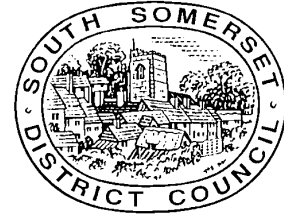


**South Somerset District Council**

*Notice of Meeting*



# Audit Committee

*Making a difference where it counts*

**Thursday 24th January 2019**

**10.00 am**

**Main Committee Room, Council Offices,  
Brympton Way, Yeovil BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



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The following members are requested to attend the meeting:

**Chairman:** Derek Yeomans  
**Vice-chairman:** Tony Lock

Jason Baker  
Mike Best  
Nigel Gage

Carol Goodall  
Graham Middleton  
David Norris

Jo Roundell Greene  
Colin Winder

If you would like any further information on the items to be discussed, please contact the Case Services Officer (Support Services) on 01935 462038 or [democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk)

This Agenda was issued on Wednesday 16 January 2019.

*Alex Parmley, Chief Executive Officer*



This information is also available on our website  
[www.southsomerset.gov.uk](http://www.southsomerset.gov.uk) and via the mod.gov app

## **Information for the Public**

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

### **Internal Audit Activity**

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

### **External Audit Activity**

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

### **Regulatory Framework**

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

### **Financial Management and Accounts**

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

### **Overall Governance**

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at [www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

### **Members questions on reports prior to the Meeting**

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

### **Recording and photography at council meetings**

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

# Audit Committee

**Thursday 24 January 2019**

## Agenda

### *Preliminary Items*

**1. Minutes**

To approve as a correct record the minutes of the previous meeting held on Thursday 22<sup>nd</sup> November 2018.

**2. Apologies for absence**

**3. Declarations of Interest**

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

**4. Public question time**

**5. Date of next meeting**

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 28<sup>th</sup> March in the Main Committee Room, Brympton Way, Yeovil.

### *Items for Discussion*

**6. Internal Audit Annual Activity Report 2018/19** (Pages 5 - 19)

**7. Treasury Management Strategy Statement 2019/20** (Pages 20 - 45)

**8. Certification of Claims Report** (Pages 46 - 51)

**9. Audit Committee Forward Plan** (Pages 52 - 53)

# Agenda Item 6

## **Internal Audit Annual Activity Report 2018/19**

*Head of Service:* Gerry Cox, Chief Executive - SWAP  
*Lead Officer:* Alastair Woodland - Assistant Director  
*Contact Details:* Alastair.Woodland@swapaudit.co.uk

### **Purpose of the Report**

To update members on the Internal Audit Plan 2018-19 progress and bring to their attention any significant findings identified through our work. The report aims to provide assurance to the Audit Committee regarding the effectiveness of the control environment operated by and on behalf of the council and highlight any significant matters to be addressed by management.

### **Recommendation**

Members are asked to note progress made in delivery of the 2018/19 internal audit plan and that 2 significant findings have been identified since the previous update in October 2018.

### **Background**

The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2018-19 Annual Audit Plan was approved by the Audit Committee at its March 2018 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.

### **Financial Implications**

There are no financial implications associated with these recommendations.

**Background Papers:** None

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# South Somerset District Council

## Report of Internal Audit Activity

2018-19 Progress Update January 2019

Page 6

# Contents

## The contacts at SWAP in connection with this report are:

### Gerry Cox

Chief Executive

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[gerry.cox@SWAPaudit.co.uk](mailto:gerry.cox@SWAPaudit.co.uk)

### Ian Baker

Director of Quality

Tel: 01935 848540

[ian.baker@SWAPaudit.co.uk](mailto:ian.baker@SWAPaudit.co.uk)

### Alastair Woodland

Assistant Director

Tel: 07720312467

[Alastair.woodland@SWAPaudit.co.uk](mailto:Alastair.woodland@SWAPaudit.co.uk)

➡	Role of Internal Audit	Page 1
➡	Internal Audit Work	Page 2 – 3
➡	Approved Changes to the Audit Plan	Page 4
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 5 – 6
	Appendix B – Internal Audit Work Plan	Page 7 – 9
	Appendix C – Summary of Relevant Findings	Page 10 – 12

## Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



## Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which was approved by the Audit Committee at its meeting in March 2018.

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

- Operational Audit Reviews
- Governance Audits
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Leadership Team. The 2018-19 Audit Plan was reported to this Committee and approved at its meeting in March 2018.

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



## Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



## Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A**.

Since the last update in October 2018 the following audits have been completed:

Audit Area	Quarter	Status	Opinion
EU General Data Protection Regulations Common Findings	1	Final	Advisory
LED Leisure Contract Compliance	2	Final	Reasonable
Financial Resilience/Contract Monitoring	2	Final	Partial
Treasury Management & Bank Reconciliations	3	Final	Substantial
Payroll	3	Final	Substantial

### Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



### Internal Audit Work Programme Continued

#### **Partial Assurance / No Assurance Audits**

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. Since the October 2018 update there is one 'Partial Assurance' review I need to bring to your attention, this being Supplier Resilience. This audit was focusing on the supplier financial resilience and how this and the contracts were being monitored. We identified that there is no corporate approach to monitoring the financial resilience of the suppliers and that the business continuity plans did not contain any process of managing the failure of a key supplier. Further details can be found in **Appendix C**.

#### **'High' Corporate Risk**

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention.

Since the October 2018 update there are no 'High' risks that I need to bring to your attention from our work. Whilst Supplier Resilience returned a Partial Assurance, SSDC have very few suppliers that have been contracted to deliver more than one service; whilst there will be some disruption should these fail there are no business-critical services that are currently outsourced. This does reduce the impact on service delivery, as a result of supplier failure and the fact that the number of contracts in place is less than for a council with a high number of outsourced services. For this reason, the risk assessment at a corporate level returned a 'Medium' assessment rather than 'High'.

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



### Approved Changes to the Audit Plan

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to South Somerset District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Manager and the Section 151 Officer.

Since the previous update the following changes have been made:

- The Agile Working audit has been removed from the plan and was replaced by the Cyber Security Follow Up audit. The reason for this is due to timing when our IT Audit resource was available and the heightened risks around Cyber Security.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

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

Non-Opinion/Advisory – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

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Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

**Categorisation of Recommendations**

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

- Priority 1: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Findings that require attention.

