommended in the 2009/10 audit, has not yet been implemented.</p> <p>The Ocella S106 module does not currently have a facility to record expenditure against the agreement. It is understood that a newer version of the module being tested at the time of the review may provide that facility but an implementation date is not yet known.</p> <p><u>Risk</u></p>	<ul style="list-style-type: none"> A protocol should be developed covering the requirements to demonstrate that s106 monies are expended in accordance with the terms of the agreement particularly where third parties are involved. This should include what steps are needed to identify appropriate expenditure, what documentation is required prior to making funding available and evidence in support of actual expenditure. A suitable mechanism for recording expenditure against 	<p>N/A</p>

If monies cannot be proven to have been expended in accordance with legal requirements then the council may be required to return contributions it has already spent.	individual agreements should be implemented and documented.	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>a. Expenditure procedures have been put in place and a SOP created for the Monitoring Officer. An application form has been created which can be used by third parties to apply for S106 funding.</p> <p>b. An upgrade to Ocella is our preferred method of implementing this recommendation. This upgrade should be fully operational by March 2015. Whilst we await the Ocella upgrade we are storing all information on financial transactions in an Access database. This allows us to record details of all S106 funds spent, who by and on what. This data can be migrated by IT to the new Ocella system once it is upgraded.</p> <p>Management response: Planning Policy Manager</p>		Implemented

7. Reconciliation

Medium Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u></p> <p>A regular reconciliation of legal agreements is undertaken to ensure all agreements are appropriately recorded within Ocella. Financial transactions are reflected within Ocella so should be subject to reconciliation within the General Ledger.</p> <p><u>Findings</u></p> <p>There has been an improvement in the recording of agreements including more historic agreements than at the previous review. The S106 officer has undertaken a reconciliation to match the financial data recorded in Agresso with that in Ocella. The reconciliation was not documented and there does not appear to be an agreed process for this to be a regular task.</p> <p><u>Risk</u></p> <p>If there is no reconciliation of agreements then delays may occur in resolving any income not recorded in Ocella or miscoded within Agresso.</p>	A regular reconciliation of agreements recorded within Ocella should be undertaken with general ledger transactions to ensure income is accurately recorded.	S106 Monitoring Officer
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>An exercise has been carried out to reconcile Ocella with the Financial Transaction Spreadsheet (Vale). A spreadsheet was created which matched each Ocella transaction to the Financial Transaction Spreadsheet.</p> <p>The S106 Monitoring Officer is now responsible for entering information into both Agresso and Ocella and can ensure the records match at the point of entry. An annual reconciliation will take place prior to the creation of annual S106 reports.</p> <p>Management response: Planning Policy Manager</p>		30 April 2015

PREVIOUS RECOMMENDATIONS RESTATED FROM JUNE 2013 CALCULATIONS INVESTIGATION

8. Procedure notes

High Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Adequate procedure notes should be in place and available to relevant officers.</p> <p><u>Findings</u> As per the June 2013 findings, there is still a lack of procedures for the calculation process itself. Whilst the case officer's role is clear, the roles and responsibilities of other officers involved in the s106 calculation process has not been agreed or documented.</p> <p><u>Risk</u> If procedures are not in place, there is a risk of inconsistent and inappropriate approaches being developed and implemented by officers. This could lead to operational difficulties, legal challenge and reputational implications.</p>	<p>Procedure notes should be drafted for the complete s106 process, specifically including:</p> <p>a) standard templates for use by case officers and those contributing to the s106 process to ensure consistency and adequate records are maintained;</p> <p>b) a list of agreed internal and external contacts for S106 calculations, and their responsibilities;</p> <p>c) guidance for officers/external parties on completing s106 calculations, and a requirement that all calculations should be subject to a second officer review.</p>	N/A
Management Response		Implementation Date
<p>Recommendation is Agreed in part</p> <p>(a) Agreed. The S106 Planning Obligations Interim Statement provides formula and guidance for both officers and external parties on the completion of S106 calculations. An excel contribution calculator has been created to assist officers in their calculations.</p> <p>(b) Not Agreed. The contact details for internal and external consultees are stored in our planning database. Internal and external consultees are responsible for responding to planning application consultations, including in relation to S106 matters. It is considered that the creation of an additional list would duplicate data and risk creating inconsistencies.</p> <p>(c) Not Agreed. The S106 Planning Obligations Interim Statement provides formula and guidance for both officers and external parties on the completion of S106 calculations. A excel contribution calculator has been created to assist officers in their calculations. The S106 Partnership and Process project considered introducing a requirement to review all S106 calculations. It was found that the mistakes identified in the 2013 Audit were the result of an incorrect figure in a guidance document, rather than the result of incorrect calculations by officers. The project group decided that the existing committee and delegation structure provides sufficient review prior to a decision being made.</p> <p>Management response: Planning Policy Manager</p>		<p>a) Implemented</p> <p>b) N/A</p> <p>c) N/A</p>

9. Standard approach to record-keeping

Medium Risk

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Adequate records should be maintained.</p> <p><u>Findings</u> Whilst there is a standard file structure</p>	<p>The standard approach to documenting and filing s106 calculations, negotiations and communications in the</p>	S106 Monitoring Officer

<p>within the electronic planning directories, this does not appear to be consistently followed. S106 agreement details were found within various folders during checks undertaken within the current review.</p> <p><u>Risk</u> If adequate records are not maintained, there is a risk that queries, errors and complaints can not be dealt with promptly and accurately</p>	<p>planning directory and on the planning website should be reinforced and followed.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>A working group will be established to determine what additional structure could be created within the Planning Application Case Folder (where confidential documents are stored) in order to enable officers to deal with queries and complaints and review previous application discussions more efficiently, and to ensure that cases can be handed on to new officers if necessary.</p> <p>Management response: Planning Policy Manager</p>		<p>31 March 2015</p>

3. TEMPORARY ACCOMMODATION 2ND FOLLOW UP

1. INTRODUCTION

- 1.1 This report details the findings from internal audit's 2nd follow-up review of temporary accommodation, including rent in advance, rent deposit bonds and rent accounting. The original fieldwork was undertaken in May, the final report was issued on 20 June 2014 and the first follow up report was issued on 9 September 2014. Further follow-up work has been undertaken in December 2014 at the request of the audit and corporate governance committee of the Vale of White Horse District Council, to ensure that progress has been made with the agreed recommendations within the timescales provided.

2. INITIAL AUDIT FINDINGS

- 2.1 The final report made seven recommendations (one high risk, two medium risk and four low risk), and all seven were agreed. A limited assurance opinion was issued.
- 2.2 At the first follow up review it was found that three had been implemented. Three were ongoing as the implementation date had not yet passed, however all remained on track to be implemented within the agreed timescale. One recommendation had not been implemented due to a request from accountancy to revise the implementation date to 31 December 2014.

3. FOLLOW UP MAIN FINDINGS

- 3.1 Of the remaining four recommendations, this review found that one has been fully implemented. The recommendation relating to the homelessness strategy has been partly implemented. The strategy has been drafted and approved by the portfolio holder. It now requires formal sign-off for public consultation. All councillors will be briefed and have the opportunity to comment during the consultation process. The process should be completed by March 2015. The recommendation for all policies and procedures to be reviewed should also be completed by March 2015. One recommendation remains not implemented due to action required from accountancy to restart the income reconciliation between the Abritas system and general ledger. Accountancy have indicated that this will commence in Q4 2014/15.

FOLLOW-UP OBSERVATIONS

STRATEGIES, POLICIES AND PROCEDURES

1. Homelessness strategy

(Medium Risk)

Rationale	Recommendation	Responsibility
Best Practice The council has in place an up-to-date & comprehensive homelessness strategy in place.	A homelessness strategy should be in place as it is a requirement of the Homelessness Act 2002.	Housing needs manager
Findings Internal audit established that currently a homelessness strategy is not in place as the last the strategy expired in 2013.		

<u>Risk</u> If a homelessness strategy is not in place, there is a risk of officer not knowing the strategy on dealing with homeless cases.		
Management Response		Implementation Date
Recommendation is Agreed Completion of the Homelessness Strategy is an objective in the current service plan. A project plan is in progress to complete the Strategy by October 2014 Management response: Housing Needs Manager		October 2014
1st Follow-up observations		
Internal audit was able to view a detailed project plan, and it could be confirmed that work on the Homelessness Strategy continues with completion remaining scheduled for October.		Ongoing
2nd Follow-up observations		
The housing needs manager confirmed that the homelessness strategy has now been drafted and approved by the portfolio holder, and is awaiting sign-off to be released for consultation. Internal audit reviewed the draft strategy.		Partly implemented Revised implementation date: March 2015

2. Policies & procedures

(Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> All policies and procedures relating to temporary accommodation, rent deposit bonds & rent in advance are up-to-date and version controlled. <u>Findings</u> Internal audit reviewed the policies and procedures, and established that they were not up-to-date or version controlled. <u>Risk</u> If policies and procedures are not up-to-date, there is a risk of officers not working in compliance with current housing legislation.	All policies and procedures should be reviewed, updated and version controlled.	Housing needs manager
Management Response		Implementation Date
Recommendation is Agreed A review and updating of all TA policies and procedures is included within the DPR for the Lettings Team Leader. Management response: Housing Needs Manager		December 2014 (fully implemented)
Follow-up observations		
The housing needs manager confirmed that the review and updating of all TA policies and procedures is underway and is scheduled for completion by December 2014. Internal audit noted that the recovery procedure has already been re-written and approved by finance.		Ongoing
2nd Follow-up observations		
The Rent Deposit and Rent-In-Advance policy has been reviewed and updated. The Rent Recovery policy and procedures have been reviewed and updated. The remaining procedures mainly concern tenancy management and will be completed by March 2015. All policies and procedures are now version controlled.		Partly Implemented Revised implementation date: March 2015

TEMPORARY ACCOMODATION LEGISLATION REQUIREMENTS

3. Council owned properties**(High Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All properties owned by the council are in line with the Housing Act 2004.</p> <p><u>Findings</u> Internal audit viewed 39 Grove Street and established that the house has damp and mould. If a tenant lives in a property with damp and mould there is a risk to their health, which is not in line with the Housing Act 2004.</p> <p><u>Risk</u> If the properties are not to standard, there is a risk that the tenants can sue the council.</p>	A decision is made on the properties on Grove Street to either sell or renovate as the properties are currently in poor condition.	Housing needs manager
Management Response		Implementation Date
<p>Recommendation is Agreed A further review of temporary accommodation stock, including a decision to sell or renovate Grove Street, is commencing shortly.</p> <p>Management response: Housing Needs Manager</p>		TBC – depends upon the timescale of the review.
Follow-up observations		
A review of temporary accommodation, including Grove Street, is underway and due for completion in October. The decision on the future of the Grove Street properties will be taken following the consideration of the review recommendations.		Ongoing
2nd Follow-up observations		
The housing needs manager confirmed that following a review, all of the Grove Street properties are empty and will no longer be used as temporary accommodation. They have been transferred to the property team who will be taking this forward.		Implemented

INCOME**4. Income reconciliation****(Low Risk)**

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> All supporting documentations are attached to the tenant's account on the Abritas system.</p> <p><u>Findings</u> The housing needs manager stated that the income reconciliation was previously carried out by the housing needs officer (Andrew Ochia), but when he left last year, the reconciliations also stopped due to the lack of resources.</p> <p>The housing needs manager also stated that he is due to have a meeting with the principal accountant (Paul Sheppard) and is due to raise this with him, to establish if accountancy require them to undertake a reconciliation.</p>	Consideration should be given in resurrecting the income reconciliation between the Abritas system and general ledger.	Housing needs manager