**Definitions of Risk**

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

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>FINAL</b>									
Cross cutting, Governance, Fraud and Corruption	Bank and Cash Procedures at Octagon and Westlands	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Boden Mill	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory	1	0	0	1	
Cross cutting, Governance, Fraud and Corruption	Data Protection Query	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	EU General Data Protection Regulations Common Findings	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Financial Resilience/Contract Monitoring	2	Final	Partial	3	1	1	1	
Operational	LED Leisure Contract Compliance	2	Final	Reasonable	1	0	0	1	
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Final	Substantial	0	0	0	0	
Key Financial Controls	Payroll	3	Final	Substantial	0	0	0	0	
<b>DRAFT/REVIEW</b>									
Cross cutting, Governance, Fraud and Corruption	Lone Working Arrangements	2	Draft						

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Cross cutting, Governance, Fraud and Corruption	Commercial Strategy/Income Generation	3	Draft						
Key Financial Controls	Cash Receipting	3	Draft						
Key Financial Controls	Accounts Receivable	3	Draft						
<b>IN PROGRESS</b>									
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Re-engineering workshops	1,2,3	In Progress						
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Petters Way Front of House	1,2,3	In Progress						
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Benefit Realisation Strategy	1,2,3	In Progress						
Key Financial Controls	Main Accounting, Budgetary Control and Capital Accounting	3	In Progress						
IT Audit	<b>New:</b> Cyber Security Follow Up	3	In Progress						
Key Financial Controls	Accounts Payable	4	In Progress						Scope Agreed

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
						Major		Minor	
						Recommendation			
1	2	3							
<b>NOT STARTED</b>									
Cross cutting, Governance, Fraud and Corruption	Procurement/Contract	4							
Cross cutting, Governance, Fraud and Corruption	Housing Benefit Subsidy Claims	4							
Operational	S106/CIL	4							
Cross cutting, Governance, Fraud and Corruption	Risk Management	4							
Cross cutting, Governance, Fraud and Corruption	Benefits Realisation	4							
IT Audit	Disaster Recovery	4							
<b>Deferred/Removed</b>									
IT Audit	Agile Working	1,2,3				Replaced by Cyber Security			

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Schedule of significant findings identified from Internal Audit work Since the 2018 October Audit Committee Update

Audit completed since the October 2018 update: Assignments since the



Summary of Audit Findings and High Priority Service Findings

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

The following information provides a brief summary of each audit review finalised since the last Committee update in October 2018. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the October 2018 update there is one Partial Assurance audit opinion that I need to bring to your attention.

Governance, Fraud and Corruption Audits

The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will enable SWAP to provide management with assurance that key controls are in place. SWAP will use the findings of these reviews to support the assurance that is required as part of the Council’s Annual Governance Statement; it will also provide assurance to the External Auditor on areas that they have requested specific assurance.

Financial Resilience/Contract Monitoring

Contract Managers are generally aware of their responsibilities for managing the contract performance but since the collapse of Carillion monitoring financial resilience of key contractors has not been re-evaluated.

At the initial procurement stage, the financial position of all new suppliers is evaluated as part of the decision-making process. However, we identified that there is no consistent approach for monitoring supplier’s financial resilience across the Council once in contract. This could result in service failure if the supplier went into administration.

Audit Assignments completed since the October 2018 update:

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

Governance, Fraud and Corruption Audits Continued

If services are outsourced this would increase the risk in this area, however, the Council do not outsource many services as they are delivered by the Council directly rather than through third parties, which reduces the risk in this area.

Contract Managers are unaware of the guidance documents which provide a corporate approach to monitoring suppliers and managing contracts. In addition, although Contract Managers understood what action they should take if the suppliers went into administration, this is not formally recorded Business continuity plans.

The monitoring of contracts being undertaken is reasonable for the types of contracts. Where the costs are not capped within the contract all expenditure is checked back to ensure the goods or service has been received and the prices charged are correct. The monitoring is also ensuring that the outcomes expected from the Contract are being delivered and the supplier is being held to account where they are failing to meet the agreed outcomes.

Due to there being no consistent financial monitoring being undertaken partial assurance has been awarded.

No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
1	Financial Resilience / Contract Monitoring	No consistent approach to monitoring the financial resilience of suppliers.	A supplier goes into administration resulting in delays or failure to meet service delivery by the council causing financial and reputational damage.	We recommend that the Procurement Specialist implements a process to ensure the critical suppliers are identified, the impact of their failure should be assessed, and a suitable in contract financial monitoring approach implemented.	Define SSDC spend categories: Undertake procurement risk assessment to identify areas of risk: For high risk spend categories conduct deeper review of supply market and classify suppliers according to risk level. Implement financial monitoring plan (Frequency of review tbc with input from SWAP / finance specialist.) Implement category development plans as appropriate.	February 2019
2	Financial Resilience / Contract Monitoring	Business Continuity Plans do not include provisions on dealing with suppliers who have gone into administration and can no longer deliver their contracted goods or services.	The Council is not prepared to manage a supplier failure, and this causes service delivery failure resulting in financial and reputational damage.	We recommend that the Lead Specialist – Strategic Planning ensures that supplier failure plans are developed for critical suppliers and the Business Continuity Plans are updated to include reference these.	Contact owners of business continuity plans by service area and review current supply chain recovery plans. Review adequacy against good practice supplier failure plans (to be obtained from SWAP). Agree ownership of category / supplier failure plans with responsible officers. Log these onto procurement risk schedule as a controlling document where appropriate. Implement regular review of risk schedule as appropriate.	March 19

# Agenda Item 7

## **Treasury Management Strategy Statement 2019/20**

*Director* Netta Meadow, Director – Strategy and Support Services  
*Lead Officer:* Paul Fitzgerald, S151 Officer  
Paul Matravers, Specialist - Finance  
*Contact Details:* Paul.fitzgerald@southsomerset.gov.uk or (01935) 462226  
Paul.matravers@southsomerset.gov.uk or (01935) 462275

### **Purpose of the Report**

1. This report has been prepared for Audit Committee which is responsible for the scrutiny of the Council's treasury management strategy, risk management and performance. The Committee is requested to review the draft annual Treasury Management Strategy Statement, the Prudential Indicators and MRP statement which are due to be submitted to full Council for approval in February 2019.

### **Recommendation(s)**

- (a) To approve the details of the proposed Treasury Management Strategy Statement for 2019/20 to be submitted to full Council for approval (Appendix 1).
- (b) To note the Capital prudential indicators and the annual MRP statement (This is to go to full council for approval. The figures within the report are provisional dependant on the report going to District Executive in Feb 2019 so it is anticipated that these will change) (Appendix 2)

### **Introduction**

2. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Treasury Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
3. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
4. In addition, the Ministry of Housing, Communities and Local Government (MHCLG) issued revised Guidance on Local Authority Investments in February 2018. The revised guidance requires the Council to prepare an investment strategy annually (or include the required details in their treasury management strategy) and explain how investments made (including commercial property portfolios) relate to the Council's core purposes.
5. The investment strategy was previously included as part of the treasury management strategy required by CIPFA. The Council's treasury management advisor's advice is to create two separate strategy reports to cover the two different areas and not include the investment strategy as part of the treasury management report.
6. It should be noted that the Treasury Management Strategy Statement includes the strategy for investing surplus cash funds, i.e. the strategy is in respect of treasury

investments and not non-treasury investments such as council-owned investment properties.

7. The investment strategy mentioned in point 3 and 4, focuses on two types of investments which are:
  - Investments made to support local public services by lending to or buying shares in other organisations, known as **service investments**.
  - Investments made to earn investment income known as **commercial investments**.
8. The Investment Strategy will be presented to District Executive to review, and recommend to Full Council for approval in conjunction with the 2019/20 Revenue and Capital Budgets. As such the draft strategy will be scrutinised by the Scrutiny Committee.

## **Background**

9. The CIPFA Treasury Code and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis.
10. CIPFA has defined Treasury Management as:

*“the management of the organisation’s borrowing, investments and cash flows, its banking, its 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.*”
11. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific treasury management risks are identified and managed through the Council’s Treasury Management Practices. The risks include:
  - Liquidity Risk (Adequate cash resources)
  - Market or Interest Rate Risk (Fluctuations in the value of investments).
  - Inflation Risks (Exposure to inflation)
  - Credit and Counterparty Risk (Security of Investments)
  - Refinancing Risks (Impact of debt maturing in future years).
  - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).
  - Fraud, Error and Corruption Risk (Exposure to risk of loss in its treasury management dealings).
12. The Local Government Act 2003 requires the Council to have regard to the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.
13. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out indicators that must be set and monitored each year.

14. The Treasury Management Strategy Statement is attached at Appendix 1 and is split into the following main areas:

- Local Context
- Borrowing Strategy
- Treasury Investment Strategy
- Treasury Management Indicators
- Other Items (related matters)

15. The capital prudential indicators and MRP Statement for 2019/20 are set out in Appendix 2.

16. These are included in draft at this stage, and will potentially be amended for the report to Executive to reflect final budget proposals for 2019/20.

### **Proposed Changes to Strategy**

17. The main change to the Treasury Strategy Statement for 2019/20 is in respect of the approved counterparty types. The Council's advisors have added Real Estate Investment Trusts (REIT's) as a counterparty available for investment.

18. REIT's purchase shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

19. The investment limit advised by the advisors, and requested for approval, for a REIT is £10m per fund.

20. There are no other changes requested to the approved investment counterparties or the respective investment limits.

### **Financial Implications**

21. The budget for investment income in 2019/20 is £927,820, based on an average investment portfolio of £50 million at an interest rate of 1.86%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

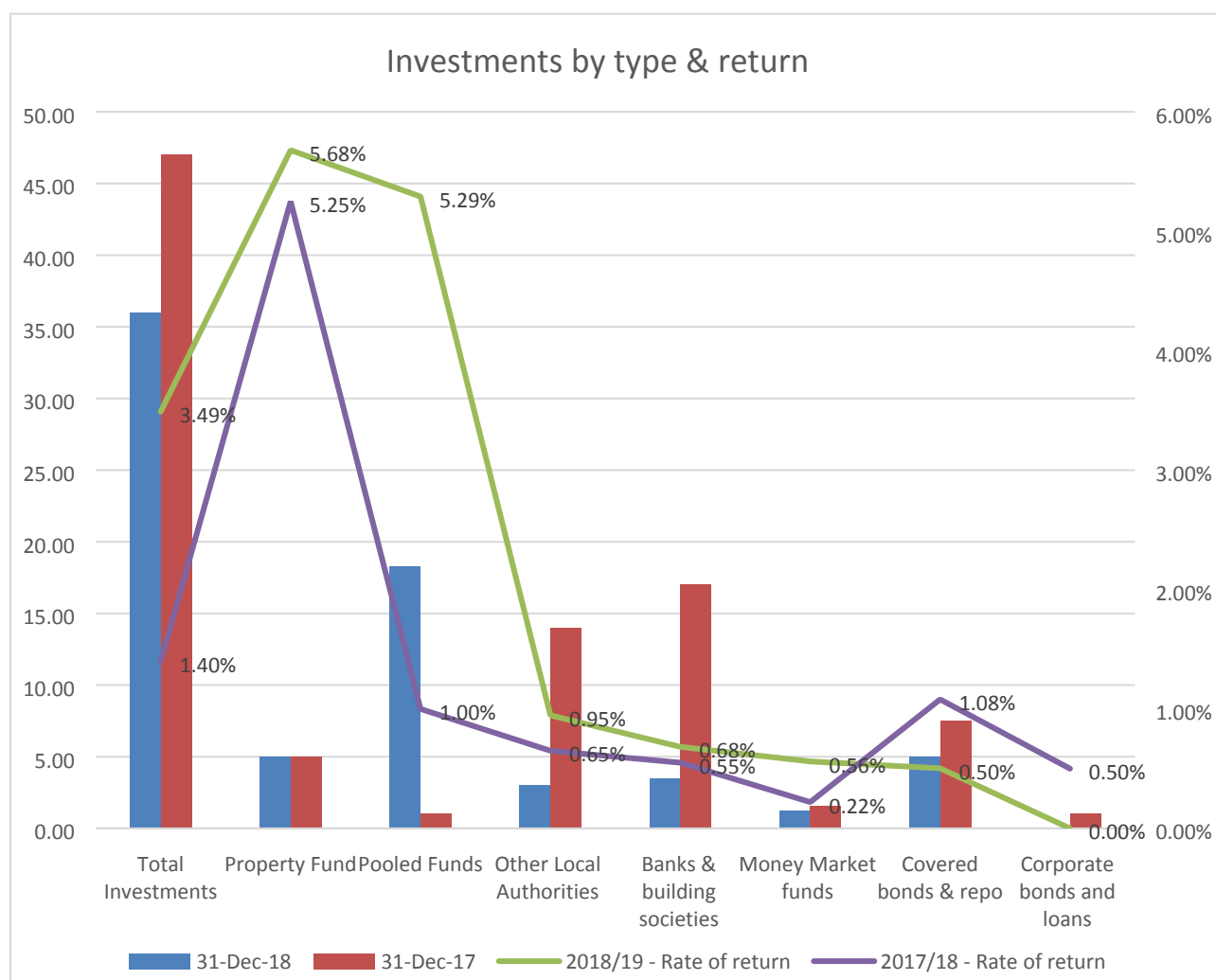
22. The budget for minimum revenue provision (MRP) i.e. the charge to the revenue budget for capital debt repayment in 2019/20 is £372,950.