<u>Risk</u> If the income reconciliations are not undertaken, there is a risk of inadequate monitoring of income.		
Management Response		Implementation Date
Recommendation is Agreed Reconciliations will recommence following the accounts meeting on 7 July. Management response: Housing Needs Manager		August 2014
Follow-up observations		
The housing procedures are now in place to recommence reconciliations. However, the housing needs manager confirmed that following a meeting with Accountancy, they have requested until the end of December to establish a proportionate reconciliation frequency.		Not Implemented Revised implementation date at request of Accountancy : 31 December 2014
2nd Follow-up observations		
Accountancy confirmed that this will be addressed in Q4 2014/15.		Not Implemented Revised implementation date: 31 March 2015

Executive summary

Service Area	Head of Service	Total Number of Recs	Number of Overdue Recs	% of Overdue Recs
Corporate Strategy	Clare Kingston (Head of Corporate Strategy)	5	4	80%
Development and Housing	Debbie Taylor (Head of Development and Housing)	2	2	100%
Economy, Leisure and Property	Chris Tyson (Head of Economy, Leisure And Property)	0	0	N/a
Finance	William Jacobs (Head of Finance)	18	9	50%
HR, IT and Technical Services	Andrew Down (Head of HR, IT & Technical Services)	23	16	70%
Legal and Democratic	Margaret Reed (Head of Legal and Democratic Services)	8	7	88%
Planning	Adrian Duffield (Head of Planning)	4	0	0%
Total recommendations Q3 2014/15		60	38	

Summary of overdue recommendations

Rec ID	Audit Name	Audit Year	Head of Service	Service Manager	Recommendation Name	Recommendation	Risk Rating	Implementation date	Recommendation Update	Date of Officer Update	Recommendation Status	Revised Implementation Date
105	Business Continuity	2013/2014	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	5. Contract terms	Incorporate a section on business continuity testing and reporting in the legal template for council contracts with contractors with which there are ongoing relationships (e.g. frequent and/or recurring work).	Medium	30/09/13				
119	Stock Control	2013/2014	Andrew Down (Head of HR, IT & Technical Services)	John Backley (Technical and Facilities Manager)	1. Reconciliations	Stock held, purchased, used and recharged is reconciled with original documents and with financial records of purchases and recharges to identify, record and resolve any anomalies.	Medium	01/10/13	Not updated during the year.	07/07/14	Not Implemented	31/12/14
107	Business Continuity	2013/2014	William Jacobs (Head Of Finance)	Adrianna Partridge (Audit Manager)	7. Battlebox	An offsite battlebox should be used to store up to date copies of continuity plans.	Medium	31/10/13				
97	Disaster Recovery	2013/2014	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	5. Contract terms	Incorporate a section on disaster recovery testing and reporting in the legal template for council contracts with contractors with which the council has an ongoing relationship (i.e. frequent and recurring work).	Medium	31/12/13	The performance, projects and customer services manager left his post in February 2014 and progress with the review of procurement documents have not been done. This has been flagged up with contract and procurement manager (Oxford City Council) for inclusion in the review of procurement templates.	14/08/14	Not Implemented	31/03/15
113	Licensing	2013/2014	Clare Kingston (Head Of Corporate Strategy)	Paul Holland (Environmental Protection Manager)	4. Separation of duties	Ensure there is a separation of duties from those who process and those who authorise the issue of environmental protection licences.	Medium	31/12/13	The Team Leader (Environmental Protection) advised an Administration Assistant had been appointed to undertake this work but had proved unsuitable, therefore it has been decided to wait until integration with South in February/March 2014 when a shared Administration Assistant will be available.	21/03/14	Not Implemented	31/12/14
112	Licensing	2013/2014	Margaret Reed (Head Of Legal And Democratic Services)	Liz Hayden (Legal, Licensing And Community Safety Manager)	1. Licensing enforcement policy	Review the licensing enforcement policy.	Low	31/12/13	The joint working for an overarching enforcement policy covering all the key areas of enforcement is in a draft format and it is envisaged this will be completed by August 2014	21/03/14	Not Implemented	31/08/14
95	Disaster Recovery	2013/2014	Andrew Down (Head of HR, IT & Technical Services)	Simon Turner (IT Operations Manager)	1. Policies and procedures	Consider developing: <ul style="list-style-type: none"> (a) a disaster recovery policy. (b) guidance for the adding of new databases (including back up arrangements). 	Low	31/03/14	This is currently being reviewed.	14/08/14	Not Implemented	31/12/14
106	Business Continuity	2013/2014	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	6. Contractor testing	Obtain annual assurances from third party contractors with which there are ongoing relationships (e.g. frequent and/or recurring work) on outcomes of business continuity testing.	Medium	31/03/14				

Rec ID	Audit Name	Audit Year	Head of Service	Service Manager	Recommendation Name	Recommendation	Risk Rating	Implementation date	Recommendation Update	Date of Officer Update	Recommendation Status	Revised Implementation Date
109	Health and safety	2013/2014	Clare Kingston (Head Of Corporate Strategy)	Sally Truman (Policy, Partnership & Engagement Manager)	All fire wardens should be appropriately trained.	Best Practice: All selected fire wardens have been on fire warden training. Findings Internal audit established that there are 16 fire wardens at SODC, of which five have not had fire warden training. Risk If fire wardens are not given appropriate training, there is a risk that the fire wardens are not sure about their responsibilities if a fire occurred.	High	31/03/14	Confirmed by the Shared Health and Safety Adviser that this is on hold as the fire evacuation procedure is being reviewed at Abbey House due to the impending occupation of the building by OCC and Citizens Advice Bureau. The fire evacuation procedures will then be reviewed at Crowmarsh offices. The plan is to dispense with roll calls, divide the buildings into zones and train fire wardens to do building sweeps of their zones.	09/04/14	Not Implemented	31/12/14
124	Environmental Health and Food Safety	2013/2014	Clare Kingston (Head Of Corporate Strategy)	Diane Moore (Food & Safety Manager)	3. Procedures	Procedures should:- a) Be regularly reviewed and updated as need with the index and procedure updated to reflect the revised review date. b) Include a procedure reference that matches the index. c) Include a food alert procedure. d) Be included within the document index.	Low	31/03/14	Confirmed by the Food and Safety Manager that this is a work in progress and is expected to be completed October 2014.	09/04/14	Not Implemented	31/10/14
115	Licensing	2013/2014	Margaret Reed (Head Of Legal And Democratic Services)	Liz Hayden (Legal, Licensing And Community Safety Manager)	11. Lotteries	(a) Society lottery permit renewals should be due and reminded two months prior to the anniversary of their issue. (b) Clarify and ensure the administration of lottery licenses is in compliance with the Small Society Lotteries (Registration of Non-Commercial Societies) Regulations (2007).	Medium	31/03/14	The intention is to have the new system in place and necessary changes by end quarter 1 2014/15	21/03/14	Ongoing (Date of implementation not yet passed)	31/07/14
118	Inter-council Recharges	2013/2014	William Jacobs (Head Of Finance)	Bob Watson (Accountancy Manager (Technical))	1. Policies and procedures	(a) Establish policy and procedures on when joint purchases is allowed and what inter-council recharges should then be made. (b) Incorporate good practice guides in recharges guidance (e.g. use of time allocation sheets). (c) Incorporate a section on key issues in recharges guidance (e.g. transferring items, low value purchases).	High	31/03/14	This is now being reviewed following the move to one office. This will be implemented prior to the 2015/16 budget setting process. This will be completed by 31 October 2014.	16/07/14	Not Implemented	31/10/14

Rec ID	Audit Name	Audit Year	Head of Service	Service Manager	Recommendation Name	Recommendation	Risk Rating	Implementation date	Recommendation Update	Date of Officer Update	Recommendation Status	Revised Implementation Date
114	Licensing	2013/2014	Margaret Reed (Head Of Legal And Democratic Services)	Robert Draper (Licensing Team Leader)	6. Performance management	a) Consider establishing a performance management statement or policy for the licensing team. □ (b) Translate raw data (over the processing of applications by the licensing team) to performance statistics which can be monitored effectively.□	Low	01/04/14	a) and (b) Full implementation by 1 April 2014.	21/03/14	Ongoing (Date of implementation not yet passed)	01/04/14
125	Environmental Health and Food Safety	2013/2014	Clare Kingston (Head Of Corporate Strategy)	Diane Moore (Food & Safety Manager)	5. Premises registration	a) The two premises without a business registration form should be reviewed and appropriate action taken.	Low	30/04/14	a) The two premises without a business registration forms are due for review as follows - (EH:02157 now reviewed and 010014025817 June 2014).	09/04/14	Ongoing (Date of implementation not yet passed)	30/06/14
116	Licensing	2013/2014	Margaret Reed (Head Of Legal And Democratic Services)	Liz Hayden (Legal, Licensing And Community Safety Manager)	12. Reconciliations	a) Income reconciliation to compare licensing records with general ledger codings should be regularly undertaken by the licensing team.	Medium	30/04/14	Ongoing for completion April 2014	21/03/14	Ongoing (Date of implementation not yet passed)	30/04/14
120	RIPA	2013/2014	Margaret Reed (Head Of Legal And Democratic Services)	Liz Hayden (Legal, Licensing And Community Safety Manager)	1. RIPA policy and procedure	The RIPA policy and procedure should be updated to reflect current legislation and consideration should be given to including:- a) A requirement for members' review of RIPA activities and approval of the policy as per the revised code of practice. b) Reference to the use of the NAFN and, c) Making the document available on the council's intranet.□	Low	30/04/14	Revised guidance is due on local authority's use of RIPA so the update of the policy has been delayed in order to incorporate the expected revisions. In the meantime an explanation will be added to the current policy to explain that an update is due and that RIPA can only be used for particular offences and court approval is required.	24/04/14	Ongoing (Date of implementation not yet passed)	31/12/14
121	Credit Card Usage	2013/2014	William Jacobs (Head Of Finance)	Bob Watson (Accountancy Manager (Technical))	1. Register of cards	An electronic register should be maintained of the card numbers issued to officers.	Low	30/04/14				
122	Credit Card Usage	2013/2014	William Jacobs (Head Of Finance)	Bob Watson (Accountancy Manager (Technical))	2. VAT	a) VAT should only be coded for reclaim when suitable VAT invoices/receipts are provided. b) Guidance should be enhanced to advise card holders as to what constitutes appropriate VAT documentation.□	Low	30/06/14				
123	Credit Card Usage	2013/2014	William Jacobs (Head Of Finance)	Bob Watson (Accountancy Manager (Technical))	3. Electronic record	An electronic record of transactions should be maintained to facilitate easier analysis of expenditure, e.g. by user.	Low	30/06/14				
117	Lone working and Officer Security	2013/2014	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	2. Lone working training	All lone working officers should be offered lone working training.	Medium	30/09/14	the Shared HR Business Support manager confirmed that a Health & Safety training provider had been contracted to conduct lone working training in early 2014 with all relevant staff having had their training by 31st March 2014.	31/12/13	Ongoing (Date of implementation not yet passed)	30/09/14