## Summary of Key Points from the TMSS

23. The TMSS is quite a lengthy, and arguably complex, document. This section of the cover report aims to summarise the key points from the proposed full TMSS to provide a simpler presentation of the main elements.

### LOCAL CONTEXT – INVESTMENT BALANCES

Investment Type	Investment Balance £m			Rate of Return	
	31-Dec-18	31-Dec-17	Change	2018/19	2017/18
Property Fund	5.00	5.00	0.00	5.68%	5.25%
<b>Pooled Funds</b>	<b>18.25</b>	<b>1.00</b>	<b>17.25</b>	<b>5.29%</b>	<b>1.00%</b>
Other Local Authorities	3.00	14.00	-11.00	0.95%	0.65%
Banks & building societies	3.50	17.00	-13.50	0.68%	0.55%
Money Market funds	1.25	1.53	-0.28	0.56%	0.22%
Covered bonds & repo	5.00	7.50	-2.50	0.50%	1.08%
Corporate bonds and loans	0.00	1.00	-1.00	0.00%	0.50%
<b>Total Investments</b>	<b>36.00</b>	<b>47.03</b>	<b>-11.03</b>	<b>3.49%</b>	<b>1.40%</b>



## INVESTMENT STRATEGY

1. Anticipated investment balance range = between **£39 million** and **£59 million**
2. Objectives:
  - a. invest its funds **prudently**, and to have regard to the **security** and **liquidity** of its investments before seeking the **highest rate of return**.
  - b. balance between **risk** and **return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
3. Strategy:
  - a. maintain investments in the **secure** and **higher yielding asset classes**.
  - b. strategic (long-term) investments estimated at **£25m** by the end of 2018/19 and continue to be **maintained at this level**. Monitor for potential to increase this limit in future to maximum £35m.
  - c. **Increase of £14m** in year in strategic investments, the diversification is a continuation of the strategy adopted in 2017/18.
  - d. **Low proportion** of the Council's surplus cash to be invested in:
    - i. short-term unsecured bank deposits
    - ii. certificates of deposit
    - iii. money market funds.
  - e. Proportion of investments used for **liquidity purposes** which ensures ability to cover day to day cash flow requirements.
4. Counterparties:
  - a. invest with the counterparty types in table below, subject to the **cash limits (per counterparty)** and the **time limits** shown.
  - b. **Addition for 2019/20** – Real Estate Investment Trusts

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
<b>Pooled funds and real estate investment trusts</b>		£10m (nominal value) per fund			



## INVESTMENT STRATEGY - Continued

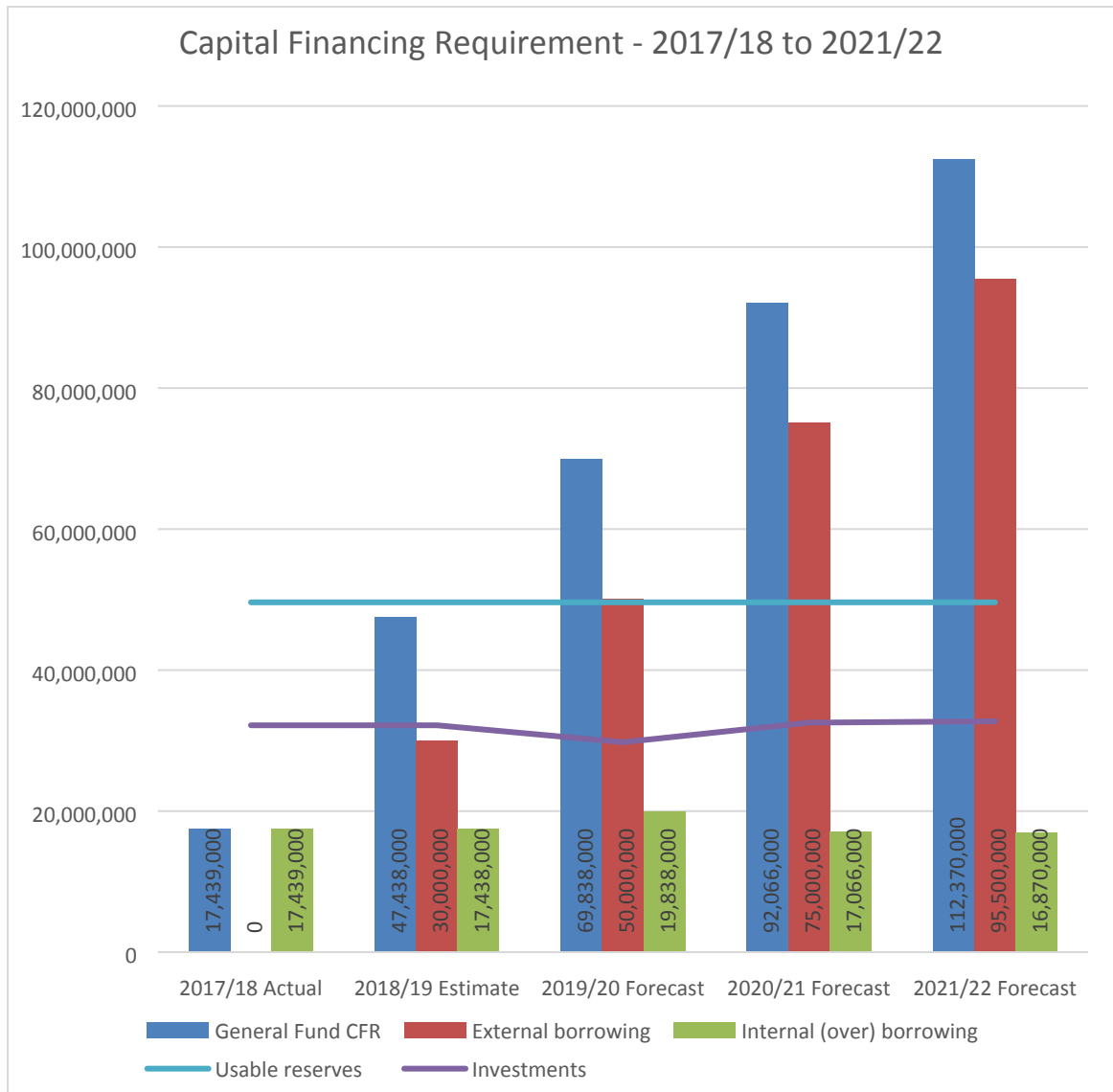
5. Investment Limits  
a. Cash limit by counterparty type are:

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered providers and registered social landlords	£8m in total
Unsecured investments with building societies	£8m in total
Loans to unrated corporates	£4m in total
Money market funds	£20m in total
Real estate investment trusts	£10m in total

## CAPITAL FINANCING REQUIREMENT

1. Forecast changes in the CFR:  
a. underlying need to borrow (capital purposes) is measured by the CFR  
b. usable reserves are the underlying resources available for investment

	<b>31.3.18 Actual £'000</b>	<b>31.3.19 Estimate £'000</b>	<b>31.3.20 Forecast £'000</b>	<b>31.3.21 Forecast £'000</b>	<b>31.3.22 Forecast £'000</b>
General Fund CFR	17,439	47,438	69,838	92,066	112,370
Less: External borrowing *	0	30,000	50,000	75,000	95,500
<b>Internal (over) borrowing</b>	<b>17,439</b>	<b>17,438</b>	<b>19,838</b>	<b>17,066</b>	<b>16,870</b>
Less: Usable reserves	-49,610	-49,610	-49,610	-49,610	-49,610
<b>Investments</b>	<b>32,171</b>	<b>32,172</b>	<b>29,772</b>	<b>32,544</b>	<b>32,740</b>



**BORROWING STRATEGY**

1. Current borrowing position:
  - a. as at 31 December 2018 = **£1.5 million** (short term working capital, repaid 2 January 2019).
  
2. Borrowing forecast:
  - a. **£30m** by 31 March 2019
  - b. **£50m** by 31 March 2020
  - c. **£75m** by 31 March 2021
  
3. Authorised borrowing limit:
  - a. £124m
  - b. Required to progress with significant **regeneration programmes** and investment properties acquisition needed for income generation to fund services

- c. Financing approach for programmes meanings the CFR **could grow further**.
4. Objectives:
- a. strike an appropriately **low risk balance** between **securing low interest costs** and achieving **certainty costs**.
  - b. Ensure have **flexibility to renegotiate loans** should the Council's long-term plans change.
5. Strategy:
- a. Key issues are **affordability, cost effectiveness** and **treasury risk**.
  - b. Short-term, long-term or internal borrowing...
    - i. Short-term rates currently lower – cost effective
    - ii. Use internal resources if available
    - iii. Long-term rates an option to use
  - c. Monitoring
    - i. Continually **monitor rates, options** and **other alternatives** (within strategy).
    - ii. Deferring borrowing – an option when **long-term rates forecast to rise** modestly.
    - iii. TM advisors will **assist with rate monitoring** and **options appraisal**.
6. Sources of borrowing:
- a. Public Works Loans Board (PWLB)
  - b. Bank or building society in UK
  - c. UK Public Sector Body
  - d. Various others
7. Other Sources of Debt Finance:
- a. Leasing
  - b. Hire Purchase
  - c. Sale and Leaseback

**Background Papers:** *CIPFA Treasury Management Code of Practice*  
*CIPFA Prudential Code*  
*Treasury Management Practices*

## Appendix 1

# Treasury Management Strategy Statement 2019/20

### Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Treasury Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

Commercial investments and investments held for service purposes are considered in the investment strategy report. The investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the Government in January 2018, and focuses on the two investment types mentioned above.

Arlingclose, the council's treasury advisor, has provided commentary on the economic outlook, credit outlook and interest rate forecast in **Appendix A**.

### Local Context

On 31st December 2018, the Council had no external borrowing for capital purposes and £36m of investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	<b>31.3.18 Actual £'000</b>	<b>31.3.19 Estimate £'000</b>	<b>31.3.20 Forecast £'000</b>	<b>31.3.21 Forecast £'000</b>	<b>31.3.22 Forecast £'000</b>
General Fund CFR	17,439	47,438	69,838	92,066	112,370
Less: External borrowing *	0	30,000	50,000	75,000	95,500
<b>Internal (over) borrowing</b>	<b>17,439</b>	<b>17,438</b>	<b>19,838</b>	<b>17,066</b>	<b>16,870</b>
Less: Usable reserves	-49,610	-49,610	-49,610	-49,610	-49,610
<b>Investments</b>	<b>32,171</b>	<b>32,172</b>	<b>29,772</b>	<b>32,544</b>	<b>32,740</b>

\* finance leases and transferred debt that form part of the Council's total debt

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council is currently "debt free" (no external borrowing), but is anticipating external borrowing of up to £30m as at 31 March 2019. The Capital Financing Requirement is increasing due to planned spending within the capital programme, and will therefore be required to borrow a minimum of £75m over the forecast period. Maintaining strategic investments as part of the treasury strategy will mean the borrowing requirement is expected to exceed this sum, potentially up to a maximum £124m. It should be noted that the Council has also agreed to progress with significant regeneration programmes.

The financing approach agreed in the governance for these programmes is quite elastic meaning the CFR could grow further in line with supported business cases, however a 'worst case' position in terms of potential up front borrowing has been taken into account in setting the required borrowing limit.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 above shows that the Council expects to comply with this recommendation during 2019/20.

### **Borrowing Strategy**

The Council held a short-term loan of £1.5million at 31 December 2018. This loan was required for working capital cash flow purposes and was for a period of only 13 days. The loan was repaid on 2 January 2019, there has been no borrowing requirement since this date.

The balance sheet forecast in table 1 shows that the Council expects to borrow in 2018/19 and holding an increasing external borrowing balance in subsequent years. Whilst it is unlikely, the Council may decide to borrow to pre-fund future years' requirements as well if the market conditions indicate this would be a prudent treasury approach, providing this does not exceed the authorised limit for borrowing of £124 million and only to meet certain capital commitments.

**Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, and maintain the benefits of using short term borrowing in the meantime.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

**Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Somerset County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- sale and leaseback

The Council could prioritise meeting its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates.

**Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

**Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

**Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## **Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months the Council's investment balance has ranged between £31 million and £59 million, and similar levels are expected to be maintained in the forthcoming year.

**Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income thus eroding the value of cash investments in real terms. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Negative interest rates:** If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to maintain its investments in the secure and higher yielding asset classes during 2019/20.

The Council has increased its strategic (long-term) investments from £11m at the start of the financial year to an estimated £25m by the 31 March 2019. This diversification represents a continuation of the new strategy adopted in 2017/18.

A low proportion of the Council's surplus cash is invested in short-term unsecured bank deposits, certificates of deposit and money market funds. These investments are used for liquidity purposes which ensures the Council is able to cover day to day cash flow requirements.

**Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
<b>Pooled funds and real estate investment trusts</b>		£10m (nominal value) per fund			

This table must be read in conjunction with the notes below

**Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there



is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

**Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £200,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Investment limits:** The Council’s revenue reserves available to cover investment losses are forecast to be £3 million on 31<sup>st</sup> March 2019. The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered providers and registered social landlords	£8m in total
Unsecured investments with building societies	£8m in total
Loans to unrated corporates	£4m in total
Money market funds	£20m in total
Real estate investment trusts	£10m in total

**Liquidity management:** The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

### **Treasury Management Indicators**

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

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	5.0

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

Liquidity risk indicator	Target
Total cash available within 3 months	£10m

**Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£200,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£150,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

**Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	100%
12 months and within 24 months	100%	100%
24 months and within 5 years	100%	100%
5 years and within 10 years	100%	100%
10 years and above	100%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Upper and lower limits are set at 100% providing full flexibility to optimise borrowing arrangements.

**Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£50m	£30m	£25m

### **Related Matters**

The CIPFA Code requires the Council to include the following in its treasury management strategy.

**Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

**Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks and brokers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council’s treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

**Financial Implications**

The budget for investment income in 2019/20 is £927,820, based on an average investment portfolio of £50 million at an interest rate of 1.86%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

The budget for minimum revenue provision (MRP) for debt repayment in 2019/20 is £372,950.

**Other Options Considered**

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## Appendix 1 – Annex A

### Arlingclose Economic & Interest Rate Forecast December 2018

#### Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that:
  - 1) tight labour markets will prompt inflationary pressure in the future,
  - 2) ultra-low interest rates result in other economic problems
  - 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

#### Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations.

- Our central case is for Bank Rate is to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>3-mth money market rate</b>													
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Arlingclose Central Ca	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35
Downside risk	0.20	0.45	0.60	0.80	0.90	0.90	0.90	0.85	0.85	0.85	0.85	0.85	0.85
<b>1-yr money market rate</b>													
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Ca	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35
Downside risk	0.35	0.50	0.60	0.80	0.90	0.90	0.90	0.85	0.85	0.85	0.85	0.85	0.85
<b>5-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30
Downside risk	0.50	0.60	0.65	0.80	0.80	0.70	0.65	0.65	0.65	0.65	0.65	0.65	0.65
<b>10-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.55	0.70	0.70	0.80	0.80	0.75	0.75	0.70	0.70	0.70	0.70	0.70	0.70
<b>20-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Downside risk	0.60	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<b>50-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Downside risk	0.60	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



## Appendix 1 – Annex B

### Existing Investment & Debt Portfolio Position

	31 December 18 Actual Portfolio £000's	31 December 18 Average Rate %
<b>External borrowing:</b>		
Public Works Loan Board	0	-
Local authorities	1,500	0.69%
LOBO loans from banks	0	-
Other loans	0	-
<b>Total external borrowing</b>	<b>1,500</b>	<b>0.69%</b>
<b>Other long-term liabilities:</b>		
Finance Leases	138	-
<b>Total other long-term liabilities</b>		
<b>Total gross external debt</b>	<b>1,638</b>	<b>0.69%</b>
<b>Treasury investments:</b>		
Banks & building societies (unsecured)	2,500	0.68%
Covered bonds & repo (secured)	5,000	0.50%
Government (incl. local authorities)	3,000	0.95%
Money Market Funds	1,250	0.56%
Property Funds	5,000	5.68%
Pooled Funds	18,250	5.29%
<b>Total treasury investments</b>	<b>36,000</b>	<b>3.49%</b>
<b>Net investments</b>	<b>34,362</b>	

## Appendix 2

# Prudential Indicators and MRP Statement 2019/20

### Prudential Indicators 2019/20

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

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

<b>Capital Expenditure and Financing</b>	<b>2018/19 Revised £'000</b>	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>	<b>2021/22 Estimate £'000</b>
Capital Expenditure	38,813	33,898	27,162	20,497
<b>Total Expenditure</b>	<b>38,813</b>	<b>33,898</b>	<b>27,162</b>	<b>20,497</b>
Capital Receipts	4,723	5,530	1,912	(2,832)
Grants/Contributions	4,090	5,782	2,836	2,839
Borrowing	30,000	22,586	22,414	20,490
<b>Total Financing</b>	<b>38,813</b>	<b>33,898</b>	<b>27,162</b>	<b>20,497</b>

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

<b>Capital Financing Requirement</b>	<b>31.3.19 Estimate £'000</b>	<b>31.3.20 Forecast £'000</b>	<b>31.3.21 Forecast £'000</b>	<b>31.3.22 Forecast £'000</b>
Adjustment A	9,113	9,113	9,113	9,113
Leases	62	30	0	0
Unsupported Borrowing	30,000	52,586	75,000	95,490
<b>Total CFR</b>	<b>39,175</b>	<b>61,729</b>	<b>84,113</b>	<b>104,603</b>

The CFR is forecast to rise by £75m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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

key indicator of prudence.