Rec ID	Audit Name	Audit Year	Head of Service	Service Manager	Recommendation Name	Recommendation	Risk Rating	Implementation date	Recommendation Update	Date of Officer Update	Recommendation Status	Revised Implementation Date
85	Contract Monitoring	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	1. Contract monitoring guidance	The performance review of contractors' guidance should be reviewed & updated.	Low	31/10/14				
93	Temporary Accommodation	2014/2015	Debbie Taylor (Head of Development and Housing)	Phil Ealey (Housing Needs Manager)	1. Homelessness strategy	A homelessness strategy should be in place as it is a requirement of the Homelessness Act 2002.	Medium	31/10/14	The housing needs manager confirmed that the homelessness strategy has now been drafted and approved by the portfolio holder, and is awaiting sign-off to be released for consultation. Internal audit reviewed the draft strategy.	07/01/15	Partly Implemented	31/03/15
78	Anti-fraud and Corruption Arrangements	2014/2015	Margaret Reed (Head Of Legal And Democratic Services)	Steven Corrigan (Democratic Services Manager)	3. Whistleblowing Policy	The most recently reviewed whistleblowing policy should be uploaded on the council intranet website to ensure that all officers have up to date information of the policy and required procedures.	Low	31/10/14				
110	Council fees and charges	2013/2014	William Jacobs (Head Of Finance)	Bob Watson (Accountancy Manager (Technical))	1. Key information	A standard template should be incorporated within the fee setting process to capture key information in a standard format where it is not already clearly and comprehensively stated.	Low	31/10/14				
111	Council Fees and Charges	2013/2014	Andrew Down (Head Of HR, IT & Technical Services)	Lee Brown (IT Applications Manager)	2. Street naming and numbering	The street naming and numbering policy and charges should make it clearer that the fee relates to the notification element and not the naming and numbering of new properties.	Low	30/11/14				
80	Anti-fraud and Corruption Arrangements	2014/2015	Margaret Reed (Head Of Legal And Democratic Services)	Steven Corrigan (Democratic Services Manager)	5. Awareness of anti-fraud and corruption arrangements and training modules.	a) The council needs to ensure that there is sufficient visibility (i.e. posters/leaflets/bulletins) across all council buildings informing staff of the anti-fraud and corruption culture throughout the workplace. <input type="checkbox"/>	High	30/11/14				
74	Travel and Subsistence	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	1. Expense Claims	A reminder should be issued to ensure that all service areas put the month and their service area on the envelope prior to submitting the receipts to Capita.	Low	31/12/14				
75	Travel and Subsistence	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	2. Processing	A reminder should be issued to all staff that they should claim their travel & subsistence within three months of the expenses incurred.	Low	31/12/14				

Rec ID	Audit Name	Audit Year	Head of Service	Service Manager	Recommendation Name	Recommendation	Risk Rating	Implementation date	Recommendation Update	Date of Officer Update	Recommendation Status	Revised Implementation Date
94	Temporary Accommodation	2014/2015	Debbie Taylor (Head of Development and Housing)	Phil Ealey (Housing Needs Manager)	2. Policies & procedures	All policies and procedures should be reviewed, updated and version controlled.	Low	31/12/14	The Rent Deposit and Rent-In-Advance policy has been reviewed and updated. The Rent Recovery policy and procedures have been reviewed and updated. The remaining procedures mainly concern tenancy management and will be completed by March 2015. All policies and procedures are now version controlled.	07/01/15	Partly Implemented	31/03/15
68	Payroll	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	3. Starters	All starter processes should comply with the council's agreed policies and procedures i.e. <input type="checkbox"/> a) <input type="checkbox"/> Evidence of proof of identification being obtained prior to start of employment. <input type="checkbox"/> b) <input type="checkbox"/> At least one of the proof of identification produced should be photographic e.g. passport or driving licence. <input type="checkbox"/> c) <input type="checkbox"/> Two references must be received for all starters and filed within the personnel records. <input type="checkbox"/>	Medium	09/01/15				
70	Payroll	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	5. Changes in remuneration policies	The head of human resources needs to inform the head of finance of any changes made that affect the remuneration of pay as stated in the council's constitution.	Low	09/01/15				
73	Payroll	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	8. Maternity Pay	Consideration should be given as to whether payment (over/under payments) should be recovered/paid to staff affected by the policy in place at the time of their maternity. <input type="checkbox"/> <input type="checkbox"/> The maternity/paternity pay policy should be reviewed to ensure that the policy is documented clearly to avoid misinterpretations. <input type="checkbox"/>	Medium	09/01/15				
86	Contract Monitoring	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	2. Contract register	The contract register should be updated on a regular basis & expired contracts be taken off.	Low	09/01/15				
91	Petty Cash	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	8. Coding of claims & Abbey House	Replenishments of float balances should be recoded to the relevant individual costs centres in a timely manner once the top up cheque is raised.	Low	09/01/15				
92	Petty Cash	2014/2015	Andrew Down (Head of HR, IT & Technical Services)	Mark Gibbons (HR Business Partner)	9. VAT & Abbey House	Reclaimable VAT is identified as part of the replenishment process and coded within the Agresso financial system to facilitate the council reclaiming amounts paid.	Medium	09/01/15				

Rec ID	Audit Name	Audit Year	Head of Service	Service Manager	Recommendation Name	Recommendation	Risk Rating	Implementation date	Recommendation Update	Date of Officer Update	Recommendation Status	Revised Implementation Date
67	Payroll	2014/2015	William Jacobs (Head Of Finance)	Ben Watson (Finance & Systems Manager)	2. User access of payroll system	Capita need to ensure that all user lists for the payroll systems are reviewed on a regular basis. <input type="checkbox"/> Capita needs to ensure that the user access list is up to date i.e. leavers are deactivated as soon as possible and unused generic users must be removed. <input type="checkbox"/>	Low	09/01/15				
69	Payroll	2014/2015	William Jacobs (Head Of Finance)	Ben Watson (Finance & Systems Manager)	4. Payroll Checks - Overtime	Capita need to ensure that all amendments or new entries made in the payroll system show adequate separation of duties.	Medium	09/01/15				
87	Bank Contract and Arrangements	2014/2015	William Jacobs (Head Of Finance)	Bob Watson (Accountancy Manager (Technical))	1. Actions and issues log	An actions and issues log should be introduced to capture relevant data including, but not limited to, key dates and names.	Low	09/01/15				

Audit and Governance Committee Report



22 January 2015

Report of **Audit Manager**

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To: Audit and Governance Committee

DATE: 22 January 2015

Internal audit management report quarter three 2014/2015

Recommendation(s)

(a) That members note the content of the report

Purpose of report

1. The purpose of this report is:
 - to report on management issues within internal audit;
 - to summarise the progress against the 2014/2015 audit plan up to 12 January 2014.
 - to summarise the priorities for quarter four 2014/2015.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

Strategic objectives

3. Managing our business effectively.

Background

4. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the head of internal audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.
5. The CIPFA Code also states that the audit committee should approve the annual internal audit plan and monitor progress against the plan. This Committee approved the annual internal audit plan on 17 March 2014.

Management issues

6. Helen Lee joined the internal audit team on the 8 December 2014, and has now commenced her first audit. The team is now at full complement and remains on track to complete the audit plan.
7. During November and December, IT developed the recommendations (recs) database. Several officers and Councillor Pat Lonergan assisted in the design and reporting format, and the first overdue recommendations report is being presented at this meeting. The recs database is now accessible to all officers and councillors via the internal audit page on the intranet, and the audit manager is attending service team meetings to show managers how they can use the database.
8. During December, the three areas of the finance team (accountancy, internal audit and revenues and benefit) submitted their evidence to be pre-assessed for the achievement of the G4S customer service excellence award. The pre-assessment went well, and it is hoped that finance will achieve the award at the full assessment in February 2015.

Progress against the 2014/2015 audit plan

9. Progress against the approved audit plan has been calculated for the quarter and year to date and is summarised in **appendix 1** attached.
10. Performance figures to date are as follows:

	Target	YTD	Q1 13/14	Q2 13/14	Q3 13/14	Q4 13/14
Chargeable (identifiable client and/or specific IA deliverable)	74%	70.5%	72%	79.5%	61.5%	63.5%
Non-Chargeable (corporate, not IA deliverable)	8%	8.5%	7%	6.5%	13%	5.5%
Lost (i.e. leave, study, sickness)	18%	20.5%	21%	14%	25.5%	31.5%

11. As at 12 January 2014 the status of audit work against the 2014/2015 audit plan is as follows:

Planned

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

2014/2015	Planned	Complete	Draft	In progress	To commence
PLANNED	26	9	1	7	9
Joint	26	9	1	7	9

Adhoc

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

2014/2015	Requested	Complete	Draft	In progress	To commence
ADHOC	2	1	1	0	0
Joint	1	1	0	0	0
SODC	0	0	0	0	0
VWHDC	1	0	1	0	0

Follow up

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

2014/2015	Requested	Complete	Draft	In progress	To commence
FOLLOW-UP	32	21	0	1	10
SODC	15	10	0	0	5
VWHDC	17	11	0	1	5

Priorities for 2014/2015 quarter four (January 2015 – March 2015)

12. The priorities for quarter four are to:

- Complete the audit plan 2014/2015.
- Complete the internal audit specification for internal audit to be market-tested for outsourcing as part of the corporate service project.
- Undertake a full review of the risk management and business continuity management arrangements and make recommendations to the strategic management board.

13. Remaining 2014/2015 planned audit work can be reviewed in **appendix 2**.

Financial implications

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

Legal implications

15. None.

Risk implications

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

ADRIANNA PARTRIDGE
AUDIT MANAGER

System Name	Status	Audit Allocation	Total Days Used	Exception Issues	Audit Opinion	No. of Recs	High	No. Agreed	Medium	No. Agreed	Low	No. Agreed	Total Not Agreed
As at 12 January 2015													
JOINT													
Procurement (24 priority score)	Commence Q4	12											
SODC			0.0										
VWHDC			0.0										
Payroll (22)	Completed	32		First KFS for new auditor.									
SODC			19.5		Limited	8	2	2	4	4	2	2	0
VWHDC			19.5		Limited	8	1	1	4	4	3	3	0
Housing & Council Tax Reduction Scheme (20)	TOR sent	30											
SODC			0.0										
VWHDC			0.0										
Car Parks (20)	Completed	20											
SODC			9.5		Full	0	0	0	0	0	0	0	0
VWHDC			9.5		Full	0	0	0	0	0	0	0	0
Leisure Centres (20)	Commence Q4	30											
SODC			0.0										
VWHDC			0.0										
National Non-Domestic Rate (19)	In progress	20											
SODC			7.5										
VWHDC			7.5										
Council Tax (19)	TOR sent	20											
SODC			0.0										
VWHDC			0.0										
General Ledger (19)	In progress	20											
SODC			8.0										
VWHDC			8.0										
Sundry Debtors (19)	In progress	20											
SODC			1.5										
VWHDC			1.5										
Creditor Payments (18)	In progress	20											
SODC			5.0										
VWHDC			5.0										
Pro-Active Anti-Fraud Review (18)	In progress	20											
SODC			1.0										
VWHDC			1.0										
Travel & Subsistence (18)	Completed	20											
SODC			6.5		Full	2	0	0	0	0	2	2	0
VWHDC			6.5		Full	2	0	0	0	0	2	2	0

Anti-Fraud & Corruption Policies (18)	Completed	16		2 days over due to new auditor.									
SODC			9.5		Limited	6	1	1	3	3	2	2	0
VWHDC			9.5		Limited	6	1	1	3	3	2	2	0
Capital Management and Accounting (17)	TOR sent	14											
SODC			0.5										
VWHDC			0.5										
Contract Monitoring (17)	Completed	20											
SODC			6.5		Full	3	0	0	0	0	3	2	1
VWHDC			6.5		Full	3	0	0	0	0	3	2	1
Bank Contract & Arrangements (17)	Completed	8											
SODC			3.0		Full	1	0	0	0	0	1	1	0
VWHDC			3.0		Full	1	0	0	0	0	1	1	0
Treasury Management (16)	In progress	14											
SODC			7.0										
VWHDC			7.0										
Land Charges (16)	Draft out	20											
SODC			10.0										
VWHDC			10.0										
Corporate Governance (16)	Completed	20											
SODC			7.5		Full	0	0	0	0	0	0	0	0
VWHDC			7.5		Full	0	0	0	0	0	0	0	0
Receipt of Income Arrangements (15)	In progress	18											
SODC			3.5										
VWHDC			3.0										
Partnership Performance Monitoring (15)	Commence Q4	20											
SODC			0.0										
VWHDC			0.0										
Waste Management & Recycling (15)	TOR sent	20											
SODC			0.5										
VWHDC			0.5										
Project Management (15)	Commence Q4	26											
SODC			0.0										
VWHDC			0.0										
Petty Cash (14)	Completed	16											
SODC			8.5		Satisfactory	5	0	0	1	1	4	4	0
VWHDC			8.5		Satisfactory	8	0	0	3	3	6	6	0
Temporary Accommodation (14)	Completed	24		4 days over due to level of sample testing required.									
SODC			14.0		Limited	9	0	0	3	3	6	6	0
VWHDC			14.0		Limited	7	1	1	2	2	4	4	0
Development Management (10)	Commence Q4	20											
SODC			0.0										
VWHDC			0.0										
IA PLANNED AUDIT TOTALS	-	520	257.5		Full	69	6	6	23	23	41	39	2
					Satisfactory								
					Limited								
					Nil								

FOLLOW UP AUDITS 2013/2014

System Name	Total Days Used	Original Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC							
Brown Bins	0.5	Full	1	1	0	0	0
Environmental Health Food & Safety	0.5	Satisfactory	7	5	0	1	1
Health & Safety	0.5	Satisfactory	4	1	0	0	3
Inter Council Recharges	0.5	Satisfactory	5	4	0	1	0
Post Room	0.5	Satisfactory	8	6	0	0	2
RIPA	0.5	Full	3	1	1	0	1
Stock Control	0.5	Satisfactory	6	5	0	1	0
Disaster Recovery	0.5	Satisfactory	7	3	0	3	1
Cash Office	0.5	Full	1	1	0	0	0
VWHDC							
Brown Bins	0.5	Satisfactory	3	1	2	0	0
Environmental Health Food & Safety	0.5	Limited	7	5	0	0	2
Health & Safety	0.5	Satisfactory	7	1	0	1	5
Inter Council Recharges	0.5	Satisfactory	4	3	0	1	0
Post Room	0.5	Satisfactory	3	1	0	1	1
RIPA	0.5	Satisfactory	5	1	2	0	2
Stock Control	0.5	Satisfactory	4	3	0	1	0
Disaster Recovery	0.5	Satisfactory	6	2	0	3	1
Cash Office	0.5	Satisfactory	5	5	0	0	0

FOLLOW UP AUDITS 2014/2015

System Name	Total Days Used	Original Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC							
Temporary Accommodation	0.5	Limited	8	6	2	0	0
VWHDC							
Temporary Accommodation	0.5	Limited	7	3	0	1	3
Temporary Accommodation (2nd review)	0.5	Limited	4	1	2	1	0

UNPLANNED WORK 2014/2015

CONSULTANCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
Banking Services Tender	Completed	2 days	N/A	S151 Officer
SODC				
None				
VWHDC				
None				

CONTINGENCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
None				
SODC				
None				
VWHDC				
Development Management	Draft out	10	13	Chief Executive

SYSTEM DEVELOPMENT

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
None				
SODC				
None				
VWHDC				
None				

FOLLOW UP AUDITS

UNPLANNED AUDITS

Key

Projected Start Date
In Progress
Draft Issued
Complete

Report to:



Audit & Governance Committee Cabinet Council

Report of Head of Finance

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Wards affected: all

Cabinet member responsible: Councillor Matthew Barber

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E-mail: matthew.barber@southandvale.gov.uk

To:	AUDIT & GOVERNANCE COMMITTEE on	22 January 2015
	CABINET on	6 February 2015
	COUNCIL on	18 February 2015

Treasury management mid-year monitoring report 2014/15

Recommendations

That Audit and Governance Committee:

1. notes the treasury management mid year monitoring report 2014/15, and
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

3. considers any comments from Audit & Governance Committee and recommends council to approve the report.

Purpose of report

1. This report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that the council's prudential indicators are reported to council in year. This report provides details of the treasury activities for the first six months of 2014/15 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

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

Background

3. The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Code of Practice for Treasury Management requires a monitoring report to be provided mid year to council. The report covers the treasury activity for the period 1 April 2014 to 30 September 2014.
4. The 2014/14 Treasury Management Strategy was approved by council on 19 February 2014. This report provides details on the treasury activity and performance for the first six months of 2014/15 against prudential indicators and benchmarks set for the year. It is also an opportunity to review and revise the limits if required. Council is required to approve this report and amendments to the Treasury Management Strategy.

The economy and interest rates

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

Icelandic banks – Landsbanki

6. On the 24 September 2008 the council deposited £1 million with Landsbanki Islands hf at an interest rate of 5.95 per cent. The investment principal and accrued interest (a total sum of £1,004,890.41) was due to be repaid on 24 October 2008 however the bank entered administration on 7 October 2008.
7. To date, the council has received £531,286 under the winding up process in part repayment of the original debt. The Icelandic Supreme Court had found in favour of UK local authorities to be paid before non-priority creditors of Landsbanki and so previously the council had expected to receive 100 per cent of the money deposited with the bank. Subsequently, there has been uncertainty over possible changes to legislation in Iceland which may prohibit funds being released outside of the country.

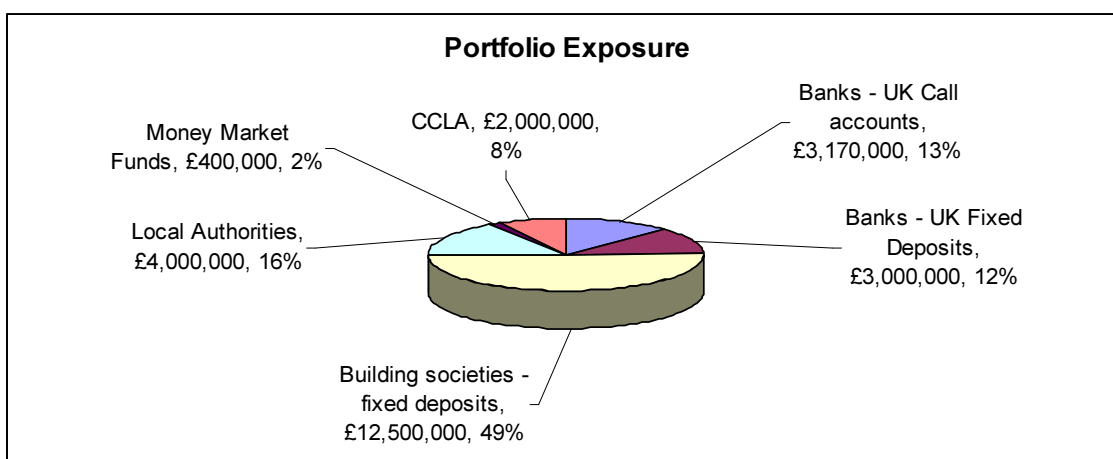
8. Due to this uncertainty over the timing and access to the balance owed, as at the end of September 2014 the council is, in common with other local authority creditors of Landsbanki, considering the sale of its remaining interest in the debt via the financial markets. Any such disposal is highly likely to be made at a discount to the face value although the final value potentially achievable will depend on a number of market factors. This discount will however be offset by the certainty of return and the time value of money.

Investments

9. The council's investments at 30 September 2014 (not including that with Landsbanki) are shown in Table 1, below.

Table 1: maturity structure of investments:				
	Classification of investment at deal date		Classification as at 30/09/14	
	£'000		£'000	
Call	3,170	13%	3,170	13%
Money market fund	400	2%	400	2%
Less than 6 months	2,000	8%	11,500	46%
6 months to 1 year	13,500	54%	4,000	16%
1 year + (loans to other local authorities)	4,000	16%	4,000	16%
CCLA - property fund	2,000	8%	2,000	8%
Total investments	25,070	100%	25,070	100%

10. In 2013/14 the council invested £2 million in a pooled property fund with the CCLA. Although the intention remains to hold monies in the fund for the longer term, this pooled property fund holding could be sold quickly if required for liquidity purposes.
11. The council continues to hold the majority of its investments in the form of cash deposits, most of which have been placed for fixed terms with a fixed investment return.
12. Money market rates have remained low in the financial year to date. The Funding for Lending Scheme (FLS) provided access to low rate, government funded borrowing for both banks and building societies, allowing participants to borrow from the FLS until January 2015. This has reduced the demand within the money markets significantly and has had a real impact on investment rates. It continues to be challenging to find re-investment opportunities which also meet the security and risk criteria at the same rates as previously obtained.
13. The chart below shows in percentage terms how the portfolio is spread across the types of investments.



14. The investment income earned for the first six months of 2014/15 is shown in table 2 below.

Table 2: Investment interest earned by investment type Interest earned April 2014 - September 2014				
Investment type	Annual budget £000	Actual to date £000	Annual forecast £000	Forecast variation £000
Call accounts	132	41	68	(64)
Cash deposits	104	122	221	117
MMFs	0	3	4	4
CCLA	120	60	119	(1)
	356	226	412	56

Treasury activity

15. The Funding for Lending Scheme (FLS) lowered funding costs for banks and building societies. This access to cheaper borrowing is a key factor in the fall in market rates currently available. Longer term investment rates with high quality counterparties remain low, restricting the ability to place investments of greater than 12 months duration.
16. As at the end of September 2014, the weighted average maturity period of investments was 464 days. This is higher than that at the equivalent period last year, reflecting the change from balances held in call accounts and the placing in January 2014 of a seven year investment with Kingston upon Hull City Council. As a result of the many banking downgrades, there are now fewer financial institutions that meet the council's investment criteria. When it is possible, investments will be placed with high rated institutions for a longer duration with a view to spreading the council's risk exposure whilst maintaining the weighted average maturity of the portfolio.
17. Despite the challenging market conditions, interest earned in the first six months of the year totalled £226,000. The forecast for the year is now estimated at £412,000 (2013/14 actual outturn £478,000).

Performance measurement

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

Table 3: investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Total investments	0.42%	1.48%	1.06%	3 month LIBID

Treasury management limits on activity

19. The council is required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits and our performance are shown in appendix C.