<b>Debt</b>	<b>31.3.19 Revised £'000</b>	<b>31.3.20 Estimate £'000</b>	<b>31.3.21 Estimate £'000</b>	<b>31.3.22 Estimate £'000</b>
Borrowing	30,000	52,586	75,000	95,490
Finance leases	62	30	0	0
<b>Total Debt</b>	<b>30,062</b>	<b>52,556</b>	<b>75,000</b>	<b>95,490</b>

Total debt is expected to remain below the CFR during the forecast period.

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

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2018/19 Revised %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 Estimate %</b>	<b>2020/21 Estimate %</b>
General Fund	(1.19)	(6.56)	(5.84)	(5.24)

## **Annual Minimum Revenue Provision Statement 2019/20**

Where the Authority finances capital expenditure through borrowing it must put aside resources to repay it. This is usually undertaken by a charge to the annual revenue budget known as Minimum Revenue Provision (MRP). It is also possible to use or 'set aside' capital receipts to repay capital borrowing. This may be in lieu of and/or additional to a charge to the revenue budget.

The Statutory Guidance on Minimum Revenue Provision was updated in February 2018, with the requirement that it is fully implemented from 2019/20 financial year. The latest edition provides specific guidance related to investment properties.

The broad aim of the guidance is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

The Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1<sup>st</sup> April 2008, MRP will be determined in accordance with the former regulations that applied on 31<sup>st</sup> March 2008, incorporating an "Adjustment A" of £9,113k.

For capital expenditure on operational assets incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset by either of the following methods:

- a) In equal instalments
- b) Using an annuity basis

For freehold land, MRP will be applied over 50 years, except where there is a structure on the land which the Council considers to have a life of more than 50 years where in such cases the longer life may also be applied to the land.

For capital expenditure not related to council assets but which has been capitalised by regulation or direction (e.g. capital grants to third parties) will be charged in equal instalments over a period of up to 25 years.

For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the lease obligation.

For investment properties, MRP will be calculated over a period of no more than 50 years, and MRP may be calculated by either of the following methods:

- a) In equal instalments
- b) Using an annuity basis
- c) Weighted to reflect projected net income cash flows over the expected life of investment (up to 50 years)

MRP will be charged from the start of the financial year after the expenditure is incurred, meaning capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2019, the budget for MRP has been set as follows:

	<b>31.03.2019 Estimated CFR £'000</b>	<b>2019/20 Estimated MRP £'000</b>
Capital expenditure before 01.04.2008	9,113	0
Supported capital expenditure after 31.03.2008	0	0
Unsupported capital expenditure after 31.03.2008	30,000	373
Finance leases and Private Finance Initiative	62	28
<b>Total</b>	<b>39,175</b>	<b>401</b>

# Agenda Item 8

## **Certification of Claims Report**

*Executive Portfolio Holder:* Councillor Peter Seib  
*Director:* Netta Meadows, Director – Strategy and Support Services  
*Lead Officer:* Paul Fitzgerald, S151 Officer  
Paul Matravers, Specialist - Finance  
*Contact Details:* Paul.fitzgerald@southsomerset.gov.uk or (01935) 462226  
Paul.matravers@southsomerset.gov.uk or (01935) 462275

### **Purpose of the report**

1. This report introduces the annual report from our external auditors Grant Thornton on their findings from the signing off of the Housing Benefit Subsidy Claim for 2017/18.

### **Recommendations**

2. The Audit Committee is asked to note the contents of the Certification of Claim Report for 2017/18.

### **Introduction**

3. The Certification of Claims Report is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of the Council’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”

### **Subsidy Claim**

4. The external auditors certify the subsidy claim for the Housing Benefit Scheme. The report from Grant Thornton is attached at Appendix A. The total claim was £37,874,981 and because there were errors the claim has been qualified. Training sessions and additional testing will be undertaken on the areas of concern identified in the report which will reduce claim errors going forward.

### **Financial Implications**

5. The final outcome of the claim was a refund of £9,783 from the Department of Works and Pensions (DWP) which is a very small percentage change to the overall claim total and not a significant concern for financial control and reporting.

The indicative scale fee set by PSAA for the Council for 2017/18 was £9,898. Work undertaken is subject to a fee variation due to extra work being carried out. This is currently under discussion with management, and subject to agreement with PSAA. We will report the outcome from this process in a future Audit Committee.

### **Background Papers**

Housing Benefit Subsidy Claim

South Somerset District Council  
Brympton Way  
Yeovil  
BA20 2HT

11 January 2019

Dear Paul

## Certification work for South Somerset District Council for the year ended 31 March 2018

We are required to certify the Housing Benefit subsidy claim submitted by South Somerset District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments Ltd (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £37.9 million. Further details are set out in Appendix A.

We identified several issues from our certification work which we wish to highlight for your attention. Our approach requires that we review issues identified in the prior year and undertake further testing where appropriate, to determine the extent that they have continued into the 2017/18 period. Our testing in 2016/17 identified the following issues that required further testing in 2017/18:

- Tax credits incorrectly recorded for Non HRA claimants
- Pension credit savings credits incorrectly recorded
- Claimant's self-employed earned income incorrectly calculated
- Tax credits incorrectly recorded for rent allowance claimants
- Claimant's earnings had been incorrectly calculated
- Rent allowance overpayments had been misclassified for subsidy purposes

In addition, our testing of claims relating to 2017/18 identified the following issue

- Pensions allowance for modified schemes incorrectly recorded

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or to provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the actual 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that

year. The indicative scale fee set by PSAA for the Council for 2017/18 was £9,898. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP



## Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£37,874,981	Yes	£662	Yes	See below

### Findings from certification of housing benefits subsidy claim

#### **Pension Allowances for Modified Schemes**

We identified one error in our initial sample that Pension Allowance for modified schemes had been incorrectly applied, whereby the wrong amounts had been allocated to the wrong period. This led to incorrect calculation of entitlement and required further testing. As the population was under 100 cases we carried out 100% testing.

Further testing of 23 cases identified that all cases were incorrect and that all errors were underpayments. As there is no entitlement to subsidy for underpayments no further work was undertaken. As this error can lead to an overpayment, as well as an underpayment, we will be required to undertake further testing in 2018/19.

As 100% of the population has been undertaken the claim has been adjusted for the error identified.