Debt activity during 2014/15

20. During the first six months of 2014/15 there has been no need for the council to borrow. The council will continue to take a prudent approach to its debt strategy. The prudential indicators and limits set out in appendix C provide the scope and flexibility for the council to borrow long term up to the maximum limits for the achievement of its service objectives and the annual Treasury Management Strategy (TMS) also permits short-term borrowing if such a need arose for the cash flow management requirements of the authority.

Financial implications

21. Recent economic data has shown continued growth in UK GDP, improving sentiment in the services and construction sectors and falling levels of unemployment. Despite this, the Bank of England's Monetary Policy Committee continues to take a cautious view on rates and the projection from the council's treasury advisors (Capita Asset Services) is that falling rates of inflation have reduced the likelihood of a rise in official rates before the second quarter of 2015. It is estimated that when rates do rise, they will do so slowly due to concerns over the sustainability of the recovery and the continuing levels of high personal indebtedness.
22. Investments made early in 2014 should increase the interest earned on investments for 2014/15 by over £50,000. The level of uncertainty over the strength of the economic recovery to a rise in official rates will continue to

suppress investment income returns going forward and this will be reflected in the council's medium term financial plan.

Legal implications

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

Conclusion

24. This report provides details of the treasury management activities for the period 1 April 2014 to 30 September 2014 and the mid year prudential indicators to council.
25. These details confirm that treasury activities have operated within the agreed parameters set out in the approved treasury management strategy and provides the monitoring information for audit and governance committee to fulfil the role of scrutinising treasury management activity.

Background papers

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (revised 2011)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition)
- Various committee reports, principally:-
 - I. Treasury Management Investment Strategy 2014/15 (cabinet 7 February 2014, council 19 February 2014)

Appendices

- A – Economic update and interest rates
B – List of investments as at 30.9.14
C – Prudential Indicators

Economic Update and interest rates

1. There was strong growth in UK Gross Domestic Product in quarters 2-4 of the 2013 calendar year. Quarter 1 and 2 of 2014 continued this trend and surveys in the services and construction sector have revealed encouraging business sentiment.
2. The overall strong growth has seen unemployment fall below the threshold of 7% originally earmarked by the Bank of England Monetary Policy Committee (MPC) as the level below which unemployment had to fall before it would consider an increase in the bank base rate.
3. The MPC subsequently broadened its forward guidance by looking at a much broader range of indicators in order to form a view on when rates should rise. The MPC is particularly concerned that wage inflation needs to rise above the level of general inflation (a real terms rise in wages) for the economic recovery to be sustainable.
4. Growth is expected to peak in 2014 and tail off slightly into 2015 and 2016. Unemployment is expected to continue on a downward trend and this is expected to significant increases in pay rates at some point in the next three years.
5. In the global economy, the United States demonstrated disappointing quarter 1 GDP figures, but quarter 2 figures rebounded strongly. On the other hand, the Eurozone area is facing an increasing threat from deflation. Greece continues to struggle with implementing fiscal controls and the second and third largest European economies – France and Italy – are struggling to enforce their own austerity programmes.
6. In the UK, inflation has also fallen (Consumer Price Inflation fell to 1.2% in September 2014 from 1.5% in August), reflecting cheaper transport costs, lower energy and food prices. In reaction to this data and uncertainty in the Middle East, UK government bond prices rose to their highest level in over a year as investors sought a safe haven. Bond yields have fallen accordingly, with 10-year gilts falling from 2.13% to under 2% - the lowest since June 2013.
7. The fall in UK inflation and the weakening in the Eurozone area has increased market speculation that any move to increase Bank of England base rates will now be delayed until later in 2015.
8. Concerns over investment counterparty risk remain because of the wider economic conditions. However the council's current treasury management policy aims to manage this risk down to a low level.

Interest rates

9. The bank rate remained unchanged at 0.5 per cent throughout the first half of 2014/15. The council's treasury advisor, Capita Asset Services, has undertaken a review of interest rate forecasts. The current period of strong economic growth in the UK remains vulnerable to a downturn in the Eurozone area and there are concerns that UK growth is currently over dependent on consumer spending and the strength of the housing market. Consequently, whilst the expectation remains that bank rates will rise in the next financial year, the latest projection from Capita Asset Services is that the first increase in bank rate will not happen until the second quarter of 2015.

Appendix A

10. The Governor of the Bank of England has signalled that any increase in base rates will be slow and gradual as the MPC is concerned about the impact that increases will have on heavily indebted consumers, especially given that wage inflation is running significantly below the rate of CPI inflation.
11. Capita Asset Service's forecast of the expected movement in medium term interest rates is shown in the table below:

	NOW	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
BANK RATE	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.50
3 month LIBID	0.50	0.50	0.60	0.80	0.90	1.10	1.30	1.40	1.60	1.90	2.10	2.10	2.30	2.40	2.60
6 month LIBID	0.65	0.70	0.80	1.00	1.10	1.20	1.40	1.50	1.80	2.00	2.20	2.30	2.50	2.70	2.80
12 month LIBID	0.93	0.90	1.00	1.20	1.30	1.40	1.70	1.80	2.10	2.20	2.30	2.40	2.60	2.80	3.00
5 yr PWLB	2.40	2.50	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.50	3.50	3.50
10 yr PWLB	3.00	3.20	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10	4.10	4.20	4.20	4.30	4.30
25 yr PWLB	3.70	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	5.00
50 yr PWLB	3.70	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	5.00

Appendix B

Investments as at 30 September 2014					
Counterparty	Deposit type	Maturity date	Total investment duration in days	Principal	Rate
Progressive Building Society	Fixed	03/10/2014	304	1,500,000	0.85%
Manchester Building Society	Fixed	24/10/2014	273	2,000,000	0.90%
Close Brothers Ltd	Fixed	18/11/2014	364	1,000,000	1.05%
Skipton Building Society	Fixed	19/11/2014	174	2,000,000	0.62%
Lloyds Bank PLC	Fixed	04/12/2014	364	2,000,000	0.98%
Principality Building Society	Fixed	14/01/2015	364	2,000,000	0.88%
National Counties Building Society	Fixed	23/03/2015	276	1,000,000	0.82%
West Bromwich Building Society	Fixed	30/06/2015	365	3,000,000	1.05%
Progressive Building Society	Fixed	01/07/2015	303	1,000,000	0.85%
Santander	Call *			2,670,000	0.90%
Lloyds Bank PLC	Call *			500,000	0.40%
Goldman Sachs	MMF *			400,000	0.41%
Total short term cash investments (<1 yr duration)				19,070,000	
Kingston Upon Hull City Council	Fixed	19/08/2020	2,557	2,000,000	2.70%
Kingston Upon Hull City Council	Fixed	15/01/2021	2,557	2,000,000	2.50%
Total long-term cash investments (>1 yr duration)				4,000,000	
CCLA	Property			2,000,000	variable
Total Investments				25,070,000	

* Rates are variable. Returns shown represent prevailing rates at end Q2 2014.

Above figures exclude balance outstanding from Landsbanki

Prudential indicators as at 30th September 2014		
	2014/15 Original estimate £m	Actual as at 30-Sep £m
Debt		
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	5	0
	35	0
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	0
Interest rate exposures		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
Investments		
Interest rate exposures		
Limits on fixed interest rates	60	19.5
Limits on variable interest rates	30	5.5
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	30	6

Addendum to the Treasury mid-year report

LANDSBANKI

The Council has recently taken the opportunity to sell its claim against the insolvent estate of Landsbanki Islands hf (LBI). The claim was sold through a sales process brokered by Deutsche Bank. The price at which the claim was sold was based on a reserve price set by the council on the basis of legal advice received from Bevan Brittan and the council's own analysis of the financial position. The proceeds of the sale were paid in Pounds Sterling. The sale means that the council has recovered 92.76 per cent of the amount that was originally deposited with LBI in 2008.

The transaction removes all uncertainty surrounding the timing of potential future recovery; particularly given that the administration of the insolvent estate of LBI is likely to continue for several years and the fact that future recovery payments may be made in a number of currencies which could end up being less advantageous to the council.

The money was transferred to the council on 19 November 2014 and this represents a clean break. The money can now be re-invested and the return on this will offset the discount on the price of the sale when assessed over the balance of the repayment period from LBI.

A number of other UK local authorities have sold their claims through the same auction process with each creditor receiving exactly the same price expressed terms of the Icelandic Kroner value of the claim. As authorities' claims included accrued interest on the original deposit, this may produce slightly different recoveries in different authorities.

Report to:



Audit & Governance Committee Cabinet Council

Report of Head of Finance

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Wards affected: all

Cabinet member responsible: Councillor Matthew Barber

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To:	AUDIT & GOVERNANCE COMMITTEE on	22 January 2015
	CABINET on	6 February 2015
	COUNCIL on	18 February 2015

Treasury management and investment strategy 2015/16

Recommendations

The committee recommends to cabinet and council:

1. To approve the treasury management strategy 2015/16 set out in appendix A to this report;
2. To approve the prudential indicators and limits for 2015/16 to 2017/18 as set out in table 2, appendix A;
3. To approve the annual investment strategy 2015/16 set out in appendix A (paragraphs 32-68) and the lending criteria detailed in table 5.

That cabinet:

Considers any comments from committee and recommends council to approve the report.

Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2015/16 to 2017/18. This sets out how the council's treasury service will support capital investment decisions, and how the treasury management operates day to day. It sets out the limitations on treasury management activity governed by the prudential indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report (paragraphs 1-68). This report includes the three elements required by legislation as follows:
 - The prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The annual investment strategy. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments. This strategy is in accordance with the DCLG investment guidance and forms part of the treasury management strategy. (appendix A, paragraphs 32-68);
 - A statutory duty to approve a minimum revenue provision policy for 2015/16 (paragraphs 62-64).

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

Strategic objectives

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

Background

3. 'Treasury management' is the planning of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and the long term cash flow plans to ensure that the council can meet its capital spending obligations.
5. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.
6. The council's treasury management strategy 2015/16 to 2017/18 is attached in appendix A. Whilst every attempt has been made to minimise the technical content

of this report, it is, by its very nature and the need for compliance with associated guidance, technical in parts. A glossary of terms in annex 7 should aid with the understanding of some of the technical terms used in the report.

Recommended changes to the treasury management strategy

7. Council approved the 2014/15 treasury management strategy on 19 February 2014. The proposed strategy for 2015/16 includes the changes detailed below:
 - (i) To add enhanced cash funds to the list of approved investment types. Investment in such funds to be subject to counterparty lending limits as per Table 5, Appendix A.
 - (ii) To add certificates of deposits to the list of approved investment types. Investment in such funds to be subject to counterparty lending limits as per Table 5, Appendix A.

The above recommendations are intended to increase the number of high quality counterparties available to the council and so allow for further diversification of the investment portfolio.

Financial implications and risk assessment

8. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to safeguard the council's finances by managing its risk exposure.
9. In the last few years investment income has fallen due to lower interest rates. In the medium term interest rates are expected to rise, although rises in rates are expected to be slow and gradual given the continued uncertainty in the global economy. The table below gives an estimate of the investment income achievable for the next five years.

Table 1: Medium term investment income forecast					
	2015/16	2016/17	2017/18	2018/19	2019/20
	£000's	£000's	£000's	£000's	£000's
Forecast as at January 2015	412	514	670	814	886

10. The 2015/16 budget setting report and medium term financial plan will take into account the latest projections of anticipated investment income.

Legal implications

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

and the CLG Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

13. This report provides details of the proposed changes to the treasury management strategy and the annual investment strategy for 2015/16 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which officers will operate the council's treasury management function.

Background papers

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (revised 2011)
- CLG Local Government Investment Guidance under Section 15(1)(a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.
- Treasury Management Investment Strategy 2014/15 (cabinet 7 February 2014, council 19 February 2014)

Appendices

Appendix A Treasury Management Strategy 2015/16 – 2017/18 - incorporating the following:

Annex 1	Economic conditions
Annex 2	Prospects for interest rates
Annex 3	Risk and performance benchmarking
Annex 4	Property Investment policy
Annex 5	Explanation of prudential indicators
Annex 6	TMP1 extract
Annex 7	Glossary of terms

Treasury Management Strategy 2015/16- 2017/18

Introduction

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

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

Treasury Limits for 2015/16 to 2017/18

5. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the “Affordable Borrowing Limit”. The Authorised Limit is the legislative limit specified in the Act.
6. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.
7. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.
8. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are set out in table 2 below.

Cabinet is asked to recommend council to approve the limits:

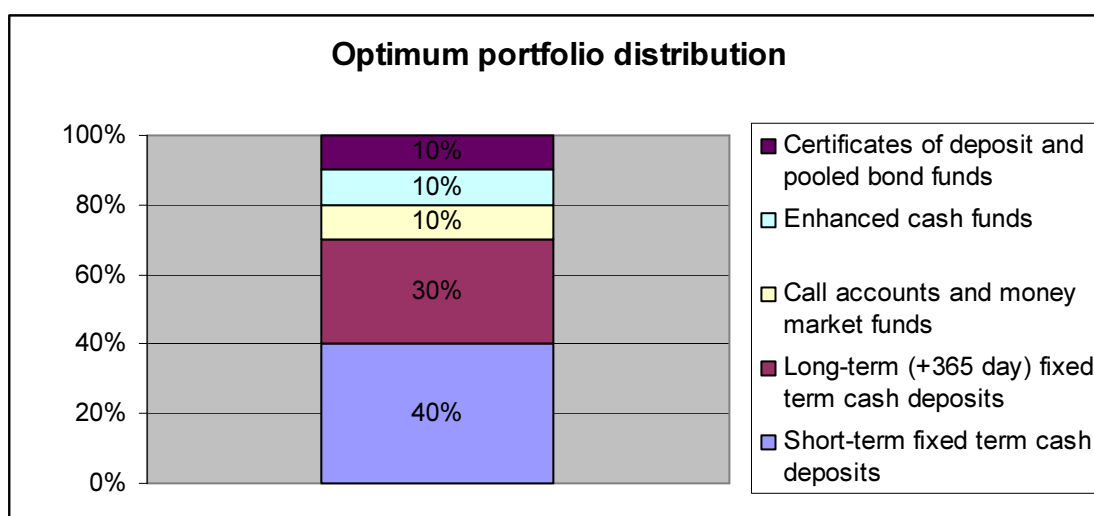
Table 2: Prudential indicators				
	2014/15	2015/16	2016/17	2017/18
Debt	£m	£m	£m	£m
Authorised limit for external debt				
Borrowing	30	30	30	30
Other long term liabilities	5	5	5	5
	35	35	35	35
Operational boundary for external debt				
Borrowing	25	25	25	25
Other long term liabilities
	25	25	25	25
Interest rate exposures				
Maximum fixed rate borrowing	100%	100%	100%	100%
Maximum variable rate borrowing	100%	100%	100%	100%
Investments				
Interest rate exposures				
Limits on fixed interest rates	60	40	40	40
Limits on variable interest rates	30	30	30	30
Principal sums invested > 364 days				
Upper limit for principal sums invested >364 days	30	30	30	30

Current position

9. The maturity structure of the council's investments at 31 December 2014 was as follows:

Table 3: Maturity structure of investments:				
	Classification of investment at deal date		Classification as at 31/12/2014	
	£'000		£'000	
Call	11,000	40%	11,000	40%
Money market fund	2,040	7%	2,040	7%
Less than 6 months	0	0%	7,000	25%
6 months to 1 year	8,500	31%	1,500	5%
1 year + (loans to other local authorities)	4,000	15%	4,000	15%
CCLA - property fund	2,000	7%	2,000	7%
Total investments	27,540		27,540	

10. The council currently holds all of its investments in the form of either cash deposits or a managed property fund (£2 million with CCLA), the majority of which have been placed for fixed terms with a fixed investment return.
11. Currently a relatively high percentage of the council's cash investments are held in call or money market accounts. Due to changing, more costly, capital requirements for banks offering call facilities the market rates (and returns) for this type of instrument are falling. Officers will explore alternative investment opportunities within the confines of this treasury strategy to improve the balance of the portfolio mix, so far as market conditions allow.
12. The council's considerations for investment will remain security, liquidity and yield – in that order. Within this framework a proposed optimum portfolio distribution of cash investments could be considered as follows:



- This represents officer interpretations of a diversified portfolio and from time to time actual holdings could vary from this significantly.

Icelandic banks – Landsbanki

13. On 24 September 2008 the council deposited £1 million with Landsbanki Islands hf at an interest rate of 5.95 per cent. This investment principal and accrued interest (a total sum of £1,004,890) was due to be repaid on 24 October 2008 however the bank entered administration on 7 October 2008.
14. Under the winding up process the council received £531,286 in part repayment of the original debt. The Icelandic Supreme Court had found in favour of UK local authorities to be paid before non-priority creditors of Landsbanki and so the council had expected to receive back substantially all of the money deposited with the bank. Subsequently, there has been much uncertainty over possible changes to legislation in Iceland which may restrict these funds being released outside of the country in the short to medium term.
15. Due to this uncertainty over timing and repatriation of the remaining balance owed, the council, in conjunction with other local authority creditors of Landsbanki, opted to offer their interest in the debt to the financial markets.
16. On 17 October 2014, a sale was brokered with Deutsche Bank AG at a price equivalent to 92.76% of the original debt. After accounting for exchange rate differences and transfer fees the balance received by the council in November 2014 in exchange for the remaining debt was £387,606.
17. Offers received by the council in prior years to purchase the council's Landsbanki claim had previously been rejected as not offering sufficient value. Officers considered that the current uncertainty over possible legislative changes was such that a sale now represented the optimum solution. The final price realised exceeded that earned in an earlier round of claims sales by some UK local authorities in which the council declined the option to participate in.
18. Although the sale was at a discount on the full value of the claim, officers have calculated that the time value of holding the money now (and potentially re-investing) will offset this discount and provide more certainty of return.
19. Previous distributions from the Landsbanki Winding-up Board (WUB) have included disbursement in Icelandic Kroner (ISK) which has to be held in an escrow account in Iceland, pending agreement for its release and conversion in sterling (or euros/US dollars). The value of this holding as at 31 March 2014 was £8,096 and is currently earning annual interest of 4.17 per cent.

Investment performance for the year to 31 December 2014.

20. The council's budgeted investment return for 2014/15 is £0.412 million, and the actual interest received to date is shown as follows:

Table 4: Investment interest earned to date and outturn estimate				
Investment type	Interest Earned			
	Annual Budget	Actual to date	Annual Forecast	Forecast Variation
	2014/15 £000's	2014/15 £000's	2014/15 £000's	2014/15 £000's
Position at end December 2014	356	325	412	56
Total interest	356	325	412	56

Borrowing Strategy 2015/16 – 2017/18

21. The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council currently has no external debt and external borrowing may only prove necessary depending on the value of new schemes added as part of the 2015/16 budget setting process.
22. The council will continue to take a prudent approach to its debt strategy. In general, the council will borrow for one of two purposes:
 - To support cash flow in the short-term;
 - To fund capital investment over the medium to long term.

Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in Table 2.

23. The prudential indicators provide the scope and flexibility for the council to borrow up to a maximum of £30 million, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority, for the achievement of its service objectives.
24. The existing capital programme can be financed from internal resources. Additional expenditure committed as part of the 2015/16 budget setting process can be financed from internal resources (either by use of reserves or internal borrowing) or externally (through prudential borrowing). Any decision on borrowing will be taken by the Head of Finance based on the minimum cost to the council.
25. Currently, the council is debt free. There is no financial advantage to the council of maintaining a debt free status, other than it avoids the revenue cost of servicing any borrowing it assumes. Any borrowing undertaken will be within the framework of the prudential indicators included in this report.
26. The latest projection from the council's treasury advisors, Capita Asset Services, is for the Bank of England base rate to remain unchanged at 0.5% until the second quarter of 2015/16. This does provide a window of opportunity to review the strategy of undertaking external borrowing for new projects.

Appendix A

27. The treasury management strategy for the forthcoming year aims to efficiently manage the investment portfolio by reducing the amount of funds held extremely short-term for cash flow purposes and operating with an adequate but not excessive level of working capital. This optimum level is dictated by the accuracy of cash flow forecasts and, although unlikely, it is prudent to set a minimum level for the use of short-term borrowing arrangements or overdraft facilities if the cash flow forecasts prove inaccurate at any point in the year.
28. This strategy allows the head of finance to take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.
29. Any borrowing for capital financing purposes will be assessed by the head of finance to be prudent, sustainable and affordable
30. This strategy allows the head of finance to determine the most suitable repayment terms of any borrowing to demonstrate affordability and sustainability in the medium term financial plan. As a general rule, the term of any borrowing will usually be matched to the expected life of the capital asset being created.

Policy on borrowing in advance of need

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

Annual investment strategy

32. The primary aim of the council's investment strategy is to maintain the security and liquidity of its investments; yield or return on the investment will be a secondary consideration, subject to prudent security and liquidity. The council will ensure:
 - It has sufficient liquidity in its investments to cover cash flow. For this purpose it has set out parameters for determining the maximum periods for which funds may prudently be committed.
 - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
33. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods

as and when institutional security and market confidence returns. This aim is to provide a more even and predictable investment return in the medium term.

34. The council's head of finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 5) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

Investment types

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

Specified investment instruments (maximum period 1 year)

These are sterling investments of not more than one year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F2/BBB rated)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

Non-specified investment instruments (maturities over one year)

These are any other type of investment (i.e. investments not defined as specified, above). Non-specified investments would include any sterling investments with:

- Supranational bonds of 1 to 10 years to maturity
- UK treasury stock (Gilts) with a maturity of 1 to 10 years
- Unrated building societies (minimum asset value £1 billion)
- Bank and building society cash deposits up to 5 years (minimum F1/A- rated)
- Deposits with UK local authorities up to 25 years to maturity
- Corporate bonds
- Pooled property, bond funds and UK pooled equity funds
- Direct property investment

Other Non-specified investment instruments

- Fixed term deposits with variable rate and variable maturities

Approach to investing

36. The council holds approximately £12 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and not replenished by capital receipts. In addition the council has funds which are available on a temporary basis to invest.

Appendix A

These are held pending payment over to another body such as precept payments and council tax. The amount can vary between £5 million and £24 million throughout the year and should only be invested short term (under one year). Investments will be made primarily with reference to known cash flow requirements (liquidity).