#### **Pension Credit Savings Credits incorrectly recorded**

Our testing in 2016/17 identified that Pension Credit Savings Credits had been incorrectly applied whereby the wrong amounts had been allocated to the wrong period. This led to incorrect calculation of entitlement and required further testing in 2017/18.

Testing of a sample of 40 cases with Pension Credit Savings Credits identified 27 fails. The 27 fails were as follows:

- 19 cases were an overpayment of benefit
- 2 cases were an underpayment and had no impact on subsidy
- 5 cases had no impact on subsidy
- 1 case was an underpayment in a claim where an overpayment had previously been calculated. As a result the underpayment has netted from the overpayment meaning the overpayment had been overstated.

The extrapolated value of the overpayment was £267. The nature of the population and the variation in errors meant that even significant additional work would not allow us to make amendments to the claim form. This will require us to undertake further testing in 2018/19

#### **Claimant's Earnings self-employed earned income incorrectly calculated**

Testing in 2016/17 identified that Claimant's earnings self employed earned income had been incorrectly calculated. This led to incorrect calculation of entitlement and required further testing in 2017/18.

Testing of a sample 40 cases with self employed earned income identified 16 fails. The 16 fails were as follows:

- 2 cases were an overpayment of benefit
- 6 cases had no impact on subsidy
- 5 cases were an underpayment and had no impact on subsidy

- 3 cases were an underpayment in a claim where an overpayment had previously been calculated. As a result the underpayment has been netted from the overpayment meaning the overpayment has been overstated

The extrapolated value of the overpayment was £613. The nature of the population and the variation in errors meant that even significant additional work would not allow us to make amendments to the claim form. This will require us to undertake further testing in 2018/19

#### **Tax credits incorrectly recorded for rent allowance claimants**

Our testing last year identified that working tax credits and child tax credits had been incorrectly applied, whereby the wrong amounts had been allocated to the wrong period. This led to incorrect calculation of entitlement and required further testing in 2017/18.

We tested a sample of 40 cases with tax credits, as a result of errors identified in the prior year, and from this a further three fails of which one was an overpayment and one was an underpayment. One further fail identified was an underpayment in a claim where an overpayment had previously been calculated and was subsequently netted off from the overpayment. The nature of the population and the variation in the errors, meant that even significant additional work would not allow us to make amendments to the claim form. The extrapolated value of the errors was £11,437 and the number of errors is a reduction from the prior year. This will require us to undertake further testing in 2018/19.

#### **Claimant's earnings incorrectly calculated**

Our testing in 2016/17 identified that claimant's earned income had been incorrectly calculated leading to an overpayment of benefit. This required us to undertake further testing in 2017/18.

We tested a sample of 40 cases with earned income, as a result of errors identified in the prior year, and from this 9 further errors were identified. The errors identified were as follows:

- four overpayments
- two cases that, due to earnings included in the overpayment calculation being incorrect, the overpayment cell had been overstated
- two underpayments that do not affect subsidy
- one case with nil impact on subsidy

The extrapolated value of the overpayment was £3,293. The nature of the population and the variation in errors meant that even significant additional work would not allow us to make amendments to the claim form. This will require us to undertake further testing in 2018/19.

#### **Misclassification of Rent Allowance overpayments**

Our testing last year identified overpayments had been incorrectly classified as eligible error, when they should have been classed as LA error, which required further testing in 2017/18.

We tested a sample of 40 cases from the eligible error population and from this a further four errors were noted. The nature of the population, and the variation in the errors, meant that even significant additional work would not allow us to make amendments to the claim form. The extrapolated value of these errors was £16,305 and the number of errors identified has decreased from prior years. This will require us to undertake further testing in 2018/19.

**Appendix B: Fees for 201718 certification work**

<b>Claim or return</b>	<b>2015/16 fee (£)</b>	<b>2017/18 indicative fee (£)</b>	<b>2017/18 actual fee (£)</b>	<b>Variance (£)</b>	<b>Explanation for variances</b>
Housing benefits subsidy claim (BEN01)	£11,854	£9,898	£9,898	£0	
Total	£11,854	£9,898	£9,898	£0	

# Agenda Item 9

## **Audit Committee Forward Plan**

*Lead Officer:* Kelly Wheeler, Case Services Officer  
*Contact Details:* Kely.wheeler@southsomerset.gov.uk or 01935 462038

### **Purpose of the Report**

This report informs Members of the agreed Audit Committee Forward Plan.

### **Recommendation**

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

### **Audit Committee Forward Plan**

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

***Background Papers:*** None

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## Audit Committee Forward Plan

Committee Date	Item	Responsible Officer
28 Mar 19	Internal Audit Plan 2019/20 - approve 2019/20 plan Internal Audit – Charter External Audit Plan for 2018/19 Accounts External Audit Progress Report 2018/19 Accounts Annual Fraud Programme Update Health and Safety Report	Alastair Woodland (SWAP) Alastair Woodland (SWAP) Finance Specialist (GT) Finance Specialist (GT) Legal Specialist Director – Strategy & Support Services
27 Jun 19	Review of Internal Audit 2019/20 Internal Audit Plan Progress Q4 Internal Audit Annual Opinion 2017/18 Health, Safety and Welfare (Annual Report) Register of staff interests – annual review Annual Treasury Management Activity Report 2019/20 – Needs to go on to Full Council	S151 Officer Alastair Woodland (SWAP) Alastair Woodland (SWAP) Netta Meadows Monitoring Officer Finance Specialist
25 Jul 19	Annual Governance Statement External Audit – Audit Findings Report Approve Annual Statement of Accounts Approve Summary of Accounts	S151 Officer S151 Officer (GT) Finance Specialist Finance Specialist
24 Oct 19	Internal Audit Plan Progress Q2 Treasury Management Practices Treasury Management Mid-Year Performance and Strategy Update – Needs to go on to Full Council	Alastair Woodland (SWAP) Finance Specialist Finance Specialist
28 Nov 19	External Audit – Certification of Housing benefit Subsidy Claim External Audit – Annual Audit Letter Annual Fraud Programme Update	Finance Specialist (GT)  Finance Specialist (GT) Legal Specialist
24 Jan 20	Internal Audit Plan Progress Q3 Treasury Management Strategy Statement 20/21 – Needs to go on to Full Council	Alastair Woodland (SWAP) Finance Specialist