37. Whilst the current market uncertainties remain the council will aim to keep investments relatively short term, but where possible will continue to look for opportunities to fix lending in the medium term with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk.
38. Officers will continue to implement an operational strategy which provides tight controls on the investments placed. Where possible opportunities to spread the investment risk over different types of instruments will be considered.
39. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).
40. The council has the authority to lend to other local authorities at market rates. Current investments include £4 million of lending to Kingston Upon Hull City Council which matures in 2020/21. Whilst investments with other local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority before any funds are advanced.
41. The property investment holdings will be kept under review to identify if further investments should be placed in these categories. Property funds will also be looked at in more detail for consideration. In 2013/14 the council invested £2 million in the Churches Charities and Local Authorities pooled property investment fund (CCLA). Further details on the property investment policy are contained in annex 4.
42. Money market funds are used for security and liquidity and to spread portfolio risk. The council will monitor our exposure to these funds in order to manage our security risk.
43. Currently the council does not make use of an external fund manager. Whilst there are presently no plans for this situation to change, this will continue to be kept under review.
44. Bond funds can be used to diversify the portfolio, whilst maintaining liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.
45. One option to offer diversification in the council's investment portfolio would be to make use of enhanced cash funds (see Annex 7). Possible use of such funds would be intended for longer term investments than with traditional money market funds (i.e. for possible investment durations of 3 – 6 months). Investments placed with enhanced cash funds are callable and so offer the option to be withdrawn before maturity, although this is likely to have an adverse impact on the return on the investment.
46. Unlike money market funds, enhanced cash funds have a variable net asset value (VNAV). This means the assets are 'marked to market' (re-valued to current market value) on a daily basis and the fund unit price adjusted accordingly. Under this calculation basis the unit price fluctuates and could, therefore, be higher or lower than

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the original investment when it is redeemed. Any use of enhanced cash funds would be restricted to the high quality counterparty credit criteria as set out in Table 5.

47. The council does not currently make use of certificates of deposit (Annex 7). Consideration will be given to their use to assist diversification of the investment portfolio. Certificates of deposit have the same level of ranking and security as ordinary fixed term deposits but have the option of being traded before maturity. Certificates of deposit are bought and sold on the stock market and their price can go up or down during prior to their redemption date. If held to maturity the investment will return their issue value. The council would only normally look to enter into such investments on a held to maturity basis.
48. Both enhanced cash funds and certificates of deposit have been added to the strategy this year.

Counterparty selection

49. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Capita Asset Services provide the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.
50. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies in evaluating investment opportunity. This is because adopting this approach could leave the council with too few counterparties for the strategy to be workable. Instead, counterparty investment limits will be set by reference to all of the assigned ratings.
51. Credit rating information is supplied by Capita Asset Services, our treasury consultants. Any counterparty failing to meet the minimum required criteria (Table 5) would be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change) are provided to officers almost immediately after they occur and this information is considered before any deal is entered into. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.
52. Additional requirements under the CIPFA Treasury Management Code comply the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.
53. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with and the agreement of the cabinet member responsible for finance.

Country and sector considerations

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

Counterparty limits

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

Table 5: Counterparty limits				
Counterparty	Minimum Fitch Rating (or equivalent)	Counterparty Limit £m	Max. maturity period	Maximum % of total investments
Institutions with a minimum rating:	F1+ / AA-	£10.0m	5 years	100%
Institutions with a minimum rating:	F1 / A-	£7.5m	2 years	80%
Institutions with a minimum rating:	F2/BBB	£5.0m	1 year	70%
Banks - part nationalised UK		£15.0m	3 years	100%
Banks - house bank	n/a	£5.0m	3 months	20%
Building societies - assets > £5,000m	n/a	£5.0m	12 months	70%
Building societies - assets > £3,000m	n/a	£3.5m	12 months	60%
Building societies - assets > £1,000m	n/a	£3.0m	10 months	50%
Corporate Bonds	AA-	£5.0m	variable	40%
Money Market funds (CNAV)	AAA	£20.0m	liquid	100%
Enhanced cash funds (VNAV)	AAA / V1	£15.0m	variable	50%
UK Government - gilts	UK sovereign	Unlimited	25 years	20%
UK Government - DMADF	UK sovereign	Unlimited	6 months	100%
Local authorities; parish councils	n/a	£20.0m	25 years	20%
Supranationals	AAA	£10.0m	10 years	50%
Pooled property funds - CCLA	n/a	£3.0m	variable	10%
Share capital / Equities	n/a	£3.0m	variable	20%
Direct property investment	n/a	n/a	unlimited	80%
Managed Bond Funds	n/a	£15.0m	variable	70%

56. The criteria proposed for choosing counterparties provides a sound approach to investment in "normal" market circumstances. Whilst councillors are asked to approve the criteria in table 5, under the exceptional current market conditions the head of finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions.

Fund managers

57. The treasury management strategy allows for a total of up to £15.0 million portfolio to be invested with a fund manager. Fund managers can invest in a variety of investment types such as cash deposits, gilts and certificates of deposits. These types of funds can extend the spread of investment portfolio, access highly rated institutions and capitalise upon opportunities to improve returns, whilst maintaining liquidity. This is reviewed regularly, and at present it is not evident that the council can currently benefit

from the service of a fund manager due to the market conditions. However, the situation will continue to be reviewed.

Risk and performance benchmarks

58. A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in annex 3.
59. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:
- Cash investments - 3 month LIBID rate.
 - Property related investments – IPD Balance Property Unit Trust Index.
 - Maximum investment of daily balances (in-house).
 - Maintenance of a balanced portfolio.

The results of these indicators will be reported in both the annual mid-year and year-end treasury reports.

Policy on the use of treasury management advisors

60. The council has a joint contract for treasury management advisors with South Oxfordshire District Council. A two year contract was awarded to Capita Asset Services, a subsidiary of the Capita Group Plc which covers the period to October 2016. The company provides a range of services which include:
- technical support on treasury matters, capital finance issues, statutory reports;
 - economic forecasts and interest rate analysis;
 - credit ratings / market information service involving the three main credit rating agencies;
 - strategic advice including a review of the investment and borrowing strategies and policy documents.
61. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

Minimum revenue provision (MRP) statement 2015/16

62. The council is required to assess its MRP requirement for the year in accordance with the guidance of section 21(1A) of the Local Government Act 2003. MRP is only chargeable on outstanding capital liabilities.
63. Currently, the council's MRP liability is nil. This will remain the case unless new capital expenditure is financed by external borrowing.
64. The council's current capital programme can be financed from internal resources. Depending on the conclusion of the 2015/16 budget setting process, new capital growth ideas may require external borrowing. If borrowing is undertaken then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly. The Head of Finance will determine the most appropriate repayment method, term of borrowing and duration of borrowing. As a general illustration, Table 6 below gives an example of the annual revenue costs associated with borrowing an amount of £2.5 million over a 50 year period, based on the current district tax base of 47,563 Band D equivalents:

Table 6: Example MRP and interest calculation		
Loan amount	£2,500,000	
Loan duration	50 years	
PWLB interest rate	3.50 per cent	
2015/16 Taxbase	47,563	
	£	£ per band D
MRP element	50,000	1.05
Annual interest cost	87,500	1.84
Total	137,500	2.89

Councillor and officer training

65. The requirement for increased councillor consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for councillors and officers. In compliance with the revised CIPFA Code, the council provided treasury management training to councillors in January 2014. Further training can be provided if required or requested.

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

66.
 - I. **Council**
 - Receiving and approval of reports on treasury management policies, practices, outturn and activities;
 - Approval of annual strategy
 - II. **Audit and governance Committee / Cabinet**

Appendix A

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

III. Section 151 Officer / Head of Finance

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

Summary

67. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus funds.
68. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

Economic conditions and interest rate forecasts

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

UK economy

2. Since the second quarter of 2013 the UK has reported rising levels of GDP. However, some analysts are of the opinion that for the economic recovery to become more balanced and sustainable in the longer term there needs to be a rise in export led growth and a move away from dependence on consumer expenditure and the housing market.
3. Levels of unemployment have been falling much faster than the initial threshold of 7% previously flagged by the MPC as the point before which it would not consider any increase in bank rate. Subsequently, the MPC broadened its forward guidance by looking at a much wider range of economic indicators in order to form a view on spare capacity in the domestic economy.
4. The MPC is particularly concerned that until wage growth rises above the prevailing level of inflation the recovery will not be sustainable. Markets are expecting the MPC to follow a cautious approach to rising interest rates as it will want to protect heavily indebted consumers from too early an increase in rates at a time when inflationary pressures are also weak.
5. Consumer Price Inflation fell to a five year low in September 2014 of 1.2%. Forward indications are that rates of inflation will fall further over the year and then remain near to, or under, the 2% target level over the MPC's two year ahead time horizon.
6. The latest projection from Capita Asset Services is for a first increase in interest rates to occur around the second quarter of 2015.

Eurozone economy

7. The Eurozone is facing the threat from weak or negative growth and from deflation. In September 2014 the overall inflation rate for the Eurozone area was just 0.3%. Sovereign debt difficulties could return in respect of any countries that do not address low rates of growth and economic reforms and it is possible that levels of government debt to GDP could continue to rise for some Eurozone members. Italy, for example, has the third biggest debt mountain in the world behind Japan and the United States.
8. Some economic forecasters are concerned as to whether governments will lose the support of electorates suffering under Eurozone imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 24%, and still higher levels of unemployment among younger people.

Capita Asset Services forward view

9. Economic forecasting continues to be difficult given the number of external influences affecting the UK. The interest rate forecasts shown below assume that there will not be a major resurgence of the EZ debt crisis or a breakup of the EZ. Key areas of risk include:

Annex 1

- Economic uncertainty caused by the ongoing unrest in the Ukraine and fears generated by the potential impact of the Ebola outbreak in Africa;
 - UK strong economic growth continues to be dependent on consumer spending and a potentially unsustainable growth in the housing market;
 - Weak economic growth or recession in the European Union, the UK's main trading partner;
 - A resurgence of the Eurozone debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis;
 - Monetary policy action failing to stimulate sustainable growth in western economies especially the Eurozone and Japan;
 - There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge quantitative easing measures which remain in place. This has created potentially unstable flows of liquidity searching for yield and heightened the potential for an increase in risks in order to get higher returns – a similar environment to the one which led to the 2008 financial crisis.
10. The view of Capita Asset Services is that the overall balance of risks to economic recovery in the UK is currently evenly weighted. However, uncertainty remains over how long the period of strong economic growth will last and the UK economy remains exposed to vulnerabilities in a number of key areas.

Prospects for interest rates

1. The bank base rate is forecast to remain unchanged at 0.5 per cent, rising in Q2 in 2015. Capita Asset Service's central view for bank rate forecasts is shown below:

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank of England base rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
PWLB rates*											
5 year borrowing	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10 year borrowing	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%
25 year borrowing	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%
50 year borrowing	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%

* adjusted for the 20 basis point certainty rate reduction effective as of 1st November 2012

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

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

1. These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.
2. Yield. The local benchmark currently used to assess the performance of cash investments is the level of returns contrasted against the London Interbank Bid (LIBID) 3 month rate. This is the interest rate a bank would be willing to pay to borrow from another bank for 3 months.

Property related investments are benchmarked against the IPD Balanced Property Unit Trust Index.
3. Liquidity. Liquidity is defined as the council “having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). The in-house team keeps a daily cash-flow forecast and would only have an unseen requirement if (for example) a large receipt was received later than expected. In such a scenario, short term borrowing would be considered to cover the period of delay. In respect of this area the Council seeks to maintain:
 - Bank overdraft – the council has an approved overdraft of £500,000 on its composite set of bank accounts. As this is chargeable, the daily balance is always set to be in credit.
 - Liquid short term deposits of at least £500,000 available on instant access.
4. The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the weighted average life (WAL) of the portfolio. A shorter WAL would generally embody less risk – ie a lower duration of investments so exposed to risk of default and a lower risk of being unable to switch investments in a rising interest rate environment. However, the converse of this is that shorter duration investments offer lower rates of return and investing for longer durations gives more certainty over returns achievable.
5. Officers will continue to look at options for longer term lending as applicable, with suitable high quality counterparties, such as other local authorities. During 2013/14 the council invested a total of £4 million in seven year investments with Kingston Upon Hull City Council which has had the effect of significantly lengthening the weighted average life of the cash portfolio.

In this respect the proposed benchmark is to be used:
 - WAL benchmark is expected to be **460** days, with a maximum of **500** days.
6. Security of the investments. In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the last 20-30 years.

Average defaults for differing periods of investment

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.02%	0.06%	0.09%	0.13%
AA	0.02%	0.04%	0.14%	0.27%	0.38%
A	0.09%	0.24%	0.43%	0.61%	0.86%
BBB	0.20%	0.59%	1.02%	1.52%	2.00%

7. The council's minimum long term (ie plus 365 day duration) rating criteria is currently "AA-". For comparison, the average expectation of default for a two year investment in a counterparty with an "AA" long term rating would be 0.04 per cent of the total investment (e.g. for a £1m investment the average loss would be £400). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

Property Investment Policy

1.0 The case for property

1.1 The Council is restricted in the different investment vehicles it is legally allowed to invest in notwithstanding the over-riding need for prudence. Of the few avenues open one is property and the returns from investing in property have generally been, and currently are, greater than the limited opportunities in the money markets. The following should be considered in conjunction with the council's published Asset Management Plan 2015-2019.

1.2 In broad terms the returns are greater because the risks are greater. Factors to be taken into account when deciding the principle of investing in property include:

- investment will be for the long term since it may not be possible, or wise, to sell quickly,
- the costs of acquisition and disposal are higher,
- there are management costs, risk of rent default and failure to honour maintenance agreements,
- different types of property and different areas carry different risks,
- generally property tends to appreciate in value, although this will vary by type and area; however, in some cases the value may go down,
- property can become functionally obsolete necessitating major refurbishment,
- without regular repair and maintenance the condition will deteriorate and the responsibility for repairs/maintenance may not always rest with the tenant,
- certain types of property may become less desirable as time goes by; this can make re-letting difficult or attract a lower calibre of tenant.

2.0 How much to invest?

2.1 The in-house cash holdings are currently adequate for cash-flow management purposes (operational capital). £21 million is invested in property and £27.5 million is invested in treasury investments. The investment in property currently represents 43 per cent of the total figure.

Policy 1. The maximum percentage of the investment portfolio in property should be 80 per cent of the total, and the cash funds invested (i.e. not held for cash-flow purposes) should not fall below £10 million.

3.0 What type of property?

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

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

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

Policy 2. In general, properties for investment will be from the categories: retail, offices, industrial land and buildings.

4.0 Where should it be located?

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

Policy 3. Only property located in the UK will be considered.

5.0 What level of financial return?

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

Policy 4. With regard to the rate of return, each proposal will be considered on its merits.

6.0 Review

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

Explanation of Prudential Indicators

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

Capital expenditure – indicator to consider last year's spending, this year's projected spending and the approved programme until 2017/18.

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

Net borrowing requirement – the council currently has no borrowing.

In year capital financing requirement – the in year capital financing requirement is nil as the council currently has no borrowing.

Capital financing requirement (CFR) as at 31 March – the CFR shows the underlying need of the council to borrow for capital purposes as determined from the balance sheet. As the council currently has no debt the CFR is zero.

Incremental impact of capital investment decisions – increase in Council Tax (band D) per annum – this indicator shows the affect of the latest capital programme report on annual council tax. This indicator is based on the estimated decrease or increase in interest payable to the General Fund each year due to the changed funding of the capital programme in the latest capital report to December 2014 cabinet.

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

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

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cash flow.

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

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

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

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

The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the code, the head of finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year.

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

- the strategy guidelines for decision making on investments, particularly non-specified investments.
- the principles to be used to determine the maximum periods for which funds can be committed.
- specified investments the council will use. These are high security (ie have a high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

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

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F2/BBB rated)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as stated in Table 5 to this report.

Non-specified investments

These are any other type of investment (ie not defined or specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are as set out in Table 5.

GLOSSARY OF TERMS

Basis Point (BP)	1/100 th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.

Annex 7

Enhanced Cash Funds	A pooled investment fund. Longer dated investment than a MMF and, unlike a MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Mark to Market Accounting	Accounting on the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions.
Minimum Revenue Provision	This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Annual Audit Letter

Vale of White Horse District Council

24 October 2014



The Members
Vale of White Horse District Council
Abbey House
Abingdon
Oxfordshire
OX14 3JE

15 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Vale of White Horse District Council (the Council) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance (the Audit and Governance Committee) of the Council in our Audit Results Report dated 11 September 2014.

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of Vale of White Horse District Council for their assistance during the course of our work.

Yours faithfully

Mick West
For and behalf of Ernst & Young LLP
Enc

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Executive summary

Our 2013-14 audit work has been undertaken in accordance with the Audit Plan we issued on the 27 February 2014 and is 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.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements
- ▶ Reviewing the Annual Governance Statement
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources
- ▶ Undertaking any other work specified by the Audit Commission

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Vale of White Horse District Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 29 September 2014 we issued an unqualified audit opinion in respect of the Council.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Audit and Governance Committee) communicating significant findings resulting from our audit.	On 11 September 2014 we issued our report in respect of the Council.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 29 September 2014.
Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act	On 29 September 2014 we issued our audit completion certificate.

1998 and the Code of Practice issued by the Audit Commission.

Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work that we have undertaken.

On 27 January 2014 we issued our annual certification report to the Accounts, Audit and Risk Committee

Key findings

Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified auditor's report on 29 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk: Risk of management override

This is a general risk we consider for the public sector bodies we audit. We obtained assurance that the risk of material misstatement due to fraud and error had been mitigated

Other key findings:

Implementation of new fixed asset register

Previously the asset register was maintained on an Excel Spreadsheet, rather than an IT based register. The Council has introduced such a fixed asset register in 2013-14 and this was to be used to produce entries in the financial statements.

We found that the data had been correctly transferred into the new register and that the entries produced for depreciation, additions and disposals were accurate and consistent with the Council's accounting policies.

Officers identified issues when the updated asset values were input into the new fixed asset register module, which resulted in the incorrect accounting entries being produced. A decision was taken to utilise the entries produced by the Excel based spreadsheet, which was updated alongside the new asset register.

From our detailed work we are satisfied that the entries disclosed in the financial statements are accurate and comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2013-14.

Management should ensure that the issues identified with the new fixed asset module are resolved in a timely manner to enable all entries to be produced by the module for the 2014-15 financial statements.

NDR Appeals provision

The Business Rates Retention Scheme came into force on 1 April 2013. Where local businesses believe the current rateable value for business properties is wrong they can appeal. Where rating appeals are successful, monies to settle appeals will come out of the Council's collection fund reducing the rate income shared by the Council with the CLG and County Council. This includes both claims from 1 April 2013 and claims that relate to periods before the introduction of the scheme. As appeals are to the Valuation Office Agency (VOA), authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

We assessed the reasonableness of the Council's methodology in estimating the provision in respect of rateable value appeals at the balance sheet date.

This involved consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.

We were satisfied that the Council applied reasonable estimation techniques in determining the amount of provision it included in its accounts.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013-14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We issued an unqualified value for money conclusion on 29 September 2014. We have no issues we wish to bring to your attention.

Whole of Government Accounts

We reported to the National Audit office on the 29 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We presented our Annual Certification Report for 2012-13 to the 27 January 2014 Audit and Governance Committee. We certified one claim and one return worth £88.9m. We issued qualification letters reporting errors in the claim and return. We will issue the Annual Certification Report for 2013-14 in December 2014.

Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we were required to communicate to those charged with governance (the Audit and Governance Committee) significant deficiencies in internal control.

We found no deficiencies during the audit that were of sufficient importance to merit being reported.

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Audit and governance work programme

containing Audit and Governance Committee work to be undertaken
1 MARCH 2015 - 31 DECEMBER 2015



The audit and governance work programme belongs to the council's Audit and Governance Committee and sets out a schedule of work for the period shown above. It is a rolling plan, subject to change at each Audit and Governance Committee meeting; however, the council may allocate additional work.

You can make representations on any issue below. Please contact the officer shown below by 10am on the day the committee is due to meet.

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Internal audit activity - fourth quarter 2014/15	Audit and Governance Committee 19 Mar 2015	Adrianna Partridge (01491) 823544 Email: adrianna.partridge@southandvale.gov.uk	The council audits its services through the internal audit service.	To review the outcomes from the internal audits and recommend any further actions or improvements	This is a recurring item on every agenda.
Internal audit management - fourth quarter 2014/15	Audit and Governance Committee 19 Mar 2015	Adrianna Partridge (01491) 823544 Email: adrianna.partridge@southandvale.gov.uk	The committee monitors the effectiveness of the internal audit each quarter	To monitor the management of internal audit.	This is a recurring item on every agenda.

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Internal audit plan 2015/16	Audit and Governance Committee 19 Mar 2015	Adrianna Partridge Tel. 01491 823544 Email: adrianna.partridge@southandvale.gov.uk	The council audits its services through the internal audit service.	To approve the internal audit plan for 2015/16	
External auditor's report	Audit and Governance Committee 19 Mar 2015	William Jacobs, (01491) 823326 Email: william.jacobs@southandvale.gov.uk	The external auditor to bring a progress report		
Internal audit annual report 2014/15	Audit and Governance Committee June 2015	Adrianna Partridge (01491) 823544 Email: adrianna.partridge@southandvale.gov.uk	Each year the council's internal audit team produces an annual report to review activities over the previous year	To review internal audit activity during 2014/15	
External auditor's annual governance report 2014/15	Audit and Governance Committee September 2015	William Jacobs, (01491) 823326 Email: william.jacobs@southandvale.gov.uk	The external auditor publishes an annual governance report on the council's activities.	To consider the external auditor's annual governance report 2014/15	
Statement of accounts 2014/15	Audit and Governance Committee September 2015	Simon Hewings (01491) 823583 Email: simon.hewings@southandvale.gov.uk	The council must produce a statement of accounts each year.	To approve the statement of accounts 2014/15	

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Annual governance statement 2014/15	Audit and Governance Committee September 2015	Ron Schrieber (01491) 823619 Email: ron.schrieber@southandvale.gov.uk	The council is required to publish an annual governance statement.	To approve the annual governance statement.	
Treasury management outturn 2014/15	Audit and Governance Committee September 2015	Bob Watson (01235) 540426 Email: bob.watson@southandvale.gov.uk	The committee is responsible for the scrutiny of the council's treasury management activity.	To consider the treasury management outturn for 2014/15.	
Comments and complaints 2014/15	Audit and Governance Committee September 2015	David Buckle (01235) 540303 Email c/o: jeanette.cox@southandvale.gov.uk	The committee is responsible for monitoring the council's comments and complaints.	To review the comments and complaints received during 2014/15	